

THE UNIVERSITY OF CHICAGO

ONE GREAT AMERICAN SYSTEM: MADISON, HAMILTON,  
AND THE PROBLEM OF REPUBLICAN NATIONALISM

A DISSERTATION SUBMITTED TO  
THE FACULTY OF THE DIVISION OF THE SOCIAL SCIENCES  
IN CANDIDACY FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY

DEPARTMENT OF POLITICAL SCIENCE

BY

JAY PHILLIP COST

CHICAGO, ILLINOIS

MARCH 2017

Copyright © 2017 by Jay Cost  
All rights reserved.

This work is dedicated to James and Evelyn Cost.

## CONTENTS

|                                                                                                      |     |
|------------------------------------------------------------------------------------------------------|-----|
| ACKNOWLEDGMENTS .....                                                                                | v   |
| ABSTRACT .....                                                                                       | vi  |
| LIST OF TABLES .....                                                                                 | vii |
| INTRODUCTION .....                                                                                   | 1   |
| CHAPTER ONE. “THE DUTY OF A WISE GOVERNMENT”: MADISON, HAMILTON,<br>AND REPUBLICAN NATIONALISM ..... | 19  |
| CHAPTER TWO. “DOING FULL JUSTICE”: PARTIALITY IN FEDERALIST<br>AMERICA .....                         | 65  |
| CHAPTER THREE. “CLAMOURS AND COMBINATIONS”: CORRUPTION IN<br>FEDERALIST AMERICA .....                | 102 |
| CHAPTER FOUR. “THE LIGHTS OF EXPERIENCE”: THE REPUBLICAN-<br>FEDERALIST SYNTHESIS .....              | 163 |
| CHAPTER FIVE. “THE VILEST OF CHEATS”: PARTIALITY AND CORRUPTION<br>IN REPUBLICAN AMERICA .....       | 198 |
| CONCLUSION .....                                                                                     | 245 |
| BIBLIOGRAPHY .....                                                                                   | 260 |

## ACKNOWLEDGMENTS

I would like to thank my wife, Lindsay, for her years of encouragement and feedback. Thanks to my dissertation committee, Nathan Tarcov, Mark Hansen, and James Wilson, for their excellent comments. Thanks to my parents, John and Lyn Cost, for their enduring commitment to my education. Thanks to Dan and Kaye McKenzie, for helping me in innumerable ways. Thanks to Jeffrey Anderson, Kathy Anderson, Patrick Colby, Eric Jantsch, Roger Kimball, Bill Kristol, Yuval Levin, Scott Lincicome, Matthew Mitchell, Mike Needham, Richard Samuelson, Bradford Wilson, Dan Wilson, Jean Yarbrough, and Andy Zwick, all of whom offered feedback, support, or both at critical junctures during the researching and writing of this dissertation.

## ABSTRACT

James Madison and Alexander Hamilton were two of the most important thinkers of the Founding Era, yet their political interactions—a close alliance followed by a bitter rivalry—are still poorly understood. This dissertation argues that their tumultuous relationship may be explained by how each appreciated his commitment to the project of *republican nationalism*—the idea that the new country should be a true union of the states founded on republican principles. While they both viewed the Constitution as a step in the right direction, they had divergent ideas of how public policy could further advance this goal. Hamilton held that a political economy of mediation, whereby the moneyed class received direct benefits from the government that over time would strengthen the union and thus redound to the benefit of all citizens, was consistent with republican nationalism. Madison disagreed, objecting to the partiality of Hamilton's program and worrying that it lent itself to corruption. Though Madison was wrong to infer that Hamilton was a crypto-monarchist, his critique of Hamilton's economic system was meritorious in important respects. Still, he never developed an alternative political economy to bind and strengthen the union while remaining faithful to republican principles. After the nearly calamitous War of 1812, when the country's incapacity was laid bare, he adopted much of the old Hamiltonian system—and the original problems of partiality and corruption were manifest once again. Ultimately, neither found a way to deliver the kind of public policy that was consistent with the ideal embedded in the Constitution—a program to cohere and strengthen the union while remaining faithful to republican principles.

## LIST OF TABLES

|     |                                                                    |    |
|-----|--------------------------------------------------------------------|----|
| 2.1 | Requisitions Versus Proposed Debt Assumption, Spring 1790. . . . . | 84 |
| 2.2 | House Support by State for Final Assumption Bill. . . . .          | 87 |

## INTRODUCTION

Like fashion, American political biography is cyclical. With the exception of a few hardy perennials at the top (Abraham Lincoln) and bottom (Franklin Pierce) of the heap, each generation of biographers tends to discover and celebrate a historical figure forgotten by their predecessors, then a subsequent generation criticizes the same character, and leaves him to be forgotten, then rediscovered once more. These days, Alexander Hamilton and James Madison are again all the rage—perhaps more so than at any point since their own times. Hamilton was the subject of a widely acclaimed 2004 biography by Ron Chernow. It broke little ground that had not already been covered by Forrest McDonald’s work of twenty-five years prior, but it reintroduced the first secretary of the Treasury to Americans and recently inspired the award-winning Broadway hit, *Hamilton*. There will probably never be a musical written about the quiet, diminutive planter from Virginia, but Madison has also enjoyed a renaissance, the subject of many scholarly books in recent years as well as biographies geared toward a mass audience, including one written by the former second lady of the United States.

And yet not much work has been done regarding the relationship between these two giants of the early republic. What has been written tends to focus on the clash of personalities, or describe their joint endeavor in the *Federalist* essays. No major scholarly effort has been dedicated to exploring the evolution of their intellectual relationship—how their ideas for the new government overlapped in some ways and diverged in others, how those ideas in turn prompted an alliance and later a rivalry that defined American politics for more than a generation, and how Madison ultimately acquiesced to Hamilton’s way of thinking long after the

latter died. This absence persists despite a number of recent works that have explored the relationships among other leaders from the Founding era.<sup>1</sup>

A detailed look at Madison and Hamilton is not a straightforward project, although the Hamilton side of the equation is fairly direct. His views on matters of government design and public policy were more or less consistent throughout the course of his brief but consequential life. He was convinced that the moneyed class had to play a crucial role in the new republic—believing that, because the country possessed precious little liquid capital, the government would be wise to encourage confidence among those who possessed easily convertible assets. As a constitutional matter, the “few” should have sufficient power within the government to resist the leveling tendencies of the “many” and to be free to promote the prosperity of the whole society. As a matter of public policy, the government should be solicitous of the welfare of the wealthy, for this would eventually generate prosperity for all, and secure the nation’s fragile experiment in self-government. Hamilton consistently endeavored to realize these ideals throughout his career, whether by designing an instrument of government or promoting his economic vision: At the Constitutional Convention, he called for a highly centralized government and a strong and insulated executive branch to resist the narrow passions of the people and instead coordinate the various forces in society for mutual prosperity; as secretary of Treasury, he proposed economic policies that similarly endeavored to harmonize the diverse parts of the union.

Madison is much more of a puzzle, for his views undoubtedly shifted over the course of his career, complicating efforts to understand his intellectual relationship with Hamilton. To a degree this is to be expected, as he served in some governmental capacity or another for nearly forty years. Anybody is bound to hold at various times views that conflict with those held at a

---

<sup>1</sup> See Burstein and Isenberg, *Madison and Jefferson*; Carey, *The Federalist*; Cheney, *James Madison*; Chernow, *Alexander Hamilton*; Epstein, *The Political Theory of the Federalist*; Ferling, *Jefferson and Hamilton*; Fleming, *The Great Divide*; Knott and Williams, *Washington and Hamilton*; and McDonald, *Alexander Hamilton*.

prior time, but Madison had a habit of developing his arguments in such systematic terms that he boxed his later self in. Consider, for instance, the Bank of the United States over its two iterations (from 1791 to 1811 and 1816 to 1836). Madison opposed the Bank but supported the Second Bank, just as many politicians did.<sup>2</sup> Henry Clay, for instance, was a sharp critic of the Bank, and then a few years later was the most able defender of the Second Bank. But it is easier to forgive Clay's about-face than Madison's, for Clay—while no doubt a giant of his age—did not have Madison's philosophical bent. Clay's arguments against the Bank were much more rhetorical in nature, designed to sway whatever audience he was addressing. On the other hand, Madison's famous speech on the Bank from the floor of the House of Representatives in 1791 was an orderly, comprehensive rejection, one that flowed from his views of republican propriety, which he had scrupulously developed over years of study. It is the argument of a man who drew his conclusion only after beginning from first principles and working carefully to the final derivation. It admits of precious little wiggle room, so when Madison told Congress in 1815 that “the probable operation of a national bank will merit consideration,” he contradicted himself in a way that Clay never did.<sup>3</sup>

Scholars have never offered a full-scale reconciliation of Madison's positions over the course of his entire political career. Instead, the focus in the last half century has been upon just a slice of what has been called the “Madison Problem:” whether his views shifted between his “Nationalist” period in the 1780s and his “Republican” period in the 1790s. A particular point of emphasis is the extent to which he may have altered his opinions about the proper scope of federal authority. At the Constitutional Convention in 1787, Madison strongly favored a

---

<sup>2</sup> Both the “First” and “Second” Bank were known in their days as the “Bank of the United States,” or just the “Bank,” for they were seen as successive iterations of the same institution. Unfortunately, this convention tends to be confusing for contemporary readers. For the sake of clarity and economy, this dissertation will refer to the Bank of 1791-1811 as the “Bank” and the Bank of 1816-1836 as the “Second Bank.”

<sup>3</sup> JM to United States Congress, 5 December 1815, *PJM* Early Access Document.

powerful central government, which had generally been his view during his time in the Confederation Congress. Yet he became the first leader of the opposition to such policies in the House of Representatives, with his stewardship of the Republican coalition predating Jefferson's by several years. How can the Madison of 1787—whose Virginia Plan called for the federal government to legislate in all cases where the harmony of the union was at stake, or where the states were deemed (by the federal government) to be incompetent—be reconciled to the Madison of 1791—who opposed Hamilton's political program as an unconstitutional and dangerous expansion of federal authority? How can he then be reconciled to the Madison of 1798, whose Virginia Resolution suggested (albeit obliquely) that the states had the sovereign authority to check the federal government?

Scholars sympathetic to Hamilton have long concluded that Madison was simply an inconsistent thinker. Henry Cabot Lodge endeavors to explain Madison's breach from the nationalist coalition by a combination of prejudice and self-interest. Politics and regional partiality were at play, argues Lodge, as Madison was a Virginia loyalist who knew that his Piedmont constituency would never tolerate a pro-Bank representative. Lodge also suggests that Madison was resentful for having been passed over by the new Washington administration, and lashed out by opposing the Hamiltonian program.<sup>4</sup> This ascription of jealousy has not found many advocates, at least in the postwar era when scholarly interest in Madison has been reignited; nevertheless, the central thread of this view—that Madison had no solid philosophical ground upon which to rest his policy positions, and instead was influenced by parochial or personal factors—still retains traction. For instance, in their comprehensive history of the Federalist era, Stanley Elkins and Eric McKittrick argue that “In denying Publius, (Madison) was denying an earlier version of himself.” This, they claim, was due to fear: Madison saw the old

---

<sup>4</sup> See Lodge, *Alexander Hamilton*, 60-63.

world he knew—one dominated by the landed gentry of Virginia—slipping away, to be slowly but surely replaced by a commercial class stationed in New York. Thus, Madison renounced his former self and embraced strict construction, which “is in a special sense the resort of persons under ideological strain. It represents a willingness to renounce a range of positive opportunities for action in return for a principle which will inhibit government from undertaking a range of things one does not approve of.”<sup>5</sup>

Many scholars reject this notion, asserting instead that there was an underlying consistency to Madison’s views during this period. Adrienne Koch argues that Madison’s shift on federal power was a response to Hamilton’s perceived support for “special interests ... and for (Hamilton’s) own power,” while Madison exhibited a commitment to “popular sovereignty.”<sup>6</sup> Ralph Ketcham—whose biography of Madison is the best single-volume entry from the postwar revival—argues that Madison “shifted his view of the powers ... in order to *preserve* consistency on the vastly more important matter of republican freedom.”<sup>7</sup> Similarly, Marvin Meyers asserts that the ostensible shift was to remain consistent on fundamental values. In an insightful and sympathetic essay about Madison that introduces a selection of the founder’s writings, he suggests that Madison “subordinated his subtle and powerful political analytics to a simpler statesman’s rule of thumb.”<sup>8</sup> Garrett Ward Sheldon argues that Madison sampled freely from the traditions of “classical republicanism” and “Lockean liberalism” in an overall attempt to retain “balance.”<sup>9</sup>

---

<sup>5</sup> Elkins and McKittrick, *The Age of Federalism*, 234. See also Burns, *The Deadlock of Democracy*, 58-59, and Nothstine, “Madison the Politician.”

<sup>6</sup> Koch, *Madison's "Advice to My Country"*, 116. The importance of popular sovereignty similarly animates the argument of Colleen Sheehan, who holds that “Madison insisted that the people are the primary control on the government,” and therefore placed him in opposition to the Federalist agenda, which sought to “establish a powerful and influential monied class in American” (Sheehan, *James Madison and the Spirit of Republican Self-government*, 20.).

<sup>7</sup> Ketcham, *James Madison: A Biography*, 314-315.

<sup>8</sup> Meyers, *MF*, xlii.

<sup>9</sup> Sheldon, *The Political Philosophy of James Madison*, xiv.

One limitation of these studies is their ambiguity: each avers that Madison was faithful to some central principle, which is given a label but never really described in detail. Koch never explains how or why Madison regarded Hamilton as in hock to special interests. Ketcham never defines “republican freedom” satisfactorily. Meyers argues that Madison relied upon a statesmanly heuristic, but does not describe what it is. Sheldon never argues exactly what “balance” meant for Madison, nor why it was of such importance. In general, Lance Banning aptly characterizes this subset of scholarly work when he writes that while each believes Madison followed an internal compass, “there has never been a scholarly agreement on the workings of that compass.”<sup>10</sup>

Alternatively, Banning argues that the key to solving the Madison problem is to begin by realizing it is mostly “a product of our own interpretive constructions.”<sup>11</sup> He believes that the Madison of the 1780s was not the nationalist that subsequent generations have made him out to be. He was a nationalist, sure, but his nationalism was more delimited than that of Hamilton, Rufus King, and those who would constitute the Federalist Party of the 1790s. Madison wanted the national government to wield real power for the sake of the general welfare, but, per Banning, blanched at a plenary grant of authority, especially when it seemed to tread upon the concerns of the Old Dominion. For instance, Madison always hewed closely to the doctrine of strict construction, prioritized the interests of Virginia as a legislator, and was primarily concerned in the Virginia Plan with defending against state encroachment upon national issues, rather than establishing a hegemonic national authority. For Banning, the Madison problem is not *Madison’s* problem, but rather the problem of *Madison scholars*: they overestimate his nationalism in the 1780s and therefore are wrongly puzzled by his Republicanism in the 1790s.

---

<sup>10</sup> Banning, *The Sacred Fire of Liberty*, 3.

<sup>11</sup> *Ibid.*, 207

Alan Gibson takes issue with Banning, identifying a deeper nationalism within Madison and then amplifying the vague categories offered by Koch, Ketcham, Meyers, and Sheldon. Madison's seemingly erratic trajectory can be explained, argues Gibson, according to his "commitment to impartial administration by the national government." Madisonian impartiality implies four commitments: that no man (including legislators) should be a judge in his own case; that legislatures must, like courts, be respectful of the equal rights of individuals; that justice should be the principle that arbitrates between different claims before the legislature; and that a statesman must adopt a disinterested posture. Gibson argues that impartiality is "one of the broadest threads of consistency in Madison's political thought," explaining his Federalism of the 1780s as well as his Republicanism in the 1790s.<sup>12</sup>

The accounts of Banning and Gibson offer a great deal of insight. The two interpretations are in tension with one another, but the disagreements are basically compatible: per Banning, it is important not to overemphasize Madison's nationalism in the 1780s; per Gibson, it is crucial to delineate exactly what that nationalism—such as it was—implied. Still, these accounts leave notable gaps. Banning, in detailing Madison's fidelity to strict construction, overlooks a point observed by Irving Brant, that the strictness of Madison's constitutional hermeneutic correlated with whether a given proposal would provide advantages to the moneyed class.<sup>13</sup> Madison was an opponent of the Bank of North America and the Bank of the United States, but also thought the Constitution sanctioned chartering a national university. Similarly, he opposed Hamilton's system of bounties to encourage domestic manufacturing, but simultaneously supported federal grants for scientific expeditions. There seems to be some principle at work for Madison beyond a commitment to strict construction, for none of these proposals should pass muster under such a

---

<sup>12</sup> Gibson, "Madison's "Great Desideratum": Impartial Administration and the Extended Republic," 205.

<sup>13</sup> See Brant 3: 331-332.

view, but Banning does not detail what that is. Meanwhile, Gibson's emphasis on impartiality helps explain Madison's opposition to Hamilton's funding and assumption plans, as well as his tariff system, but it hardly accounts for Madison's views on a national bank. Granted, Gibson's theory of impartiality certainly explains some of Madison's opposition to the Bank—for instance, objecting to the brief window between enactment of the legislation and the opening of subscriptions, as being too partial to those in close geographical proximity to the bank. However, these were secondary objections for Madison. His main concerns were its constitutionality, as well as the inherent danger of such institutions to republican government.

Moreover, neither study endeavors to reconcile the Madison of 1791 to the Madison of 1817. By the end of his presidential term, Madison had approved the Second Bank of the United States, which was virtually an exact copy of the institution he had argued was blatantly unconstitutional in 1791. Furthermore, Madison in 1816 approved the nation's first real protective tariff, which stands in stark contrast to the Madison of 1789-1793, who called himself a free trader, insisted upon balanced levels of taxation between the factions of society, and railed against Hamilton's protective schema in the pages of the *National Gazette*. Greg Weiner thinks that this divergence can be explained by assuming Madison held to a constitutional hermeneutic that emphasized extensive public consideration before the change would be permissible.<sup>14</sup> This view has a lot in common with Colleen Sheehan's notion that public opinion was of central importance to Madisonian republicanism.<sup>15</sup> For his part, Madison himself made precisely this argument when he endorsed the Bank. However, Madison hardly obeyed this interpretive principle faithfully. Even as he was admitting that a national bank had become constitutional, he denied that federal funding for internal improvements was legitimate—even though the hue and

---

<sup>14</sup> See Weiner, *Madison's Metronome*.

<sup>15</sup> See Note 5.

cry for the latter was at least as great as for the former. In a surprising coda to his career, in March of 1817 Madison vetoed Clay's Bonus Bill, which would have used the government's bounty from the Second Bank as a fund for internal improvements. It is hard to deny that, by the end of his tenure in government, the line between constitutional and unconstitutional policies seemed arbitrary.

Put simply, by 1817 Madison had embraced all the main components of Hamilton's political economic program, and offered no satisfactory explanation for the flip-flop. The only available scholarly thesis to explain this is a version of that which has been offered by Lodge, Elkins and McKittrick: that Hamilton was a superior intellect to Madison, who was not the clear-headed thinker he has since been made out to be. And yet this position remains quite unsatisfying, given the renaissance in Madisonian scholarship over the last half-century.<sup>16</sup> Contemporary scholars have themselves dismissed Lodge's dismissal of Madison, and defenders of Madison, like Gibson and Sheehan, outnumber critics, like Elkins and McKittrick. From interest group politics, to public choice theory, the operation of Congress, the role of political parties, the nature of majority rule, the principle of religious liberty, the utility of public opinion in democratic accountability, the origins of the Bill of Rights, and more, Madison has become of central importance to postwar scholars trying to understand American politics.<sup>17</sup> In some instances, Madisonian ideas serve as a template upon which scholars may elaborate related arguments. In other instances, he is a thoughtful interlocutor with which they may advance their

---

<sup>16</sup> See Kernell, "Introduction, James Madison and Political Science," *James Madison: The Theory and Practice of Republican Government*,

<sup>17</sup> See, for instance, Connelly, *James Madison Rules America*; Dahl, *A Preface to Democratic Theory*; Dougherty, "Madison's Theory of Public Goods," *James Madison: The Theory and Practice of Republican Government*, Labunski, *James Madison and the Struggle for the Bill of Rights*; Muñoz, "James Madison's Principle of Religious Liberty;" Schofield, "Madison and the Founding of the Two-Party System;" Sheehan, *James Madison and the Spirit of Republican Self-government*; and Truman, *The Governmental Process*.

own theses by disagreement. Either way, most scholars appreciate that he is not a thinker to be taken lightly.

That he changed his mind on something as weighty and consequential as Hamilton's program of political economy suggests he had significant reasons for doing so.<sup>18</sup> But what were these reasons? Madison himself never laid out a clear explanation, and no scholarly work has satisfactorily answered the question either. Ultimately, this problem is entangled with Madison's complicated intellectual relationship with Hamilton, which endured for decades, even after the latter died. What was the nature of their give-and-take, and why did the conflict work itself out the way it did, with Madison's eventual capitulation to Hamilton's approach to political economy? These are the questions this dissertation will answer.

\*\*\*\*

Madison and Hamilton's views encompassed a wide range of subjects, so it is appropriate to narrow our focus upon those aspects of their thought that relate to the program that Hamilton offered in the First Congress—in particular his plan to fund the national debt, assume the state debts, charter a national bank, and implement an elaborate system of industrial protection. The question at hand is: why would Madison transition from a critic to a supporter of these measures? The answer to be offered in the following pages is that the tension between Madison's *republicanism* and his *nationalism*—a tension also present in Hamilton's political thinking—

---

<sup>18</sup> The phrase “political economy” is a somewhat vague term, so it is appropriate to define it at the outset. Richard Bensele describes it as “the coexistence of democracy and (industrial) development” (Bensele, *The Political Economy of American Industrialization*, xvii.). My conception of it in this dissertation is similar. It is not simply a set of economic policies, but rather how those policies interacted with the institutions of republican governance. So, the “Hamiltonian political economy” includes the specific proposals embedded in the *Report on Public Credit*, *Report on a National Bank*, and *Report on Manufactures*, but it also encompasses the underlying justification for why it was in the public interest for a republican government to support the moneyed few—namely, the belief that, in the long run, the benefits would redound to all citizens, harmonizing the various interests in society. Similarly, the Madisonian fusion of Republicanism and Federalism in the 1810s is itself a unique political economy, as will be discussed in Chapter Four, in that it expands the scope of mediating forces beyond Hamilton's narrow clique, while also insisting that those who manage the specific programs be Republicans in good standing. In this way, neither system is merely about politics or about economics, but the intersection of the two. Hence the use of the phrase “political economy.”

ultimately forced him to make a choice. In the end, Madison chose nationalism, just as Hamilton did.

The views of each was a mix of republican political philosophy and nationalist orientation. They were both republicans, in that they believed the authority of the government had to derive in some way from the people at large, who were to be the beneficiaries of all public policies. Both were skeptical of the capacity or inclination of individuals to behave on behalf of the public good, yet both believed that the new “science of politics” could help statesmen design institutions that channeled selfish impulses toward the general welfare. They had different ideas on how these institutions were to be created, but they agreed on this big picture.

Madison and Hamilton were also deeply nationalistic, and their nationalism was not simply a prejudice toward the nation over localities, but a belief that the science of politics demanded the nation bind itself together. They had witnessed, over the course of the 1780s, the disastrous consequences of the “firm league of friendship” that was the Articles of Confederation. The national government failed to finance the war for independence, leaving much of the burden to the state governments and private financiers. Worse, it failed to pay the soldiers their promised wages. And though the war had been won, the peace seemed to be slipping away by the time the delegates to the Constitutional Convention met in the spring of 1787. The Confederation Congress could not regulate commerce between the states, could not enforce its treaty obligations, could not raise taxes to pay back its foreign debts, could not induce the states to pay their fair share to the national government nor stop them from abusing the rights of minorities, and more. The result was a fraying of the old bonds of brotherhood forged between the states during the conflict, and—in the case of Shays Rebellion—the first signs of civil war. The American experiment in republican government seemed to be failing, and Madison and

Hamilton were united in their belief that the only way to save self-government in the United States was for the “league of friendship” between the thirteen sovereign states to evolve into an indissoluble union between the people of the United States. They reckoned that only a strong, central authority could manage the parochial factions for the good of all—and unless the country bound itself together under a national government with real power, the Revolution would have been for naught. The respective plans of government they submitted at the Convention, while highly divergent in the role to be established for the people, were similarly nationalistic.

Still, there was a disagreement between the two of them, regarding appropriate political economy. Hamilton believed that the national interest could be served fully by government policy that favored certain factions within society, at least in the short run, to function as mediators for broad-based prosperity. His economic program of the 1790s was premised on the idea that the long-term success of the country depended upon the moneyed class viewing America as a safe and sound investment. His debt proposals, the national bank, and his tariff system were all designed with this view in mind, and therefore showered direct policy benefits upon them, under the belief that, in due course, such policies would redound to the benefit of all citizens. This would eventually harmonize the disparate interests of the new country—into what he called “one great American system” in *Federalist* 11—which is why Hamilton thought such partiality was perfectly consistent with his republican principles. Madison, however, had two objections, both of which derived from his view of republican propriety. First, as Gibson argues, such policies were too partial in their orientation for the Virginian to accept. It was wrong, Madison thought, for a republican government to dispense benefits in such a one-sided manner. Second, Madison believed that such partiality tended to corrupt the operation of government itself. He saw a dangerous dynamism inherent to this sort of political economy: endowed with a

public subsidy, social or economic factions can become organized interests, capable of acquiring public authority to serve their own ends. This has the effect of diminishing the republican quality of the regime, for in those cases power is not directed by the people's representatives on behalf of the general welfare, but by a narrow clique for its own purposes. At one point, Madison compared this process to the praetorian guard of the Roman empire, the group of elite soldiers who protected the emperor but also wielded power—over who would become emperor and over what the emperor could do.

For all the bluster and hyperbole of the partisan press in the 1790s, the dispute between Madison and Hamilton was at its core mostly a methodological debate about proper political economy: how should republican statesmen advance the nationalist project in the new government? Hamilton thought his political economy balanced these two principles, while Madison thought that its violation of republicanism was unacceptable.

Both were right, in their way. Most historians praise the Hamiltonian system, and not without reason, but the criticisms that Madison leveled against it were also meritorious. The program was quite partial, offering little by way of direct benefits for the agricultural majority. Moreover, Hamiltonian partiality bred corruption. The secretary thought that his policies would enable the government to capture the interests of the moneyed class, and they did, but the relationship indeed turned out to be dynamic: the wealthy effectively captured the government right back, at least in crucial instances. The protracted fight over the assumption of state debts was in large part due to the truculence of the moneyed class, which risked the funding of the federal debt to reap a windfall profit from their speculations in state debt. The Panic of 1792 was a product of speculative frenzy by this same class, the key players of which had been in or were

closely connected to the new government. Ultimately, it forced Hamilton in effect to buy them off via the sinking fund, whose purpose was actually to retire the national debt altogether.

The partiality of this program, and the corruption that it bred, transformed Madison from a Hamilton ally into the leader of the Republican Party—and his writings during the 1790s display a staunch opposition to using particular factions as mediators of the general welfare. For Madison, this also raised a constitutional issue: In policy domains where some faction was set to reap a bounty from the government, he usually required a specific sanction from the governing charter before he could offer his assent. This was a position he had enunciated at various points under the Articles of Confederation in the 1780s, but it became an integral aspect of his critique of Hamiltonianism in the 1790s.

The “Republican Revolution” of 1800 was supposed to herald an end to Hamiltonian favoritism, but the demands of nationalism kept the Republicans from delivering on this bold promise. Hamilton rightly understood that the general welfare of the nation could not be advanced solely by general measures—that certain groups had to serve as mediators—and Madison eventually accepted this principle after he entered the executive office. Albert Gallatin—the brilliant Swiss-born statesman who served in multiple capacities during the Virginia Dynasty—cultivated Madison’s quiet acquiescence to the Bank’s recharter in 1811, a tacit but significant acknowledgment that the institution was as necessary for the general welfare as Hamilton had originally claimed. And in the wake of the (mostly) calamitous War of 1812, a large bloc of Republicans, including Madison, accepted the remainder of the Hamiltonian policy agenda. In time, Clay would promote a partial reconciliation of the philosophies of Madison and Hamilton: His own version of the American System was intended to employ all major factions as

mediators, rather than a select few, thereby promoting the harmonization that Hamilton had long ago promised but could not deliver.

And yet, Madison's old republican objections to Hamiltonian nationalism were never fully overcome. The promised universalism of the American System—whereby everybody could serve as a mediator of the public interest—never really materialized, as the Republicans offered no institutional reforms to guarantee that the government would enact balanced policies. Indeed, the return of party politics would exacerbate this problem, as both sides recognized the tariff could be a tool to build electoral majorities. Moreover, corruption would rear its ugly head once again. The Republicans fancied that, per Ketcham, “mild Republican guidance” could prevent a recurrence of Federalist corruption, but this was not to be.<sup>19</sup> The problem was the political economy itself—blessing one faction so uniformly, as the Republicans would do with the shareholders and managers of the Second Bank—creates the potential for those benefits to be misused. This is precisely what would happen, during the first and final years of that institution.

The intellectual relationship between Madison and Hamilton is thus one of perpetual tension: each saw the flaws of the other's agenda, but could not develop a satisfying synthesis. Hamilton's system was an ingenious effort to bind the nation together, but Madison was right to criticize the secretary for how his program threatened the republican quality of the young nation. Yet when Madison's turn came to helm the national government, he had not developed an alternative approach to governance that actually worked. The scruples of the Republicans were hardly sufficient to advance the national project—and their failure was made evident by the War of 1812. In fits and starts, Madison adopted the Hamiltonian program, which manifested the same problems that it had some twenty-five years prior.

---

<sup>19</sup> Ketcham, *James Madison*, 690.

Although Hamilton and Madison were the leading intellectuals of the tradition of republican nationalism, they could not reconcile these twin philosophies. Contrary to the Anti-Federalists (and later, the *Tertium Quids*, led by John Randolph of Roanoke and John Taylor of Caroline), they perceived that a prosperous republic required a commitment to nationalism. And while both were reasonably satisfied that the Constitution, as an instrument of government, advanced their agenda, they never found a political economy to do so as well. The Hamiltonian program of national development was dangerous to republicanism, but the Republican alternative left the nation dangerously underdeveloped. During the period of this study (from Madison's entry into the Confederation Congress until the expiration of the Second Bank's charter), these twin poles of Madison and Hamilton's philosophies—nationalism and republicanism—remained stubbornly in conflict with one another. Despite their tireless efforts, the vaunted American System never came into being.

\*\*\*\*

This argument will be developed over the next five chapters. Chapter One will discuss the similarities and differences between the political philosophies of Madison and Hamilton. While both were republican nationalists, each drew different conclusions about what these ideals implied—not only on matters of constitutional design, but also regarding public policy. Chapter Two will look at the partiality of the Hamiltonian political economy, and demonstrate that, while many of Madison's critiques were overwrought, he had a legitimate point about the unfairness of Hamilton's proposals. Chapter Three will examine corruption stemming from the Hamiltonian program. Again, peeling back the layers of Republican hyperbole, it will show that there was indeed a dynamism inherent to the Hamiltonian program: the partial distribution of benefits enabled the moneyed class to capture the government in several crucial instances, bending public

authority to its own purpose. Chapter Four will detail how the Republicans developed a party organization to drive the Federalists from power, but then—in fits and starts—were forced to adopt the entirety of Hamilton’s program, and more. The demands of nationalism were too much to ignore, and the only alternative to Hamiltonianism was the conservative localism of Randolph and Taylor. Chapter Five will examine how, during the later Republican and early Jacksonian eras, the Hamiltonian program *again* facilitated partiality and corruption, thereby validating the original Madisonian critique once more. Thanks to the political innovations of the Republicans—namely, the development of party organization and the broadening of the scope of mediators—these problems were more severe in the 1820s and 1830s than in the 1790s.

In so doing, this dissertation will offer a meaningful contribution to the study of American politics and political thought, in two important respects. First, it will paint a more detailed and comprehensive portrait of the political philosophy of James Madison. As noted above, while scholars like Banning, Gibson, and Shaheen have advanced our understanding of Madison in recent years, none offers an account that spans the whole of his career. As such, none addresses fully the Madison Problem, which ultimately has no resolution: after having made detailed and systematic arguments against Hamilton’s political economy, he came ultimately to endorse the entirety of that program. This suggests that there was a tension in his thinking, a contradiction that he ultimately could not resolve. This dissertation argues that the problem was reconciling the dual principles of republicanism and nationalism. Madison averred that this was a necessary task for the new republic, but he never enunciated a program to accomplish this.

Second, this dissertation will analyze the development of republican nationalism across the first several decades of the new republic. This is a subject that has not been explored sufficiently, perhaps because there is a tendency to analyze the early years of the republic

through relatively narrow time periods. While useful in many respects, imposing tight restrictions on temporal scope often leads one to overlook that many of the same figures, or their intellectual heirs, were struggling *over the years* to realize a vision of republican nationalism for the country—and in so doing, often reworked old ideas to meet new challenges. For instance, scholars tend to separate the debates of the first party system from the second. No doubt this is a reasonable heuristic, for many of the issues were quite different, but this elides crucial similarities in the philosophical outlooks of the periods. The fight between Madison and Hamilton has relevant similarities to the fight between John C. Calhoun and Clay—and only a study that stretches across a sufficient breadth of time will be in a position to understand the commonalities. From such a broader perspective, it becomes clear that both party systems, and for that matter many of the battles of the Confederation period, involved disagreements about the proper nature of republican nationalism, as statesmen across the generations endeavored to reconcile the tensions inherent to this governing ideal.

Methodologically, this dissertation will take a very expansive approach to the evidence. It proceeds from the premise that Madison and Hamilton’s philosophical corpus extends well beyond their main canonical texts, such as the *Federalist* essays, and that a full understanding of their views requires a broad array of data. Hamilton’s reports as secretary of the Treasury are just as crucial for understanding his views of republican nationalism as his essays in the *Federalist*. So also is Madison’s seventh address to Congress, written as president in 1816. Thus, this dissertation will utilize the canonical texts as well as private letters, notes, public addresses, and polemical articles. It will further bring historical events into play—not only drawing upon the secondary literature of political science and history, but analysis of primary evidence, like roll call votes, contemporary newspaper accounts, and the congressional record.

## CHAPTER ONE

“The Duty of a Wise Government”: Madison, Hamilton and Republican Nationalism

### Introduction

James Madison and Alexander Hamilton were too young to play substantial roles in the pre-Revolutionary period, but their natural gifts enabled them to rise quickly through the ranks of America’s political class. By the time the Constitutional Convention was convened in the spring of 1787, George Washington was the undisputed political leader of the young nation, and Madison and Hamilton can be said to have been the co-chairs of his Brains Trust. Madison did more than anybody to guide the Convention toward an acceptably nationalistic outcome, then led the fight for its ratification against Patrick Henry in the Virginia ratifying convention. Hamilton was—to borrow a phrase from Jefferson—a “host within himself” in defense of the new Constitution, writing the vast majority of the *Federalist* essays, and debating the Anti-Federalist allies of George Clinton in the New York ratifying convention.<sup>1</sup>

This association was forged on the basis of several common, deeply held beliefs. Hamilton and Madison were both republicans, committed to the notion that the people should be tasked with securing their own welfare. They were skeptical about man’s capacity to behave spontaneously on behalf of the common good, yet both believed that the burgeoning “science of politics” offered instructions on how to build institutions to channel self-oriented passions into public-spirited governance. They were convinced that the government under the Articles of Confederation was a miserable failure in this measure, and that power had to be centralized dramatically if the new nation was to retain the republican form. They thus blended this particular conception of nationalism with republicanism into a coherent amalgam: the only way

---

<sup>1</sup> TJ to JM, 1 September 1793, *WTJ* 8.

for the republican ideal to be realized in the new country was for the 13 states to bind together into a single union. Washington did not possess the bookish orientation of Hamilton or Madison, but he had an experiential understanding of the same idea. This cemented an alliance between the three that would lead the nation from the anarchy of Shays' Rebellion in the fall of 1786 to the inauguration of a new, powerful, and stable government in the winter of 1789.

And yet, in just a year's time, the alliance would be shattered. Madison retained cordial relations with Washington, though the intimacy the two shared disappeared when Madison became a critic of the administration. And Madison's break from Hamilton was complete and total, never to be healed.

At its foundation, the dispute had to do with profoundly divergent views on the role of the few in government—in particular, the extent to which the moneyed class should participate in a republic. In its way, this was an internecine dispute among two men who were already elitists—for voting restrictions in 18<sup>th</sup>-century America typically limited the electorate to white, male landowners. Even so, land was more than plentiful in the America of the 1790s. What was in short supply was liquid capital, and the two disagreed on the role that the possessors of this scarce resource—primarily the merchants, financiers, and (to a limited degree) manufacturers—should play in the new government.

Here, their views of how to meld nationalism and republicanism diverged. Hamilton, as will be shown, thought it was essential to bind the moneyed interests to the national benefit, and that doing so, in the long run, would generate prosperity for all classes of society. In this way, he thought that the republican ideal could be achieved through a process of harmonization: the financial aristocracy would serve as the initial mediators of the public good, but the second-order effects of such favoritism would unite each part of society to the others in a joint endeavor for

wealth. Madison, on the other hand, viewed such favoritism as fundamentally dangerous to the principles of republican government. While not necessarily opposing the fusion of the wealthy to the national interest, he did not think it should be accomplished via policies that cut so heavily in the direction of a single group.

This divide manifested itself in two ways—a constitutional disagreement and a policy-oriented disagreement. As a constitutional matter, Hamilton favored separating the few from the many via the instrument of government itself, and his plan reflected this orientation. A republican government, Hamilton thought, was duty bound to protect the interests of all classes, regardless of their size, so the few should hold a position independent of the whims of the masses. Madison, on the other hand, was dubious of such separations. His view was that investing the few with a permanent stake in the government threatened its republican character, for the elite would occupy a power base to pursue their own interests against the rights of the citizenry or the advantage of the whole. This dispute, as it turned out, was relevant for only a brief moment. Hamilton’s opinion on the role of the few was hardly mainstream at the Constitutional Convention, and while he openly criticized Madison’s Virginia Plan, his alternative was never seriously considered. Moreover, the two reunited to mitigate what they believed were the ill effects of the Connecticut Compromise, which transformed the new Senate into a version of the Confederation Congress.

Even so, the constitutional issue anticipated their disagreement over political economy, which would become salient beginning with the submission of Hamilton’s *Report Relative to a Provision for the Support of Public Credit* (henceforth the *Report on Public Credit*) in January 1790, and would define the partisan divide for the rest of the decade. Hamilton believed that even if the Constitution did not carve out a special position for the moneyed few, public policy

should favor them, to bind them to the new government and, over time, advance the good of all. To that end, he also thought that executive influence was a useful tool for statesmen to link the self-interests of politicians to the general welfare. This, Hamilton averred, was the proper methodology for republican nationalism. Madison, for his part, had long registered disagreement with this style of governance, which violated his norms of republicanism in two respects. First, he thought that such partiality was unfair on its face, that government should not play favorites, even if doing so would arguably be in the national interest. Instead, it should mimic the posture of a court, advancing the general welfare by doling out policy benefits in a strictly evenhanded manner. Moreover, Madison feared that this approach created a dynamic relationship between the favored clique and the government. Such grants of license, privilege, or money could easily be misused, with the faction appropriating the resources of the state to pursue its own agenda, against the general welfare.

The argument of this chapter is divided into five sections. The first will outline how Madison and Hamilton broadly shared a commitment to republican nationalism. The second will detail the constitutional aspect of their disagreement over the role of the few in government. The third will begin to show how this divide manifested itself in the realm of public policy, by discussing why Hamilton wanted to favor the moneyed class via his economic program. The fourth will explain why Madison's thought such favoritism was inappropriate in a republic, where policy should be impartial. The fifth will illustrate why Madison further worried that such partiality lent itself to corruption. In sum, this chapter will establish the philosophical priors that Madison and Hamilton brought to the political battle of the early 1790s—that while they were both dedicated to the project of republican nationalism, they had important differences over how to carry it out.

## **Madison and Hamilton's Commitment to Republican Nationalism**

Hamilton entered the Confederation Congress in the summer of 1782, where Madison had been stationed since March 1781. Madison wrote his first letter to Hamilton in October 1783, and between then and the end of the decade, he would pen fourteen more letters that have been included in the *Papers of James Madison*. That makes Hamilton his fifth most frequent professional correspondent during this period, behind Washington, Jefferson, James Monroe, and Edmund Randolph, and his most frequent correspondent from outside the Commonwealth of Virginia.

Their joint ventures were numerous and impressive. The two worked together to develop a compromise for the federal impost during 1782-83. After their respective stints in Congress, they would coordinate again at the Annapolis Convention, which endeavored to strengthen commercial relations between the states. Their unique interplay was evident in that meeting. The brash Hamilton wrote the convention report with input from the cautious Madison, who warned that the original draft was too starkly worded and would alienate Randolph. "You had better yield to this man," Madison advised, "for otherwise all Virginia will be against you."<sup>2</sup> At the Constitutional Convention, Hamilton was a reliable vote in favor of a stronger national government, and so allied with Madison, even though the former counted himself "unfriendly" to the latter's Virginia Plan (more on this below).<sup>3</sup> Shortly after the Convention wrapped up its business, they joined with John Jay to pen the *Federalist* essays, the first 77 of which appeared in quick succession from the fall of 1787 through the spring of 1788. The two played parallel roles in their respective state conventions, arguing forcefully and effectively for ratification.

---

<sup>2</sup> Quoted in Morse, *The Life of Alexander Hamilton*, 167.

<sup>3</sup> AH, JM's Version of AH's Plan of Government, 18 June 1787, PAH 4.

The last known letter Madison would pen to Hamilton for over a decade was dated November 19, 1789, roughly two months prior to the submission of Hamilton's *Report on Public Credit*. The publication of that report demarcates the start of their intellectual and political rivalry. In that final missive under friendly circumstances, Madison anticipated a portion of their coming dispute, arguing in favor of "a manifest course of extinguishment" for the public debt. Hamilton, of course, was set to cut in the opposite direction.<sup>4</sup>

The period of their collaboration on matters of public policy thus lasted approximately six and a half years—from the time Hamilton entered the Confederation Congress until the publication of the *Report on Public Credit*. Such a relationship would have been possible only if the two agreed on many important matters regarding the body politic, and indeed they did. Several points of commonality are worth highlighting.

Like all good American revolutionaries, Madison and Hamilton were republicans. In *Federalist* 10 Madison affirms the necessity of the "republican principle" of majority rule, "refine[d] and enlarge[d]" by a system of representation that elevates "the men who possess the most attractive merit and the most diffusive and established characters," for the sake of advancing the general welfare. Hamilton was of a similar mind, arguing that the "great question" of the Constitutional Convention was how to provide "for the happiness of our Country," mindful of what "republican principles will admit"—namely to produce a system of "stability and permanency" in which "vacancies are filled, by the people, or a process of election originating with the people."<sup>5</sup>

They also understood the inherent tension that this creates: tasking the people to rule did not necessarily mean that the common good would be served—far from it. Madison and

---

<sup>4</sup> JM to AH, 19 November 1789, *PJM* 12.

<sup>5</sup> AH, JM's Version of AH's Plan of Government, 18 June 1787, *PAH* 4.

Hamilton shared a view of human nature that emphasized man's frequent inability to act spontaneously on behalf of the public interest, or even his own interests rightly understood. In *Federalist* 10, Madison worries about "the violence of faction," which he defines as "a majority or a minority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community."<sup>6</sup> The problem of factionalism was certainly not foreign to Hamilton—in an unpublished essay from 1795 defending his funding system, he averred that faction is "the natural disease of popular Governments."<sup>7</sup> Moreover, Hamilton frequently made recourse to a concept that Madison himself invoked in his definition of factionalism, the Humean view that men are ruled by their passions. As Hamilton wrote in 1802 to James Bayard, a Federalist ally serving in the House of Representatives, "Nothing is more fallacious than to expect to produce any valuable or permanent results, in political projects, by relying merely on the reason of men. Men are rather reasoning tha[n] reasonable animals for the most part governed by the impulse of passion."<sup>8</sup> If one squints hard enough, it may be possible to detect some minor differences between these two positions. Nevertheless, it is fair to conclude that both were pessimistic about the capacity of human beings to be led by reason in pursuit of the greater good.

As such, neither believed in the principle of *vox populi, vox dei*. Madison's aversion to unmitigated popular control may be appreciated in *Federalist* 10, where he praises representative government for its capacity "to refine and enlarge the public views, by passing them through the medium of a chosen body of citizens, whose wisdom may best discern the true interest of their

---

<sup>6</sup> JM, *The Federalist* Number 10, *PJM* 10.

<sup>7</sup> AH, The Defence of the Funding System, July 1795, *PAH* 19. See also Federici, *The Political Philosophy of Alexander Hamilton*, 92.

<sup>8</sup> AH to James A. Bayard, 16-21 April 1802, *PAH* 25. For some of Hamilton's many other references to the political importance of the passions, see AH, Remarks on the Ineligibility of Members of the House of Representatives for Other Offices, 22 June 1787, *PAH* 4; AH, *The Federalist Number 6*, *PAH* 6; and AH, Robert Yates's Version of AH's Plan of Government, 18 June 1787, *PAH*, 4.

country, and whose patriotism and love of justice will be least likely to sacrifice it to temporary or partial considerations.”<sup>9</sup> Likewise, Hamilton believed in the necessity of the republican principle, but thought there had to be limits. In a letter to Gouverneur Morris in 1777, he claimed that the “epithet” of “unstable democracy” was a common misconception. In fact the problems of democracy have “proceeded from its being compounded with other principles and from its being made to operate in an improper channel.”<sup>10</sup>

Still, Madison and Hamilton thought it possible for enlightened statesmen to design institutions to guide the selfish passions of the multitude toward the good of all. As Hamilton put it in a speech at the Constitutional Convention, “It will ever be the duty of a wise government to avail itself of those passions, in order to make them subservient to the public good—for these ever induce us to action.” In *Federalist 9*, Hamilton labels this endeavor “the science of politics,” which has lately “received great improvement.”<sup>11</sup> Similarly, in *Federalist 47*, Madison praises Montesquieu for his work on “display(ing) and recommend(ing)” the separation of powers, an “invaluable precept in the science of politics.”<sup>12</sup> These similar passages signal a common frame of reference: Man was far from perfect, but improvements in political science were suggesting conditions under which he could at least govern himself.

---

<sup>9</sup> JM, *The Federalist* Number 10, *PJM* 10. Similarly, in *Federalist 63* he argues:

As the cool and deliberate sense of the community ought, in all governments, and actually will, in all free governments, ultimately prevail over the views of its rulers; so there are particular moments in public affairs when the people, stimulated by some irregular passion, or some illicit advantage, or misled by the artful misrepresentations of interested men, may call for measures which they themselves will afterwards be the most ready to lament and condemn. In these critical moments, how salutary will be the interference of some temperate and respectable body of citizens, in order to check the misguided career, and to suspend the blow meditated by the people against themselves, until reason, justice, and truth can regain their authority over the public mind? (JM, *The Federalist* Number 63, *PJM* 10.)

<sup>10</sup> AH to Gouverneur Morris, 19 May 1777, *PAH* 1.

<sup>11</sup> AH, *The Federalist* Number 9, *PAH* 6.

<sup>12</sup> JM, *The Federalist* Number 47, *PJM* 10.

Further, they agreed that such conditions did not hold under the Articles of Confederation. Hamilton drew upon Humean principles to make this case. If men are governed by their passions, the problem is that the design of the Confederation uniformly directed them toward the parochial concerns of the states, rather than the well-being of the nation. “Political societies, in close neighborhood,” he argued, “can not coexist within the same limits.”<sup>13</sup> They must “either be strongly united under one government, or there will infallibly exist emulations and quarrels. This is in human nature; and we have no reason to think ourselves wiser, or better, than other men.” Madison, for his part, thought the states should retain a measure of sovereignty over parochial matters, though his Virginia Plan vested Congress with the power to “legislate in all cases to which the separate States are incompetent, or in which the harmony of the United States may be interrupted by the exercise of individual Legislation.” It also gave the national government the authority to veto “laws passed by the several States, contravening in the opinion of the National Legislature the articles of Union.”<sup>14</sup> Like Hamilton, he had been gravely discouraged by both the impotence of the Confederation Congress and the irresponsibility of the state governments, and this plan sought to correct the same imbalance in power relations that Hamilton perceived.

Thus, the two linked their nationalism and republicanism. Both had inherently nationalistic impulses—like many young men of the Revolutionary age, they had come to see the 13 colonies as a country—but nationalism was more than a Humean passion for either of them. The science of politics dictated that, to secure the felicity of all, a stronger national authority had to be empowered to direct man’s selfish passions. This idea is particularly manifest in *Federalist*

---

<sup>13</sup> AH, *The Continentalist* No. III, *PAH* 2.

<sup>14</sup> JM, *The Virginia Plan*, 29 May 1787, *PJM* 10.

essays 6 through 13, which discuss the dangers of continued disunion and the advantages of a stronger union.

In *Federalist 6* Hamilton warns that “if these States should either be wholly disunited, or only united in partial confederacies,” they would have “frequent and violent contests with each other” because “men are ambitious, vindictive, and rapacious” and, if governed by “independent, unconnected sovereignties,” they will find causes to war upon each other.<sup>15</sup> In *Federalist 7* Hamilton frets about the western territory as “an ample theatre for hostile pretensions, without any umpire or common judge to interpose between the contending parties.” Commerce would also serve as “another fruitful source of contention” because “states less favorably circumstanced would be desirous of escaping from the disadvantages of local situation, and of sharing in the advantages of their more fortunate neighbors.” “The public debt of the union” is another cause for concern, as it would be impossible “to agree upon a rule of apportionment satisfactory to all.” Finally, Hamilton worries about “Laws in violation of private contracts, as they amount to aggressions on the rights of those States whose citizens are injured by them,” and he cites the recent debt-relief measures of Rhode Island as a prime example of this danger.<sup>16</sup> The consequence of such rivalries, Hamilton argues in *Federalist 8* would be “desultory and predatory” war, which in turn would induce the states to form “standing armies,” a potent threat in the minds of 18<sup>th</sup>-century Americans.<sup>17</sup>

On the other hand, Hamilton argues in *Federalist 9* “a firm union” will provide “a barrier against domestic faction and insurrection,” a claim he bases on an extensive quotation of Montesquieu (whose advocacy of republics of a small extent had been a key plank in the Anti-Federalist platform). The kind of confederation that the Constitutional Convention had proposed,

---

<sup>15</sup> AH, *The Federalist* Number 6, PAH 6.

<sup>16</sup> AH, *The Federalist* Number 7, PAH 6.

<sup>17</sup> AH, *The Federalist* Number 8, PAH 6.

would, per Montesquieu, “withstand an external force” and “support itself without any internal corruptions” as tumult in or misbehavior from any one state would induce a decisive response from the rest.<sup>18</sup> In *Federalist 11* he avers that a firmer union would provide great economic benefits, and thus give the nation strength to resist the intrigues of the European powers.<sup>19</sup> In *Federalist 12*, he argues that such prosperity would facilitate the collection of revenue by the government, and in *Federalist 13* he enumerates the efficiencies that a single, superintending authority would generate in the administration of public affairs.<sup>20</sup>

Madison’s contribution to the case for a national republic is his famed *Federalist 10*, where he argues that a “well constructed union” can “break and control the violence of faction”—a concept, that as noted above, was at the foundation of his political thought. He sees a large republic addressing this problem in two ways. First, it will be “more favorable to the election of proper guardians of the public weal” than a smaller republic because there will be more fit characters available to fill a fixed number of offices, and because, with more voters to convince, it will be “more difficult for unworthy candidates to practice with success the vicious arts by which elections are too often carried.” Second, a large republic will have within it a more diverse array of groups, which makes it “less probable that a majority of the whole will have a common motive to invade the rights of other citizen,” or at least harder for the putative members of a factious majority “to discover their own strength, and to act in unison with each other.”<sup>21</sup>

### **Madison and Hamilton on the Proper Role of the Few in a Constitution**

---

<sup>18</sup> AH, *The Federalist* Number 9, PAH 6.

<sup>19</sup> AH, *The Federalist* Number 11, PAH 6.

<sup>20</sup> See AH, *The Federalist* Number 12, PAH 6, and AH, *The Federalist* Number 13, PAH 6.

<sup>21</sup> JM, *The Federalist* Number 10, PJM 10.

No two men have the same views on all matters, which is why political alliances are so often temporary. Insofar as circumstances align to give men a common interest, they may work together, but as circumstances change, old allies can become enemies, even bitter ones.

Something like this happened with Madison and Hamilton, and it occurred after they succeeded in their joint venture of establishing a new, more powerful government. Their old alliance had been predicated upon mutual disgust with the way affairs of state had been conducted under the Articles of Confederation. While their disagreements were not predominant prior to 1789, they nevertheless had differing views about how such affairs should be conducted. After the new government came into being, those disagreements became highly salient, precipitating the rift.

The essential disagreement involved the role of the few in the government—which included a constitutional dispute as well as an argument over political economy. As a constitutional principle, Hamilton wanted the few set apart from the many, by the instrument of government itself. Madison, on the other hand, worried that such a carve-out would lend itself to minority factionalism. This is why Hamilton was obliged to disagree with Madison’s Virginia Plan at the Convention—Hamilton wanted the few insulated from the many, while Madison’s plan had no such distinction. Of course, their expansive nationalism was hotly opposed by Roger Sherman and others who favored only minor adjustments to the Articles of Confederation. Neither Madison nor Hamilton liked the Connecticut Compromise, so once it was adopted, they allied to improve it as they could. Still, this philosophical dispute about the constitutional role of the few is worth detailing, for it will help elucidate the disagreement over political economy that drove the partisan fight over public policy in the 1790s.

In the address that introduced his plan, Hamilton was at pains to justify a proposal that he appreciated may “shock the public opinion:” a highly centralized government in which the role

of the masses was sharply curtailed. In his notes, Madison recorded Hamilton's ostensible embarrassment for offering a measure that ran so contrary to "opinion on this subject." Still, Hamilton "hoped Gentlemen of different opinions would bear with him," and he noted that the public mood had shifted toward his views, adding—somewhat optimistically—that this shift "was still going on." On the matter of centralizing power, Hamilton was generally in agreement with Madison and the friends of the Virginia Plan. The real point of difference was the way government authority would be divided, and here Hamilton broke noticeably from the Virginians. He noted that "In every community where industry is encouraged, there will be a division of it into the few & the many. Hence, separate interests will arise. There will be debtors & creditors &c." So far, this sounds distinctly Madisonian, yet Hamilton thought that the only way to manage such divisions is for both to have power independent of the other, "that each may defend itself against the other."<sup>22</sup> Anything less will be insufficient. As he wrote in his notes for the address, "A democratic assembly is to be checked by a democratic senate, and both these by a democratic chief magistrate. The end will not be answered—the means will not be equal to the object. It will, therefore, be feeble and inefficient."<sup>23</sup> This is a rejection of Madison's argument in *Federalist* 10 that a large republic may prevent the violence of majority faction.

In juxtaposition, Hamilton praised the "proper adjustment" the British had made to the principle of majority rule. He deemed it "the best model the world ever produced," in part because a permanent position for the few constituted a check upon the excesses of avaricious majorities. Secure in their station and freed from the grubby demands of electoral politics, the nobles had an interest in securing the general welfare. "Their house of Lords is a most noble institution," Hamilton argued, "Having nothing to hope for by a change, and a sufficient interest

---

<sup>22</sup> AH, JM's Version of AH's Plan of Government, 18 June 1787, *PAH* 4.

<sup>23</sup> AH, Notes on Plan of Government, 18 June 1787, *PAH* 4.

by means of their property, in being faithful to the national interest, they form a permanent barrier against every pernicious innovation, whether attempted on the part of the Crown or the Commons.”<sup>24</sup> Hamilton thought that the executive could serve as another bulwark, and he held that “the English model was the only good one on this subject.” The British monarch possessed a “Hereditary interest” that was “interwoven with that of the nation,” as well as “personal emoluments” that were unrivalled. This offered three advantages from Hamilton’s point of view: the monarch could not be corrupted by foreign governments, could remain independent from factional disputes, and would feel an obligation to “answer the purpose of the institution.”<sup>25</sup>

Thus, Hamilton’s plan of government resembled the British system in crucial respects. It did not retain the hereditary nature of the Crown or the House of Lords, but it called for an “aristocracy ... to be entirely separated; they should be so circumstanced that they can have no interest in change.”<sup>26</sup> Such a caste would presumably populate the Senate, whose members would be chosen by an electoral college and would serve on good behavior. The executive would similarly be chosen by electors and serve on good behavior. The Assembly was where Hamilton envisioned the many to have a direct role in government, with members elected by the people for three-year terms.<sup>27</sup>

Madison had a sharply different view on the role of the few in government. In *Federalist* 39 he defines republican government in terms similar to what Hamilton employed at the Constitutional Convention:

---

<sup>24</sup> AH, Robert Yates’s Version of AH’s Plan of Government, 18 June 1787, *PAH* 4.

<sup>25</sup> AH, JM’s Version of AH’s Plan of Government, 18 June 1787, *PAH* 4

<sup>26</sup> AH, Robert Yates’s Version of AH’s Plan of Government, 18 June 1787, *PAH* 4.

<sup>27</sup> Article III of Hamilton’s plan of government called for a senate “to consist of persons elected to serve during *good behaviour*. Their election to be made by *Electors* chosen for that purpose by the People.” Meanwhile, the choice of president would be “made by *Electors* chosen by *electors* chosen by the people in the election districts aforesaid or by electors chosen for that purpose by the respective legislatures” (AH, Notes on Plan of Government, 18 June 1787, *PAH* 4.).

We may define a republic to be, or at least may bestow that name on, a government which derives all its powers directly or indirectly from the great body of the people, and is administered by persons holding their offices during pleasure, for a limited period, or during good behavior.

But Madison narrows the definition of republicanism in an important way:

It is ESSENTIAL to such a government that it be derived from the great body of the society, not from an inconsiderable proportion, or a favored class of it; otherwise a handful of tyrannical nobles, exercising their oppressions by a delegation of their powers, might aspire to the rank of republicans, and claim for their government the honorable title of republic.<sup>28</sup>

Here, he denies the republican quality of the British system, which Hamilton had praised behind closed doors in Philadelphia. Even so, Madison's delimitation does not exclude Hamilton's particular system as proposed at the Convention—as the people participate in the process of selecting senators and the president. Nevertheless, it highlights the different anxieties that both men had: Hamilton was worried primarily about unchecked majoritarianism, but Madison was worried about the tyranny of both majorities *and* minorities. For the latter, a minority with a permanent or durable stake in government was also dangerous to the republican project.

The distinguishing mark of minority and majority factions is the pursuit of designs that are “adverse to the rights of other citizens, or to the permanent and aggregate interests of the community.” Factions derive from a variety of sources, per Madison, including: differences of opinion, especially over religion; loyalty to different political leaders; and above all “the various and unequal distribution of property,” which create creditor and debtor classes as well as

---

<sup>28</sup> JM, *The Federalist* Number 39, *PJM* 10.

competing economic agendas.<sup>29</sup> In the *Vices of the Political System of the United States*, Madison argues that the “great desideratum” in a republic is to create a sovereign that is “neutral between the different interests and factions,” but at the same time does not establish itself as “an interest adverse to that of the whole society.”<sup>30</sup>

During the framing and defense of the Constitution, Madison’s worry was primarily majoritarian factionalism, which he called “the more fatal threat” to popular government.<sup>31</sup> Under the republican principle of majority rule, it was possible for a “strong faction” to rise and “oppress the weaker,” creating a form of “anarchy” akin to what drives men to form government in the first place.<sup>32</sup> As for minority factions, he argues in *Federalist* 10 that such contingents could be defeated by “the republican principle,” which “enables the majority to defeat its sinister views.” While a majority can destroy republican government itself, the worst that a minority can do in a republican government is “clog the administration” and “convulse the society,” but sooner or later the people will overcome it.<sup>33</sup>

Given Madison’s intensive opposition to the Federalists in the 1790s—whom he viewed as a minority run amok—this statement may seem over-optimistic in retrospect, but it would be wrong to conclude Madison had given no thought to the danger of minority faction.

Indeed, his “great desideratum” is for the government to chart a *middle course* between unadulterated majoritarianism and a minority permanently invested in the government. As such, he rejects monarchy as inconsistent with republicanism, writing, “In absolute Monarchies, the prince is sufficiently neutral towards his subjects, but frequently sacrifices their happiness to his

---

<sup>29</sup> JM, *The Federalist* Number 10, *PJM* 10.

<sup>30</sup> JM, *Vices of the Political System of the United States*, *PJM* 9.

<sup>31</sup> JM, *The Federalist* Number 10, *PJM* 10.

<sup>32</sup> JM, *The Federalist* Number 51, *PJM* 10.

<sup>33</sup> JM, *The Federalist* Number 10, *PJM* 10.

ambition or his avarice.”<sup>34</sup> In *Federalist* 51, Madison argues that though majorities “united by a common interest” may endanger “the rights of the minority,” a “hereditary or self-appointed authority” is a “precarious security” against this threat.<sup>35</sup> The king may support the majority, or unite against both the majority and minority in pursuit of his own selfish ends. In Madison’s view, the history of the British crown demonstrated its tendency to do exactly that. In private correspondence with William Bradford, Madison called those “who have swayed the British Sceptre ... detestable pictures of Tyranny and Cruelty.”<sup>36</sup>

The Virginia Plan was Madison’s solution for dealing with the dual problems of majority and minority factionalism. All authority is derived ultimately from the people—either operating directly through elections or mediated through state legislatures—so this mitigates the dangers of a minority cabal, which cannot invest itself in the government. The national veto over state legislation serves as a similar protection: a group may constitute a majority in a given state, but be a minority in the whole nation, and the national veto would ensure that it may not hold hostage public prosperity for its selfish purposes. Meanwhile, there are multiple checks upon any popular majority: a senate whose members are confirmed by the House; a president appointed by the whole Congress; a council of revision to review federal laws; and an extended republic to make it more difficult for a majority to form. It represents Madison’s effort to cut the Gordian Knot of republican government—a way for the people to rule themselves justly *without* investing some person or group with permanent power. Though most of Madison’s rhetoric

---

<sup>34</sup> JM, Vices of the Political System of the United States, *PJM* 9. This comment is directed against absolute monarchies, but as Madison’s argument in *Federalist* 39 makes clear, a similar problem exists in constitutional monarchies, with a mixture of popular and hereditary rule. In Madison’s judgment, republican government is inconsistent with *any* governing authority not tied in some way to the people, for that agent can become an interest unto itself, aligned against the welfare of the general public. Relative to absolute monarchy and direct democracy, a constitutional monarchy charts a middle course, but that does not make it republican.

<sup>35</sup> JM, *The Federalist* Number 51, *PJM* 10.

<sup>36</sup> JM to William Bradford, 24 January 1774, *PJM* 1.

during this period related to majority factionalism, the Virginia Plan is an indication he was also sensitive to the problems of misrule by the few.

The constitutional debate was settled in Philadelphia in 1787—and not entirely to the satisfaction of Hamilton or Madison. Ultimately, both judged the Constitution a marked improvement over the Articles of Confederation, but the final distribution of authority was quite dissimilar to the ideals embodied in Hamilton’s plan or the Virginia Plan. This is why they continued to ally through the Convention, despite Hamilton having openly criticized the Virginia Plan during his remarks of June 18. They disliked the Connecticut Compromise because it apportioned equal senate representation to the states, and after it was adopted, endeavored to mitigate what they saw as its ill effects, particularly the Senate, which resembled the Confederation Congress.

Their continued alliance should not be interpreted as a resolution of the underlying dispute over the role of the few in society. In general, Hamilton continued to think that they should have a special place in government, while Madison did not. During the Convention, this meant a disagreement over their constitutional station, but once that issue was settled it became a dispute over the proper contours of political economy under the Constitution. Hamilton thought the government should bind the ambitions of the few to itself, not only to ensure its survival but to facilitate long term prosperity. If the Constitution did not explicitly do this, then public policy could. Hamilton therefore advocated a systematic distribution of benefits toward this small sect, believing that this could conjoin the passions of the moneyed class and the good of all. For a similar reason, he applauded the capacity of the British crown to use patronage and emoluments to buy the votes of members of Parliament; such “influence” was an ingenious way to

manipulate conflicts of interest in government for the sake of the general welfare.<sup>37</sup> He thought both strategies were consistent with nationalism and republicanism: nationalistic, because they would promote fidelity to the national government; republican, because in the long run all citizens would be made better off.

But Hamilton's approach to political economy violated Madison's republican precepts in two important respects. First, Madison thought government benefits should be distributed impartially across all parts of society. He was not opposed to binding one party to the government *per se*, but he generally could not abide it receiving benefits that others did not enjoy. Second, Madison thought such partiality could lend itself to the corruption of the republic. Showering benefits upon some private bloc often meant giving it some sort of public authority, which might be used against the people. Thus, Madison was a staunch skeptic of formal grants of power to sections of society; and he could be counted on to oppose self-interested legislators endeavoring to acquire power or riches for their own camps, which he viewed as effectively undermining the republican quality of a regime even as the people retained technical sovereignty via the ballot box.

### **The Role of the Moneyed Class in Hamilton's Political Economy**

Hamilton's efforts to dispense benefits to the moneyed class of American society—in particular his efforts to deal with holders of American debt certificates in a maximally favorable

---

<sup>37</sup> Hamilton's advocacy for executive patronage fits hand in glove with his confidence in an institution such as the British monarchy, which he believed was capable of acting on behalf of the general welfare. While introducing his plan of government at the Constitutional Convention, he said of it, "The Hereditary interest of the King was so interwoven with that of the Nation, and his personal emoluments so great, that he was placed above the danger of being corrupted from abroad—and at the same time was both sufficiently independent and sufficiently controuled, to answer the purpose of the institution at home" (AH, JM's Version of AH's Plan of Government, 18 June 1787, *PAH* 4.). Hamilton thus wished for the executive to have as great a capacity as possible to advance the public good, including the distribution of titles and emoluments.

way—struck many of his contemporary antagonists as crass, but he was motivated by high-minded goals that reveal a sophisticated understanding of how social and economic groups interact in the body politic. When Hamilton took charge of the nation’s finances, government debt was trading for pennies on the dollar, and he endeavored to secure for the public creditors full payment of the issuance. For those who held government debt, this was an enormous windfall—the likes of which few had ever expected when they snatched up the certificates for a pittance. This outraged Madison, but Hamilton had big, nationalistic goals in mind when he made this move. As Ron Chernow rightly puts it, “Hamilton’s interest was not in enriching creditors or cultivating the privileged class so much as insuring the government’s stability and survival.”<sup>38</sup> Hamilton was convinced that the government needed the wealthy to believe that their fortunes depended on the government’s success, and that smart public policy could harness their riches for the benefit of the whole nation.

This was a view he had articulated for many years before he became secretary of the treasury. In a 1780 letter to James Duane, a New York politician, he argued that the nation’s currency woes could be traced to the fact that men of wealth did not have faith in the government, and were placing their bets accordingly. What was required was a “joint basis of public and private credit,” which could be conjoined only under a national bank. Such an institution would allow the moneyed class to acquire “the whole or part of the profits,” and thus supply it with “an immediate interest to uphold” the credit of the government. The model was the Bank of England, which “unites public authority and faith with private credit,” enabling England to acquire “sufficient funds to carry on her wars.”<sup>39</sup> In a letter from around the same time, Hamilton similarly claimed that a bank could link “the interests of the state in an intimate

---

<sup>38</sup> Chernow, *Alexander Hamilton*, 299. See also Federici, *The Political Philosophy of Alexander Hamilton*, 207; Ketcham, *James Madison*, 312; and McDonald, *Alexander Hamilton*, 157.

<sup>39</sup> AH to James Duane, 3 September 1780, *PAH* 2.

connexion with those of the rich individuals belonging to it,” turning “the wealth and influence of both into a commercial channel for mutual benefit, which must afford advantages not to be estimated.”<sup>40</sup>

As the depository of federal requisitions, a nationally chartered bank would have sufficient capital to engage in private lending, and as the sole financial institution with a federal charter, it could serve banking needs across the entire nation. The potential for private profit would thus attract investment from the moneyed class, which would enhance its lending abilities all the more. The government would benefit as well. Bank notes could circulate as currency, imposing uniformity upon the hodge-podge state currencies and facilitating the reliable and timely payment of taxes. Moreover, the bank would also be a place for the government to borrow money at reasonable rates of interest. It was therefore, in Hamilton’s thinking, a win-win for the wealthy and the public—which is a common thread that would link all the pieces of his economic agenda in the 1790s. He understood that the moneyed class in the United States—which at this point was a very select group—would be making a *bet* on the nation’s future, one way or the other. He wanted to court the wealthy with favorable policy, for if their interests aligned with the United States, they would bet on the nation’s success. This, he judged, to be of the utmost consequence—the country was desperately cash poor, and it was integral that those with liquid capital believe that the United States would succeed, so that they would loan the government money and invest in private economic development.<sup>41</sup>

As discussed above, Hamilton and Madison held a pessimistic view of human nature, doubting the capacity of man to behave spontaneously for the greater good. But at this point Hamilton’s view takes an optimistic turn—for he judged that sound political economy could

---

<sup>40</sup> AH to ———, December–March 1779–1780, *PAH* 2.

<sup>41</sup> Hamilton expounds this view in detail in the *Report on a National Bank*, which shall be evaluated in Chapters 3 and 4.

induce men of means to direct their wealth to the national purpose. For Hamilton, the science of politics had not only been advanced by philosophers like Montesquieu, but also by statesmen like Robert Walpole, whose system of finance had joined the disparate parts of British society to the common good and turned the small island nation into a world power. Thus, Hamilton's efforts to bind the few to the government stretched beyond his work at the Constitutional Convention, and served as the foundation for the entire program he proposed as secretary of the treasury.

Perhaps the best word to describe Hamilton's agenda is what Michael Federici calls *harmonization*. At the Constitutional Convention, Hamilton acknowledged, "In every community where industry is encouraged, there will be a division of it into the few & the many. Hence separate interests will arise."<sup>42</sup> In proposing an instrument of government, he wanted to ensure that one group could not dominate another, but from a policy perspective, he saw the potential to unite the interests of these disparate groups in a shared quest for personal enrichment. He did not want to squash local differences, but rather modulate public policy so that the selfishness of one could advance the selfishness of another, as part of a system whose ultimate purpose was the good of all. Harmonization, per Federici, is "the mean between the extremes of stifling uniformity that destroys local autonomy and a degree of decentralization that provides little or no common ground on which varied interests can unite."<sup>43</sup> Consider again *Federalist* 11 and 12, which not only enumerate Hamilton's argument for the economic benefits of the proposed union, but hint at his eventual policy program. In *Federalist* 11 Hamilton sees economic growth as a kind of cement that will hold the union together, promoting "an unrestrained intercourse between the States" that will work to the benefit of everybody:

---

<sup>42</sup> AH, JM's Version of AH's Plan of Government, 18 June 1787, PAH 4.

<sup>43</sup> Federici, *The Political Philosophy of Alexander Hamilton*, 223.

Let the thirteen states, bound together in a strict and indissoluble union, concur in erecting one great American system, superior to the control of all trans-atlantic force or influence, and able to dictate the terms of the connection between the old and the new world!<sup>44</sup>

The contrast between *Federalist* 10 and *Federalist* 11 is noteworthy. In *Federalist* 10 Madison argues that a large sphere of governance will help prevent one party from abusing the rights or interests of another, or of the whole. While certainly sensitive to the importance of justice (which he discussed in his prior *Federalist* essays on the problems of disunion), in *Federalist* 11 Hamilton reaches beyond the inherent defensiveness of *Federalist* 10—envisioning the possibility of grand coordination among all groups, in the shared quest for ever-increasing economic prosperity.

Having connected affluence and social harmony, Hamilton goes on in *Federalist* 12 to outline the importance of sound monetary policy to this project, writing:

The prosperity of commerce is now perceived and acknowledged, by all enlightened statesmen, to be the most useful as well as the most productive source of national wealth; and has accordingly become a primary object of their political cares. By multiplying the means of gratification, by promoting the introduction and circulation of the precious metals, those darling objects of human avarice and enterprise, it serves to vivify and invigorate the channels of industry, and to make them flow with greater activity and copiousness. The assiduous merchant, the laborious husbandman, the active mechanic, and the industrious manufacturer, all orders of men look forward with eager expectation and growing alacrity to this

---

<sup>44</sup> AH, *The Federalist* Number 11, PAH 6. Hamiltonian harmonization thus has a foreign policy objective: economic prosperity will facilitate American strength and independence in the realm of foreign affairs.

pleasing reward of their toils. The often-agitated question, between agriculture and commerce, has from indubitable experience received a decision, which has silenced the rivalships, that once subsisted between them, and has proved to the satisfaction of their friends, that their interests are intimately blended and interwoven.<sup>45</sup>

Thus, Hamilton thought that the government might mitigate the seemingly intractable factional tensions that Madison sees as “sown in the nature of man,” through a wise course of political economy. While Hamilton’s program would reward the moneyed elite in the short term, it would in due course enable the merchant, husbandman, mechanic, and manufacturer to coordinate with one another in pursuit of their own enrichment. Yes, certain groups would benefit right away, but eventually prosperity would be available to all, the union would be solidified, and the national republican project would be complete.

So committed was Hamilton to this idea that he condoned some controversial practices—like a government using patronage to purchase support from politicians. To be clear, Hamilton did not “peddle influence” for its own sake. A decade earlier, for instance, he had noticed that the price of flour had doubled in advance of the French fleet’s arrival, and suspected that Samuel Chase—a member of the Confederation Congress and a future Supreme Court justice—had quietly disclosed Congress’ plan to purchase flour in anticipation of the reinforcements so that he could corner the market. This was an example of corruption for no greater purpose than personal enrichment, prompting a stern and public rebuke from the future treasury secretary, under the

---

<sup>45</sup> AH, *The Federalist* Number 12, PAH 6. It is appropriate to pause to appreciate the subtlety of Hamilton’s argument. It was widely acknowledged, he argues in the *Federalist*, that commerce—or economic activity—was essential to national development. But Hamilton uses this broad consensus to proffer what was still a controversial point for the America of his day: that commerce requires far-sighted monetary policy, one that promotes “the circulation of the precious metals,” i.e. which increases the *velocity of money*. This would be a key justification for the major items of his economic agenda as secretary of treasury. In this essay, then, Hamilton very smartly lays the foundations for his forthcoming economic agenda.

pseudonym “Publius.”<sup>46</sup> But what if such selfishness could be harnessed for the public’s benefit, via patronage and other emoluments? According to the records of his famous June 18 speech—where he offered his own plan of government—Hamilton thought such influence was essential to “producing an attachment to the government.” “No government,” he claimed, “will be good without Influence,” as it provides “regular weight and support from those who will find it their interest to” do so.<sup>47</sup> The problem, Hamilton asserted at the Convention, was that the “dispensations of Honors and Emoluments of Office” belonged solely to the state governments, and selfish men altered their behavior accordingly.<sup>48</sup> Hamilton expanded on this theme in remarks on June 21, during a debate over whether members of Congress could be eligible to hold executive offices simultaneously. He argued that this would enable the executive to manipulate the selfish ambitions of legislators for the sake of the general good. It would be nice if there were enough far-sighted statesmen in government not to have recourse to bribery; alas, such men are always in short supply, and “a reliance on pure patriotism had been the source of many of our errors.” Hamilton did not relish this tool, but concluded, “We must in some degree, submit to the inconvenience.”<sup>49</sup>

To buttress this point, Hamilton made an explicit reference to David Hume. In “Of the Independency of Parliament,” the Scottish philosopher notes the “paradox” inherent to the British system: power was nominally separated across different branches of government, but the Commons had such vast potential authority that it somehow chose not to exercise. Hume asks, “How is this consistent with our experience of human nature?” His answer anticipates

Hamilton’s entreaties:

---

<sup>46</sup> See AH, Publius Letters I-III, *PAH* 1.

<sup>47</sup> AH, Robert Yates’s Version of AH’s Plan of Government, 18 June 1787, *PAH* 4.

<sup>48</sup> AH, John Lansing’s Version of AH’s Plan of Government, 18 June 1787, *PAH* 4.

<sup>49</sup> Hamilton, Remarks on the Ineligibility of Members of the House of Representatives for Other Offices, 22 June 1787, *PAH* 4.

[T]he interest of the body is here restrained by that of the individuals, and that the house of commons stretches not its power, because such an usurpation would be contrary to the interest of the majority of its members. The crown has so many offices at its disposal, that, when assisted by the honest and disinterested part of the house, it will always command the resolutions of the whole; so far, at least, as to preserve the ancient constitution from danger. We may, therefore, give to this influence what name we please; we may call it by the individual appellations of corruption and dependence; but some degree and some kind of it are inseparable from the very nature of the constitution, and necessary to the preservation of our mixed government.<sup>50</sup>

This is precisely the point that Jefferson—in the introduction to the *Anas*—recalled Hamilton making at a dinner party during the early days of the republic:

After the cloth was removed, and our question agreed & dismissed, conversation began on other matters and, by some circumstance, was led to the British constitution, on which Mr. Adams observed “purge that constitution of it’s corruption, and give to it’s popular branch equality of representation, and it would be the most perfect constitution ever devised by the wit of man.” Hamilton paused and said, “purge it of it’s corruption, and give to it’s popular branch equality of representation, & it would become an *impracticable* government: as it stands at present, with all it’s supposed defects, it is the most perfect government which ever existed.”<sup>51</sup>

---

<sup>50</sup> Hume, “On the Independency of Parliament,” *HPE*, 26.

<sup>51</sup> TJ, Explanations of the 3 Volumes Bound in Marbled Paper, *WTJ* 1.

Jefferson's retrospective ruminations on the events of the new government should often be taken with a grain of salt; nevertheless, this memory conforms quite closely to the Humean argument that Hamilton himself made at the convention. If Jefferson's account is apocryphal, it seems not to have been misrepresentative of Hamilton's position. As a practical matter, therefore, Hamilton's notion of harmonization is a callback to Hume, in that the chief magistrate should have the power to conjoin parochial concerns to the nation's behalf. Jefferson thought this a corruption of republican government, but Hume and Hamilton thought it essential to its maintenance.

A majority of Convention delegates disagreed with Hamilton. The Sinecure Clause of the Constitution reflected the fact that they had imbibed the Country Whig ideology that, contra Hume, this was not influence, but corruption.<sup>52</sup> Still, Hamilton's position on this underscores his nuanced strategy to promote republicanism and nationalism. A government that dispensed benefits strategically to particular groups could link parochial concerns to the benefit of the whole nation—just as Hume suggested. As secretary of the Treasury, Hamilton did not have access to emoluments, but he could craft broad policies to link the fate of the moneyed class to the needs of the new union. Thus, what seemed like corruption to some was, for Hamilton, deeply consistent with his core republican nationalism. The means may have appeared unseemly, but for Hamilton they were only ever to operate on behalf of a noble end.

Madison, on the other hand, simply could not abide the Hamiltonian means. He thought Hamilton's policy of favoritism was too partial for a republican government, and that in time it would breed corruption.

---

<sup>52</sup> Consider, for instance, *Cato's Letter* No. 18, which links the decline of Rome to a "general corruption" whereby "justice was publickly sold in the tribunals" and "the voices of the people went to the highest bidder" (Trenchard and Gordon, *Cato's Letters*, 130.). Country Whig writers like "Cato" enjoyed a broad audience in Revolutionary America. See Banning, *The Jeffersonian Persuasion*, 16-17.

## Madison's Objection: Partiality

Alan Gibson offers an outstanding study of Madison's conception of impartiality, arguing that "an understanding of justice as impartiality, a concern for impartiality in public officials singularly, and a commitment to impartial administration by the national government" were "at the center of Madison's political thought."<sup>53</sup> This is evident not only from a study of Madison's political writings, but also from his public career prior to the Constitutional Convention.

For Madison, "impartiality" generally meant that the government should behave like a neutral arbiter among the various quarters of society, distributing the proper due to each. In *Federalist* 10, he argues:

[W]hat are many of the most important acts of legislation, but so many judicial determinations, not indeed concerning the rights of single persons, but concerning the rights of large bodies of citizens? And what are the different classes of legislators but advocates and parties to the causes which they determine?<sup>54</sup>

The problem for a republic is that "the parties are, and must be, themselves the judges." As he wrote to Washington in April 1787, "The great desideratum which has not yet been found for Republican Governments, seems to be some disinterested & dispassionate umpire in disputes between different passions & interests in the State. The majority who alone have the right of decision, have frequently an interest real or supposed in abusing it."<sup>55</sup> As Gibson notes, the Virginia Plan was Madison's initial effort to satisfy this demand—with the national veto over state legislation a particularly useful tool to defend incursions by the states against the general welfare and individual rights. Later in *Federalist* 10 he defends the large republic on the grounds

---

<sup>53</sup> Gibson, "Madison's "Great Desideratum": Impartial Administration and the Extended Republic," 205.

<sup>54</sup> JM, *The Federalist* Number 10, *PJM* 10.

<sup>55</sup> JM to GW, 16 April 1787, *PJM* 9.

that it can promote such impartiality by enabling factions to check the impositions of each other. His goal throughout this period was to frame a government that was in equipoise, favoring nobody except when the good of all required it.

Madison's commitment to impartiality was not limited to the design of the instrument of government. It characterized his approach to public policy problems. The most prominent example of this ethos is Madison's effort to enact a national impost in 1782-83. He thought this essential to the long-term success of the government, which could not pay its bills because the states had been lax on requisitions. To get his impost through, he crafted an intricate logroll that offered policy benefits to state governments in exchange for adopting the tax. The item to lure Virginia was the assumption of state war debts, and to rope in the small states Madison proposed a land cession. This was the first significant instance of how Madison conceived of impartial public policy: thanks to his guidance, the impost would offer something for every major faction, and the nation as a whole would be better off, too. Unfortunately, Congress stripped the benefit for Virginia away, which disheartened Madison, but did not dissuade him from the merits of the impost. Instead, he still hoped to get the proposal through the Old Dominion. In April 1783 he wrote a letter to Edmund Randolph that embodied Gibson's characterization of an impartial administrator of public affairs: "if a few enlightened & disinterested members would step forward in each Legislature as advocates for the necessary plans, I see with so much force the considerations that might be urged, that my hopes would still prevail."<sup>56</sup> The effort to enact the impost was one of Madison's most consequential efforts during his time in the Confederation Congress, and this letter is a telling indication of his attitude. Without the morsel for Virginia, he still attempted to implement the impost for the good of the nation.

---

<sup>56</sup> JM to ER, 1 April 1783, *PJM* 6.

One can also appreciate Madison's commitment to impartiality from his work in the realm of foreign affairs. Generally speaking, the national government under the Articles of Confederation was an inert entity, and Madison was usually an advocate for expanding its authority, but this was not true in all cases, an important one being the treaty-making power. Foreign ministers had wide discretion to enter into international agreements, with Congress consenting ahead of time to accept the deal. While Madison generally wanted to expand the capacities of the national government, and in particular make it easier for a majority of the nation to work its will, he feared this plenary authority facilitated partiality. For instance, by the spring of 1783 Madison had grown worried that Robert Livingston, the secretary of foreign affairs, would sign a bad treaty of commerce with Great Britain. He wrote to Jefferson on May 13, 1783 that the "privilege to be ceded will (chiefly) if not alone affect the southern states" while the eastern states were to reap most of the benefits.<sup>57</sup> Madison later explained to Randolph that while the terms of the treaty "present great advantages, they present them only to those States which abound in maritime resources," while those states lacking such resources will be the ones "(chiefly), if not solely" harmed by it.<sup>58</sup> For this reason, Madison thought it better that Congress have final authority over treaties, as this would ensure that no part of society could implement a foreign contract at the expense of the others.

### **Madison's Objection: Corruption**

Corruption of republican government, in Madison's judgment, could be understood in relation to partiality. A state that grants favors to privileged factions also motivates them to organize to maximize their bounties. In some instances, groups might coalesce in anticipation of

---

<sup>57</sup> JM to TJ, 13 May 1783, *PJM* 7.

<sup>58</sup> JM to ER, 20 May 1783, *PJM* 7.

gains, to ensure that the expected assistance is delivered; in other instances, they might mobilize to protect what the government has already granted. Regardless, if by their efforts they receive public assistance at the expense of the public interest, then the republican quality of the regime has been altered—or *corrupted*, in the parlance of 18th-century republicanism. The key feature is the disruption of power relations: a republican government is supposed to reflect the views of all its citizens, and work on their behalf; however, a disproportionate distribution of public resources may skew the distribution of public authority—as the blessed factions can become interest groups that dominate the government for their own ends. This is not a necessary consequence of partiality, but in Madison’s judgment it occurs frequently enough that the republican statesman must always be on guard against it.

A good way to think about the distinction between partiality and corruption is the difference between *policy inputs* and *policy outputs*—where inputs are the back and forth of everyday republican politics structured by a constitutional system, and outputs are the policies that are produced by this process. Partiality is a problem of outputs—public policy especially favors or burdens some group over the rest. Corruption is a problem of inputs—the process that produced the policy is not a fair reflection of the public views (sufficiently refined and enlarged by a body of wise representatives), but instead represents the privileged standing of some particular group. Madison understood that there was a complicated relationship between inputs and outputs. Obviously, a corrupted policymaking process is likely to produce partial policy, as the faction with undue power over the state will use it to secure its own interests. But the door swings both ways. If a faction receives some special benefit from the government—even if it is doled out by republican statesmen who earnestly believe they are acting on behalf of the public interest—the faction may use that bounty as a source of *political power* in the future, disrupting

policy inputs at a later date. Moreover, there need not even be an actual distribution of policy benefits for such corruption to occur. The mere *possibility* of acquiring such benefits may activate otherwise latent conflicts of interests within legislators, inducing them to govern for the sake of their own pocketbooks and not the general welfare.

Madison's political thinking implies two types of corruption, which may be appreciated by contrasting corruption in an absolute monarchy to corruption in representative government. The absolute monarch's position is established by the constitution itself, and while the king may have a moral duty to govern for the sake of his subjects, he is *legally* free to do as he may. Whether his edicts are in the public interest or not, the people have no legal recourse within the constitutional framework to do anything about it. The representative has no such liberty, at least none conferred by the instrument of government or the letter of the law. Rather, he has been charged by his constituents to work on behalf of the people, but quietly misuses this authority for his own sake. Accordingly, political corruption—in Madison's system of thought—may be both *formal*, where corruption stems from a legal grant of public authority, and *informal*, where it arises from the conflicted passions of public officers. In both instances, the republican maxim that government act on behalf of the common good has been violated, and public power has been transferred to some contingent; the difference is the manner of the violation. Each merits closer inspection.

### *Formal Corruption*

Madison, as noted above, was an implacable opponent of any hereditary sovereignty. He admitted that a monarch might protect a minority from an avaricious majority, out of a sense of duty to the national wellbeing. However, the king may just as easily have a conflict between his

own goals and the general welfare, and in such a circumstance there would be nothing to stop him from favoring the former over the latter. Because the office is self-appointed, neither the people nor their representatives have any legal recourse against him. This is why Madison thought so many of those who “swayed the British Sceptre” were “detestable pictures of Tyranny and Cruelty.” Each king was a faction of one, given license by the law itself to do whatever he may.

Madison’s extended this logic to many formal grants of power. Consider his opposition to the established church of Virginia, which he disliked for similar reasons (at least in part—his opposition to religious establishments was multifaceted). In a letter to Bradford in January 1774, he argued, “Ecclesiastical Establishments tend to great ignorance and corruption.”<sup>59</sup> In April, he followed up on this theme in another missive to Bradford, where he complained about the church’s efforts to resist reform of the church. He noted that the clergy, who were sponsored by the state, were flexing their political muscle to protect their privileges: “for such they must consider dissenters who rob them of the goodwill of the people and may in time endanger their livings & security.”<sup>60</sup> Using their elevated station—which ultimately was a grant of privilege from the government itself—the clergy were working from purely selfish motives to prevent the government from reforming the church for the good of all. At a very young age, therefore, Madison detected the possibility for a dynamic relationship between the government and a social group: first, the state bestows wealth and prestige (in this case, upon the clergy); then, the group employs those resources to protect and extend its privileges. This idea would recur during his opposition to Federalism in the 1790s, and will be detailed in Chapter Three.

---

<sup>59</sup> JM to William Bradford, 24 January 1774, *PJM* 1.

<sup>60</sup> JM to William Bradford, 1 April 1774, *PJM* 1.

Madison expanded on these anxieties in his unpublished “Essay on Monopolies,” where he warned that the “growing wealth” of all corporations, religious or secular, can be a “source of abuses.” Great Britain furnished a harrowing example. In his estimation, the establishment of the church had imbued it with enormous wealth, which created such a “disordered state of things” that it prompted the Reformation, but because the wealth of the church was warranted by the law itself, the only way to correct the church’s “gross ... corruptions” was to “disregard ... the sacredness of property.”<sup>61</sup> Granting an exclusive and perpetual charter to an institution such as the Catholic Church creates the opportunity for it to expand its economic *and* political power, in an entirely legal way. Ultimately, the only way to correct this problem was to violate the right to property.

Likewise, Madison was skeptical of milder types of formal support—such as monopolies, patents, and publicly chartered corporations that offered some kind of exclusive economic benefit for a private group. He was not blind to the utility of such grants, but he recognized the potential for abuse, as the beneficiary may in turn co-opt the state for its own purposes. In the “Essay on Monopolies,” Madison admitted that although monopolies are “in certain cases useful, (they) ought to be granted with caution.” They may “produce more evil than good” by granting factions a public sanction to commit “local injustice and oppression” by “laws & regulations.” By their very nature monopolies bless certain parties, usually founded on “different sorts of property” and holding “animosities” toward other parties, which then may use the benefits as a tool for “oppression” that was either completely legal or very hard to combat through the legal process.<sup>62</sup> Note the relationship between corruption and partiality. The government blesses some

---

<sup>61</sup> JM, Detached Memoranda, *PJM* Retirement Series 1.

<sup>62</sup> *Ibid.*

clique with a private benefit, but in so doing hands it power to manipulate the legal system for its own purposes.

Though Madison held a blanket opposition to monarchy and religious investment, he recognized the occasional necessity of the government granting exclusive economic privileges. In these circumstances, he held that such monopolies had to be in the public interest, last for only a limited duration, and be on good terms for the government.<sup>63</sup> He also required that the governing charter give specific sanction for the grant. As such institutions were highly dangerous to the republican form of government, it was necessary—in Madison’s judgment—that the people have expressly authorized them. This helps explain Madison’s opposition to the Bank of North America, a publicly chartered institution proposed by Robert Morris in 1781. While Madison was generally a supporter of Morris, and usually argued for a broad reading of congressional power from the Articles of Confederation, he thought there was no legal sanction

---

<sup>63</sup> Several examples illustrate these principles. First, he supported Jefferson’s 1776 draft of the Virginia Constitution to abolish the systems of primogeniture and entail, a rule regarding the distribution of property that had created vast estates in the Tidewater area by binding subsequent generations to obey the wills of the original, long-deceased landowners. Madison thought this an aristocratic institution that facilitated an “excessive & dangerous cumulation of landed property in the hands of individuals” (ibid). This was a grant that had no public benefit, was too long in duration, too generous in nature, and generally undermined the neutrality of the government.

Second, in 1784 James Rumsey applied to the Virginia legislature for a patent to run boats against the river current with a mechanized pole. His efforts impressed Washington, who had a keen interest in transforming the Virginia waterways into a gateway to the West. With the General offering a testimonial on Rumsey’s behalf, there was strong sentiment in his favor in the Virginia legislature. Madison drafted a law that granted Rumsey the sole right of developing his boats for navigation in Virginia for ten years, provided that the privilege may “be abolished by the Legislature upon paying to the said James Rumsey . . . the sum of ten thousand Pounds current money in gold or silver” (JM, Bill for Granting James Rumsey a Patent for Ship Construction, 11 November 1784, *PJM* 8.). As he would later write, he thought the terms of this patent “would guard against the public discontents resulting from the exorbitant gains of individuals, and from the inconvenient restrictions combined with them” (JM, Detached Memoranda, *PJM* Retirement Series 1.).

Third, upon his brief return to the Virginia legislature in 1784-85, he took the lead in drafting legislation to develop the waterways of Virginia, with an eye to directing western commerce through Virginia and Maryland. This meant an emphasis not only on the Potomac River, but also (for the sake of balancing the sectional interests within the state) the tidewater region as well. Madison thus wrote a bill chartering a corporation to develop the James River, but his proposal caused a measure of controversy among potential investors. Rather than supplying a permanent ownership stake, subscriptions to the company would constitute a loan to the state, payable at 10 percent interest, with the title transferred back to the government when the subscriber received twice his principal. In a letter to Jefferson, Madison argued, “It was thought better for the public to present this exuberant harvest to the subscribers than to grant them a perpetuity in the tolls” (JM to TJ, 9 January 1785, *PJM* 9.). But investors did not think this harvest was all that exuberant, and they forced Madison to redraft the charter. He ultimately settled on a compromise by which the state had the right to buy back the stock at a reasonable price.

for such an institution. The power of incorporation—when it carries with it a monopoly or some other exclusive privilege—was a potentially dangerous one in Madison’s estimation, and could not be inferred from vague clauses in a governing instrument.<sup>64</sup> Accordingly, he endeavored to strip the provision of public incorporation from the initial legislation. Once that failed, he voted for the final bill, which did not actually incorporate the bank but authorized Morris to proceed. When Morris began taking subscriptions in December, public enthusiasm in the endeavor was underwhelming, prompting the financier to return to Congress to ask it to make good on its earlier promise of incorporation. Madison agreed, but quite reluctantly. In a lengthy note on the subject in January 1782 to Edmund Pendleton, he explained that he had been placed in a “dilemma.” Something had to be done to solve the nation’s public finances, especially since payments to the army were at risk, but because the Pennsylvania legislature had adjourned, there was no alternative but for Congress to make good on the initial promise of incorporation. Madison concluded, “As this is a tacit admission of a defect of power I hope it will be an antidote against the poisonous tendency of precedents of usurpation.”<sup>65</sup>

Madison took a similar approach to the Bank of the United States. He had promulgated a seemingly broad view of the Necessary and Proper Clause in *Federalist* 44, one that Hamilton utilized in his defense of the Bank to Washington.<sup>66</sup> But for Madison, an institution like a national bank was an exceptional case. In his main House speech against the Bank, he invoked the spectre of formal corruption as a reason for skepticism. “The power of granting Charters... is a great and important power” that cannot be inferred, but only explicitly granted. The “public affairs in Europe” had shown that such a bank has the potential to become a “powerful machine

---

<sup>64</sup> See Brant 2: 125-130.

<sup>65</sup> JM to EP, 8 January 1782, *PJM* 4

<sup>66</sup> See AH, Opinion on the Constitutionality of an Act to Establish a Bank, 23 February 1791, *PAH* 8, and JM, *The Federalist* Number 44, *PJM* 10.

... competent to effect objects on principles, in a great measure independent of the people.”<sup>67</sup> By giving it exclusive license to bank across state lines and authorizing it to serve as the depository of federal tax revenue, Hamilton’s bank charter would concentrate public authority in private hands, and in Madison’s view had to be subjected to very strict scrutiny. Madison’s constitutional worry thus paralleled his concern over investiture: because banks had the capacity to develop an interest adverse to the public good, they could not be chartered without express authorization from the Constitution.<sup>68</sup>

This view may not pass legal muster with constitutional scholars, but it is otherwise hard to square Madison’s opposition to the Bank and his support for founding a national university in 1796.<sup>69</sup> The only way to make sense of this seeming contradiction is to respect the different influences that each institution might have on the general welfare. A national university could never behave how he worried a national bank would, as a “powerful machine ... independent of

---

<sup>67</sup> Madison, Speech of 8 February 1791, *PJM* 13.

<sup>68</sup> Madison also objected that the distribution of the Bank’s benefits was tilted toward the private owners rather than the people at large. As noted in Chapter One, this was a common standard he applied when evaluating charters, licenses, and patents, and in this regard he found Hamilton’s proposal wanting. Madison said on the floor of the House:

[T]he public...ought to derive greater advantages from the institution than those proposed. In case of a universal circulation of the notes of the proposed bank, the profits will be so great that the government ought to receive a very considerable sum for granting the charter (ibid.).

In preparing a draft veto of the Bank for Washington, Madison reiterated this notion:

I object to the Bill because it appears to be unequal between the public and the Institution in favor of the institution; imposing no conditions on the latter equivalent to the stipulations assumed by the former (JM, Draft Veto of the Bank Bill, 21 February 1791, *PJM* 13.).<sup>68</sup>

The Bank charter was, in effect, a public power transferred to private parties. The terms of the transfer should, in his judgment, be clearly in the interest of the public, and he thought that not the case with the Bank.

<sup>69</sup> The government was offered a stock in the Potomac Canal as an endowment, so establishing a national university in Washington, D.C. was simply a matter of chartering a body to receive donations. Madison presented a memorial in support of the new institution, but it was postponed by a vote of 37-36. See Brant, *James Madison* 3: 446-447. Another example of Madison’s broad view of federal power can be appreciated by his advocacy of a proposed expedition to Baffin Bay to study magnetic theory. He told Congress, “there is any considerable probability that the projected voyage would be successful, or throw any valuable light on the discovery of longitude, it certainly comports with the honor and dignity of government to give it their countenance and support” (JM, Speech of 20 April 1789, *PJM* 12.). Like a national university and unlike a national bank, a scientific expedition did not involve the redistribution of power, and thus Madison was a hearty advocate for it.

the people.”<sup>70</sup> Its purpose would, rather, be the acquisition and disbursement of knowledge, which Madison judged always in the public interest, thus, he was a hearty advocate for it. But corporations like banks concentrated public power into private hands; though intended to serve the public interest, they need not operate on behalf of it; and in important instances had become detrimental to that interest. Accordingly, they required special sanction in the governing instrument. That the Bank would incidentally aid the government in accomplishing some of its essential functions was an insufficient justification in Madison’s opinion at the time. Madison was generally an advocate of an expansive scope of national powers—during the Confederation period and under the new Constitution—but his constitutional argument against the Bank was that, by its nature, it was *sui generis*, and had to be handled as such.

### *Informal Corruption*

A hereditary sovereign, religious investment, economic monopolies, and the Bank of North America are all formal grants of power to some faction that could facilitate corruption. Madison also understood that factions could gain power in an informal fashion, and use that authority to privilege their own designs over the general welfare. By this reckoning, malfeasance of public officials was a serious danger to republican government, for it enabled cabals to gain control even as the nominal structure of the government remained the same.

As Madison writes in the *Vices*, “representative appointments” are sought not only for the “public good,” but also from “ambition” and “self interest.” Unfortunately, those motivated by “base and selfish” motives are “most industrious” and “most successful in pursuing their object.”<sup>71</sup> When they succeed, the government is not operating on behalf of the people—as a

---

<sup>70</sup> JM, Speech of 8 February 1790, *PJM* 13.

<sup>71</sup> JM, *Vices of the Political System of the United States*, *PJM* 9.

republic always should—but for the factions that overlap with their self-interests or ambitions. Note again the relationship between partiality and corruption: if the state has granted, or is considering granting, some bounty to a faction that counts members of the government among its members, those officials have a conflict of interest—and may be induced to exercise their authority on behalf of themselves and their allies. If they do, there is little practical difference between their actions and the aforementioned cases of formal corruption: the end result is a faction obtaining political power that rightly belongs to the people. Indeed, informal corruption is arguably more pernicious, for its beneficiaries hold a kind of secret, unwritten trust, protected by a quiet alliance in the halls of power. While the people retained the power to elect their representatives, such collusion can effectively nullify this authority.

Thus, contra Hamilton, Madison thought the selfish motives of officials had to be checked, not employed. The extended republic detailed in *Federalist* 10 should, Madison reckoned, promote the election of more noble characters. And as he writes in *Federalist* 51, the separation of powers should also help:

Ambition must be made to counteract ambition. The interest of the man must be connected with the constitutional rights of the place. It may be a reflection on human nature, that such devices should be necessary to control the abuses of government. But what is government itself, but the greatest of all reflections on human nature?<sup>72</sup>

Hamilton believed that a superintending executive authority, strategically supplying patronage and private benefits, could harmonize the selfish passions of politicians for the sake of all. But Madison, as evidenced in the above passage, was not nearly so sanguine. The greed and ambition of one governing agent should counteract the greed and ambition of another. Separation of

---

<sup>72</sup> JM, *The Federalist* Number 51, *PJM* 10.

powers therefore supplies the same check upon politicians that the extended republic imposes upon popular factions: both force a grand clash of interests from which no single person or group may emerge as the dominant party, increasing the likelihood that the ultimate compromise advances the general welfare. Just as social factions would balance and counter each other's parochial impulses in the extended republic, politicians operating through the system of checks and balances would do the same to one another.

For Madison, designing a proper constitution was only the first step in the quest to secure a republican government. As he notes in *Federalist 55*, "a degree of depravity in mankind...requires a certain degree of circumspection and distrust. So there are other qualities in human nature, which justify a certain portion of esteem and confidence. Republican government presupposes the existence of these qualities in a higher degree than any other form."<sup>73</sup> No constitution could alter man's inherently selfish nature. At best, it can only structure the rules of the game to minimize, not eliminate the chances that such selfishness could destroy republicanism. After that, the friends of good government must rely upon a stock of "fit" characters who possess "wisdom ... patriotism and love of justice" to vindicate the public interest through the course of everyday politics.<sup>74</sup>

Madison was such a character. His commitment to the nation's republican experiment in self-government was exemplary. During his time in public office, he exhibited a strict ethos of public propriety. As he wrote in his "Autobiography," it was his policy "never to deal in [public] property, lands, debts, contracts & money, whilst a member of the Body, whose proceedings might influence these transactions."<sup>75</sup> There is no indication that he ever traded his public authority for private profit, and given his money struggles late in life, he paid a price for fidelity

---

<sup>73</sup> JM, *The Federalist* Number 55, *PJM* 10.

<sup>74</sup> JM, *The Federalist* Number 10, *PJM* 10.

<sup>75</sup> JM, *Autobiography*, December 1830, *PJM* Early Access Document.

to this principle.<sup>76</sup> Moreover, he could always be counted as an implacable foe of any scheme in which politicians sacrificed the general welfare for their own gain. This usually meant opposition to land or debt speculators, who had engaged friends in Congress happy to work on their behalf. In his private letters the pen of this seemingly mild-mannered statesman dripped with contempt for the “stockjobbers,” “landjobbers,” and the politicians they bought off.<sup>77</sup> A decade before he was battling the stockjobbers whom he thought were benefitting illicitly from Hamilton’s political economy, he fought with equal determination the landjobbers looking to gain windfall profits from the disbursement of the western territory. The issue in the early 1780s had to do with the borders of the thirteen former colonies. Roughly half of them had clearly defined boundaries, while the other half could lay claim to some portion of the western lands, thanks to their original royal charters. Virginia claimed more land than any other colony, and its claims were the strongest of the bunch.

This created a severe problem with speculation. Companies formed in “four-sided” states to purchase titles in “three-sided” states from Native Americans with paltry or nonexistent claims to the land. These titles had no standing in the three-sided states, but were legal tender in the four-sided ones. By 1779 Virginia had declared such contracts null and void, established a land

---

<sup>76</sup> Unfortunately, Madison of late has been misrepresented on this issue. Ron Chernow wrongly states, “Madison and Henry Lee speculated in land on the Potomac, hoping to earn a windfall profit if the area was chosen for the capital” (Chernow, *Alexander Hamilton*, 326.). There is no documentary evidence to support such a conclusion, which regards an investment in Great Falls, Virginia, and there is plenty to dispute it. For starters, Lee had an interest in purchasing this land *before* the Constitution was even ratified, so the idea that he was trying to cash in on the future site of a capital of a government whose existence was in doubt is dubious. Additionally, per Ralph Ketcham, Madison ultimately demurred from making a full investment (See Ketcham, *James Madison*, 148). Irving Brant notes that his resources were tied up in an investment on the Mohawk River in upstate New York, and that “his sole apparent contribution” to the Great Falls investment “was a panegyric on it, written at Lee’s request, for publication in monthly magazines” (Brant, 2: 374). And most importantly, per Dorothy Twohig, the investment had nothing to do with speculating about the future site of the capital. Rather, “Lee viewed the site as the gateway to a network of rivers and canals which would bring western trade to the Potomac region” (Twohig, Editorial Note, JM to GW, 5 November 1788, *PGW* Presidential Series 1.), while Ketcham avers that the investment hinged on the expectation that the Potomac Canal would be built through the acreage. In sum, Chernow is simply incorrect. Instead, per Brant, Madison’s limited investment in this project was, “unaffected by his current political activities” (Brant, 2: 374).

<sup>77</sup> See JM to ER, 22 April 1787, *PJM* 9, and JM to TJ, 8 August 1791, *PJM* 14.

office of its own, and promised to use its lands to pay the bonuses of soldiers. Underlying this was a foreshadowing of the large-state/small-state divide at the Constitutional Convention in 1787. The four-sided states had no room to grow, and no money to make from land sales, so they were naturally jealous of the three-sided states, and not without reason. Why should royal charters granted by a sovereign the states had just overthrown play any role in determining who was to profit from public land sales? Meanwhile, the three-sided states had an equal reason to disregard their rivals, which had sanctioned the purchase of dubious titles from the Native Americans. The tension was so pronounced that Maryland initially blanched at ratifying the Articles of Confederation over disagreement about territory.<sup>78</sup>

Into this fray stepped Madison in September 1780. With Joseph Jones, a fellow member of Congress from Virginia, he proposed that Georgia, North Carolina, and Virginia cede a portion of their western territory to a “common fund,” out of which would be created new states, with the unceded western land to be used as bounties for war veterans. However, “all purchases and deeds from any Indian or Indians...which have been or shall be made for the use of any private person...shall be deemed and taken as absolutely void.”<sup>79</sup> This was a quintessentially Madisonian proposal. For starters, he adopted an influentially broad view of the country’s well being. The political effect of Virginia, which had the best claims to the most territory in the West, taking the first step in cession negotiations was momentous. It was a crucial landmark on the way to forging a national identity, and Madison was a major advocate for it in Congress. At the same time, there was to be no special exemption for the landjobbers and their cronies in government, who had speculated that Congress would eventually validate their dubious purchases. On this final point, Madison was steadfast. As Jack Rakove notes, “Throughout this

---

<sup>78</sup> See *ibid.*, 89-92.

<sup>79</sup> JM, Motion Regarding the Western Lands, 6 September 1780, *PJM* 2.

period, Madison remained the one member of his delegation who most vigorously defended the conditions Virginia attached to its cession.”<sup>80</sup>

When Congress struck the item about Native American purchases from the package, Madison intuited that this was the handiwork of the speculators. He commented to Jones that the motivation was “gratifying private interest at the public expense.”<sup>81</sup> Still, the resolution passed the next month, and while Madison’s worry about the landjobbers eased to some extent, his sardonic view of them did not change. In November, he wrote to Jones, “I do not believe there is any serious design in Congress to gratify the avidity of land mongers, but the best security for their virtue in this respect will be to keep it out of their power.”<sup>82</sup>

He was right to remain suspicious. In response to the resolution, Connecticut, New York, and Virginia all ceded their lands. Virginia did so on the condition that the claims of out-of-state companies would not be validated.<sup>83</sup> This was enough to induce Maryland to accept the Articles of Confederation, for which Madison deserves enormous credit. But the “land mongers” were not deterred. The Congress sent the cession proposals to a committee that was sympathetic to the interests of the speculators, and in October 1781 Madison fretted to Pendleton that though Virginia had made “every opposition and remonstrance,” there was “little hope of arresting any aggression upon Virginia which depends solely on the inclination of Congress.”<sup>84</sup> Amazingly in retrospect, Congress did not accept Virginia’s cession, though it nevertheless turned down this committee’s recommendation that it reject it outright. Eventually, a committee less sympathetic to the speculators took up the offer and produced a compromise whereby the Congress would stop just short of explicitly rejecting the claims of the speculators, and would not guarantee

---

<sup>80</sup> Rakove, *James Madison and the Creation of the American Republic*, 24.

<sup>81</sup> JM to Joseph Jones, 19 September 1780, *PJM* 2.

<sup>82</sup> JM to Joseph Jones, 21 November 1780, *PJM* 2.

<sup>83</sup> See Grymes, “Virginia Land Cessions.”

<sup>84</sup> JM to EP, 30 October 1781, *PJM* 3.

Virginia the land it claimed southeast of the Ohio River. Congress approved this in September 1783, and Virginia accepted it in 1784, after Madison had left Congress.<sup>85</sup>

Madison's opposition to the land speculators is similar to his concerns about religious and economic establishments in two important regards. First, each case involved some minority faction acquiring power from the government that originally belonged to the people at large. Religious and economic establishments possessed formal grants of power from the state, while the land speculators looked to seize it informally through conflicts of interest among legislators who were either themselves speculating in land or had friends or business partners who were. Either way, some division of society was endeavoring to acquire public power to be used contrary to the general welfare. Second, these seizures of authority all related in some way to government partiality: either the state had already distributed benefits disproportionately, or it was considering doing so, which spurred the interest groups into action.

In Madison's view, this threatened to corrupt the republican form of government, which is why he eventually opposed Hamilton's effort to employ the moneyed class as mediators of the national welfare. The future secretary of the Treasury thought that such mediation was integral to his project of harmonization, so his policies endeavored to forge a durable bond between the few and the new government. Madison saw this as an existential threat to the republic, and would emerge as the most effective critic of this program in the early government.

---

<sup>85</sup> See Henning, *SL*, 571, and JM to William Bradford, 24 January 1774, *PJM 1*. Of course, Madison had a pragmatic bent, too. Many politicians with his same nationalistic bent—for instance, James Wilson, Gouverneur and Robert Morris—were speculating in Western lands. While Madison was not prepared to indulge their speculative schemes with public policy, he was happy to work with them when they shared the same goals (See Ketcham, *James Madison*, 130.). For instance, the speed with which Robert Morris earned his fortune won him the enmity of many in Congress, including the very determined Arthur Lee. In a letter to Randolph, Madison acknowledged the accusations of “malfeasance,” noted that they had not been proven, and took a broader view of Morris's potential conflicts of interest (JM to ER, 4 June 1782, *PJM 4*.). Morris had been an enormous asset to the Revolution, had clearly taken up many tasks out of a sense of public duty, and received good reviews from the French. Meanwhile, Lee was a vindictive busybody, prone to making charges full of “falsehood and malice” that fanned “the flame of faction which ... proved so injurious” to the war effort (JM to EP, 7 November 1780, *PJM 2*.). Thus, Madison elected to give Morris the benefit of the doubt.

## Conclusion

The partisan warfare of the 1790s would spin out into multiple directions—with conflicts over foreign policy, preparations for a putative war with France, and ultimately a fight over the scope of civil liberties. During this tumultuous decade, all sorts of outrageous accusations would fly. Madison, Jefferson and the Republicans accused Hamilton and the Federalists of being monarchists, while the latter said that the former were godless Jacobins. This sort of hyperbole, which would become typical of American political discourse, masked the underlying reality that Madison and Hamilton agreed on many important points, and philosophically speaking were not terribly far apart. There can be no doubt that both were solid nationalists, and well within the mainstream of 18th-century republican thought.

Still, within these parameters, there was disagreement over many important questions, the main one discussed in this chapter being: to what extent should a republic offer considerations for a well-positioned, minority faction? For a brief moment, it seemed as though this would become an issue during the Constitutional Convention, when Hamilton proposed a system of government akin to the British model. However, his idea was so far out of the mainstream, and the New Jersey Plan was so contrary to Madison and Hamilton's shared goals, that their dispute quickly lost salience. It was put aside altogether when the two joined the battle for ratification, combining to write the overwhelming majority of the *Federalist* papers.

But when Washington named Hamilton as the first secretary of the Treasury, and the latter used that position to introduce policies that advanced the interests of the few, this latent conflict became active. As will be detailed in Chapters Two and Three, the dispute had to do with the financial elite, a group that, as noted in this chapter, Hamilton had long wanted to bind

to the government. He failed to do that via the Constitution itself, so he would try using public policy to accomplish the same end. He had a good reason for doing so: The United States was a cash-poor nation, so it made quite a bit of sense to treat the handful of men in possession of liquid capital with consideration. But Madison had sensible grounds to object: Such partiality violated his notion of neutrality, and it facilitated political corruption, as any bloc granted a bounty also could acquire leverage to use for its own purposes. Madison's objections were as thoroughly considered as Hamilton's plans, and between them was to be found precious little common ground. So, their philosophical disagreement over the role of the few would become the first partisan battle of the 1790.

## CHAPTER TWO

### “Doing Full Justice”: Partiality in Federalist America

#### **Introduction**

The year 1789 was a time of civic unity. George Washington was unanimously selected the nation’s first president. His dealings with Congress were cordial, establishing many sound precedents for interbranch relations that endure to the present day. For its part, Congress adopted the Bill of Rights, organized the judicial branch as well as the major cabinet departments, and finally implemented a national duty on imports and tonnage. For those who had lived through the tumult of the previous decade, the harmony of that year must have been an enormous relief.

But there were subtle portents of the divide that led to the first party system of the United States. Ironically, Thomas Jefferson, who would later lead the Republican Party, was not present in those moments. He continued to serve as minister to France for most of the year, and upon his return to Monticello he vacillated on whether to accept appointment as secretary of State. Instead, the disquiet stemmed from the seemingly unlikely disagreement between James Madison and Alexander Hamilton, on whether the United States should discriminate against British trade. Madison supported it, Hamilton opposed it. In comparison to what would happen later in the decade, this disagreement might seem trivial to modern eyes, but it did not go unnoticed by those involved at the time. In a private conversation with British agent George Beckwith, Hamilton seconded Beckwith’s bewilderment at Madison’s ostensible heterodoxy. “I confess I was likewise rather surprized at it,” the secretary of Treasury said. “The truth is, that

although this gentleman is a clever man, he is very little Acquainted with the world. That he is Uncorrupted And incorruptible I have not a doubt; he has the same End in view that I have.”<sup>1</sup>

In fact Madison was fairly well quite acquainted with the world—nowhere near to the extent of Hamilton, but he had traveled widely throughout the country (for his day), and had dealt with economic, social, and foreign policy on the state and national level for over a decade by that point. Hamilton and Madison may have had the same “End in view”—a national republic that bound all the states of the nation—but they envisioned very different means in pursuit of that end. They certainly agreed on many broad and fine points of statecraft, but as argued in Chapter One, they were separated by profound differences over the role that the moneyed clique should play in forging this national republic. These disagreements would remain latent so long as the government was organized under the Articles of Confederation, which they both found to be unsatisfactory. But after the national government acquired vigor under the Constitution, this incipient disagreement became active, and initiated the partisan warfare of the 1790s.

Hamilton had high hopes for the economic elite under the Constitution, but the prospective function he envisioned for the class of merchants, financiers, and manufacturers violated Madison’s principles in important respects. Chapter Three will outline Madison’s belief that Hamilton’s political economy handed public authority to private factions and, in turn, facilitated corruption. This chapter will deal with the distribution of policy benefits under the Hamiltonian political economy, detailing why it was much too unfair for Madison’s republican scruples. By systematically favoring the moneyed class, it ran contrary to Madison’s belief that a republic must never affiliate itself so thoroughly with one bloc of society over the others. This is why Madison opposed Hamilton’s funding and assumption plans, as well as his proposal to

---

<sup>1</sup> AH, Conversation with George Beckwith, October 1789, *PAH* 5.

protect American manufacturing. It also explains part of his opposition to the Bank of the United States.

This chapter is divided into four sections, examining why Madison's commitment to impartiality induced him to oppose Hamilton's plan to fund the national debt, assume the state debts, charter a national bank, and patronize manufacturing. In sum, it will further develop the analysis of Madisonian impartiality, begun in Chapter One, and sharpen the understanding of why Madison broke with Hamilton in 1790.

### **Funding the National Debt**

As noted in Chapter One, the main point of disjuncture between the two was the submission of Hamilton's *Report on Public Credit*. Still, some relatively minor policy battles presaged their fight over partiality. In 1782 Madison and Hamilton had disagreed over how to fix the exchange rate of continental currency. Congress planned once again to depreciate the currency, and the question was what the ratio of redemption should be for the old currency to the new. Hamilton wanted it set around 100:1 for reasons similar to his argument for a bank. He thought this "would multiply the advocates for federal funds for discharging the public debts, and tend to cement the Union."<sup>2</sup> Moneyed interests had snatched up the old currency, in many cases after it had stopped circulating or had already depreciated below that level. Hamilton thought it advisable to offer them a generous redemption rate to bind their interests to the national government. Madison objected to such a rate, and preferred a ratio of approximately 150:1, under the suspicion that a more generous ratio would aid gamblers in search of windfall profits. Instead, Madison wanted a credit for the old redemptions "as equity might require."<sup>3</sup>

---

<sup>2</sup> AH, Speech of 26 November 1782, *PAH* 3.

<sup>3</sup> JM, Notes on Debates, 7 December 1782, *PJM* 5.

Additionally, in September 1789 Madison opposed a motion in the House of Representatives from Thomas Scott of Pennsylvania to locate the new capital near “the center of wealth, population, and extent of territory.” Madison objected:

I move to strike out the word wealth, because I do not conceive this to be a consideration that ought to have much weight in determining the place where the seat of government ought to be....Government is intended for the accommodation of the citizens at large; an equal facility to communicate with government is due to all ranks; whether to transmit their grievances or requests, or to receive those blessings which the government is intended to dispense. The rich are certainly not less able than those who are indigent, to resort to the seat of government, or to establish the means necessary for receiving those advantages to which, as citizens, they are entitled.<sup>4</sup>

Admittedly, this turned out to be a small matter. Madison’s objection carried the day, and the capital was eventually located on the Potomac. But the issue was nevertheless loaded with symbolism. In this statement, Madison anticipated a major objection to Hamilton’s political economy, which in its immediate effects would not supply the “equal facility...due to all ranks” of society.

Still, the two enjoyed a cordial and productive relationship through the fall of 1789, as evidenced by Hamilton’s conversation with Beckwith. Hamilton was certainly condescending toward Madison in that discourse, and more than a little indiscreet, considering that the interlocutor was a British agent. Yet, he was hardly vituperative, and expressed confidence that the two remained basically in agreement. All of this would change when Hamilton released his groundbreaking *Report on Public Credit* in the winter of 1790.

---

<sup>4</sup> JM, Speech of 3 September 1789, *PJM* 12.

That document included two major proposals: repayment of existing federal obligations mostly at face value, and an assumption of the state debts by the federal government. Hamilton offered both under the theory that they would facilitate national harmony through economic prosperity, while Madison opposed both for reasons consistent with his preference for neutral policy. The Congress debated both proposals separately, and it is appropriate to do likewise here, as the arguments for and against each were different.

Hamilton broke the national debt into two parts, based on who owned what. First, regarding the foreign creditors, Hamilton proposed to pay them back on the terms at which the debt was initially agreed to. This was an uncontroversial strategy, and did not factor into Madison's opposition. Regarding the domestic debt, Hamilton proposed a reduction in the interest rate from six to four percent, in exchange for options on western land, to be paid to the current holders of the securities. Hamilton would also use revenue from the post office as a sinking fund, ostensibly for the purpose of paying off the debt in the long run (but which in practice he would also use to stabilize the debt market, as will be discussed in Chapter Three).

It went without saying that some repayment plan would have to be enacted, if ever the United States hoped to borrow money again on good terms. Still, it is worth noting how, in the *Report on Public Credit*, Hamilton offers a broader view of what a properly funded debt could do for the country:

It is a well known fact, that in countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are there equivalent to payments in specie; or in other words, stock, in the principal transactions of business, passes

current as specie. The same thing would, in all probability happen here, under the like circumstances.<sup>5</sup>

This, Hamilton avers, would have far-ranging implications—extending trade, promoting agriculture and manufacturing, lowering the interest rate for borrowing money, and increasing the value of land. As he famously puts it, “the proper funding of the present debt will render it a national blessing.”<sup>6</sup> If people have confidence that the debt will be repaid at the promised interest rate, then debt certificates can function as the circulating media, which will advance all of society over time. During the 1780s, there had been a surfeit of various currencies that nobody really had faith in. Continental dollars, state dollars, national debt certificates, and state debt certificates were all used as cash during the Confederation period. The problem was that all of these depended upon faith in the government, which was lacking. In fact, people *expected* the government to devalue the currency by printing more, or not to honor its debt obligations. As such, these various papers traded at varying discounts, inhibiting the development of a national economic marketplace, which Hamilton thought was a prerequisite for the union he envisions in *Federalist* 11. The solution, in Hamilton’s judgment, was for the national government to promise a fulsome repayment of the national debt, which would mean the corresponding certificates would trade at par throughout the country, enabling them to function as a uniform currency.

Of course, this meant that the government would *not* hasten to pay back the national debt. This prompted disagreement from Jefferson. A few months before Hamilton released his *Report*, Jefferson had written Madison from Paris that because “the earth belongs in usufruct to the living ... no man can, by natural right, oblige the lands he occupied, or the persons who succeed him in that occupation, to the payment of debts contracted by him.” Jefferson took this as a maxim that

---

<sup>5</sup> AH, “Report on Public Credit,” 9 January 1790, *PAH* 6.

<sup>6</sup> *Ibid.*

bound not only individuals, but whole societies. Accordingly, “no generation can contract debts greater than may be paid during the course of its own existence.”<sup>7</sup>

Eventually, Madison would adopt this position. Writing in the *National Gazette* in 1792, when sharp disagreements over Hamilton’s political economy had transformed into partisan conflict, he takes a dim view of a permanent debt, even if it had been accumulated during military conflict. He writes, “war should not only be declared by the authority of the people ... but that each generation should be made to bear the burden of its own wars, instead of carrying them on, at the expence of other generations.”<sup>8</sup> However, before the partisan battle had hit a fevered pitch, Madison adopted a milder tone. In February, 1790—less than a month after the submission of the *Report on Public Credit*—he argued to Jefferson that there were some instances when it was fair to push debts on to the next generation:

Debts may be incurred for purposes which interest the unborn, as well as the living: such are debts for repelling a conquest, the evils of which descend through many generations. Debts may even be incurred principally for the benefit of posterity: such perhaps is the present debt of the U. States, which far exceeds any burdens which the present generation could well apprehend for itself. The term of 19 years might not be sufficient for discharging the debts in either of these cases.<sup>9</sup>

Madison eventually concluded that Hamilton was using the debt as a form of emolument for the moneyed class, had no plans to extinguish it, and in so doing was facilitating a speculative mania (a topic to be discussed Chapter Three). But this note to Jefferson was written before all that tumult, and while he countenanced a fulsome program of debt repayment that was as “simpl(e)”

---

<sup>7</sup> TJ to JM, 6 September 1789, *PJM* 12.

<sup>8</sup> JM, “Universal Peace,” 31 January 1792, *PJM* 14.

<sup>9</sup> JM to TJ, 4 February 1790, *PJM* 13. See also Sloan, *Principle and Interest*, 178.

and “short” as possible, he was not at this point opposed to a funded debt *per se*, for he understood that it would take time to accomplish.<sup>10</sup>

Instead, Madison’s opposition had to do with *who* was to receive payments from the government. Hamilton’s plan would reward only the current holders of debt certificates, rather than original owners. This was the sticking point for Madison. In 1783 he had supported full repayment to current holders of the debt, but circumstances had changed. After the war, veterans had been paid in final settlement certificates, also known as Pierce notes. Desperately in need of cash, they began dumping them on the secondary market starting in 1784. As debt certificates went, Pierce notes were not rated as highly as loan certificates, which were mostly paid to men of means. Still, speculators took full advantage of the rock-bottom prices in the flooded market, and snatched them for 10 to 15 cents on the dollar (as opposed to about 25 cents for the loan certificates). They held tight to them, betting that the government would eventually redeem some quantum of the obligation. In November 1788 Pierce notes were trading for about 18 cents on the dollar, but as rumors of Hamilton’s funding plan began to spread through the major financial centers, their prices rose quickly. By December 1789, they were trading at roughly 50 cents on the dollar, as financiers eagerly anticipated windfall profits from Hamilton’s program.<sup>11</sup>

Given the review in Chapter One of Madison’s actions in the Confederation Congress regarding landjobbers, it should come as no surprise that this irked him. He judged Hamilton’s program a bounty for one slice of society, eastern speculators, at the expense of another, war

---

<sup>10</sup> JM, Speech of 11 March 1790, *PJM* 13.

<sup>11</sup> See Ferguson, *The Power of the Purse*, 252-257. Hamilton acknowledges this rise in prices in the *Report on Public Credit*:

A general belief, accordingly, prevails, that the credit of the United States will quickly be established on the firm foundation of an effectual provision for the existing debt. The influence, which this has had at home, is witnessed by the rapid increase, that has taken place in the market value of the public securities. From January to November, they rose thirty-three and a third per cent, and from that period to this time, they have risen fifty per cent more. And the intelligence from abroad announces effects proportionably favourable to our national credit and consequence (AH, “Report on Public Credit,” 9 January 1790, *PAH* 6.).

veterans. The fact that the prices of Pierce notes increased so quickly just prior to the publication of Hamilton's *Report* suggests that people were trading on insider information, and indeed—as shall be discussed in Chapter Three—many governmental officials were to be counted among the plungers. Madison knew this, and he thought it unfair to the veterans, who had now been mistreated by the government twice: first when the old government refused to pay them for their service with anything except low-grade paper, and now when Hamilton proposed, in effect, to pay those wages to the venturers.<sup>12</sup> Far from signaling a change of heart, Madison's opposition to Hamilton's funding plan was in fact deeply consistent with his commitment to impartiality.

Madison laid this out fully in a speech on the floor of the House on February 11. He opened by proclaiming his commitment to repayment:

The United States owe the value they received, which they acknowledge, and which they have promised to pay: What is that value? It is a certain sum in principal, bearing an interest of six per cent. No logic, no magic, in my opinion, can diminish the force of the obligation.<sup>13</sup>

---

<sup>12</sup> Edwin Perkins argues that the soldiers were not losers in this system, but in so doing he inadvertently illustrates how large a bounty Hamilton was offering to the speculators. He states that there was a certain risk associated with speculating in such certificates in 1784, which there certainly was. However, the premium he must assign to this risk to conclude that there was parity between the soldiers and speculators is outrageously high. He suggests that the soldiers would have been just as well off as the speculators “if the investor's rate of return expectation is raised” to 25%, compounded annually “to compensate for uncertainty about timing and adequacy of funding” (Perkins, *American Public Finance and Financial Services*, 227-228.). What he is saying in effect is that the seller of the certificates in 1784 would have broken even vis-à-vis the purchaser if he had applied the cash from his sale to an investment vehicle that offered 25% interest, compounded annually for seven years! That is a usurious level, and such returns were certainly not possible in the pre-industrial America of 1790. Even this assumes incorrectly that the soldier certificates were sold for 25 cents on the dollar, instead of 10-15 cents. The latter sales price would require a rate of about 35%, compounded annually for the soldiers to break even. Certainly, the investors were taking a not insignificant quantum of risk, and this was factored into the selling price—but that price reflected more than this. For the soldiers who were selling them were desperate for cash, and they flooded the market with Pierce notes in 1784. So the discounted prices at which the speculators bought the certificates in 1784 not only reflected the risk premium they were willing to bear, but also the advantages they enjoyed from a buyers market created by desperate sellers.

<sup>13</sup> JM, Speech of 11 February 1790, *PJM* 13. In a diary entry dated February 22, Maclay record that Madison did not “attend...to one Word of” the former's proposal to dispose of the national debt, and instead “offered them back without reading them.” Maclay figured that the alternative “hurt his *Littleness*” (Maclay, *The Journal of William Maclay*), but Madison's peremptory dismissal was indicative of a big disagreement about policy. Maclay wanted to

The question in Madison’s judgment was *who* should receive this money. And in typical fashion he offered a systematic answer to the query. He distinguished four categories of potential recipients:

*First.* Original creditors, who have never alienated their securities.

*Second.* Original creditors, who have alienated.

*Third.* Present holders of alienated securities.

*Fourth.* Intermediate holders, through whose hands securities have circulated.<sup>14</sup>

He then outlined four “principles that can govern the decision on their respective pretensions...:

1. Public justice; 2. public faith; 3. public credit; 4. public opinion.”<sup>15</sup> Unequivocally, the first class of creditors had a claim on all four counts, while those in the fourth category had no claim on any count, as they had purchased them at a heavily discounted rate and sold them.

That left a complicated matter regarding the second and third classes of creditors, who were effectively locked in a zero-sum game: the government did not have the resources to pay the soldiers in full and honor the debt certificates at face value, so the gains for one class would amount to a loss for. Those who had alienated their certificates, which more or less meant the war veterans “may appeal to justice, because the value of the money, the service, or the property advanced by them has never really been paid.” They could also “appeal to good faith, because the value stipulated and expected is not satisfied by the steps taken by the governments. The certificates put into the hands of the creditors...were of less real value than was acknowledged to be due.” Madison further argued that the original holders could appeal to “the motives for establishing public credit, for which justice and faith form the natural foundation.” They could

---

pay back the debt at 3 percent interest—in other words impose a massive haircut upon original *and* secondary holders of national paper—and encourage its extinguishment by making western land receivable only in debt certificates. Madison had no interest in wriggling out of the obligation to the creditors. His goal, rather, was to distribute the dues equitably. See also Brant, *James Madison*, 2: 298.

<sup>14</sup> JM, Speech of 11 February 1790, *PJM* 13

<sup>15</sup> *Ibid.*

also appeal to “humanity,” as their military service “can never be forgotten” and was compounded by “the singular hardship” of having lost “four-fifths or seven-eighths of their due.”<sup>16</sup> His argument here rests on the principle, generally agreed to, that the government under the Confederation had not really paid the soldiers fully for their service. They instead received certificates that could only be exchanged for specie at a heavily discounted rate. Now that the government was prepared to make good on its old promises, Madison believed it was fair that the soldiers, many of whom parted with their certificates because they were in dire financial straits, receive a measure of what they had been promised.

What then of the current holders of the “alienated securities,” who were mostly stockjobbers? During the debate over Virginia’s land cession, Madison saw no reason to give anything to investors who had bought manifestly fraudulent titles; in his estimation, they could make no legitimate appeal to justice. But the same could not be said of purchasers of Pierce notes, whose desert, Madison thought, rested upon public faith and public credit. In his estimation, these holders took a real risk by purchasing the debt, and repayment “is but the just reward of that risk: That as they hold the public promise, they have an undeniable demand on the public faith.” It was also necessary for the government to pay them, as “that (is) the best foundation of public credit.”<sup>17</sup>

Madison proposed what he cast as a compromise between these competing claimants. To the current holders of the alienated certificates “let them have the highest price what has prevailed in the market.” That would leave a remainder, approximately fifty cents on the dollar, which Madison proposed be given to the original holders. “This will not do perfect justice,” he admitted, “but it will do more real justice, and perform more of the public faith than any other

---

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

expedient proposed.” The present holders of the debt “will have a profit that cannot be reasonably complained of” while “the original sufferers will not be fully indemnified, but they will receive, from their country, a tribute due to their merits.”<sup>18</sup>

Madison’s explication of the problem was reasonable, and his case on behalf of the veterans was consistent with his commitment to disinterested policy, but his solution was arbitrary. He was essentially calling to split the difference, using as his cut point the value of the certificates after it became clear that they were going to be redeemed. In other words, he was willing to abide some windfall profits for the speculators at the expense of the soldiers, but not too much. This sort of caprice would have undermined the logic of Hamilton’s program, by breaching the contract of the debt certificate for political purposes.<sup>19</sup> Of course, Hamilton was prepared to breach the contract, too, at least a little bit; to keep the cost to the government in check, he proposed a reduction in the rate of interest on the current holders (in exchange for an option on western land), an imposition he refused to make upon foreign creditors. So in truth, their disagreement was over the extent of the breach, and here the secretary was on much firmer ground. He warned that Madison’s alternative was too stingy toward the current owners of the debt, and it would have deleterious effects on the country. If the proposed haircut went through, the value of such certificates “would be in a compound ratio to the immediate profit it afforded,

---

<sup>18</sup> Ibid. In a House speech on February 19, he offered the following:

If paper, or the honor of statues or medals, can discharge the debts of justice, payable in gold and silver, we can not only exonerate ourselves from those due to the original holders, but from those of the assignees; so far as paper goes, the latter have received the compensation. If honor can discharge the debt, they have received civil honors; look round to the officers of every government in the union, and you find them sharing equal honors with those bestowed on the original creditors: But, sir, the debt due in gold and silver, is not payable in honor nor appointments, nor in paper. (JM, Speech of 19 February 1790, *PJM* 13.)

<sup>19</sup> In the *Report on Public Credit*, Hamilton warns that a haircut on the debt would amount to “a breach of contract; in violation of the rights of a fair purchaser” (AH, “Report on Public Credit,” 9 January 1790, *PAH* 6.). He is not referring to a *legal* right specifically, as that did not exist (and the discount being applied to debt certificates indicated that people expected some sort of haircut). His reference here is rather a reference to the *moral* sanctity of contracts.

and to the chance of the continuance of (the) profit.”<sup>20</sup> This might freeze the debt market altogether. It would certainly reduce the value of all certificates, resulting in a real loss of national wealth, and it would assuredly raise the borrowing costs of the government going forward.

Hamilton, in other words, had a better sense of investor psychology, and a more acute appreciation of its relation to the well being of all society. Madison, of course, did not dispute the utility of a national financial market; after all, his speech of February 11 acknowledges that the public faith and public credit rested on paying the current holders at least something. Instead, Madison was endeavoring to balance that necessity with the soldier’s moral desert. But Hamilton was right to deny this, appreciating that a politically motivated haircut, such as what Madison proposed, would undermine the marketplace they both wished to create. Hamilton was also right to note that Madison’s program was impractical. He writes:

The difficulties too of regulating the details of a plan for that purpose, which would have even the semblance of equity, would be found immense. It may well be doubted whether they would not be insurmountable, and replete with such absurd, as well as inequitable consequences, as to disgust even the proposers of the measure.<sup>21</sup>

Privately, Madison admitted the political salience of this rejoinder, and grudgingly copped to its validity. In a letter to Jefferson on February 14, he acknowledged:

The equity of this proposition is not contested. Its impracticability will be urged as an insuperable objection. I am aware of the difficulties of the plan, but believe they

---

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

might be removed by one-half the exertion that will be used to collect and colour them.<sup>22</sup>

This caustic reaction was typical of the private Madison, when he was losing a political debate and felt his sense of fairness violated. Regardless, his proposal would have required a massive and time-consuming effort to track down the original bearers of the securities, and this from a skeletal government bureaucracy lacking knowledge of the modern practices of public administration that make such efforts feasible.

Such a miscalculation is surprising coming from Madison, whose policy alternatives tended to rely upon a much more prudent evaluation of a situation. What accounts for this? James Ferguson suggests that Madison was being disingenuous in his regard for the soldiers, and that instead he had the parochial concerns of Virginia at heart.<sup>23</sup> Yet this theory has hardly gained traction over the years. Stanley Elkins and Eric McKittrick conclude there was “really nothing devious about” Madison’s motives, even as they offer a pointed critique of his opposition to Hamilton’s political economy.<sup>24</sup> The most likely explanation is the most obvious: Madison could simply not stomach the speculators winning such a windfall at the expense of the soldiers. They had been promised pay for their service, and the government failed to follow through. Instead, it offered them debt certificates that they did not believe would be redeemed for hard currency, so they dumped them on the market for pennies on the dollar. That difference between the par value of the certificates and the amount they traded them for was the portion that the government did not, in effect, pay them. Now that it had belatedly gotten its financial house in order, the government was now planning to give that money to the speculators.

---

<sup>22</sup> JM to TJ, 14 February 1790, *PJM* 13.

<sup>23</sup> See Ferguson, *The Power of the Purse*, 297-300.

<sup>24</sup> Elkins and McKittrick, *The Age of Federalism*, 145.

Madison was not wrong on this count, for the government did not do its duty for the soldiers. It is shocking to compare the treatment of the Revolutionary War veterans to those who served in later conflicts—especially given that, apart from the Civil War, the Revolution was the most deadly struggle in United States history.<sup>25</sup> Soldiers in later campaigns were treated with generosity, at least compared to those who fought for America’s independence. Indeed, the Dependent and Disability Pension Act of 1890 was controversial in its day for its beneficence toward soldiers with dubious disabilities.<sup>26</sup> Still, the United States in 1790 could simply not afford the policy balance that Madison was calling for, which ironically redounds to the credit of Hamilton’s political economy. Naturally, the current holders of the certificates were due a payment from the government, but the soldiers had, as Madison noted in his speech of February 11, claims of their own. And by honoring fully the claims of the investors, and not at all the claims of the soldiers, the government was behaving partially. The nation simply did not have the resources to treat all groups with “full justice” in this instance—and if it ever hoped to be so wealthy, Hamilton thought it had to favor the moneyed interest, at least for now.

### **Assuming the State Debts**

The fight over funding the national debt was actually quite brief. Hamilton’s *Report on Public Credit* was submitted on January 9, 1790. Madison gave his major speeches for his alternative on February 11 and 18. This was voted down on February 22, and then it was on to federal assumption of state debts. In all, the whole affair lasted just over six weeks.

---

<sup>25</sup> This claim is based on the percentage of “battle deaths” among all soldiers “in theater.” By this metric, the Revolutionary War was slightly more deadly than World War II or the Korean War, although the Civil War was much more deadly—for both sides of the conflict. See Department of Veterans Affairs, “America’s Wars.”

<sup>26</sup> See Cost, *A Republic No More*, 119.

In contrast, the assumption fight lasted for more than five months—from mid-February until early August. It was the first acrimonious political battle of the government, which is one reason why it is so essential to distinguish assumption from funding, despite the fact that Hamilton elaborated both in the *Report on Public Credit*. Another reason, noted above, is that the merits of each proposal varied markedly. Madison was on much stronger ground in opposing assumption than funding, while Hamilton's position weakened substantially as the debate shifted. Whereas Madison's opposition to funding relied on an inapt estimate of the general welfare, Hamilton's insistence on immediate assumption hinged upon an attenuated view of the general welfare and an overdependence upon the demands of the speculators.

While there was a compelling reason for tending to the national debt right away—namely, securing the creditworthiness of the new government—the state debts were not a direct concern of the national government under the Constitution's federated system. Still, Hamilton's *Report on Public Credit* makes a vigorous argument for why the secondary benefits justify assumption. He avers that it will cut down on inter-governmental competition for tax revenue, increase the efficiency of taxation (i.e. it would be easier to tax items that move through the stream of interstate commerce on the national level), alleviate the burden on states that are less able to pay their debts, bind the interests of all public creditors to the national government, and avoid the potential blowback against the nation's credit from disappointed owners of state paper (more on this last item in Chapter Three).

In most respects, Hamilton's reasons are quite compelling, but the context is important. There was eventually going to be some kind of final settlement between the states regarding past contributions to the war, yet Hamilton wanted to assume the state debts before that accounting had been completed. This was the source of Madison's opposition. He thought that assumption

without final settlement did injustice to the states that had, on balance, contributed disproportionately to the war effort. While the *Report on Public Credit* persuasively makes the case for assumption *at some point*, it hardly answers the objections to it happening right away.

While Madison had supported a version of assumption in 1783, circumstances had changed decisively in the intervening years. As noted above, speculation in the national debt was rampant in the lead-up to the release of Hamilton's plan, and the scramble for state paper was madder still. As they were bidding up the price of national notes, investors were leveraging themselves to dispatch agents southward, especially to the Carolinas, to snatch up any state paper they could get their hands on from public creditors who were not in the know. Madison was quite aware of this—his boarding house at 19 Maiden Lane was just a short walk to 68 Wall Street, where the New York Stock Exchange would be founded in 1792—and while in New York he complained to Jefferson about the city's "eternal buzz with the gamblers."<sup>27</sup> He found this sort of behavior patently offensive, and with good reason. The asymmetric nature of financial information worked systematically against the South, so long as the seat of government was adjacent to the seat of finance. Financiers in New York knew what was happening weeks or even months before many southern creditors, which gave the former the means to effectively defraud the latter.

Another important reason for Madison's change of heart was that the assumption of state debts in 1783 was part of a package designed to incentivize the thirteen states to adopt the impost.<sup>28</sup> Assumption was meant to lure the debt-ridden states, but it was balanced with a land cession to attract the other states. Hamilton's assumption plan of 1790 did not have any such balance. It was a one-way transfer of wealth from the national coffers to the debtors states

---

<sup>27</sup> JM to TJ, 10 July 1791, *PJM* 14.

<sup>28</sup> See Brant, *James Madison*, 2:246, and JM, Speech of 25 April 1783, *PJM* 6.

(mainly South Carolina, Massachusetts, and Connecticut) as well as speculators seeking to profit from their informational advantage. This, by Madison's estimate, was unfair to the majority of the nation. As he argued on the floor of the House on April 22, "the plan will give as much dissatisfaction and work as much injustice to a majority of the states as a non-assumption may disappoint the citizens of Massachusetts."<sup>29</sup> Virginia, in Madison's reckoning, stood to be one of the biggest losers, and he was always a relentless opponent when he inferred that a policy measure would hurt the parochial concerns of the Old Dominion as well as the general welfare.

It is important to emphasize that Madison was not opposed to assumption *per se*. The devil for him was in the details. On the floor of the House on February 24, he acknowledged that "the principle of it is in favor of the United States," but that it had to be accomplished with "the object of doing full justice."<sup>30</sup> This, he figured, would not happen under Hamilton's proposal for an assumption without final settlement. Through the course of his speeches on the House floor and letters to political allies, Madison elaborated three, related economic reasons why the two had to go together.

First, the plan for assumption alone failed to take into account the extent to which states had contributed independently to the war effort. The idea was that when the states submitted final figures for their contributions to the war, the national government could determine which share each had given, and reimburse the creditor states from the national coffers. Hamilton's *Report on Public Credit* acknowledges the advisability of this, but proposes that it should come later, assuming that it "may be practicable." It may in fact not be practical at all, per Hamilton: "If the inequalities should be too great," the final transfers would "unduly increas(e) the debt of

---

<sup>29</sup> JM, Speech of 22 April 1790, *PJM* 13. See also JM to Henry Lee, 13 April 1790, *PJM* 13.

<sup>30</sup> JM, Speech of 24 February 1790, *PJM* 13.

the United States.”<sup>31</sup> Importantly, the proposal that the House actually debated, offered by Thomas Fitzsimmons of Pennsylvania, resolved only “that the debts of the respective States ought, with the consent of the creditors, to be assumed and provided for by the United States.”<sup>32</sup> In other words, final settlement was pushed off indefinitely. As Elkins and McKittrick note, the states that would receive a credit after such final settlement had good reason to be suspicious of this.<sup>33</sup> After the debtor states had unloaded their burdens, why would they ever support a transfer to the creditor states, with the attending taxes required to pay for them? Madison made precisely this argument in a pointed letter to Pendleton in March, noting that Virginia “will not be less a Creditor on the final settlement ... but this may *possibly* never take place. It will *probably* be at some distance.”<sup>34</sup> The italics in the original underscored his skepticism.

Second, assumption by itself made no provision for states that had paid a portion of their debts. As he argued on the House floor on March 1st:

[B]y taking up the debts of the several states, as you find them now, you do great injustice to those states, who have, by their exertions, discharged the greatest part of the equal debts contracted during the late war: By this means compelling them, after having done their duty, to contribute to those states who have not equally done their duty.<sup>35</sup>

This was a central consideration for Virginia, which had paid about \$2 million of its debts, while Massachusetts, South Carolina, and Connecticut had all lagged far behind.<sup>36</sup>

Third, assumption without the final settlement of accounts did not deal fairly with the fact that some states were more diligent in honoring requisitions from the Confederation Congress.

---

<sup>31</sup> AH, “Report on Public Credit,” 9 January 1790, *PAH* 6.

<sup>32</sup> Fitzsimmons, Speech of 8 February 1790, *AC* 1:1177-79.

<sup>33</sup> Elkins and McKittrick, *The Age of Federalism*, 148.

<sup>34</sup> JM to Edmund Pendleton, 4 March 1790, *PJM* 13.

<sup>35</sup> JM, Speech of 1 March 1790, *PJM* 13.

<sup>36</sup> See Brant, *James Madison*, 2: 306.

As Madison noted in a House speech on April 13, it was not fair to enact an assumption without taking these into account.<sup>37</sup> To illustrate the salience of this point, the following chart compares per capita requisitions paid to the Confederation in both indents and specie to the proposed per capita assumption.<sup>38</sup>

Table 2.1. Requisitions Versus Proposed Debt Assumption, Spring 1790

| State                   | Specie Per Capita | Indents Per Capita Paid | Debt Assumption Per Capita |
|-------------------------|-------------------|-------------------------|----------------------------|
| South Carolina          | \$2.16            | \$0.00                  | \$19.40                    |
| Massachusetts           | 0.96              | 1.8                     | 10.56                      |
| Connecticut             | 0.89              | 0.46                    | 6.76                       |
| North Carolina          | 0.14              | 0.00                    | 6.22                       |
| Pennsylvania            | 1.52              | 1.00                    | 5.08                       |
| Virginia                | 1.03              | 0.76                    | 5.07                       |
| New Jersey              | 0.89              | 0.00                    | 4.46                       |
| Georgia                 | 0.00              | 0.00                    | 4.23                       |
| New York                | 1.13              | 1.2                     | 3.62                       |
| Delaware                | 0.86              | 1.03                    | 3.60                       |
| Rhode Island            | 1.28              | 0.00                    | 2.92                       |
| Maryland                | 1.59              | 0.00                    | 2.87                       |
| New Hampshire           | 0.25              | 0.61                    | 2.12                       |
| <b>NATIONAL AVERAGE</b> | <b>0.98</b>       | <b>0.62</b>             | <b>5.81</b>                |

There is no clear relationship between states that had contributed requisitions and those that received a bounty from assumption, which was precisely Madison's objection. Virginia had given more per capita in specie than Connecticut and Massachusetts, and more per capita in

<sup>37</sup> See JM, Speech of 2 March 1790, *PJM* 13.

<sup>38</sup> Data on proposed assumption taken from Maclay, *The Journal of William Maclay*. Data on specie and indent requisitions from JM, Notes for Speech of 22 April 1790, *PJM* 13. Per capita figures are calculated by the formula used for congressional apportionment after the 1790 census. Indents were special certificates paid to holders of federal bonds (called "indents" because officials put indentations on them to make them harder to forge). Madison separates them from specie because they depreciated, as all government paper did in the 1780s, based on the widespread lack of faith in the states or Confederation Congress to raise taxes sufficient to cover the nominal value in specie. See Ferguson, *The Power of the Purse*, 66 & 300.

indents than South Carolina or Connecticut, yet was set to receive a fraction of what those states would enjoy.

The sum total of these points is that indebtedness was a poor metric to account for which states contributed to the national effort. This made it doubly unfair: the states that had done the most for the union, but had paid off much of their debts, were not only being short-changed for their contributions, they were also asked to subsidize states that had not been as public-spirited. Hamilton's assumption thus amounted to a transfer of wealth that was hard to justify in the form that Wadsworth offered. The benefits Hamilton enumerates in the *Report on Public Credit* are certainly apt—consolidating the debt of the states would surely work to solidify the union—but doing so in this particular way, whereby many states were made worse off, was hardly conducive to that end.

Madison also proffered a non-economic argument related to the ravages of the Revolution. The war had primarily been fought in the South and Mid-Atlantic states, and they had endured more hardship than New England. As Madison noted in private to Pendleton, Virginia had “suffered more during the war.”<sup>39</sup> In his April 13 speech before the House, he said it could “not be denied that Virginia sacrificed as much during the war, in one shape or another” as any state.<sup>40</sup> The dollars and cents of requisitions and debt payment could only capture a portion of the damage that had been suffered due to the British “Southern Strategy”—at Charleston, Savannah, Camden, Kings Mountain, Cowpens, Guilford Courthouse, and ultimately Yorktown—and yet of the southern states, only South Carolina was a clear winner in the assumption plan. How was this fair to Georgia, North Carolina, or Virginia? The final settlement

---

<sup>39</sup> JM to Edmund Pendleton, 4 March 1790, *PJM* 13.

<sup>40</sup> JM, Speech of 22 April 1790, *PJM* 13.

of accounts could never make the South whole from its incalculable loss, but was the national government not duty bound to do everything it could?

The contemporary force of these considerations may be inferred from the fact that assumption was narrowly defeated in the early spring of 1790. Madison led the fight against it by employing two tactics to highlight its inequity. First, he endeavored to change the terms of payment, initially trying to tie it to war debts already paid, and later by suggesting that assumption be calculated to discharge the debt as it stood at the end of the war.<sup>41</sup> Second, he insisted upon more information, calling for the secretary of the Treasury to determine whether the national government could afford such a burden, then for determining the actual amount of debt to be assumed, and eventually proposing that the government complete the final settlement of accounts.<sup>42</sup> All of this served to frame the debate not on the virtues of assumption in the abstract, but on the justice of immediate assumption without a guaranteed final settlement. In this way, Madison built an impressive coalition on the House floor. Starting with a base of Anti-Federalists who feared assumption was the handmaiden of consolidation, he grafted to it members who, like himself, approved of it in certain circumstances but thought the current proposal unfair.

The July 24 vote on assumption illustrates the breadth of opposition, despite the bare majority voting for the compromise, which tied the measure to the location of the capital.<sup>43</sup> The following chart lists statewide support in the House for assumption.<sup>44</sup>

---

<sup>41</sup> See JM, Speech of 24 February 1790, *PJM* 13; Madison, Speech of 26 February 1790, *PJM* 13; and JM, Speech of 1 March 1790, *PJM* 13.

<sup>42</sup> See JM, Speech of 2 March 1790, *PJM* 13; JM, Speech of 3 March 1790, *PJM* 13; JM, Speech of 10 March 1790, *PJM* 13; and JM, Speech of 22 April 1790, *PJM* 13.

<sup>43</sup> This was not the vote by which assumption passed the House. That happened on July 26, and the final result by a slightly wider margin. The July 24 vote was actually on the question of whether to disapprove of the Senate proposal, which was consistent with Hamilton's plan. The margin was 29 in favor of disapproving the Senate proposal, 32 opposed.

<sup>44</sup> Data taken from Poole, "First House Page," *VV*.

Table 2.2. House Support by State for Final Assumption Bill

|                | Favored | Opposed |
|----------------|---------|---------|
| Massachusetts  | 8       | 0       |
| Connecticut    | 5       | 0       |
| New Jersey     | 4       | 0       |
| Delaware       | 1       | 0       |
| South Carolina | 3       | 1       |
| New York       | 3       | 3       |
| Pennsylvania   | 3       | 4       |
| Virginia       | 2       | 7       |
| New Hampshire  | 1       | 2       |
| Georgia        | 0       | 3       |
| Maryland       | 0       | 4       |
| North Carolina | 0       | 5       |

Outside South Carolina, the southern members were mostly opposed. Outside Massachusetts and Connecticut, the northern members were essentially split, reflecting in part the political influence of the stockjobbers (more on this in Chapter Three). In the end, the final compromise passed thanks to a coalition of strange bedfellows: public-spirited Hamiltonians; speculators anticipating a windfall; indebted states anticipating a bailout; and Virginians and Marylanders anticipating the capital.<sup>45</sup>

### Chartering a National Bank

In December 1790 Hamilton submitted the *Second Report on the Public Credit*,

---

<sup>45</sup> The supporters from Virginia were Alexander White of the first congressional district and Richard Bland Lee of the fourth. The supporters from Maryland—who opposed the measure in the above test vote but ultimately backed the deal—were George Gale of the fifth district and Daniel Carroll of the sixth. All four had districts bordering the Potomac River. In August 1790 Lee predicted to Jefferson that voting for the measure would “probably endanger my election:—I shall be a willing victim, if the government should be established and prosper” (Richard Bland Lee to TJ, 19 August 1790, *PTJ* 17.). Lee won reelection in 1790, defeating his relative and Confederation-era antagonist of Madison, Arthur Lee. He won again in 1792, but was defeated in 1794 by Richard Brent.

or more commonly (and henceforth) called, *Report on a National Bank*, to the lame duck First Congress, which approved it just weeks before the Second Congress was seated. In the intervening years, it has become unseemly to pass such consequential legislation through an outgoing Congress, but this was an age when a new Congress did not assemble until the end of the succeeding year. Time was of the essence to organize properly the national finances, and at any rate the Second Congress would have been equally disposed to the measure. In the 1790-91 elections, opponents of the administration's program picked up one House seat in Virginia and two in Pennsylvania, and swept the four seats allocated between newly admitted Kentucky and Vermont; however, supporters of the administration consolidated their hold on the Northeast and added one seat apiece from Maryland and South Carolina. The Senate moved closer to the opposition's point of view, but was still overall inclined toward the administration.<sup>46</sup>

Given Madison's opposition to the Bank of North America, his objection to the Bank of the United States should hardly come as a surprise. Hamilton's proposal called for a bank with a capital stock of \$10 million, much more than Morris had proposed a decade earlier.<sup>47</sup> Ownership of the bank was divided into 25,000 shares, valued at \$400 apiece. Shareholders had to pay 25 percent of the total cost up front, with the remaining three-quarters paid at three, six-month intervals. Only 25 percent of each payment had to be made in specie, with the rest payable in debt certificates—making the bank yet another windfall for those who, through wisdom or inside

---

<sup>46</sup> See Martis, *The Historical Atlas of Political Parties in the United States Congress 1789-1989*, 70-71. It is worth noting that the Vermont elections were not held until July 1791, and the Kentucky elections were not held until September 1792. So, these new members were not factors during the fight over the bank, although Kentucky did have representation as part of Virginia during the First Congress. See Dubin, *United States Congressional Elections, 1788-1997*, 4-5.

<sup>47</sup> See AH, "Report on a National Bank," 13 December 1790, *PAH* 7. Regarding the Bank of North America, Morris proposed an initial capital of \$400,000, much less than the \$3 million that Hamilton suggested to him (see AH to Robert Morris, 30 April 1781, *PAH* 2.). Morris responded that, "to propose a large Sum in the Outsett, and fail in the Attempt to Raise it might prove Fatal, to begin with what is Clearly in our power to accomplish, and on that beginning to establish the Credit that will Meritably Command the future encrease of Capital Seems the most Certain Road to Success" (Robert Morris to AH, 26 May 1781, *PAH* 2.). See also Rappleye, *Robert Morris: Financier of the American Revolution*, 237.

information, had invested in government debt prior to 1790. The government would purchase \$2 million of the initial stock, but the Bank would otherwise be held in private hands, its only public requirement being to provide the Secretary of the Treasury “as often as he may require, not exceeding once a week...statements” regarding the capital of the bank, the debts due to it, and the money deposited in it.<sup>48</sup>

Given that Hamilton would defend the Bank’s constitutionality to Washington primarily by how it would help the government exercise the enumerated powers of the Constitution, it is notable that his major argument in the *Report on a National Bank* involves an unenumerated power—the facilitation of national commerce.<sup>49</sup> Hamilton opens by arguing that gold and silver, “when they are employed merely as the instruments of exchange and alienation, have not been improperly denominated dead Stock.” However, when specie is deposited in banks with good credit, they enable it to circulate notes throughout the economy, effectively creating “a far greater sum than the actual quantum of their capital in Gold & Silver.” Such circulation can vastly improve the endeavors of manufacturers and merchants, for it amounts to “an absolute increase of capital.” The second advantage of a bank is that it lends “greater facility to the Government in obtaining pecuniary aids, especially in sudden emergencies.” Third, banks “facilitat(e) the payment of taxes” by offering loans to people for the purposes of tax payment and increasing the circulating medium.<sup>50</sup> The remainder of Hamilton’s report is dedicated to refuting the common prejudices of the age against banks as tools of usury, as institutions that banish hard currency from the country, and so on. Hamilton argues that banks can be a boon to a nation and its government, and it is a testament to his perspicacity that the main points of the *Report on a National Bank* are taken for granted today.

---

<sup>48</sup> See also Holdsworth and Dewey, *The First and Second Banks of the United States*, 19.

<sup>49</sup> See AH, “Opinion on the Constitutionality of an Act to Establish a Bank,” 23 February 1791, *PAH* 8.

<sup>50</sup> AH, “Report on a National Bank,” 13 December 1790, *PAH* 7.

In general, Hamilton's proposal for a national bank may be understood, along with funding and assumption, as a way to advance the principles developed in *Federalist* 11 and 12: the Bank was, for the secretary, an integral part of a financial system that could harmonize the disparate interests of the United States into a shared quest for economic prosperity. Just as with funding and assumption, it would assist the owners of liquid capital in the short term, as they had the funds to buy Bank stock, but over time it would aid all quarters of the nation. This is not an enumerated power in the Constitution, but—per Hamilton—the Bank would facilitate essential functions of the government, which rendered it constitutional.

Madison disagreed with the secretary on many important points regarding the Bank. Part of his concern had to do with its capacity to engender corruption, which was discussed in Chapter One. Madison also thought that its bounties were distributed unfairly across the groups in society, which shall be the focus here. This was a secondary objection for Madison, so the review will be relatively brief.

In his major speech on the floor of the House in opposition to the Bank, Madison claimed:

The different classes of the public creditors, he observed, were not all put on an equal footing by *this* bill; but in the bill for the disposal of the Western Territory, this had been thought essential: The holders of 6 per cent. securities, will derive undue advantages—Creditors at a distance, and the holders of 3 per cent. securities, ought to be considered—as the public good is most essentially promoted by an equal attention to the interest of all.<sup>51</sup>

---

<sup>51</sup> JM, Speech of 8 February 1791, *PJM* 13.

He successfully lobbied for an amendment to allow holders of three-percent securities to purchase stock with this paper, but in his view the bill was still too biased. In the draft of a presidential veto that he wrote on Washington's behalf, Madison argued:

I object to the Bill because it is in all cases the duty of the Government to dispense its benefits to individuals with as impartial a hand as the public interest will permit; and the Bill is in this respect unequal to individuals holding different denominations of public Stock and willing to become subscribers. This objection lies with particular force against the early day appointed for opening subscriptions, which if these should be filled as quickly as may happen, amounts to an exclusion of those remote from the Government, in favor of those near enough to take advantage of the opportunity.<sup>52</sup>

Here, he levels an interesting objection, based on the transaction costs of purchasing Bank shares. The brief window Hamilton proposed until the opening of subscriptions would make it too difficult for those living far away to participate, meaning that the Bank on balance would disproportionately aid the North. This is reminiscent of his objection to locating the government near the center of wealth in the nation, as well as his concern about New York speculators getting the better of southern holders of government paper. In all three instances, he argued that geographical proximity to the seat of power is no legitimate reason to treat citizens differently.

This was hardly the entire reason for Madison to oppose the Bank. For now, it suffices to say that he saw the policy benefits from the Bank accruing disproportionately to a narrow slice of the nation, which for him was a crucial justification for opposition.

## **Protecting Manufacturing**

---

<sup>52</sup> JM, Draft Veto of the Bank Bill, 21 February 1791, *PJM* 13.

Hamilton's *Report on the Subject of Manufactures* (henceforth the *Report on Manufactures*), submitted in December 1791, proffers a farsighted system of protection to develop American manufacturing. Though its ideas would eventually form the basis of America's industrial policy, the plan was basically dead on arrival in Congress. As shall be discussed in Chapter Four, by this point disapproval of Hamilton was transforming into an organized political opposition. The economic timing was hardly propitious, either, as the United States was still almost entirely agricultural in 1791, and a call for dedicating substantial governmental efforts to a tiny segment of the economy was bound to ring hollow in any agrarian nation. Hamilton seems to have been aware of this, as a large portion of the *Report on Manufactures* is actually dedicated to explaining why agriculture would gain from his protection regime. This apology mostly fell on deaf ears, and the program was never seriously considered in his time. Still, the *Report on Manufactures* amplifies the nature of the divide between Hamilton and Madison. By making a thorough justification for protection in an agricultural nation, Hamilton offers his most emphatic statement about the potential for commercial development to harmonize the disparate forces in society. Meanwhile, Madison's opposition to it furnishes another case study of how he applied the principle of impartiality to policy considerations.

Hamilton's report opens with a raft of suggestions that boil down to an essential concept: the government should facilitate the development of American manufacturing through a systematic program of "patronage" that includes protective duties against foreign competition, prohibitions against exporting certain raw materials, bounties, exemptions and drawbacks, facilitation of transportation, and other proposals. Why should a largely agricultural society inaugurate such a visionary program? In general, Hamilton thinks that a more diversified economy would make everybody better off. He writes, "The trade of a country which is both

manufacturing and Agricultural will be more lucrative and prosperous, than that of a Country which is, merely Agricultural.” He predicts a number of specific accommodations, like encouraging the division of labor, increasing the use of machinery, promoting immigration to fill a growing number of factory jobs, and facilitating new opportunities to develop personal talents. Moreover, he asserts that his program would help the agricultural sector—eventually. A robust manufacturing economy would provide “a more certain and steady demand for the surplus produce of the soil,” inoculating American farmers—to a degree—from fluctuations in the world markets, which “is of the first consequence.”<sup>53</sup>

Hamilton anticipates Madison’s eventual objection that such patronage would be unfair, by acknowledging “there is a degree of prejudice against bounties from an appearance of giving away the public money, without an immediate consideration, and from a supposition, that they serve to enrich particular classes, at the expence of the Community.” The answer to this, he responds, is that everybody wins in the long run, for “it is the Interest of the society in each case, to submit to a temporary expence, which is more than compensated, by an increase of industry and Wealth, by an augmentation of resources and independence; & by the circumstance of eventual cheapness, which has been noticed in another place.” Hamilton’s system of protection was therefore of a piece with his broader agenda to use the moneyed class as a mediator for the public good. Capital owners would enjoy a direct and immediate reward from the government, and, by encouraging their enterprises, the policy would assist all citizens in due course.<sup>54</sup>

It should come as no surprise that Madison was not comforted by the notion that the broader public would receive its rewards from protectionism secondarily, at some indeterminate point in the future. After all, Hamilton had made similar claims regarding funding and

---

<sup>53</sup> AH, “Report on Manufactures,” 5 December 1791, *PAH* 10.

<sup>54</sup> *Ibid.*

assumption, yet Madison had remained unconvinced. He typically doubted that such boons would be coming down the line, and had little interest in having the public pay the sort of “temporary expence” that Hamilton kept requesting. In his view, government had to be studiously neutral between sectors—benefits or burdens to one class of the citizenry should be countered with a similar regard for all the others. Speculations about subsequent benefits for all citizens were insufficient to balance the windfalls Hamilton kept handing to the wealthy.

In general, Madison was a free trader, so he was not well disposed to Hamilton’s program of protection in the first place. He had made this view clear during the debate over import and tonnage duties, more than two years before Hamilton unveiled his protection regime:

[I]f industry and labour are left to take their own course, they will generally be directed to those objects which are the most productive, and this in a more certain and direct manner than the wisdom of the most enlightened legislature could point out. Nor do I think that the national interest is more promoted by such restrictions, than that the interest of individuals would be promoted by legislative interference directing the particular application of its industry.<sup>55</sup>

Madison demarcated exceptions to these rules, including protection during wartime, and more notably discrimination against foreign nations to encourage them to sign treaties of commerce.<sup>56</sup> It is this latter position that had befuddled Hamilton and Beckwith in their private conversation in September 1789. In his initial break with Hamilton, Madison endorsed discrimination in favor of French commerce, in part to incentivize the British to loosen their navigation laws against the United States.<sup>57</sup> As Forrest McDonald notes, Madison’s view of discrimination, while rigorously

---

<sup>55</sup> JM, Speech of 9 April 1789, *PJM* 13.

<sup>56</sup> See JM, Speech of 21 April 1789, *PJM* 13.

<sup>57</sup> See JM, Speech of 28 April 1789, *PJM* 13, and JM, Speech of 4 May 1789, *PJM* 13. Madison’s House speeches during the 1789 impost debate indicate that he had a favorable view toward American manufacturing. He was never

thought through, wrongly assumed “that the British economy was on a precarious footing and that the reduction of American importation of British fineries would quickly force Parliament to abolish its commercial restrictions.”<sup>58</sup> As secretary of State and later as president, Madison would continue to pursue this erroneous theory, which was finally proven wrongheaded by the War of 1812. On the other hand, Hamilton’s desire to bind the nation closer to Great Britain led to the Jay Treaty of 1795, a highly controversial accord that was not a terribly good deal for the United States. So, neither had a particularly effective method of establishing American commercial independence from the old mother country.

If the disagreement over taxation between Hamilton and Madison had been limited to the merits of free trade or the appropriate foreign policy posture, it would not be a concern here. But Madison justified his opposition to Hamiltonian protection in part by invoking the principle of impartiality. He opposed protective tariffs, bounties, and the like on the basis that they favored certain people in society over others for no justifiable reason. Madison had hinted at this when he publicly advocated the notion of a neutral tax policy several years earlier. For instance, during the debate on import duties in the spring of 1789, he acknowledged that the duty on salt hurt the West more than other regions. Nevertheless, the tax was just one part of a system that was, on balance, neutral between all regions. He argued:

I readily agree, that in itself a tax would be unjust and oppressive that did not fall on the citizens according to their degree of property and ability to pay it; were it therefore this single article which we were about to tax, I should think it indispensable that it should operate equally agreeably to the principle I have just mentioned. But in order to determine whether a tax on salt is just or unjust, we

---

to be counted among those conservatives, like John Randolph of Roanoke or John Taylor of Carolina, who idealized the plantation gentleman as the idea of republican government.

<sup>58</sup> McDonald, *Novus Ordo Seclorum*, 135.

must consider it as part of a system, and judge of the operation of this system as if it was but a single article; if this is found to be unequal it is also unjust.<sup>59</sup>

While the West would pay more taxes on salt, “the equilibrium is restored when you find this almost the only tax they will have to pay.”<sup>60</sup> Madison took a similar position regarding the duty on molasses: This burdened the North more than the South, but the overall system was fair because the tax on sugar burdened the South more than the North.<sup>61</sup> In sum Madison’s posture during the tax debate of 1789—during which he persistently battled against the demands of this or that clique in Congress and endeavored to build a tax bill that was fair to all—was similar to his position on the impost fight of 1781-83. And both were examples of the high value he placed on equitable public policy.

Such a stance put him on a collision course with the secretary of the Treasury, who thought that unequal burdens in the short term could yield long-term advances for all. As noted above, Congress never voted on resolutions regarding the *Report on Manufactures*, but Madison blasted their injustice, anyway. In an essay entitled “Property,” written anonymously for the *National Gazette* in March 1792, he claims:

Government is instituted to protect property of every sort; as well that which lies in the various rights of individuals, as that which the term particularly expresses. This being the end of government, that alone is a *just* government, which *impartially* secures to every man, whatever is his *own*.<sup>62</sup>

---

<sup>59</sup> JM, Speech of 17 April 1789, *PJM* 13.

<sup>60</sup> *Ibid.*

<sup>61</sup> See JM, Speech of 9 April 1789, *PJM* 13.

<sup>62</sup> JM, “Property,” 27 March 1792, *PJM* 14.

This might be the most trenchant summary of Madison's position regarding the proper distribution of policy benefits, and by this standard Hamilton's protectionist program was a failure:

That is not a just government, nor is property secure under it, where arbitrary restrictions, exemptions, and monopolies deny to part of its citizens that free use of their faculties, and free choice of their occupations, which not only constitute their property in the general sense of the word; but are the means of acquiring property strictly so called. What must be the spirit of legislation where a manufacturer of linen cloth is forbidden to bury his own child in a linen shroud, in order to favour his neighbour who manufactures woolen cloth; where the manufacturer and wearer of woolen cloth are again forbidden the economical use of buttons of that material, in favor of the manufacturer of buttons of other materials!

A just security to property is not afforded by that government, under which unequal taxes oppress one species of property and reward another species: where arbitrary taxes invade the domestic sanctuaries of the rich, and excessive taxes grind the faces of the poor; where the keenness and competitions of want are deemed an insufficient spur to labor, and taxes are again applied, by an unfeeling policy, as another spur; in violation of that sacred property, which Heaven, in decreeing man to earn his bread by the sweat of his brow, kindly reserved to him, in the small repose that could be spared from the supply of his necessities.<sup>63</sup>

Whereas Hamilton sees government protection harmonizing the various forces in society, Madison casts it as an inherently unfair system that obliges only "part of its citizens." This is a

---

<sup>63</sup> Ibid.

form of “oppress(ion),” whether it “invade(s) the domestic sanctuaries of the rich” or “grind(s) the faces of the poor.” Moreover, far from considering the plan forward-thinking, Madison conceives Hamilton’s commercial distinctions as “arbitrary,” imposing absurd mandates upon this group to reward that one.

## **Conclusion**

Surveying Hamilton’s economic policies of 1790-92, Norman Schofield argues that the secretary was endeavoring to implement a version of the “Walpole Equilibrium” that had dominated British political economy for most of the century. The British had come to understand the blessings of a permanent debt, so long as the interest payments were handled responsibly, and per Schofield, the Walpole Equilibrium was the political solution to sustain that debt. The Bank of England facilitated payment of interest, which was funded in part by a land tax. Because the landowning class was powerful in Parliament, this burden was balanced by customs and excise taxes that kept the value of land high, while the manufacturing class also gained from the protective tariffs. Meanwhile, capital owners in general benefited from the Bank of England and the reliable interest payments on the debt. Schofield points out that this was an equilibrium position because imports were roughly balanced between manufactured products, foodstuffs, and raw materials, meaning that all parties gained from some portion of the program.

The problem with this approach in the United States was that the economy was overwhelmingly tilted toward agriculture, so Walpole’s program was not in fact an equilibrium in American politics in 1790-92. A permanently funded debt would require either protective tariffs, which would make capital more scarce for cash-poor landowners and prompt retaliatory

measures against American agriculture, or a land tax, which would burden planters directly.<sup>64</sup>

Thus, the Hamiltonian system worked for the sake of the merchants, financiers, and manufacturers, but against the agricultural majority. Hamilton was at pains to argue that the farmers would benefit from his program as well, at least eventually, but this was a long way away.<sup>65</sup>

This is a valuable framework for appreciating Madison's many objections during this period. As the largest agricultural state, but lacking any major commercial center, Virginia would not be a direct beneficiary in the schema. The secondary benefits Hamilton promised were years away, and would be mediated by the moneyed class, which was situated outside the Old Dominion. Yet parochial factors were never Madison's sole concern. Hamilton's effort to impose the Walpole program upon a society not politically suited for it was a substantial violation of Madison's principle of impartiality. If we follow Schofield in conceiving of Hamilton's proposals as a package, then Madison's general objection to it is reminiscent of his position on the impost battles of 1781-83 and the tax debate of 1789: the sum of policy rewards and burdens must be fairly distributed amongst all classes of society, rather than tilted toward some contingent over the others; it is only in this way that a republican government may realize the nation's well-being. In Madison's judgment, the secretary's program did not do this.

Hamilton, as noted above, had a markedly different view. He thought that securing the support of the moneyed class was essential to the government, as that group could serve as a mediator for the national interest. For Hamilton, the unfairness of the Walpole program was tolerable because it would only be temporary. The lesson of 18th-century Britain was that the

---

<sup>64</sup> See Schofield, "Madison and the Founding of the Two-Party System," *James Madison: The Theory and Practice of Republican Government*, 310-315.

<sup>65</sup> See Koch, *Jefferson & Madison*, 131.

agenda could eventually elevate the entire nation, and in time the American agricultural class would be better off as well.

This is not something that Madison necessarily opposed, but he held that policy makers had to be conscientious in distributing benefits in a reasonably neutral fashion. This, he reckoned, Hamilton's program failed to do. Regarding trade protection, one can appreciate the influence of *The Wealth of Nations* on Madison's position. He simply rejected the notion that the government could craft a mercantilist policy in such a way that will leave the majority of people better off. Instead, he envisioned a scenario in which the government's incapacity winds up robbing Peter to pay Paul. Regarding the Bank, he thought it needlessly privileged those who lived closer to the seat of power, which he had argued in 1789 as being inherently unfair. Regarding the public debt, Madison was sensitive to the many contingencies in Hamilton's proposal. The great mass of the people would only receive benefits indirectly, at some indeterminate point in time, assuming the secretary's theory was correct. If it wasn't, the speculators would still make out at the expense of other groups.

Taken together, Madison's multiple critiques return to the same question: should the moneyed faction receive *all* this aid? Why not strike a balance between the speculators and the agricultural majority? Madison hinted at something like this in his position during the debate over the 1789 impost, during which he endeavored to build a tax for the national welfare that does not overly burden any section. His alternative to the funding plan was of a similar bent: recognizing that it was good for the country that the current holders get their due, Madison *also* thought the soldiers should receive theirs, too. His alternative in that case was poorly designed, but this intuition would serve as the foundation for Henry Clay's American System, which will be discussed in Chapter Four. Clay's approach employed Hamiltonian means, distributing direct

benefits upon certain factions to advance the welfare of all, but with a Madisonian methodology, whereby benefits for one faction were intentionally balanced with benefits for another. Madison, as will be discussed, was a hearty advocate of Clay's approach in his final years as president. If Hamilton had taken such an approach in his three main reports, he probably would have softened much of Madison's opposition.

But he likely would not have eliminated it altogether, at least not in 1791. As will be discussed in Chapter Three, the problem of unfairness was just one objection Madison registered against the Hamiltonian political economy. The Virginian also saw a connection between Hamilton's economic bounties for the wealthy and a growing imbalance in power relations within the government. Madison thought that, by relentlessly distributing policy benefits to a select few, Hamilton was also granting them license to wield public authority for their own purposes, thereby threatening the republican principles upon which the government had been founded.

## CHAPTER THREE

### “Clamours and Combinations”: Corruption in Federalist America

While Madison and Hamilton had been close associates and even friends during the 1780s, the partiality of the latter’s political economy was too much for the former to abide. Their break began with the submission of the *Report on Public Credit*, and would endure until Hamilton’s untimely death in 1803.

Yet Madison’s commitment to impartiality does not by itself explain the depth and breadth of his opposition. After all, it was not just that Madison opposed Hamilton’s programs; he came to oppose Hamilton *himself*. He saw the divide between the two of them as the difference between true republicanism and incipient monarchy. The discussion in Chapter Two hardly accounts for this: Madison had disagreements with many nationalists during the 1780s, along the same lines that he eventually disputed the partiality of Hamilton’s program, yet the Virginian remained firmly in the nationalist camp during that entire time. What was it about the Hamiltonian political economy that turned Madison into a partisan foe?

He thought not simply that Hamilton’s agenda was partial, but that it facilitated political corruption by granting a windfall to the speculators, many of whom were situated within or close to the government, who used their bounties as the basis for a permanent position of power, independent from the people acting contrary to their interests. Madison was not alone in this opinion. Jefferson, in due course, came to share it, while the dyspeptic Senator William Maclay of Pennsylvania privately recorded in his diary a growing sense of dread during the winter and

spring of 1790. They all suspected that Hamilton was at the head of the speculators, and that the ultimate purpose was to create, in the words of Jefferson, “a monarchy bottomed on corruption.”<sup>1</sup>

The Republicans, as the opponents to Hamilton would come to call themselves, were wrong on this final count. Hamilton had at various points made statements sympathetic to the British Constitution, but he certainly was not a crypto-monarchist. And when it came to conflicts of interest, he was mostly above reproach, not just by the standards of the day but also by our contemporary measures. On these points, the historical record is clear. Nevertheless, Madison and his allies were right on point in thinking that Hamilton’s program had empowered a faction of plugged-in speculators, who at critical junctures were able to dictate the outcome of public policy for their own benefit. Their error was in miscasting Hamilton’s role. Far from being at the head of this cabal, the secretary of the Treasury in those crucial moments was at its mercy, scrambling desperately to find a way to corral the selfish passions that he was once so confident he could contain.

Thus, Madison’s anxieties regarding the role of the few in government, as discussed in Chapter One, turned out to be apt. If republicans were not careful, the few could indeed become—as Madison warned in the *Vices of the Political System of the United States*—“an interest adverse to that of the whole Society.”<sup>2</sup> Hamilton, on the other hand, was too sanguine that the energies of such a group would be directed toward the public interest. As it happened, Madison was prescient: Hamilton could not control the forces he set in motion, and the result was an informal corruption of the republican form of government—where the laws remained the same, but their purposes were twisted to oligarchic ends.

---

<sup>1</sup> TJ, “Explanations of the 3. Volumes Bound in Marbled Paper,” 1818, *WTJ* 1.

<sup>2</sup> JM, “Vices of the Political System of the United States, April 1787,” *PJM* 9.

Traditionally, the understanding of the Madison-Hamilton divide has been set by the famous terms Jefferson outlined in the *Anas*. If Hamilton was looking to establish a “monarchy bottomed on corruption,” then Madison was right. If Hamilton was not striving for such an end, then Madison was wrong. This chapter will take a different approach. Contra Jefferson, it will aver Hamilton’s overall probity (excepting some dubious moves during the Panic of 1792), deny that he was a monarchist, and dispute that he was able to direct the moneyed faction in all cases. It will instead look more closely at Madison’s arguments against the Hamiltonian program, especially the essays in the *National Gazette*, to identify a less outrageous critique of the secretary that possesses historical merit—that Hamilton’s system was unbalancing power relations in the republic. In this way, Madison’s political alienation from Hamilton will become intelligible *without* indicting Hamilton’s character or aims. Moreover, this analysis will vindicate Madison’s worries about the potential for partiality to yield corruption, as discussed in Chapter One.

This chapter is divided into four sections. The first will detail the legislative and executive officials who held large quantities of government debt while deliberating on Hamilton’s plan for its repayment. The second will outline the varying reactions to this widespread conflict of interest. Following Hume, Hamilton figured that such conflicts of interest could be useful to good governance, but Madison saw in them the rise of an antirepublican party looking to seize control of the state. The third and fourth section will argue that Madison was correct in important respects. There was indeed an identifiable governmental clique that, during the assumption battle and the Panic of 1792, drove public policy for its own ends, not the general welfare’s.

## Conflicts of Interest in the New Republic

As noted in Chapter One, Madison had a strict ethos against private dealings on any matter over which he held a public trust. Many members of the government did not have such ethical qualms, regularly mixing the quest for private profit with the duty of public service. Land speculation had been a main avenue for such activity for some time prior to the ratification of the Constitution. As discussed in Chapter One, speculators and their allies in government had tried to convince the Confederation Congress to validate their dubious claims in the western territory. They also worked their contacts in the state governments. Consider, for instance, Henry Knox, first of War. He joined with William Duer, a member of the Treasury Board under the Confederation and the first assistant secretary of the Treasury in the new government, and William Constable, a business partner of Robert and Gouverneur Morris, to purchase land in Maine, which at this point was still part of Massachusetts.<sup>3</sup> In the spring of 1791 a state legislator told Constable that Massachusetts was soon planning to separate from Maine, and that the government was looking to sell land at a discount while it still could. Constable brought Duer and Knox into a scheme to purchase between 1 million and 4 million acres worth of property. Knox and Duer were not the only such officials. James Wilson—who had been instrumental at the Constitutional Convention—speculated heavily in land in Kentucky, North Carolina, and Pennsylvania, while Patrick Henry made a fortune speculating in the Yazoo-Mississippi country in Georgia.<sup>4</sup>

The new Constitution, and with it a national government of real authority, provided speculators with a new array of opportunities. Insiders generally believed that the new

---

<sup>3</sup> Gouverneur and Robert Morris themselves were quite tied up in land speculations during this time. See Adams, *Gouverneur Morris*, 226.

<sup>4</sup> See Channing, *A History of the United States*, 98-99, Jones, *The King of the Alley*, 152-155, and White, *The Federalists*, 153-195.

government's first task would be to get the public finances in order, which meant buying debt certificates on the cheap from unwitting sellers was a smart bet. Maclay set the scene in a diary entry from July 1790:

The adoption of the new Constitution raised a singular ferment in the minds of men. Every one ill at ease in his finances; every one out at elbows in his circumstances; every ambitious man, every one desirous of a short cut to wealth and honors, cast their eyes on the new Constitution as the machine which could be wrought to their purposes, either in the funds of speculation it would afford, the offices it would create, or the jobs to be obtained under it.<sup>5</sup>

After ratification, debt speculation became the best way to make a fast buck. Indeed, land speculation usually required one to deal in the debt markets, as land was typically paid for at least in part with some sort of government paper.<sup>6</sup> This flurry of activity had the effect of concentrating the public debt in the hands of a very small number of people. Whitney Bates examines ownership of southern debt certificates, and finds that by 1790 it had migrated to a very narrow class of eastern investors. Out of the \$8.7 million in southern debt examined, Bates finds that just 166 subscribers owned \$6.4 million of it. Bates further finds that \$4.6 million was owned by out-of-state subscribers, with just 76 New Yorkers holding some \$2.7 million, and 54 Pennsylvanians owning another \$600,000.<sup>7</sup>

Outright fraud was not uncommon, either. James Reynolds—who would later become infamous as the husband of Maria Reynolds, Alexander Hamilton's paramour, and the

---

<sup>5</sup> Maclay, *The Journal of William Maclay*.

<sup>6</sup> See Beard, *An Economic Interpretation of the Constitution of the United States*, 102. Though later scholars challenged Beard's conclusions, his research of the early records of the Treasury Department remains an outstanding resource. The hard data he unearthed stands apart from the controversial conclusions he drew from it. Importantly, the research in this chapter connects Beard's research to the work of Whitney Bates, and a wide range of primary resources to make its own argument.

<sup>7</sup> See Bates, "Northern Speculators and Southern State Debts: 1790," 46-47.

blackmailer of the secretary of the Treasury—popped up on Madison’s radar as somebody using inside information to defraud southern veterans. In the spring of 1790, Madison received word from Colonel Gustavus Wallace that Reynolds was buying up balances from Virginia veterans, based on a list of names from the paymasters book, and that he was doing so “at the request of some gent(leman).”<sup>8</sup> A month later, Wallace told Madison that Reynolds’ partner “got the Lists from a Clerk of the Treasury,” and that Reynolds was misleading soldiers about the actual amount they were due, convincing them to sign power of attorney over to him, and pocketing the difference. This clerk was quite possibly Duer, who knew Reynolds from the war and who had no qualms about mixing personal and public interests or engaging in outright frauds.<sup>9</sup>

Apart from Duer, no high official in the government is thought to have been involved in such frauds, but senior members of both the executive and legislative branches were certainly burdened by conflicts of interests. Indeed, Charles Beard finds an enormous amount of speculative activity on the part of members of the First Congress. The assumption plan, discussed in Chapter Two, is illustrative. Beard finds that 29 members of the House were invested in debt certificates, and provided 21 of assumption’s 32 final votes. Meanwhile, just 8 holders of government paper voted against assumption, and the vote on assumption by non-holders was a lopsided 11-21 against.<sup>10</sup> In the Senate, Beard finds ten votes in favor from holders

---

<sup>8</sup> Gustavus Wallace to JM, 25 March 1790, *PJM* 13.

<sup>9</sup> Gustavus Wallace to JM, 20 April 1790, *PJM* 13. Per Ron Chernow, “Reynolds had worked as a skipper on a Hudson River sloop and supplied provisions to patriotic troops, meeting William Duer and other purveyors. He then went to sea before settling in New York, and he had sought employment at the new Treasury Department in 1789,” though Hamilton had rejected him for a job (Chernow, *Alexander Hamilton*, 368.). This was not the only effort to defraud soldiers by way of inside information. A year later Madison complained to Jefferson about a “number of adventurers” who acquired “administration on the effects of deceased soldiers and other claimants leaving no representatives.” Madison suspected coordination between these raiders and government officials, concluding, “What a door is here open, for collusion also if any of the Clerks in the Acct. Offices are not proof agst. the temptation!” (JM to TJ, 1 May 1791, *PJM* 14.).

<sup>10</sup> See Beard, *Economic Origins of Jeffersonian Democracy*, 195.

and only three votes in favor from non-holders; most non-holders voted against it, and the holders who opposed assumption owned just a trivial amount.<sup>11</sup>

Several members of Congress had extensive holdings. Nicholas Gilman of New Hampshire had amassed more than \$5,000 by the end of 1786, and at one point after the new government formed had more than \$10,000. Elbridge Gerry of Massachusetts was an opponent of the Constitution, but supported the final deal on assumption; at one point he possessed upwards of \$20,000 in government paper, was speculating in public lands, and all the while was a member of Congress when it deliberated on both matters. Oliver Ellsworth of Connecticut owned more than \$5,000 worth of paper, and his wife was invested, too. William Samuel Johnson of Connecticut was not directly invested, but his son had almost \$50,000 at stake.

The members from New York and Pennsylvania were some of the biggest speculators. In the House, George Clymer of Pennsylvania owned about \$10,000 worth of public securities, while Thomas Fitzsimmons—who as noted in Chapter Two introduced Hamilton’s funding plan to the House in the winter of 1790—owned about \$12,000 worth of certificates as early as 1778, and was later involved in buying up debt in Pennsylvania. In the Senate, General Philip Schuyler of New York—Hamilton’s father-in-law—owned about \$23,000 in government securities by March 1791. The holdings of Rufus King, also of New York, were quite sizable, and he was invited into a speculative combine with Duer and several others (more on that below). Robert Morris of Pennsylvania had vast business dealings on both sides of the Atlantic. Naturally, he had tens of thousands of dollars invested in both government debt and land speculations.<sup>12</sup>

---

<sup>11</sup> See *ibid.*, 179.

<sup>12</sup> See Beard, *An Economic Interpretation of the Constitution of the United States*, 89-133, and Berkeley and Berkeley, *John Beckley*, 86.

Moreover, the Bank was a bonanza to the moneyed faction that was allied with Hamilton, as primary ownership was centered in the eastern cities, especially New York and Philadelphia.<sup>13</sup> The directors sampled strongly from current and previous members of Congress. The president was Thomas Willing, formerly of the Continental Congress, and the board also included current or future senators George Cabot and Tristram Dalton of Massachusetts, King and James Watson of New York, Samuel Johnson of North Carolina, and William Bingham of Pennsylvania, as well as representatives Jeremiah Wadsworth of Connecticut, Fisher Ames of Massachusetts, William Smith of South Carolina. Robert Livingston of New York—former secretary of Foreign Affairs and eventual minister to France—was also on the board. So too was Andrew Craigie, the former apothecary general and now, along with Duer and Constable, one of the most plugged-in speculators in all of New York City. In sum, roughly half of the board had held, was holding, or would hold an eminent position in government. The rest of the board was mostly made up of important businessmen, like Herman LeRoy, of the firm LeRoy and Bayard, which by itself held nearly \$600,000, or roughly seven percent, of all the securities from the Carolinas and Virginia.<sup>14</sup>

The story is similar for the Society for Establishing Useful Manufactures (SUM). The brainchild of Hamilton and Tench Coxe, who replaced Duer as assistant secretary of Treasury in May 1790, this private company fit hand-in-glove with Hamilton's *Report on Manufactures*. While Hamilton tried, ultimately in vain, to persuade Congress to adopt a protective regime, he and his allies prevailed upon the state of New Jersey to grant a charter to the SUM, situated at the Great Falls of the Passaic River in what is today Patterson, to build labor-saving innovations like mills and distilleries. Given its endorsement by Hamilton, subscriptions for the SUM were quickly filled, and the board drew heavily from the New York speculative class, including

---

<sup>13</sup> See Hammond, *Banks and Politics in America*, 125.

<sup>14</sup> See "Election for the Directors of the Bank of the United States," and Bates, "Northern Speculators and Southern State Debts: 1790," 38.

William Macomb, who would join with Duer in a failed effort to corner the debt market that ultimately prompted the Panic of 1792. Duer was named the governor of the SUM.<sup>15</sup>

There were other, more informal points of connection between the moneyed class and the government, which anticipate modern scholarly accounts of cultural capture, informational asymmetry, and the “revolving door.”<sup>16</sup> For instance Maclay’s diary is filled with stories of the “Hamilton galley” coming to watch the House debates on assumption, and the distinct impression is that the geographical proximity of the speculators to the First Congress enabled them to pressure it to vote the way they wanted.<sup>17</sup> Speculators also personally sidled up to members of Congress and high government officials to extract information from them before it became public knowledge. Craigie is noteworthy in this regard.<sup>18</sup> During the winter of 1789-90, he lodged with six New England congressmen, including Ellsworth.<sup>19</sup> In his private correspondence, Craigie was blunt about his motivations: “I know no way of making safe speculations but by being associated with people who from their Official situation know all the present and can aid future arrangements either for or against the funds.”<sup>20</sup> Craigie, in fact, was so well connected that he knew of the famed Compromise of 1790 almost as soon as the deal was struck.<sup>21</sup> In his diary entry from January 15, 1790, Maclay recalls another example:

---

<sup>15</sup> See Davis, *Essays in the Earlier History of American Corporations*, 352-374, and Jones, *The King of the Alley*, 159.

<sup>16</sup> Probably the best exposition of current scholarship on interest-group capture is the set of essays included in Carpenter and Moss, *Preventing Regulatory Capture*. Several scholarly works apply these general insights to the specifics of the government’s role in financial services—like Johnson and Kwak, *13 Bankers*, and Calomiris and Haber, *Fragile By Design*. Combined, these works give a sharp perspective on the methodology of interest-group capture—and many of today’s strategies were in use in the 1790s, albeit in a rudimentary form.

<sup>17</sup> For instance on March 8, 1790, Maclay records, “This is the important week, and perhaps the important day, when the question will be put on the assumption of the State debts. I suspect this from the rendezvousing of the crew of the Hamilton galley. It seems all hands are piped to quarters” (Maclay, *The Journal of William Maclay*).

<sup>18</sup> See Hulbert, *Andrew Craigie and the Scioto Associates*, and Hulbert “The Methods and Operations of the Scioto Group of Speculators.”

<sup>19</sup> See Jones, *The King of the Alley*, 163.

<sup>20</sup> Davis, *Essays in the Earlier History of American Corporations*, 88.

<sup>21</sup> See Jones, *The King of the Alley*, 163.

I walked out this evening. I call not at a single house or go into any company but traces of speculation in certificates appear. Mr. Langdon, the old and intimate friend of Mr. Morris, lodges with Mr. Hazard. Mr. Hazard has followed buying certificates for some time past. He told me he had made a business of it; it is easy to guess for whom. I told him, "You are, then, among the happy few who have been let into the secret." He seemed abashed, and I checked by my forwardness much more information which he seemed disposed to give.<sup>22</sup>

John Langdon was a senator from New Hampshire in the First Congress, and Ebenezer Hazard was the former postmaster general, whose term expired in 1789, and who was endeavoring to get an appointment under the new government.<sup>23</sup> Maclay implied that Hazard was working on behalf of Robert Morris, and his close proximity to Langdon was no doubt useful for that purpose.

The revolving door also facilitated the efforts of the speculators. Gouverneur Morris moved in and out of the public and private realms, and his speculative interests gave Jefferson troubles in his capacity as minister to France in 1788. In 1790 Duer returned full-time to speculative endeavors, having learned the minutest details of how Hamilton operated the Treasury department. The examples of both shall be discussed in more detail below.

This wide-ranging concatenation enabled government officials and their allies to leverage inside information for personal enrichment during the early years of the new government. The evidence in support of this assertion comes from multiple, independent sources: the observations in real-time of Maclay, who was an acerbic and often bitter opponent of Hamilton, but whose private diary was an earnest effort to record the events he witnessed; the research of Beard and Bates, regarding who owned government securities, and to what extent; and the private

---

<sup>22</sup> Maclay, *The Journal of William Maclay*.

<sup>23</sup> See Ebenezer Hazard to TJ, 20 February 1790, *PTJ* 16.

correspondences and records of multiple agents in or close to government, who were setting up elaborate speculative ventures.

Hamilton's funding program was announced in early January 1790. Almost right away, Maclay noticed that members of Congress had been using their advanced knowledge of this system to set up speculative schemes. On January 15 he recorded:

It appears that a system of speculation for the engrossing certificates has been carrying on for some time. Whispers of this kind come from every quarter. Dr. (Jonathan Elmer, New Jersey representative,) told me that (Robert) Morris must be deep in it, for his partner, Mr. Constable, of this place, had one contract for forty thousand dollars' worth. The Speaker (Frederick Muhlenberg) hinted to me that (Daniel Hiester, Pennsylvania representative,) had brought over a sum of money from Mr. Morris for this business; he said the Boston people were concerned in it. Indeed, there is no room to doubt but a connection is spread over the whole continent on this villainous business. I pray God they may not prosper.

The Speaker gives me this day his opinion that Mr. Fitzsimons was concerned in this business as well as Mr. Morris, and that they stayed away [from Congress] for the double purpose of pursuing their speculation and remaining unsuspected. I have one criticism with respect to Mr. Fitzsimons. I have heretofore heard him declare himself in the most unequivocal manner in favor of a discrimination. Mark the event.<sup>24</sup>

Per Beard, Hiester had invested a small sum in securities, but he ultimately voted against assumption.<sup>25</sup> Morris, on the other hand, was heavily invested, and as discussed below he was

---

<sup>24</sup> Maclay, *The Journal of William Maclay*.

<sup>25</sup> Beard, *Economic Origins of Jeffersonian Democracy*, 202.

part of a sizable clique (including Constable, Craigie, Duer, Gouverneur Morris, Samuel Osgood (formerly of the Treasury Board), Wadsworth, and potentially King) looking to leverage inside information for profit. Fitzsimmons, meanwhile, was one of the largest speculators in government paper, according to the earliest Treasury records, though he does not figure into the Morris/Constable speculative scheme, which certainly was not the only project being undertaken.

The next day, Maclay wrote:

Attended at the Hall at the usual time. The Senate met, but there was no business before them, and adjourned. (Benjamin) Hawkins, of North Carolina, said as he came up he passed two expresses with very large sums of money on their way to North Carolina for purposes of speculation in certificates. Wadsworth has sent off two small vessels for the Southern States, on the errand of buying up certificates. I really fear the members of Congress are deeper in this business than any others. Nobody doubts but all commotion originated from the Treasury; but the fault is laid on Duer but *respondent[sic] superior*.<sup>26</sup>

Once again, Maclay's testimony comes close to the mark. Wadsworth was a major dealer in government paper and was actively involved with the aforementioned combine.

As the assumption debate neared its bitter conclusion, Maclay recorded the following on July 14, 1790:

I saw (Charles) Pettit yesterday at the levee, and, as I was advised by letter that he was appointed agent for the settlement of the Pennsylvania accounts with the Union, I waited on him with great joy, hoping for much information on the subject. But what disappointment! He could tell me nothing about them, but came here to gain information and return back again; seemed to speak rather unfriendly

---

<sup>26</sup> Maclay, *The Journal of William Maclay*.

of the Comptroller as to what he had done about the accounts. This surprised me. He quitted the subject with impatience, and attacked me rather with rudeness on the subject of the public debts. I have heard him spoken of as smooth, artful, and insinuating.

He certainly displayed none of these qualities, and, as to the public accounts, he seems rather as an agent for the public creditors, and talked of the settlement as a very distant object. He teased me to tell him who were the principal holders of certificates in Boston, Newport, New York, etc., declaring that he wished to correspond with them, and unite with them in the common cause. I can not help regarding him as the curse of Pennsylvania.<sup>27</sup>

Pettit does not feature in the same speculative scheme as Wadsworth and the others, but the reports of Beard and Bates imply that this combine was hardly the only one at work. This dispatch from Maclay stands on its own because he provides first-hand information about a public servant from his home state, whose politics he was well acquainted with. It is worth noting that, after assumption was enacted, Pennsylvania would select Pettit as commissioner to handle the final settling of accounts, and he would eventually serve as a board member on the Bank of the United States.<sup>28</sup>

Taken alone, Maclay's diary is important. While he was certainly peevish, and grew increasingly frustrated by his inability to influence the assumption debate, he had no reason to misrepresent the facts of the case. His diary was written contemporaneously with the events of assumption, and these reports either come firsthand from Maclay himself, or from other members of Congress with whom he was well acquainted, like Speaker Muhlenberg. Still,

---

<sup>27</sup> Ibid.

<sup>28</sup> See Charles Pettit to AH, 30 April 1791, *PAH* 8.

Maclay does not delimit the exact nature of the speculative schemes—as a manifest opponent of assumption, he was always on the outside looking in—and offers only a glimpse of the endeavors. There were in all likelihood many such operations going on: whatever Pettit was up to, for instance, has been lost to history; and while Fitzsimmons had amassed a large quantity of certificates, it is unclear exactly what he was doing. But there is strong confirmation regarding the alliance between Constable, Cragie, Duer, the Morrisses, etc.

As with so many large-scale speculative endeavors of this period, Duer was at the center of it. As Joseph Davis puts it, nobody except Robert Morris came closer to being a “captain of industry” during this period than Duer, a close friend of Hamilton whose wife was a cousin of the secretary’s wife. Duer made a career of mixing government and business, regularly serving in important government positions while simultaneously engaging in private transactions that related closely to his public duties, and per Davis, he consistently showed a “willingness to subordinate public service to private concerns.”<sup>29</sup>

The amiable Duer had friends all throughout the government and business worlds, and his dinner parties were well attended by luminaries of the early republic—including Madison at times. He was also prone to throw government business to friends like Constable, for whom he effectively arranged interest-free loans from the government, and Craigie, to whom he directed Treasury business for a bribe of \$8,000.<sup>30</sup> Duer also kept a lot of pots on the boil. At the same time he was working with Knox on the Maine speculation, he was entangled in a scheme to sell plots of land in modern-day Ohio.<sup>31</sup> He simultaneously developed a plan for debt speculation with Constable, Craigie, and their friends in and around the government.

---

<sup>29</sup> Davis, *Essays in the Earlier History of American Corporations*, 111.

<sup>30</sup> See Connors, “Andrew Craigie.”

<sup>31</sup> Duer’s land speculation is worth elaborating, for it demonstrates the way he would misuse his public authority for private enrichment. The Scioto Company was a silent partner of the Ohio Associates, which endeavored to purchase

The initial plan, hit upon in 1788, was to purchase a portion of the foreign debt coming due to France. Gouverneur Morris went to France for this purpose, carrying a letter of introduction from Madison to Jefferson. Writing in cypher, Madison told Jefferson, “I am a stranger to the errand on which G. Morris goes to Europe. It relates I presume to the affairs of R. Morris which are still much deranged.”<sup>32</sup> As it turned out, the French were not interested in the terms the Americans were willing to offer, so the speculators moved on to the Netherlands, with a scheme to sell the Dutch a portion of the domestic debt of the United States. This turned out to be a problem for Jefferson, who found the Dutch recalcitrant to renegotiate terms on the foreign debt because it undermined their investment in the domestic debt.<sup>33</sup>

The plan was more ambitious than speculation in the national debt. As early as the spring of 1789, Gouverneur and Robert Morris were working with Constable to snatch up state debts, especially from the Carolinas, in expectation that assumption would be included in Hamilton’s system. Meanwhile, Duer and Constable signed a memorandum of agreement to borrow on the domestic debt they had purchased to acquire state debt. Craigie was actively purchasing state debts, too, and may have been brought into the Duer-Constable combine.<sup>34</sup> One estimate of the

---

land around the Ohio River from the Confederation Congress using final settlement certificates. Congress initially balked at the terms offered by the Ohio Associates, which is when Duer—who at that time was serving on the Treasury Board—quietly suggested to the Ohio Associates that it increase the size of the purchase. He correctly figured that this would make Congress more amenable to a deal, so he organized Scioto to raise capital for the larger bid. He did this with hardly anybody in Congress, or for that matter most of the members of the Ohio Associates, even knowing. The arrangement between Scioto and Ohio was not illegitimate, nor was the offer to buy land from the Congress. What was objectionable was Duer’s misuse of the authority of the Treasury Board, which permitted the Ohio Associates to contract with another company, namely his own, with hardly anybody knowing what was really happening. See Jones, *The King of the Alley*, 118-121, and Davis, *Essays in the Earlier History of American Corporations*, 133-146.

<sup>32</sup> JM to TJ, 8 December 1788, *PJM* 11.

<sup>33</sup> See Beard, *An Economic Interpretation of the Constitution of the United States*, 119, Davis, *Essays in the Earlier History of American Corporations*, 159-168, and Brant, *James Madison*, 3: 300-301.

<sup>34</sup> See Connors, “Andrew Craigie.”

value of this speculation is as high as \$5.4 million by the summer of 1790—an astounding sum for the age.<sup>35</sup>

The critical elements in this scheme were advanced knowledge of Hamilton’s funding plan, and a general reputation for being in-the-know. If the combine knew about the funding proposal before the current owners of the debt did, it could buy from them at very low prices, then it could use its members’ stature in government to convince foreign purchasers that it knew what the eventual plan would be, enabling it to sell at a tidy profit. Duer was thus the integral partner. By July 1789 Craigie thought that, while Duer may not be stationed at the Treasury, “he will no doubt be well provided for & have great Influence which will be of importance.”<sup>36</sup> As it turned out, Duer was named assistant secretary and certainly was integral in drafting the *Report on Public Credit*. Simultaneously, he was essentially trying to set up the first international banking syndicate based in America, which could compete with the great financiers of Europe.

It is hard to be certain who else may have been involved in this scheme, in no small part because Duer was not a good correspondent and preferred to conduct business face-to-face. Still, it is certain that this was a broad speculation that at various points included members of both houses of Congress, the executive branch, and key businessmen in New York City. It is highly likely that the foul smell that Maclay detected in the winter and spring of 1790 was emanating, at least in part, from this massive, coordinated endeavor. And there is no reason to believe that this was the only such effort. Maclay certainly thought more members than just these were engaged in the business, and Craigie flatly stated that members of Congress initially delayed acting on the funding plan “because their private arrangements are not in readiness for speculation.”<sup>37</sup>

---

<sup>35</sup> See Bates, “Northern Speculators and Southern State Debts: 1790,” 39, Brant, *James Madison*, 3: 302-303, and Rappleye, *Robert Morris*, 388-389.

<sup>36</sup> Quoted in Davis, *Essays in the Earlier History of American Corporations*, 177.

<sup>37</sup> Quoted in Connors, “Andrew Craigie.”

## Monarchy or Oligarchy?

Though modern accounts tend not to emphasize it, the conflicts of interest described above were widely recognized in their age. Maclay's diary not only relays anecdote after anecdote of legislators with a personal stake in Hamilton's debt plan, but also displays a broad understanding of the phenomenon among those who were not themselves entangled. Madison was certainly aware of the situation, which is significant in that he and Maclay were not allies—coming from different states into different chambers of Congress, and hardly interacting with each other.

The real question is not, therefore, whether such conflicts existed. Rather it is: What do they say about the early republic? On this matter, Madison and Hamilton had sharply different views. The former, along with Jefferson, conceived they were essential to the propagation of the Hamiltonian program. As Jefferson wrote to Washington in September 1792:

I saw this influence actually produced, & it's first fruits to be the establishment of the great outlines of his project by the votes of the very persons who, having swallowed his bait were laying themselves out to profit by his plans: & that had these persons withdrawn, as those interested in a question ever should, the vote of the disinterested majority was clearly the reverse of what they made it. these were no longer the votes then of the representatives of the people, but of deserters from the rights & interests of the people: & it was impossible to consider their decisions, which had nothing in view but to enrich themselves, as the measures of the fair majority which ought always to be respected.<sup>38</sup>

Jefferson overstated the case here. Madison's alternative funding plan went down to an overwhelming defeat, the Bank of the United States was broadly approved, and Congress never

---

<sup>38</sup> TJ to GW, 9 September 1792, *PTJ* 24.

took up Hamilton's protective tariff system. In 1793, the effort to censure Hamilton, led by William Branch Giles but receiving support from Madison and Jefferson, was based on a flimsy case, and should have lost on the merits, regardless of the speculative endeavors of the political class.<sup>39</sup> The one vote where the personal interests of members was crucial was assumption. The vote on this measure was exceedingly close—and the narrow difference was due to a split in the delegations of New York and Pennsylvania and the uniform support of New Jersey's members. None of these states stood to gain much from assumption, but its representatives were heavily invested in government certificates. This implies that the speculative motive was a necessary ingredient. Jefferson, for his part, thought that personal interest was sufficiently important that he and John Beckley, the clerk of the House and an ardent Republican, kept track of the holders of government paper, and their record from 1793 overlaps the work of Beard to an impressive extent.<sup>40</sup>

But the Hamiltonian rejoinder is: so what? As David Hume argues, "We may ... give to this influence what name we please; we may call it by the invidious appellations of *corruption* and *dependence*; but some degree and some kind of it are ... necessary to the preservation of our mixed government."<sup>41</sup> If private interest indeed made the difference between the success or defeat of Hamilton's plan for public finance, then that is *prima facie* evidence for the *value* of private interest—because, in Hamilton's opinion, his plan was essential to the success of the union. As he argued at the Constitutional Convention, the country had relied too much on patriotism to advance the public good; it was integral to corral men's selfish passions for that purpose. Moreover, Hamilton knew that speculative activity by the moneyed elite was going to happen anyway, and the question for him, as discussed in Chapter One, was whether it was

---

<sup>39</sup> See Catanzariti, "Editorial Note: Jefferson and the Giles Resolutions," *PTJ* 25.

<sup>40</sup> See TJ, Notes on Stockholders in Congress, 23 March 1793, *PTJ* 25.

<sup>41</sup> Hume, "On the Independency of Parliament," *PW*, 26.

bullish or bearish for the national government. Duer and his associates were trading on insider information, and in so doing taking advantage of the asymmetric information between them and the Southern holders, but their actions helped cement the bond between the moneyed elite and the new government. Madison, as noted in Chapter Two, did not think that proximity to the seat of power should qualify one for special benefits that were unavailable to those far away. Meanwhile, Hamilton, following Hume's logic, held that, while this was unfortunate in some respects, it was necessary for the preservation of the new government.

This seems at first blush to be a stalemate—an intractable philosophical debate over the propriety of certain means in pursuit of a necessary end. Madison had his view, Hamilton had his own, and never the twain shall meet. However, there is another aspect to the Madisonian critique. The Virginian certainly thought it unfair for government benefits to be distributed so one-sidedly, but he also worried about the second-order effects of such partiality. The lure of special benefits for a privileged faction can induce legislators to abuse their public authority for their private gain. Moreover, the dispensation of such bounties can distort power relations in the state, giving the blessed faction the capacity to influence the subsequent course of public policy. Of course, Humean influence may advance the general welfare, but, per Madison, *that need not be the case*. And when it is not the case, the republican quality of the government is diminished, for the state is acting on behalf not of the people at large, but rather of the factions that have gained power over it. In other words, the fight did not revolve merely around insider trading—which Hamilton was willing to condone but Madison was not—but about *the abuse of power*, namely representatives with a personal interest in the outcome voting for their own pocketbooks rather than the welfare of their constituents.

The sort of corruption Madison detected in this cabal of financiers is not quite the same as a formally invested institution turning against the people who originally sanctioned it. As noted in Chapter One, there is a difference in Madison's thinking between formal and informal corruption. The former stems from religious establishment, a monarch, private charters, or other exclusive grants of economic privilege going bad—as power, when formally granted disproportionately to the blessed faction, may be misused and very difficult for the public to reclaim. Madison was also cognizant that such corruption could follow informal pathways—via conflicts of interests in and around the government. This fear inspired his dogged fight over the disposal of the western territory, discussed in Chapter One, for he worried that a speculative faction might effectively acquire and misuse political power, even though it held no formal right to such authority, because members of Congress had a conflict of interest.

He held the same concerns regarding Hamilton's political economy, as illustrated by a letter Madison penned to Jefferson in the spring of 1792. Precipitated by the speculative excesses of Duer and Macomb, a panic swept through New York City in March and April, only to be eased by Hamilton's clever use of the sinking fund to stabilize the price of government securities. And yet, just a few weeks later, Madison noted to Jefferson that the speculative mania seemed to be picking up steam once again:

It is said that packet boats & expresses are again sent from this place to the Southern States, to buy up the paper of all sorts which has risen in the market here. These & other abuses make it a problem whether the system of the old paper under a bad Government, or of the new under a good one, be chargeable with the

greater substantial injustice. The true difference seems to be that by the former the few were the victims to the many; by the latter the many to the few.<sup>42</sup>

This provides a clear summation of why Madison did not actually change his views between the 1780s and 1790s. He was allied in the 1780s with Federalists like Robert Morris and Hamilton in opposition to the partiality of the state governments, where indebted majorities violated the norms of justice and endangered the national interest by renouncing their obligations. The Hamiltonian program, on the other hand, cut too far in the opposite direction, rewarding debtor states and distributing windfall profits to the well-connected, at the expense of Southern creditors who were not in the know, as well as the majority of states, which would receive little from assumption (and whose representatives voted against it in the spring). This is how Madison could be a “Federalist” in the 1780s but a “Republican” in the 1790s.

Madison continued to Jefferson, prophesizing that more speculative frenzy was to come, and connecting the whole project to a growing imbalance in power relations within the government:

It seems agreed on all hands now that the bank is a certain & gratuitous augmentation of the capitals sub[s]cribed, in a proportion of not less than 40 or 50 PerCt. And if the deferred debt should be immediately provided for in favor of the purchasers of it in the deferred shape, & since the unanimous vote that no change shd. be made in the funding system, my imagination will not attempt to set bounds to the daring depravity of the times. The stockjobbers will become the pretorian band of the Government—at once its tool & its tyrant; bribed by its largesses, & overawing it, by clamours & combinations.<sup>43</sup>

---

<sup>42</sup> JM to TJ, 1 May 1791, *PJM* 14.

<sup>43</sup> *Ibid.*

This is the best description Madison ever offered of the dynamic relationship between partiality and corruption. No doubt, he viewed the Hamiltonian program as unjust for giving benefits to the “stockjobbers,” but this bounty had lately come to transform them into a kind of interest group that now possessed the means and motive to influence the state. By virtue of the fact that representatives of the people were also heavily invested in government certificates, the speculator class had acquired power that rightly belonged to the people. The public retained nominal control over the government, but real power was actually held by the owners of the public debt—thus, in Madison’s view, corrupting the republican form of government. The reference to the praetorian guard of Rome is notable: those elite soldiers were tasked with protecting the emperor, but their station gave them effective control over the government; similarly, the rarefied political position of the creditors gave them leverage to advance their own agenda.

This notion of corruption rings throughout the essays Madison wrote for the *National Gazette* in 1792, where he regularly returned to the idea that the Hamiltonian political economy had created an energetic combine successfully pursuing its own agenda at the expense of the general welfare. In a February polemic entitled, “Spirits of Governments,” Madison asks, “May not governments be properly divided, according to their predominant spirit and principles into three species of which the following are examples?” The first form of government is one by “permanent military force,” while the second, per Madison, is:

A government operating by corrupt influence; substituting the motive of private interest in place of public duty; converting its pecuniary dispensations into bounties to favorites, or bribes to opponents; accommodating its measures to the avidity of a part of the nation instead of the benefit of the whole: in a word,

enlisting an army of interested partizans, whose tongues, whose pens, whose intrigues, and whose active combinations, by supplying the terror of the sword, may support a real domination of the few, under an apparent liberty of the many.<sup>44</sup>

This amplifies Madison's conception of the "pretorian band of the government." Hamilton's policies had ensnared the private motives of members of government; overcome by "avidity," they had combined into "an army of interested partizans...whose active combinations" had seized control of the state from the people. The *effect* is similar to Madison's complaint about investiture, even if the mechanism is different. A monarch, an established religion, or a chartered bank were set apart from the public at large by law, and were thus free to pursue their own interests against the general welfare. The Hamiltonian partisans did not possess such formal authority (excepting the Bank), but their "intrigues" had created a "real domination of the few, under an apparent authority of the many." They were now invested with power, even though no law had been passed setting them above and apart from the rest of the nation.

In a September essay entitled, "A Candid State of Parties," Madison identifies this combine as "the antirepublican party:"

The antirepublican party, as it may be called, being the weaker in point of numbers, will be induced by the most obvious motives to strengthen themselves with the men of influence, particularly of moneyed, which is the most active and insinuating influence. It will be equally their true policy to weaken their opponents by reviving exploded parties, and taking advantage of all prejudices, local, political, and occupational, that may prevent or disturb a general coalition of sentiments.<sup>45</sup>

---

<sup>44</sup> JM, "Spirit of Governments," 18 February 1792, *PJM* 14.

<sup>45</sup> JM, "A Candid State of Parties," 22 September 1792, *PJM* 14.

In *Federalist* 10 Madison uses the word “party” interchangeably with “faction,” as in some group of people who share politically relevant characteristics—he does this as well in other essays for the *National Gazette*. But in this essay his understanding of “party” seems closer to the modern conception, as E.E. Schattschneider states in *Party Government*, of “an organized attempt to get control of the government.”<sup>46</sup> Madison sees this antirepublican party, composed primarily of the moneyed class, utilizing its privileged place in government to advance its selfish interests rather than the general welfare. He also accuses it of preventing the people from realizing what is actually happening. One way they were accomplishing this, Madison reckoned, was by “reviving exploded parties” and exploiting “all prejudices”—which is another way of saying that it set the political agenda along terms that favored its maintenance of power.<sup>47</sup> As Schattschneider argues in *The Semisovereign People*, “Political conflict is not like an intercollegiate debate in which the opponents agree in advance on a definition of the issues. As a matter of fact, *the definition of the alternatives is the supreme instrument of power* ... He who determines what politics is about runs the country.”<sup>48</sup> Madison indicts the Federalists for *distracting* the people with trivial matters, inhibiting their ability to see how the powers of the national government were being turned against their interests.

This is the context for understanding the charge of monarchism that Madison and Jefferson levelled at Hamilton. The British example is of supreme importance in Madison’s

---

<sup>46</sup> Schattschneider, *Party Government*, lix. In fact, earlier in this essay Madison posits a version of realignment theory, arguing that the parties in politics had initially been organized around the question of whether to break from Great Britain; later, party politics on the national level disappeared, and a multitude of state parties appeared; the debate over the Constitution precipitated another round of party conflict; and now there, “has arisen a third division,” between the Republican Party and this antirepublican coalition.

<sup>47</sup> What “exploded parties” did Madison have in mind? He does not explicitly say, but his rebuke of Jeremiah Wadsworth suggests the answer. The advocates of Hamilton’s political economy were presuming that their views were the only ones consistent with the unionism embodied by the Constitution—and therefore that Hamilton’s opponents were just a revived version of the Anti-Federalists, who were trying to retain the old parochialism. Madison took umbrage at this in the House, and he does so again here, in the pages of the *National Gazette*.

<sup>48</sup> Schattschneider, *Semisovereign People*, 66. See also Bachrach and Baratz, “Decisions and Nondecisions,” and Bachrach and Baratz, “The Two Faces of Power.”

thinking. Hamilton, following Hume, had celebrated the British monarch's ability to use patronage to manipulate the self-interests of legislators for the sake of the general welfare. But Madison was never so sanguine about the motives of the crown. In *Federalist* 51, Madison notes that a "hereditary authority" could "guard one part of the society against the injustice of the other party," but that this was "a precarious security" because the monarch "may as well espouse the unjust views" of one party, or be turned "against both parties."<sup>49</sup> The problem is the monarch's independence from the people: he might be inclined to play the role of neutral referee, but he might not. The king had maintained such independence after the Glorious Revolution, despite the potential supremacy of the House of Commons, through patronage, which in effect bought off members of Parliament to vote the way the king wanted, regardless of what their constituents might prefer. Madison perceived a similar *method* at work here—members of Congress were voting based on their private interests, rather than the interests of their constituents. He then inferred that this must have been the result of a similar *intention*—that the leaders of the moneyed clique were manipulating the private interests of legislators so that they may rule in place of the people, just as the king did. Given Hamilton's previous, albeit private, comments in favor of the British system, it was not a huge inferential jump for Madison to make.

At the end of March—as the Panic of 1792 was hitting its peak—Madison published, "The Union. Who Are its Real Friends?" He answers the title question thus:

Not those who favor measures, which by pampering the spirit of speculation within and without the government, disgust the best friends of the Union.

Not those who promote unnecessary accumulations of the debt of the Union, instead of the best means of discharging it as fast as possible; thereby increasing the causes of corruption in the government, and the pretexts for new

---

<sup>49</sup> JM, *The Federalist* Number 51, *PJM* 10.

taxes under its authority, the former undermining the confidence, the latter alienating the affection of the people. ...

Not those who avow or betray principles of monarchy and aristocracy, in opposition to the republican principles of the Union, and the republican spirit of the people; or who espouse a system of measures more accommodated to the depraved examples of those hereditary forms, than to the true genius of our own.<sup>50</sup>

This passage is interesting, for several reasons. First, it goes a long way to explaining why Madison changed his mind on the appropriateness of a national debt. The entire Hamiltonian architecture depended upon debt; it was only because the debt had not been discharged that debt certificates could be used as a medium of exchange, which enabled speculation in the state debts, in land, and in the Bank. As Maclay recorded in his diary on June 6, 1790, the funding bill was “the basis on which speculation has built all her castles.”<sup>51</sup>

Second, Madison connects the acquisition of riches by government insiders to monarchy, and in so doing fingers Hamilton, albeit in his typically serpentine way. Regarding the phrase, “avow or betray principles of monarchy and aristocracy,” the context is crucial. In Madison’s view, John Adams had *avowed* principles of monarchism in his anonymous essays written shortly after the new government formed.<sup>52</sup> Hamilton, on the other hand, had made no such public claim, although behind the closed doors of the Convention, he had indicated his partiality to the British system. The *betrayal* was his advocacy of a “system of measures *more accommodated* to the depraved examples of those hereditary forms” (emphasis added)—i.e. in which the moneyed class acquired a permanent position in government independent of the

---

<sup>50</sup> JM, “The Union. Who Are It’s Real Friends?,” 31 March 1792, *PJM* 14.

<sup>51</sup> Maclay, *The Journal of William Maclay*.

<sup>52</sup> See JM to TJ, 6 June 1787, *PJM* 10. Luke Mayville argues that Adams was misunderstood. He preferred the British system of mixed government because he believed it would *check* the power of the aristocracy, which he feared would otherwise run amok. See Mayville, *John Adams and the Fear of American Oligarchy*, 1-22.

people to use however it saw fit. In this passage, then, Madison is arguing that Humean influence is not consistent with republican governance. Far from being a tool to maintain good government, distributing titles and emoluments was the path by which a singular patron could centralize authority around himself, and bring about the change from republicanism to monarchy. Hamilton, Madison knew, admired the British system and had endorsed the use of influence—so he *must* be at the head of the plot.

In a January essay entitled, “Parties,” Madison recalls a point from *Federalist* 10, that party (in this case, factional) conflict is inevitable, and then transitions into an attack on the crypto-monarchism of the Federalists:

In all political societies, different interests and parties arise out of the nature of things, and the great art of politicians lies in making them checks and balances to each other. Let us then increase these *natural distinctions* by favoring an inequality of property; and let us add to them *artificial distinctions*, by establishing *kings*, and *nobles*, and *plebeians*. We shall then have the more checks to oppose to each other: we shall then have the more scales and the more weights to perfect and maintain the equilibrium. This is as little the voice of reason, as it is that of republicanism.<sup>53</sup>

If Hamilton’s defense of the constitutionality of the Bank threw *Federalist* 44 back at Madison, one cannot help but notice that Madison returns the favor here—for this is reminiscent of Hamilton’s case at the Constitutional Convention for separating the few from the many.<sup>54</sup>

Hamilton’s systematic exploitation of conflicts of interests had, in effect, invested the moneyed

---

<sup>53</sup> JM, “Universal Peace,” ca. 23 January 1792, *PJM* 14.

<sup>54</sup> See AH, JM’s Version of AH’s Plan of Government, 18 June 1787, *PAH* 4.

class with power in the government, which perfectly paralleled the British system that he so admired and which Madison found so repulsive.

The thrust of these essays is consistent: Hamilton's program not only favored the moneyed class, it also transferred political power to the praetorian band from the public, which, as Madison warns in a February 1792 essay entitled, "Government of the United States," is "the high road to monarchy," even if the people at large still retain an "apparent liberty."<sup>55</sup> Again, Madison observed similar *means* (the use of influence to sway legislators) between the Federalists and the British crown, so he assumed that the *ends* were similar (the maintenance of a monarchical form of government).

The final inference in this chain of reasoning—that Hamilton's program was a handmaiden for a "monarchy bottomed on corruption"—has been disproven by modern researchers, who have found no evidence that Hamilton wanted to restore the monarchical form.<sup>56</sup> Moreover, the case that Hamilton was actively encouraging corruption is unpersuasive.

---

<sup>55</sup> JM, "Government of the United States," 4 February 1792, *PJM* 14. This fear of creeping monarchism was hardly unique to Madison. Writing in the *Anas*, Jefferson claimed, "Hamilton was not only a monarchist, but for a monarchy bottomed on corruption" (TJ, "Explanations of the 3. Volumes Bound in Marbled Paper," *WTJ* 1.). In September 1792, Jefferson elaborated how the Republicans thought the process was occurring.

[T]he object of these plans taken together is to draw all the powers of government into the hands of the general legislature, to establish means for corrupting a sufficient corps in that legislature to divide the honest votes and preponderate, by their own, the scale which suited, and to have that corps under the command of the Secretary of the Treasury for the purpose of subverting step by step the principles of the constitution, which he has so often declared to be a thing of nothing which must be changed (TJ to GW, 9 September 1792, *PTJ* 24.).

Maclay, who by this point was no longer in the government and only had sparse interactions with the Virginians, had reached a similar conclusion as early as February 1790. He saw Hamilton "as the head of the speculators, with all the courtiers ... on one side" (Maclay, *The Journal of William Maclay*). Washington summarized the critique in a private letter to Hamilton, stating that the latter's opponents believed "that the ultimate object of all this is to prepare the way for a change, from the present republican form of Government, to that of a monarchy; of which the British Constitution is to be the model" (GW to AH, 29 July 1792, *PGW* 10.).

<sup>56</sup> The most that can be said about Hamilton's royalist tendency is twofold. First, he admired aspects of the British system, namely its separation of the few from the many, and the ability of the monarch to use patronage to induce members of Parliament to support the general welfare. Second, in contemplating the possible failure of the Constitution in 1787, Hamilton thought a "reunion with Great Britain ... not much to be feared" (AH, "Conjectures about the New Constitution," 17–30 September 1787, *PAH* 4.). He speculated that one of the sons of George III might be persuaded to rule in America—in a negotiation reminiscent of that which brought William of Orange to the British throne during the Glorious Revolution. This is an awfully thin firmament upon which to build the Republicans' elaborate inferential structure regarding Hamilton's crypto-monarchism.

Relative to his contemporaries, Hamilton typically carried out his public duties according to a very high standard of conduct. A letter from Hamilton to Henry Lee, dated December 1, 1789, is typical of his approach. Lee asked Hamilton to provide him with information about the funding plan before it was publicly released, but the secretary refused.<sup>57</sup>

Insofar as details of the funding plan were known in certain quarters, it was likely not due to Hamilton intentionally tipping off his friends. The secretary's bent was probably inferred by associates like Constable, Craigie, and especially Duer, all of whom were eager to profit from advance knowledge. Robert Morris must also have put the pieces together very early on. He was offered the Treasury job by Washington, turned it down, and recommended Hamilton. Morris had corresponded for a decade with Hamilton about the proper shape of public finance, and so he would have been little surprised by the *Report on Public Credit*. Similarly, this is probably why Maclay notes in his diary on January 28, 1790 that Willing had advance knowledge of the funding plan. Maclay is eager to indict Hamilton, but there is an innocent and intuitive alternative: as a prominent Philadelphia merchant, a former member of the Continental Congress, and the president of the BNY, there were innumerable ways for Willing to have discovered the real plan without having been tipped by Hamilton. The secretary probably should have done a better job keeping the details to himself, but there is no evidence he acted inappropriately, nor does the advance knowledge of Duer, Craigie and others necessitate that he did so.

It is also important to appreciate that Hamilton lacked the political resources of the British king to sustain the sort of regime that Hume praised. As Leonard White argues, Hamilton “performed the function of executive leadership” and developed a strong following in the Congress from men like William Smith of South Carolina and King.<sup>58</sup> However, the secretary

---

<sup>57</sup> See AH to Henry Lee, 1 December 1789, *PAH* 6, and Henry Lee to AH, 16 November 1789, *PAH* 6.

<sup>58</sup> White, *The Federalists*, 58.

hardly had access to the patronage that the British Crown could apply to wavering members of Parliament. The Sinecure Clause of the Constitution severely limited the executive's ability to engage in Humean influence-peddling, and beyond that the main decisions about government appointees were left to Washington, who took a decidedly meritocratic approach to staffing the new bureaucracy.<sup>59</sup> The case of Ebenezer Hazard is notable for this reason: here was an example of the commercial type that Hamilton was looking to draw to the government; the postmaster general was actively in pursuit of a federal position; however, the discretion belonged solely to Washington, who did not like Hazard and replaced him with Osgood. Hamilton had discretion in the Treasury department, but even there the law prohibited Treasury officials from speculating in public securities (although Duer certainly violated this rule).

Of course, “monarchy bottomed on corruption” was just the final destination of the Republican inferential train—there were previous stops along the way. If it is evident that Hamilton was not a double-dealing monarchist, it is equally clear that a vast, interconnected group of speculators in and around the government were profiting from their inside connections. So, what of the notion that the speculative faction had become a “pretorian band,” spread through the government and using “clamours and combinations” to overawe it for their own, selfish ends?

It should be noted that the members of such a party need not have obeyed Hamilton in every instance. After all, American parties have always been notably decentralized, with leaders usually able to exercise only limited control through indirect means. Hamilton certainly was looking to cement the private interests of the moneyed class to the general welfare, but his success rested on the presumption that he could control this class so that it would advance the general welfare. Perhaps it would not—at least not all the time. Perhaps Hamilton overestimated

---

<sup>59</sup> Fish, *The Civil Service and the Patronage*, 6-16. See also Chernow, *Alexander Hamilton*, 293.

the capacity of the “proprietors of land . . . merchants and members of the learned professions” who composed the legislature to act as a “credit to human nature.”<sup>60</sup> Perhaps, in several crucial moments, they broke free from Hamilton’s grasp, and inverted the relationship that the secretary thought he had developed—placing the government in hock to private interests rather than the general welfare, just as Madison suspected.

In this case, the fight between Madison and Hamilton loses much of its hyperbolic cast—monarchism versus republicanism—and instead becomes understandable as a disagreement about how republican nationalism is to be realized through the regular course of politics. Specifically, does the principle of mediation corrupt power relations in a republic? Hamilton thought that empowering the moneyed class would induce it to advance the general welfare, while Madison feared that the secretary had enabled the wealthy license to undermine the general welfare for their own enrichment.

The Madison scenario is not beyond the realm of possibility, considering the limited patronage at Hamilton’s disposal. As noted above, Hamilton did not possess the powers that Hume was glad the British Crown held; he could not grant titles of nobility, distribute executive offices, or offer emoluments. By and large, he was limited to laying down broad principles, like those contained in his reports of 1790-91. He had loyalists in government, certainly, but Hamilton knew as well as anybody that men are too often governed by selfish passions, and he lacked the tools that Hume thought necessary to *ensure* loyalty. Perhaps then his erstwhile allies broke free in pivotal moments, becoming the antirepublican party that drew Madison’s ire. In other words, perhaps the error the Republicans made was not imagining a threat to republicanism, but misidentifying its species. What they thought was an incipient monarchy was

---

<sup>60</sup> AH, *The Federalist* Number 6, PAH 6.

more like an oligarchy. While Hamilton brought it into being through his policies, he lacked the capacity to manage it.

In support of this theory, there are two important events, whose full significance has been overlooked in previous research. First, during the fight over assumption, the obstinacy of the speculative class—which had self-interested allies all throughout the government—threatened to derail the funding of the national debt, which would have had calamitous effects. Ultimately, Hamilton had to rely on the forbearance of the Virginians to accept a final agreement that included situating the capital on the Potomac. Second, the opening of subscriptions to the Bank in the spring of 1791 led to a speculative mania that Hamilton felt obliged to temper, offering inside information to interested parties and using money from the sinking fund, whose stated purpose was the retirement of the national debt. This was in effect a bailout for the most reckless bulls, especially Duer and Macomb. Hamilton’s action emboldened them to try to corner the debt market later in the year. Their efforts failed, precipitating the Panic of 1792, which forced Hamilton to use the sinking fund again to bail the speculators out (although by this point Duer and Macomb were too far gone to save), and improperly lean upon Seton at the BNY to bail out the SUM.

The implication is that the “pretorian band” that Madison perceived did in fact exist, at least to an extent. It used “clamours and combinations”—conflicts of interest, inside information, and the revolving door between the worlds of government and finance—to enrich itself at the expense of the national interest. Hamilton thought he could use this class to advance the general welfare, and in many cases he succeeded. It was a decidedly elitist coalition, but so long as Hamilton remained at the helm, it was swimming within the broad current of republican political

thought. But in several moments it broke free of the secretary and subjugated the general welfare to its private interests, becoming the antirepublican party that Madison feared.

### **Assumption Revisited**

If Madison was right that the partiality of Hamilton's economic plan was perverting power relations in the government, then there should be some instance when the public interest clearly cut in one direction, but the government tacked the opposite way because it was in hock to the privileged faction. This is a high evidentiary standard to meet, but Madison thought it had indeed been met on the matter of assumption. His impassioned essays in the *National Gazette* covered a range of topics, but at their core, they revolved around the question of public debt in the new republic. He was convinced that private holders of the debt had corrupted the government, and forced assumption out of it.

There is a tendency to dismiss his anxieties out of hand among modern accounts, especially those written for a popular audience. The Compromise of 1790—the famous bargain whereby Jefferson and Hamilton traded assumption of the state debts for placing the new capital on the Potomac—is these days viewed as a regional logroll. Virginia and Maryland received the capital while Connecticut, Massachusetts, and South Carolina received debt relief. To a large extent, this is true, but it overlooks the crucial point mentioned above: High-ranking government officials were speculating deeply in state debts, had leveraged themselves to do so, and were desperate for the measure to pass. They hardly sat idly by as the drama unfolded. And Madison was, on balance correct. They exerted their leverage to get what they wanted, at the expense of the public interest.

Madison did not know the details of these speculative schemes, but he certainly grasped that *something* was afoot. The cypher to Jefferson regarding Gouverneur and Robert Morris illustrates that point. And the speculators themselves tried to bring Madison over to their side early on, and in so doing tipped their hand to him. On February 17, 1790—the day before Madison offered his alternative funding plan on the House floor—he received an anonymous letter from “Foreigner,” which offered crucial details of the Duer syndicate’s plan to sell domestic debt to the Dutch. It read in part:

Certain Agents offered to contract with Hollanders to furnish a large amount of the domestic debt of the United States. The precaution which the people of Holland are apt to observe with respect to money matters, was never exemplified in a stronger light than in the methods they took to ascertain the validity of the debt. They wished to establish it beyond a possibility of mistake, that the debt was subject to no new liquidation, that it was actually payable in specie, and that the assignees stood on a footing not less eligible than the original claimant. ...

The Dutch are large holders of our registered certificates. ... These creditors are principally the same persons to whom we are indebted for foreign Loans. They were taught to believe, from what they supposed unquestionable authority, that the domestic debt of the united state was equelly binding upon the government as the foreign and that Congress had Sanctioned the practice of transfers by frequent & Solemn declarations....

If your amendment should prevail in what light will American faith be viewed in Europe. In what light must you be viewed by foreigners when they

compare your address of 1783 with the principles you advanc'd in support of your amendment?<sup>61</sup>

The most likely author of this letter is Duer himself. Having been in the government for some time, he was familiar with Madison's position regarding the debt in 1783; he would have known the details of the current funding plan and Madison's opposition to it; and he would have known the details of the scheme to sell domestic debt to the Dutch. Moreover, the author of this letter was far too bullish to think that he could persuade Madison by these means; an overconfident disposition was a hallmark of Duer. It is of course possible that somebody else in the combine—perhaps Constable or Craigie—penned this letter, but Duer is the most likely author.

The “Foreigner” letter, if it served any purpose, could only have solidified Madison's opposition. It is too clever by half, for in its defense of Hamilton's funding plan, it admits the existence of a cabal that had otherwise been kept secret. Who, Madison must have wondered, were the “Certain Agents” furnishing the Dutch with “a large amount of the domestic debt?” Who instructed the Dutch “to believe” on “unquestionable authority” that the domestic debt was “equally binding upon the government as the foreign?” The only people in such a position would have been those in and around the government—people like Duer, Constable, Craigie, and the Morrises. Madison never left a written record connecting the “Foreigner” letter to the “much deranged” business of Robert and Gouverneur Morris, nor did he finger Duer as the author. Still, it must have offered him further proof that high-level government officials were involved in debt speculation with foreign agents.

By this point Madison was already convinced that the real debate was between the public interest and the speculators, and the “Foreigner” letter must have left him with no doubt he had

---

<sup>61</sup> Foreigner [pseud.] to JM, 17 February 1790, *PJM* 13.

surmised the situation accurately.<sup>62</sup> After Hamilton's funding plan was approved, the House moved on to the assumption issue. From the early days of that debate, Madison noticed a strange insistence from the advocates of assumption: the measure *had* to be yoked to funding, such that if the one did not pass, then neither would the other. In a March 3 debate with Sedgwick and Gerry—both from Massachusetts and both deeply involved in speculation—Madison stated:

He was sorry to hear gentlemen declare, that an affirmative decision of the question of assumption was an essential preliminary to the success of the great business of providing for the support of public credit; to him, this declaration did not appear warrantable, either by the practice of members on other occasions, or on principles of justice or policy: There is a real distinction, as he had said before, between the debts; however important the assumption might be, and being that distinction, he apprehended they ought to be decided upon their respective merits; it would be no reason that they should reject what good was in their power, because they were not able to attain all they grasped at.<sup>63</sup>

Madison went on in this address to note that such a linkage had not been sought in 1783—and his broader point was apt, for while the two proposals were related, the one did not require the other. As noted in Chapter Two, though Hamilton had proposed both in the *Report on Public Credit*, his justifications for each are notably different. Funding the national debt was an essential task, which had to be done with deliberate speed. This was especially true of the portion owed to foreign creditors: All major factions agreed that it was of the first consequence to implement proper measures as quickly as possible for their satisfaction; otherwise the national credit would be wrecked. Meanwhile, the benefits to the nation from assumption were secondary and hardly

---

<sup>62</sup> See, for instance, a February 27, 1790 letter to his father, where he wrote that about the funding plan as a fight between the “original sufferers and the Stockjobbers.” JM to James Madison, Sr., 27 February 1790, *PJM* 13.

<sup>63</sup> JM, Speech of 3 March 1790, *PJM* 13.

of immediate concern. Moreover, as discussed in Chapter Two, the debate over assumption was not about the merits of it *per se*, but rather whether it should happen before the final settlement of accounts. Madison, through various maneuvers on the House floor, had adroitly presented this as the question that the legislature was considering. So, those who were holding funding hostage were not just trying to ransom assumption, which they could get under different terms, but rather *immediate* assumption. As Madison wrote to James Monroe in July, “It seems, indeed, as if the friends of the measure were determined to risk everything rather than suffer that finally to fail.”<sup>64</sup>

What could possibly possess its advocates to do this? Madison hinted at the answer in a letter to Edmund Randolph in May:

The zealots for the Assumption of the State dbts. keep back in hope of alarming the zealots for the fedl. debt. I understand that another effort is to be made for the assumption. Motives are felt I suspect which will account for the perseverance.<sup>65</sup>

The last line of this passage is worth exploring in detail. Return to the *Vices*, where Madison argues that legislators are motivated by three concerns: political ambition, personal interest, and the public good.<sup>66</sup> What motives did Madison suspect would explain the zeal of the assumption advocates?

An obvious answer is, the interests of the debtor states. This would have been a species of ambition: Those who wished to climb further up the greasy pole of state politics were induced to press for assumption, and threaten dire consequences if it was not delivered. This was certainly a strong incentive, but Madison doubted its sufficiency. The three states that would benefit substantially from assumption were Connecticut, Massachusetts, and South Carolina—but

---

<sup>64</sup> JM to JMe, 4 July 1790, *PJM* 13.

<sup>65</sup> JM to ER, 19 May 1790, *PJM* 13.

<sup>66</sup> See JM, “Vices of the Political System of the United States,” April 1787, *PJM* 9.

Madison had hardly noticed a great agitation stemming from those state governments. In a speech on the House floor on April 22, he stated:

[W]hat evidence have we that there will be any great disappointment or discontents from a non-assumption? The legislature of the state of New-Hampshire have lately been in session; have they asked for this assumption? No; on the contrary, tho' they have not instructed their delegates to vote against it, it appears that it was thought of, and that the bulk of the members disapproved of it. The legislature of Massachusetts have been in session; they were apprized that this matter was under consideration, and yet there has been no declaration from them, as far as I know, that can induce us to believe they wish for it; on the contrary, it would appear from the measures they have taken to provide for the payment of their state debt, that they had proceeded on a supposition that an assumption would not take place. With respect to several other states, their legislatures have also been in session, and none of them, except South-Carolina, have made any declaration on the subject.<sup>67</sup>

Even if these states were in a hurry to have their debts assumed, that hardly accounted for the scope of the coalition. As Madison wrote to Monroe on April 17, “The Eastern members talk a strange language on the subject” of assumption, namely that it was integral to funding and even the stability of the union.<sup>68</sup> Which eastern members did he have in mind? Certainly those from Connecticut and Massachusetts, whose motives could—at least in part—be explained by state parochialism. But, as Madison noted in an April 13 letter to Henry Lee, “Mass. & S. Carolina with their allies of Connecticut & N. York are too zealous to be arrested in their pursuit, unless

---

<sup>67</sup> JM, Speech of 22 April 1790, *PJM* 13.

<sup>68</sup> JM to JMe, 17 April 1790, *PJM* 13.

by the force of an adverse majority.”<sup>69</sup> The parochial interests of New York were hardly at stake in assumption. The Empire State was not a major beneficiary of the program, which is why its House delegation split on the final vote. And what about the Pennsylvania delegation? In several diary entries, Maclay noted the ardor of assumption’s advocates in the Keystone State, even as its House and Senate delegations split on the matter. On February 22, he wrote:

Fitzsimons gave me notice of a meeting of the Pennsylvania delegation at his lodgings at six o'clock. I went. The ostensible reason was to consult on the adoption of the State debts, but the fact to tell us that they were predetermined to do it. Morris swore "By G— it must be done!" and Clymer, strange to tell, expatiated on the growing grandeur of Pennsylvania if it was done. Our roads would all be made and our communications all opened by land and water, etc.

These appeared strange words to me coming from that quarter.<sup>70</sup>

Strange words, indeed. Pennsylvania, like New York, would not reap much from assumption. So why would Morris insist “By G—it must be done!” when the alternative was for the national debt not to be funded at all?

If the parochial interests of politicians cannot account for this insistence, then neither can their solicitation for the general welfare. Naturally, one can assume the Hamiltonian position that assumption of the state debts was necessary to cement the union, but these “Eastern members” took matters much farther than that. They demanded an immediate assumption, before final settlement, or else there would be no funding whatsoever. There is no way to justify such strict terms by recourse to the national welfare.<sup>71</sup> Despite its craft and guile, even the “Foreigner” letter

---

<sup>69</sup> JM to Henry Lee, 13 April 1790, *PJM* 13.

<sup>70</sup> Maclay, *The Journal of William Maclay*.

<sup>71</sup> In theory, it is possible that the assumption advocates were bluffing. They would not actually have derailed funding, but merely threatened to do so to get both funding and assumption approved. Yet this is an extremely

admits this point by implication. The Dutch had been the nation's foreign creditors during the war; they were expecting a repayment; and it was essential that the United States make full and speedy provision for that expectation.

If public spiritedness cannot explain this insistence, and state parochialism explains at best a portion, what then is left? Per Madison, *only personal interest remains*. And here it is appropriate to return to the speculative activity of public officials. The Duer combine, which included prominent members of the government, had gone into the field in pursuit of state debt as soon as it received word that Hamilton planned to propose assumption. It was not alone—per Craigie, members had actually suspended debate on assumption so they could snatch up state paper before its holders knew any better. Yet assumption was too partial for the House to accept—and the measure went down to defeat on April 16, 29 to 32.<sup>72</sup> This was a disastrous blow for the speculators, many of whom had borrowed heavily to purchase state paper. Facing significant losses, and perhaps debtor's prison, they elected to hold the funding plan hostage to acquire assumption. This personal interest probably commingled with the parochial incentive for many members. Beard notes that many representatives and senators from the debtor states were

---

unlikely explanation. The final compromise was brokered only because the advocates of assumption allowed the new capital to be placed on the Potomac River. This was a real blow to the interests of the Mid-Atlantic, particularly Pennsylvania, as the primary alternative for the new government's site was on the Susquehanna River, near modern-day Harrisburg. Given that New Jersey, New York, and Pennsylvania gained little from assumption, but stood to lose from situating the capital outside their region, why would so many of their members endorse this compromise, if they were in fact willing to accept funding without immediate assumption? Why not instead try to compromise on the details of assumption, as Madison had offered at several points in time throughout the spring? That way, they could still get some version of assumption, and retain a shot at having the capital located in their region. That this was never seriously considered, and that instead the Mid-Atlantic representatives were locked arm-in-arm with the New England members, suggests other "certain motives," to borrow Madison's phrase, were at work. So also does the general refusal to compromise with Madison on *any terms whatsoever*—if they were willing to take funding without assumption, why not try to work out a deal with Madison, who himself had indicated a willingness to bargain. Relatedly, there is the testimony of both Jefferson and Maclay, as to the states of mind of Hamilton and Robert Morris, respectively. Both record in their personal diaries surprise at the alacrity Hamilton and Morris exhibited in their insistence on immediate assumption. Similarly, Madison notes a bemusing, persistent vehemence among assumption advocates. Could this have been a public-spirited bluff? Perhaps, but it was an exceedingly good one—in fact it would have been *too good*. Negotiations had altogether broken down by the time Hamilton was reduced to pleading with Jefferson to intervene.

<sup>72</sup> This vote is not available from Keith Poole's database, but Madison references in JM to JMe, 17 April 1790, *PJM* 13.

heavily speculating in the debt. In particular, Wadsworth of Connecticut is linked to the Duer combine, and Maclay noted in his diary on two separate occasions that he had sent emissaries southward.

Madison's tendency toward circumlocution meant that he never became a truly great polemicist, but it often enabled him to deliver a tart message with due discretion. Hence, the line to Randolph: "Motives are felt I suspect which will account for the perseverance." This was Madison's indirect way of telling Randolph that *private interest* was at work, at least in part. He made a similarly roundabout but unequivocal statement on the floor of the House on April 22. Wadsworth—who as noted above was deep in speculation—warned that "there will be a general clamor through all the eastern states against the national government" without assumption. This prompted a rebuke from Madison that, while carefully delimited so as not to offend the honor of the gentleman from Connecticut, nevertheless made perfectly clear that the gentleman from Virginia knew what was really going on:

I cannot finish my observations on this subject, sir, without adverting to one particular, which I would wish gentlemen to attend to, not so much for our sakes as their own. I would recommend to them no longer to assume a pre-eminence over us in the nationality of their motives; and that they would forbear those frequent assertions, that if the state debts are not provided for, the federal debts shall also go unprovided for; nay, that if the state debts are not assumed, the union will be endangered. .... I hope, sir, that whatever may be the decision on this question of assumption, that patriotism and every other noble and generous

motive will lead the minority to acquiesce in measures which will tend to establish public credit by a due provision for the public engagements.<sup>73</sup>

This is a classic example of Madisonian rhetoric: pointed and uncompromising, yet phrased in a sufficiently serpentine way to keep from prompting a rebuke from the interlocutor. The minority, of course, had no intention to acquiesce, because they lacked the “patriotism and every other noble and generous motive” requisite to do so. By necessity, they must have been motivated by base and selfish passions—but which ones? Two months earlier, Madison already cast public doubt on the sufficiency of ambition as the answer. That left just one: personal interest, namely speculative greed.

For his part, Maclay was characteristically blunt in his diagnosis. On June 6, he wrote in his diary:

The Funding bill, the basis on which speculation has built all her castles, is now to come before us; and woe to him who says a word in favor of the country. Load the ass; make the beast of burden bear to the utmost of his abilities. I am really convinced that many a man has gone into the martial field and acquitted himself with gallantry and honor, with less courage and firmness than is necessary to attack this disposition in our Senate.

On July 17, he wrote of a “general belief that the assumption was forced on us to favor the views of speculation,” but added “nor have the members themselves kept their hands clean from this dirty work. ... [F]rom henceforth we may consider speculation as congressional employment.”<sup>74</sup>

As the spring continued, Madison’s correspondence with his Virginia allies registered growing alarm over assumption. He expressed a guarded optimism in April, when he narrowly

---

<sup>73</sup> JM, Speech of 22 April 1790, *PJM* 13.

<sup>74</sup> Maclay, *The Journal of William Maclay*.

defeated the measure, yet his confidence waned as the weeks wore on and the assumption zealots refused to yield. He concluded a May 25 letter to Beverley Randolph, the governor of Virginia, by warning, “We had flattered ourselves that the project of assuming the State debts was laid aside, at least for the present Session....but the zeal & perseverance as well as the number of its advocates, require that we should not be too sanguine in our calculations.”<sup>75</sup> Two days later, he wrote his brother Ambrose that “[T]he project of assuming the State debts is revived & likely to employ further time. I hope we shall be able to defeat it, but the advocates for it are inconceivably persevering as well as formidable in point of numbers.”<sup>76</sup> On June 17 he indicated the impending defeat of his position in a letter to Monroe. Assumption, he averred, “still hangs” on Congress, and “has benumbed the whole revenue business.” The advocates of assumption were so insistent on holding up funding that Madison suspected “it will yet be unavoidable to admit the evil in some qualified shape.”<sup>77</sup> What else was he to do? The funding plan *had* to be implemented—if not for the domestic debt than certainly the international debt—but the assumption partisans would have it no other way.

This is the context for understanding the Compromise of 1790, as well as Jefferson’s account of Hamilton’s strange demeanor before the final deal was brokered:

Going to the President’s one day I met Hamilton as I approached the door. His look was sombre, haggard, and dejected beyond description. Even his dress uncouth and neglected. He asked to speak with me. We stood in the street near the door. He opened the subject of the assumption of the state debts, the necessity of it in the general fiscal arrangement and it’s indispensable necessity towards a preservation of the union: and particularly of the New England states, who had

---

<sup>75</sup> JM to ER, 19 May 1790, *PJM* 13.

<sup>76</sup> JM to Ambrose Madison, 27 May 1790, *PJM* 13.

<sup>77</sup> JM to JMe, 17 June 1790, *PJM* 13.

made great expenditures during the war, on expeditions which tho' of their own undertaking were for the common cause: that they considered the assumption of these by the Union so just, and it's denial so palpably injurious, that they would make it a sine qua non of a continuance of the Union. That as to his own part, if he had not credit enough to carry such a measure as that, he could be of no use, and was determined to resign.<sup>78</sup>

This passage was likely written two or three years after the fact, and given Jefferson's inclination to shape his memories of events according to his ideological categories, it is advisable to approach his accounts with caution. Still, Elkins and McKittrick conclude, "there really is no better shorthand for what happened than the story told by Thomas Jefferson."<sup>79</sup> Chernow does not outright endorse it, but quotes a similar passage from the introduction to the *Anas* in a favorable way.<sup>80</sup> As modern scholars have generally accepted this narrative, it is worth adding that, by way of a preface to this exposition, Jefferson claimed that the eastern members who threatened the dissolution of the Union "were the principal gamblers in these scenes" (gamblers being a common synonym for speculators in the Virginian lexicon).<sup>81</sup> Thus, Jefferson is suggesting, at least after the fact, what Maclay's diary flatly stated and Madison's public and private pronouncements implied: speculation was at the heart of the stalemate over assumption.

In the introduction to the *Anas*, Jefferson places Hamilton at the head of this outfit, looking to rake up ever more debt as "plunder for his mercenaries."<sup>82</sup> But the portrait that he paints here is of a Hamilton who is decidedly not in control. Per Jefferson, Hamilton describes the bind he is in as stemming solely from the debtor states, but as noted above, that hardly

---

<sup>78</sup> Jefferson, "Account of the Bargain on the Assumption and Residence Bills," ca. 1792, *PJM* 17.

<sup>79</sup> Elkins and McKittrick, *The Age of Federalism*, 156.

<sup>80</sup> See Chernow, *Alexander Hamilton*, 327-328.

<sup>81</sup> TJ, "Account of the Bargain on the Assumption and Residence Bills," ca. 1792, *PJT* 17.

<sup>82</sup> TJ, "Explanations of the 3. Volumes Bound in Marbled Paper," *WTJ* 1.

explains the entirety of the situation. The full truth is that state parochialism combined with financial self-interest to threaten not only the nation's credit, but the union itself, and Hamilton had simply run out of options. He had no choice but to plead with Jefferson to persuade the Virginians (namely, Madison), to yield. Madison, as indicated in his letter to Monroe, was by this point already prepared to do so, for he knew full well the consequences of failing to make provision for the national debt.

And what of the final deal, the exchange of assumption for the capital? It is not so much that Madison extorted the capital from Hamilton, but that the speculators extorted immediate assumption from Madison. The capital was a consolation prize for a deal that he felt he had no choice but to accept, regardless of the partiality of the measure. As he told Monroe in late July, the compromise was far from a triumph, but rather “an unavoidable evil, and *possibly* not the worst side of the dilemma.”<sup>83</sup> Note Madison's hyperbolic use of italics. The alternative to the compromise was the ruin of the national credit and possibly dissolution of the union, so it was *certainly* not the worst side of the dilemma. Rather, Madison signaled how bitterly disappointed he was with the whole affair. That he was willing only to cease his active opposition to assumption on the House floor, not actually to vote in its favor, underscores how offended he truly was. Indeed, the final compromise won just two members from the Virginia delegation—whose districts both bordered the Potomac River—suggesting that most of the Old Dominion still thought it had been roundly mistreated.

As for Hamilton, his strategy to join the interests of the moneyed class to the general welfare almost backfired in this situation. In fact, he inadvertently predicts this outcome in the *Report on Public Credit*. Recall from Chapter Two the final item in Hamilton's enumeration of the arguments for assumption—avoiding retaliation by owners of state securities. He writes:

---

<sup>83</sup> JM to JMe, 25 July 1790, *PJM* 13.

Should the state creditors stand upon a less eligible footing than the others, it is unnatural to expect they would see with pleasure a provision for them. The influence which their dissatisfaction might have, could not but operate injuriously, both for the creditors, and the credit, of the United States.

Hence it is even the interest of the creditors of the union, that those of the individual states should be comprehended in a general provision. Any attempt to secure to the former either exclusive or peculiar advantages, would materially hazard their interests.<sup>84</sup>

This turned out to be exactly what happened, although it was Hamilton himself who made it so. With advance warning of the assumption plan, the moneyed class plunged relentlessly into speculation in state certificates, under the bullish hope that the measure would pass speedily, but they underestimated the breadth of opposition, and especially Madison's facility in organizing it on the House floor. Left with no alternatives but assumption or personal ruin, the interests of the speculators reinforced the parochial orientation of members from the debtor states to create a coalition insisting either on immediate assumption or national ruin. They thus became the antirepublican party that Madison would warn about: emboldened by Hamilton's political economy, empowered by their inside information and friends spread throughout government, they employed clamors and combinations to ransom the national credit for a handsome payday for themselves.

And there was nothing Hamilton could do about it, except plead with the Virginians to desist. Given the age-old conclusion that Madison's opposition to the *Report on National Credit* marked the termination of his "nationalist period," it is ironic that Hamilton ultimately had to hope that Madison's nationalism would induce his nemesis to yield. In this instance, the

---

<sup>84</sup> AH, "Report on Public Credit," 9 January 1790, *PAH* 6.

secretary bet wisely. While many members placed their state's parochial concerns, or worse yet their own speculative endeavors, above the general welfare, Madison's commitment to the public interest was steadfast: with his tacit blessing, assumption was passed, the capital was situated on the Potomac, and the Republican Party, in that moment, was truly born.

### **The Panic of 1792**

As discussed in Chapter Two, Madison disagreed with the entirety of Hamilton's program, thinking it was too partial. But that hardly required him to terminate his collaboration with the Treasury secretary. And at first blush it seems out of character, for he generally was a pragmatic statesman, prepared to make deals with people he otherwise did not agree with on all matters. For instance, Madison disagreed with Robert Morris on the propriety of the Bank of North America, and he acknowledged the possibility that Morris had been lining his own pockets while financing the war—but he nevertheless understood that, *on balance*, Morris's presence in the government was a blessing.<sup>85</sup> Likewise, he had disliked the handful of protective provisions placed in the Tariff of 1789, but had enthusiastically supported the measure. His vigorous defense of the Constitution, despite his disappointment with many aspects of it, testifies to this as well.

Madison's enduring breach with Hamilton can be understood only by an appreciation of the nature of the public debt in 1790—specifically, how Hamilton proposed to deal with the debt, and the reaction that prompted among the public creditors. This was a period when hard currency, or specie, was in terribly short supply, when financial institutions were basically nonexistent outside Boston, New York, and Philadelphia, and when a seemingly endless stream of heavily depreciated state and national currencies were circulating. The most important object

---

<sup>85</sup> See Footnote 81 in Chapter One.

Hamilton had in mind with his program was to use government debt as the foundation of a national financial system, by turning government debt certificates into money. This was an ingenious solution to the problems plaguing national finance, but for the holders of government paper the implications hit much closer to home, for the secretary of the Treasury intended to decide how much they were actually worth.

Madison agreed with Hamilton to a large extent. He thought the foreign creditors deserved to be paid in full, and he ultimately acquiesced to the full repayment for domestic holders of national debt. Where Madison balked was the assumption of state debts. This, in his judgment, was enlarging the portfolios of the public creditors *at the expense* of fiscally responsible states like Virginia. But that was not all. Madison saw in the “clamours and combinations” of the debt holders—many of whom were either in government, or closely allied to the government—a quiet, relentless conspiracy to maximize their bounty at the expense of the rest of the nation. *Most* of Hamilton’s debt program, in Madison’s estimation, was good, or at least tolerable. He objected to perhaps ten percent of it—insisting that assumption should be held off until the final settlement of accounts. On this item, he had a legitimate point about fairness, and in point of numbers a large majority of the country stood to gain nothing directly from assumption. But it did not matter. Hamilton’s assumption had steadfast allies in government not only because it was good for the people, but because it would line their own pockets. In effect, those legislators voted to make themselves very wealthy at the expense of their taxpaying constituents back home, who stood to receive very little directly from assumption (and who would still have enjoyed the secondary benefits of assumption after a final settlement of accounts).

The assumption plan had substantial second-order effects. Maclay was right in more ways than he intended when he wrote in his diary that assumption was “the basis on which speculation has built all her castles.” Hamilton’s system not only transformed debt certificates into money, but effectively increased the money owned by speculators. This bounty was compounded by the terms by which one could acquire stock in the Bank of the United States. Each share cost \$400, with 25 percent to be paid up front, and just 25 percent of that to be paid in cash; the rest was deliverable in the form of government paper. The result was that for just \$25 in hard currency, one would receive a “scrip,” or a guaranteed option to own a share of Bank stock.<sup>86</sup> As everybody expected that the Bank would be profitable—after all, it had the backing of the government, was the holder of federal tax revenues, and was the sole financial institution with a national charter—Hamilton made those who had the sense (or inside information) to purchase government debt before 1790 *all the wealthier*. Debt certificates bought for pennies on the dollar in 1789 were, by 1791, not only redeemable by the government at full face value, but also as good as cash for buying stock in a guaranteed moneymaker.

Little wonder that the subscriptions were quickly filled, a secondary market for scrip blossomed, and a mania eventually developed. As Madison put it to Jefferson on July 11, “It seems admitted on all hands now that the plan of the institution gives a moral certainty of gain to the Subscribers with scarce a physical possibility of loss.”<sup>87</sup> In an August letter to Madison, Henry Lee described the frenzy he witnessed as, “one continued scene of stock gambling; agriculture, commerce, & even the fair sex relinquished, to make way for unremitting exertion in this favorite pursuit.”<sup>88</sup>

---

<sup>86</sup> See Channing, *A History of the United States*, 93, and Holdsworth and Dewey, *The First and Second Banks of the United States*, 22-23.

<sup>87</sup> JM to TJ, 10 July 1791, *PJM* 14.

<sup>88</sup> Henry Lee to JM, 24 August 1791, *PJM* 14.

Naturally, Duer was at the center of this vortex, having resigned from the Treasury Department the previous spring, just as the assumption battle was hitting a fevered pitch. Hamilton had accepted the resignation “with regret,” but added tellingly, “I confess, too, that *upon reflection* I cannot help thinking you have decided rightly.”<sup>89</sup> Now outside the government, Duer was free to fully employ his extensive knowledge of Hamiltonian finance to his speculative endeavors, and by the end of July had acquired 355 scrips for a price ranging between \$133 and \$138.50. His bullish activity was integral to inflating the price of government paper out of all proportion to its value.<sup>90</sup> By early August, scrip was trading for roughly \$300, but on August 11 its forward momentum stalled, and thereafter the price of scrip began to plummet.<sup>91</sup> King told Hamilton that the reason had to do with rumors of the secretary’s opinion:

It can scarcely be believed that these gentlemen have any foundation for their assertions, but the fact will suggest to you the utmost caution on this subject. I know you must have regretted the late extravagance, but at the present juncture, the most unfair advantage may be made of your remarks, and consequences ruinous to individuals, and quite foreign from your wishes, may proceed from them.<sup>92</sup>

Hamilton responded by telling King that he thought the proper price was \$195, arguing that “a bubble connected with my operations is of all the enemies I have to fear, in my judgment, the most formidable.”<sup>93</sup>

---

<sup>89</sup> AH to William Duer, 4–7 April 1790, *PAH* 6.

<sup>90</sup> See Jones, *The King of the Alley*, 169.

<sup>91</sup> It is hard to get a read on the exact high quote. Davis pegs it at \$280, Hammond at “\$300 or more” and Jones at \$320 (Davis, *Essays in the Earlier History of American Corporations*, 202–03; Hammond, *Banks and Politics in America*, 123, and Jones, *The King of the Alley*, 169.).

<sup>92</sup> Rufus King to AH, 15 August 1791, *PAH* 9.

<sup>93</sup> AH to Rufus King, 17 August 1791, *PAH* 9.

Given that Hamilton would not offer Lee any inside information regarding the funding plan in December 1789, citing the desire to avoid even the “suspicion” of “an impropriety,” this letter to King is significant.<sup>94</sup> As noted above, the New York senator was heavily involved in speculation, and had many associates who were as well. He was possibly involved in the Constable-Craigie-Duer-Morris-Morris-Wadsworth scheme of 1789-1790, and was at the least *invited* to join the group, indicating an intimacy with its members and a level of comfort with those sorts of activities. Thus, the secretary offered inside information to a key operator, something he explicitly refused to do nearly two years prior. Moreover, Hamilton told King his opinion on the proper price of scrip in response to King informing him of rumors about the secretary’s opinion, implying that Hamilton expected King to spread this information around to quiet the murmurs.

And Hamilton went further than this. On August 15, he publicly informed Seton that the trustees of the sinking fund wanted the BNY to purchase \$150,000 worth of debt on the fund’s behalf.<sup>95</sup> Privately, Hamilton explained to Seton that the purpose of this purchase was to stabilize the market “to keep the Stock from falling too low in case the embarrassments of the dealers should lead to sacrifices; whence you will infer that it is not my wish that the purchases should be below the prescribed limits.” Hamilton concluded, “If there are any Gentlemen who support the *funds* and others who *depress* them, I shall be pleased that your purchases may aid the *former*. This in great confidence.”<sup>96</sup> The stated purpose of the sinking fund, of course, was to retire the debt, not to prop up the debt market by buying from the bulls. But Hamilton was left with little alternative. His monetary program was premised upon the debt functioning as currency, which required it to retain a stable price level at or above par value. Duer, aware of

---

<sup>94</sup> AH to Henry Lee, 1 December 1789, *PAH* 6.

<sup>95</sup> See AH to William Seton, 15 August 1791, *PAH* 9.

<sup>96</sup> See AH to William Seton, 16 August 1791, *PAH* 9.

Hamilton's desire to maintain such prices, plunged into the market as a relentless bull, creating a bubble that had popped. Hamilton had no choice but either to support the bulls (including Duer), or risk his monetary scheme.

Hamilton then reached out to Duer, with a missive mostly dedicated to talking the permabull down:

The conversation here was—"Bank Script is getting so high as to become a bubble" in one breath—in another, "'tis a South Sea dream," in a third, "There is a combination of knowing ones at New York to raise it as high as possible by fictitious purchases in order to take in the credulous and ignorant"—In another "Duer Constable and some others are mounting the balloon as fast as possible—If it dont soon burst, thousands will rue it" &c &c. ...

I will honestly own I had serious fears for you—for your *purse* and for your *reputation*, and with an anxiety for both I wrote to you in earnest terms. You are sanguine, my friend. You ought to be aware of it yourself, & to be on your guard against the propensity. ...

Yet Hamilton could not resist providing Duer with the same information he offered King: "I do not widely differ from you about the real value of Bank Script. I should rather call it about 190 to be within bounds with hopes of better things, & I sincerely wish you may be able to support it at what you mention."<sup>97</sup> Chernow takes Hamilton to task for this note, arguing that he "compromised himself by tipping his hand and suggesting to Duer an appropriate price for bank stock."<sup>98</sup> It is unclear why this is any more of a "compromise" than the provision of information to King—for in both instances Hamilton violated the commitment to indubitable probity he so

---

<sup>97</sup> AH to William Duer, 17 August 1791, *PAH* 9.

<sup>98</sup> Chernow, *Alexander Hamilton*, 359.

flatly stated to Lee some 20 months prior.<sup>99</sup> And the difference between King and Duer was fairly insubstantial. Both were heavily invested in government paper, both had lots of friends similarly situated, and the provision of such information by Hamilton to both was bound to travel far and wide.

That seems to have been precisely the point, and Chernow overlooks the real bind that Hamilton was in. A lot had changed since December 1789 when Hamilton had told Lee, in so many words, to go pound sand. The secretary's plan was to cement a bond between the moneyed class and the government. He had now done so, and was discovering that the relationship was not quite what he had anticipated. He had staked the future of the government on the stability of the debt market, and by implication the well-connected speculators like Duer who dominated it, so he was *obliged* to stabilize it. He could not allow the price for government securities to collapse, as his monetary system depended on them trading at a stable value with little or no discount. He therefore had to support those who kept the prices high. He reached out to King because—as a New York senator, Hamiltonian loyalist, and man with extensive holdings—he could convey the secretary's opinion far and wide. He reached out to Duer for exactly the same reason—Duer was one of the most prominent speculators, and as a former government official his actions were carefully observed. That he instructed Seton to use the sinking fund to calm the market by buying from the bulls, despite the fact that this was not its stated purpose, shows the extent of his commitment. And that all of this runs contrary to his above-the-fray approach to Lee suggests that Hamilton had, in a sense, become bound to the moneyed faction that he intended to bind.

---

<sup>99</sup> See AH to Henry Lee, 1 December 1789, *PAH* 6.

As it turned out, Hamilton's summer efforts only facilitated the bubble. Per Chernow, "Hamilton's letter could only have emboldened Duer."<sup>100</sup> In fact, Davis finds that one of the people from whom Seton bought certificates was Duer himself, who sold \$14,000 in deferred debt on August 17 and another \$39,000 on August 27. According to Davis, "Duer was very likely a gainer by the whole operation, for the level maintained after the break was distinctly higher than before the boom."<sup>101</sup> This should come as no surprise. As noted above, the success of Hamilton's system depended upon confidence in the value of government debt, so Hamilton was obliged to assist the bulls when the market turned downwards.

Little wonder that Duer, whom Hamilton rightly pegged as sanguine, entered the field once again. In December, Duer and Macomb formed a private partnership for "making speculations in the Debt of the United States." This was the basis of a combine that would come to be known as the "Six Percent Club," in reference to a particular debt certificate.<sup>102</sup> Their strategy was to increase the price of debt certificates and eventually corner the market, although the ultimate purpose has been lost to history. Some speculated that Duer and Macomb wanted to increase the price of debt prior to the second payment due for Bank stock, while others suspected that the goal was to sell the debt to foreigners. There may have been no fixed plan at all—the Scioto Company took on many forms during its existence, and Duer's speculative endeavors in government paper from 1788-90 had a zigzag trajectory. At any rate, they plunged into the venture with vigor, exhausting every possible line of credit, even borrowing from shopkeepers and widows. The bubble quickly reinflated, and began spreading into other areas of financial

---

<sup>100</sup> Chernow, *Alexander Hamilton*, 360. Jones argues that Hamilton's "aid" had "possibly allowed him to recover much faster" (Jones, *The King of the Alley*, 172.).

<sup>101</sup> Davis, *Essays in the Earlier History of American Corporations*, 360.

<sup>102</sup> See Channing, *A History of the United States*, 102.

activity. In January 1792 no fewer than three banks were proposed to be chartered in New York City.

Hamilton viewed this speculative excess with alacrity, writing Seton that, “These extravagant sallies of speculation do injury to the Government and to the whole system of public Credit, by disgusting all sober Citizens and giving a wild air to every thing.” This comment anticipates the worries of Alan Greenspan about the “irrational exuberance” of the Dot-com bubble. Hamilton was caught on the horns of a dilemma. He was dependent upon the bulls to keep the price of government securities at or near par value, but “extravagant sallies of speculation” were just as dangerous to his program, which above all required *stable prices*. Instability in the market—be it bullish *or* bearish—would undermine his goal of transforming debt certificates into a reliable circulating medium. So just as Hamilton was obliged to bail out the bulls several months prior, now he was hoping to calm them down.

What happened next is a matter of some historical dispute. Chernow argues that Hamilton responded by instructing Oliver Wolcott, Jr. to make a move against Duer for money that the latter owed the government, thereby communicating publicly that Duer’s days were numbered.<sup>103</sup> However, Robert Jones argues that this conclusion is wrong, and provides a more compelling case. Treasury had been pushing Duer to settle his accounts for years, and Wolcott, as a semi-judicial official, was empowered to act outside the secretary’s purview. Davis claims it was actually the friendly relationship between Duer and Treasury that induced a delay in settling the accounts, a sin of omission that “deserves naught but condemnation.” Davis goes on to speculate that Wolcott acted precisely because he realized that the end for Duer was nigh, and wanted to

---

<sup>103</sup> It was not uncommon during this period for government officials with access to public funds to borrow them for personal use—provided that they pay back the loans in a timely fashion. Duer borrowed extensively from the Treasury Board, but had failed to pay the government back, prompting the formal request from Wolcott. As outlined below, Duer also borrowed from the SUM, and, failing to make any repayments, forced Hamilton to go to Seton for emergency funds.

secure the money Treasury was owed, not because Hamilton encouraged him to stop the expansion of the bubble.<sup>104</sup>

At any rate, when Wolcott moved against Duer, speculators took it as a signal that the latter was in over his head, would no longer be purchasing more debt, and would probably be forced to liquidate his holdings. As such, the prices for government securities began to sink like a stone. Duer could not meet his maturing obligations, so he failed, Macomb quickly followed, and both wound up in debtor's prison. These two had been the principal agents driving the price upward, so their collapses created a sharp, downward spiral for the price of debt. The result was the first financial panic of the new nation, as owners of public debt—no longer certain about its true value—began to unload their holdings, driving the price downwards and creating even more confusion. Hamilton instructed Seton to use the sinking fund to purchase another \$100,000 worth of securities, and privately connected it to the fear that was gripping New York.<sup>105</sup> This time, Hamilton's plan worked—perhaps because the panic finished Duer and Macomb off for good, and nobody else was so bullish to try such a reckless maneuver.

Hamilton went further than this. Duer, as noted above, had been selected to head the SUM, and had borrowed from it for his speculative endeavors with Macomb. This was a real blow; if the failure of Hamilton's friend and former Treasury assistant prompted the collapse of his pet project, it would embolden the secretary's critics, threaten his political economy, and perhaps even his position in the government. Hamilton privately encouraged Duer to give "peculiar regard" to repayment to the SUM, but Duer was totally ruined and could do nothing

---

<sup>104</sup> See Chernow, *Alexander Hamilton*, 381-382; Jones, *The King of the Alley*, 177; and Davis, *Essays on the Earlier History of American Corporations*, 292.

<sup>105</sup> See AH to the President and Directors of the Bank of New York, 12 April 1792, *PAH* 9, and AH to William Seton, 12 April 1792, *PAH* 9.

but sit in debtor's prison.<sup>106</sup> Thus, Hamilton was forced to ask Seton for a \$10,000 loan to the SUM, adding, "To you My Dear Sir I will not scruple to say *in confidence* that the Bank of New York shall suffer no diminution of its *pecuniary faculties* from any accommodations it may afford to the Society in Question. I feel my reputation much concerned in its welfare."<sup>107</sup> The context here is crucial. Hamilton had opposed the establishment of a branch of the Bank of the United States in New York, meaning that Seton's BNY was still a depository for federal revenues, at least so long as Hamilton continued to forbear. In other words, the BNY *owed* Hamilton this consideration. Seton quickly responded with a promise of aid, and from that point forward could rely on Hamilton's loyalty to the BNY.<sup>108</sup> There is no other conclusion but that Hamilton breached the public trust in this striking document: he used his authority to call in a favor with a private bank (a favor he was owed because he had the power to endanger them with a New York branch of the Bank of the United States) to protect a company dear to his heart.

All told, Hamilton's behavior was hardly sterling. He certainly misused his authority regarding Seton and the SUM; his behind the scenes maneuvering with King and Duer was contrary to the probity he demonstrated toward Lee; and he never told Congress that the sinking fund would be used as a backstop for speculators. But what else was Hamilton to do? He had linked his fate, and for that matter the fate of the national government, to the moneyed class: Public debt could serve as the national currency only insofar as it retained a stable price, which meant that the country required the primary holders of that debt to maintain it at such a level. To an extent, the moneyed class was obliged to Hamilton, just as he predicted, having won an enormous bounty from his assumption and funding plans; but to another extent *he was obliged to them*, for he needed them to keep the prices of public securities within a certain trading range.

---

<sup>106</sup> AH to William Duer, 23 March 1792, *PAH* 9.

<sup>107</sup> AH to William Seton, 25 May 1792, *PAH* 9. Emphasis in original.

<sup>108</sup> See Davis, *Essays on the Earlier History of American Corporations*, 420-421.

Like the assumption fight, then, the events surrounding the Panic of 1792 are understandable through Madison's framework of corruption. By transforming the various forms of government paper into the main circulating media of the nation, Hamilton's political economy favored the small group of financiers into whose hands they were concentrated. Combined with their close relationships to government officials and detailed knowledge of government processes, they endeavored to use their bounties to enrich themselves *further*, at the expense of the public interest: in 1790 the holders of state paper induced Congress to pass assumption, lest the national debt not be funded; in 1791 the Duer-Macomb combine forced inside information out of Hamilton, and eventually two bailouts from the sinking fund (although they were too deep in debt to be saved by the second one). In both cases, those whose economic interests were blessed by the partiality of Hamilton's program acquired a kind of political power. They did this even as the laws remained nominally the same; their power stemmed from what Madison had called the "clamours and combinations" of the "praetorian band" of the government. At least with the assumption plan, there was a compromise that resolved the matter and, in the long run, had the effect that Hamilton intended. The Panic of 1792 dealt a needless, though moderate blow to the young nation's economy, and induced Hamilton to betray the ethos of propriety that otherwise defined his public career.

## **Conclusion**

By the end of 1792, Madison and Jefferson faced what they viewed as a profound dilemma. Granted, their effort to oust Adams from the vice presidency had generated enough electoral college support for George Clinton—an old foe of Hamilton—that the Republicans could claim a symbolic victory, and they enjoyed a slight House majority heading into the Third

Congress. Regardless, the Hamiltonian system was by this point entrenched, and in Jefferson's retrospective judgment was breeding a "monarchy bottomed on corruption."

As argued above, Madison and Jefferson's characterization of Hamilton was off the mark. The truth is that he was neither a monarchist nor personally corrupt. Moreover, Hamilton's views about the utility of influence were well within the range of legitimate thinking for the period.<sup>109</sup> Still, the Republicans had struck upon an important insight. Over his decade working as a legislator, Madison had seen the pernicious influence that partiality could have upon the government: factions that sensed an opportunity to receive special benefits from the government were prone to organize themselves, and if their interests overlapped with legislators, they could reap bounties at the public expense; meanwhile, factions that had already acquired some benefit from the government could later use it to influence the future course of public policy, even if it was not good for the general welfare. In Madison's judgment, these were examples of *corruption* of the republican form of government. A republic is supposed to be responsive to the people, and work for their interests; but in these cases, narrow factions acquire power to enrich themselves at the benefit of the whole.

Such problems are, per Madison, endemic to government—for "the latent causes of faction are . . . sown in the nature of man." Still, the "great desideratum" of government, in his view, is to find a way to "break and control" these tendencies.<sup>110</sup> He thought that Hamilton's program was actually encouraging them—and, in a sense, Hamilton thought so, too; the

---

<sup>109</sup> The debate at the Constitutional Convention on June 22, 1787 is illustrative. Hamilton was not alone in arguing for the utility of executive influence over the legislature. The specific issue had to do with whether the president could appoint members of the legislature to executive positions. Rufus King and James Wilson worried that this would, in the words of King, "discourage merit," especially, per Wilson, "in time of war." Hamilton approached this from a different angle, drawing on Hume to argue that such a power would give the executive influence to preserve "the equilibrium of the Constitution." Nathaniel Ghorum of Massachusetts agreed, admitting, "It was true abuses had been displayed in (Great Britain) but no one could say how far they might have contributed to preserve the due influence of the Government nor what might have ensued in case the contrary theory had been tried" (JM, *NDFC*, 174-175.).

<sup>110</sup> Madison, *The Federalist* Number 10, *PJM* 10.

difference is that Hamilton reckoned he could conjoin these passions to the general welfare. As illustrated in this chapter, he failed in two crucial instances, both of which (perhaps not coincidentally) created the greatest political crises of the new republic. The speculators and their friends in government, tipped off about Hamilton's assumption plan, ventured into the market for state debts; after Madison's clever legislative maneuvering threatened to skunk their schemes, they essentially held the national debt hostage, forcing Madison to grant them their windfall. A year later, the leaders of the same clique plunged relentlessly into the debt market; because Hamilton had linked his fate to their own, he was obliged to bail them out, which only encouraged another mania, a second bailout, and a breach by the secretary of his otherwise ironclad rules of personal conduct.

Madison had dealt with partiality and corruption during his tenure in the Confederation Congress and the Virginia legislature—but never before did he witness these problems in such an outrageous form. The private letters between Madison and his allies are extraordinary documents to read: more than 200 years later, their fear is still palpable. Everything they had won in the Revolution seemed to be slipping right through their fingers, into the waiting hands of the stockjobbers. Historians have struggled to reconcile Madison's sober nationalism of the 1780s to his hyperbolic partisanship in the 1790s—this rampant corruption, bottomed on policies he considered deeply unfair, is the answer. He thought the power of the people was being seized by a band of speculators, and while he wrongly fingered them as monarchists, he was right to infer that the events of 1790-1792 signaled a shift in political power, and accordingly a threat to the republic.

Thus, the tension inherent to *Hamilton's* political philosophy is manifest here. It is often averred that Madison's thinking is problematic, and no doubt that is true (as will be discussed

next chapter), but the corruption driving the assumption fight and the Panic of 1792 suggests that Hamilton's vision of harmonization would be much harder to realize in practice than it was for him to outline in theory. The truth is that Hamilton simply lacked the power to corral these factions in all circumstances, and that his partial distribution of policy benefits ultimately disrupted power relations in the government, much his chagrin, while his political economy was highly nationalistic, facilitating the accumulation of wealth necessary to bring America into the first rank of nations, it was also dangerously antirepublican in crucial moments.

Though he mistook Hamilton to be a monarchist, Madison understood this, in his way. Still, he never elaborated an alternative political economy that developed the nation without threatening the republican principles of the Revolution. And so, if Hamilton's brief period atop the national government illustrated the limits of his approach, the tenure of the Virginia Dynasty would illustrate a commensurate limitation in Madison's thinking. Too insistent on republican probity, he and Jefferson allowed the project of national development to languish, and when the time came in 1812 to assert American independence once again, the nation was badly unprepared.

## CHAPTER FOUR

### “The Lights of Experience”: The Republican-Federalist Synthesis

#### Introduction

Writing in *Federalist* 10, Madison argues that minority factions can be defeated “by the republican principle, which enables the majority to defeat its sinister views by regular vote.” While such a minority “may clog the administration” and “convulse the society,” it will not be able to “mask its violence under the forms of the Constitution.”<sup>1</sup> But by 1791 it seemed to him as though the Hamiltonian party was doing precisely that. Though the secretary’s program (in Madison’s judgment) had been unfair in how it dealt with assumption, and though it was actively facilitating corruption, Hamilton was still in charge of the Treasury department. The rule of the majority had not vindicated the republic from an avaricious minority faction, at least not yet.

What the people needed was a nudge in the right direction, and to accomplish this task, Madison and his allies developed the first party to resemble the modern form—in the electorate, in the government, and an organization to connect all the pieces together. At the core of this new “Jeffersonian Democracy” was the sovereignty of what Madison called “public opinion:” Hamilton’s notion of a handful of elites controlling the main levers of power was rejected, and

---

<sup>1</sup> JM, *The Federalist* Number 10, *PJM* 10. “Violence” is an important word in *Federalist* 10, and Madison has a double meaning for it in that essay. Factionalism distorts and undermines republican governance, and thus does “violence” to it, albeit not in a physical sense. But *Federalist* 10 was written just two years after Shays Rebellion, which *was* violent in a physical sense, and Madison had written previously about the “cruelty” of British monarchs, which evokes the idea of physical violence toward their British subjects. When he opens the essay by discussing the “violence of faction,” he probably has *both* meanings in mind. His audience—the newspaper-buying public in New York in 1788—would surely have taken it as such. With the reference to “mask(ing) . . . violence,” he has a non-physical type of violence in mind, for physical violence can hardly be masked, regardless of the particular form of the Constitution. He makes a similar claim in *Federalist* 39, where he warns about “tyrannical nobles, exercising their oppressions by a delegation of their powers,” claiming “for their government the honorable title of a republic” (JM, *The Federalist* Number 10, *PJM* 10.). Such nobles may not necessarily be engaging in physical violence, but they are doing violence to republicanism, in the sense of distorting and undermining its principles for their own ends.

the people—acting through the Republican Party, an extraconstitutional device that just a few years prior would have been viewed with extreme skepticism—would reign supreme.<sup>2</sup>

Of course, if the Republican Party was to represent the people, it had to take responsibility for their welfare, and thus for the project of republican nationalism. While the Republicans could cite chapter and verse from *Cato's Letters*, they never developed an alternative political economy to the Hamiltonian system, a way to bind the nation together while respecting the republican principles they had vindicated in the “Revolution of 1800.” During Jefferson’s first term, British maritime forbearance gave the illusion that the tension had resolved itself, but this changed with the Orders in Council of 1807, which set off a diplomatic crisis culminating in the War of 1812, a conflict for which the country was badly prepared. Though the United States emerged on the other side of the war mostly unscathed, the Republicans were alarmed, and resolved to prioritize national development like never before.

To this end, they came to do what once would have been unthinkable: they embraced Hamilton’s political economy—the very notions that, just 20 years earlier, they had blasted as dangerous to republican governance. Granted, they did so in a modest form, and in a way they did manage to blend sensibly Republicanism and Federalism to advance the project of republican nationalism. The Tariff of 1816 was mild in its scope, balanced in its distribution of benefits, and nationalistic in its purpose. The government’s pursuit of internal improvements was strictly conditioned by the mandate that each project be manifestly in the national interest, and not merely a payoff to some local constituency. And the Second Bank was modeled after the Bank, which had performed ably and fairly during its twenty-year existence. A quarter-century prior, Hamilton had offered grand visions for how the government would deal with the debt, charter a national bank, and protect manufacturing. While the Republicans borrowed liberally from his

---

<sup>2</sup> JM, Public Opinion, 19 December 1791, *PJM* 14.

ideas, their project was much more moderate in spirit, and its distribution of benefits was more balanced among economic and geographical factions.

Still, the about face was noteworthy, and the Republicans naturally felt obliged to explain themselves, and in so doing leaned heavily upon their egalitarian impulses. To circumvent their prior constitutional argument against the Bank, they decided that, if the public and its leaders had judged, over a generation, that a certain measure was constitutional, it could indeed be constitutional. To deal with the problem of partiality, the Republicans expanded, quite dramatically, the number of factions to serve as mediators of the general welfare. Whereas Hamilton envisioned “the few”—a relatively narrow group of financiers, merchants, and manufacturers—receiving direct government aid, the Republicans were willing to use most factions in the country in this capacity. Thus, while this or that group might receive a unique benefit from the government, *everybody* could receive something, and the sum purpose of these various morsels was the development of the national union. As for the danger of corruption, the Republicans deemed that a commitment to party principles was sufficient protection. The problem with Federalism, they came to conclude, was not so much Federalist institutions, but the Federalists themselves. So long as the Republicans were in charge of a national bank or a protective tariff, the danger of an elite clique dominating policy for its own ends was insignificant.

In sum, the Republicans articulated a unique style of governance: They would implement a Hamiltonian political economy, yet substantially broadened and managed by leaders of a political party rooted in public opinion. The “Revolution of 1800” was not so much a triumph of

the Republicans over the Federalists, but the moment when the two belief systems began to merge.<sup>3</sup>

Yet all was not sunshine and roses. The danger to republican nationalism was not so much in the specific postwar policies themselves, but in the principle they implicitly admitted. The Republicans had accepted the major premise of Hamilton’s political economy—that mediating factions can and should receive direct benefits from the government, because in time these gains will redound to the whole society. While they made fair and judicious use of this notion in the immediate aftermath of the war, this was still an idea that, twenty years prior, they correctly understood to be a danger. The arguments for why they flip-flopped from their prior position, while earnestly proffered, were ultimately unpersuasive. And while it could be said that, by the end of Madison’s presidential tenure, the country had realized in practice a version of republican nationalism, the seeds were sown for problems in the coming decades.

### **The Function of the Republican Party**

As discussed in Chapter One, though both Hamilton and Madison were skeptical of man’s innate capacity to rule himself, they had very different ideas of how to deal with this problem. Hamilton thought the few should be separated from the many, so that an avaricious majority could not extract undue concessions from an aggrieved minority. In his original plan of government, Hamilton sought to insulate senators and the president from the people, by having them selected by electors for life tenures. This would offer proper insulation from popular

---

<sup>3</sup> Jefferson’s proclamation of goodwill in his first inaugural address—“We are all Republicans, we are all Federalists” (TJ, “First Inaugural Address,” PTJ 33.)—turned out to possess more significance than he initially meant. He prefaces this broadminded statement by noting, “every difference of opinion is not a difference of principle.” Excepting the (allegedly) proto-monarchical subset of Federalists, Jefferson is acknowledging a bipartisan commitment to the project *republican nationalism*, i.e. binding the nation together around republican principles. The Republicans had their own *opinions* on how this *principle* could be realized, but their quarter century at the helm of government induced them to change many of these views, and ultimately adopt most of the policies that the Federalists had once advocated.

sentiment to vindicate the national interest against avaricious majorities. Madison, on the other wanted to protect republicanism from the “more fatal threat” of majoritarianism by facilitating a grand battle among all factions—regardless of wealth or social status—under the belief that whatever idea the public could agree upon after such a rambunctious clash was more likely to be respectful of individual rights and consistent with the general welfare.<sup>4</sup> His theory was that the rights of a minority could be defended within majoritarian institutions, provided that those institutions included a diverse array of groups. That way, no single interest could dominate at the expense of the rest.

Madison returned to this argument during the partisan battle of the 1790s. Writing in the *National Gazette* in December 1791, he reaffirms the decisive importance of the republican principle, arguing, “Public opinion sets bounds to every government, and is the real sovereign in every free one.”<sup>5</sup> The difference is that the Madison of the *Federalist* was much more optimistic about dispatching minority factions than the Madison of the *National Gazette*—and little wonder for his latter-day pessimism, considering his view that, though the Federalist Party did not represent the whole people, it continued to dominate the government. The Madison of 1791 saw substantial challenges for public opinion to exercise its proper sovereignty, including the extended republic, which makes it “less easy for...real opinion to be ascertained.” Further complicating matters, as he argued in September 1792, was the Federalist effort to deceive the people “by reviving exploded parties, and taking advantage of all prejudices, local, political, and occupational, that may prevent or disturb a general coalition of sentiments.”<sup>6</sup> Though convinced

---

<sup>4</sup> JM, “Vices of the Political System of the United States,” *PJM* 9.

<sup>5</sup> *Ibid.* As noted in Chapter One, Colleen Sheehan offers an excellent discussion of Madison’s view of public opinion. See Sheehan, *James Madison and the Spirit of Republican Self-government*.

<sup>6</sup> See Hofstadter, *The Idea of a Party System*, 126-128.

that the people were on the side of the Republicans, Madison admits that “in politics as in war, stratagem is often an overmatch for numbers.”<sup>7</sup>

This was not so much a renunciation of his position in *Federalist* 10 as an elaboration upon it. Madison’s argument in *Federalist* 10 is more a scientific theory of republican politics than a moral assertion. It assumes the moral necessity of a republican government that protects minority rights and advances the general welfare, then goes on to outline a hypothesis of how to increase the likelihood of making this happen. Importantly, Madison does not suggest that the extended republic is sufficient to secure good government, only that it has a *tendency* to control factionalism. In *Federalist* 51 he notes that, while “dependence on the people” (the subject of *Federalist* 10) is the “primary control” on government, there must be “auxiliary precautions,” or in the context of that essay checks and balances.<sup>8</sup> In the *National Gazette* Madison is acknowledging the same point again—that there must be auxiliary precautions to secure the general welfare, even when authority is vested with the people. Even with the multiple protections supplied by the Constitution, it seemed, a minority faction had deceived the public into voting against its interests, and republicans must take *further steps* to vindicate the principles of 1776. Madison’s efforts in the 1790s may thus be viewed through the framework established in Chapter One: Maintenance of republican government is not simply a matter of designing the perfect instrument (which is impossible), but designing the best one possible then working to vindicate it through the ordinary course of politics. The extended republic and separated powers provide a solid foundation for republicanism, but after that, the statesman must then work to defend the public interest on a daily basis.

---

<sup>7</sup> JM, “A Candid State of Parties,” 22 September 1792, *PJM* 14.

<sup>8</sup> JM, *The Federalist* Number 51, *PJM* 10.

In his *National Gazette* essays, Madison calls for a coalescing of the people around shared interests, against the factious designs of the Federalists. He means for this to happen in an extra-constitutional fashion—that is, the people must organize themselves to acquire the offices created by the instrument of government. In this way, Madison establishes a framework to understand the eventual organization of the Republican Party, which was an amplification upon Edmund Burke’s idea of a party as “a body of men united, for promoting by their joint endeavors, the national interest, upon some particular principle in which they all agreed.”<sup>9</sup> The Republicans certainly embraced this notion, reflected in their congressional organization, but their efforts went beyond this, to draw the broader public into the coalition, so as to cohere opinion around party principles. And so it was the first, in due course, to resemble the tri-partite description of a party offered by V.O. Key: the party in government, party in the electorate, and party organization.<sup>10</sup> This did not happen all at once, and at no point did Madison or Thomas Jefferson elaborate a theory of party development, but the maturation of the Republican Party—beginning with the stiffening of Madison’s opposition to the Hamiltonian program in the House—progressed over the next decade along those three dimensions.

The party in government was, at first, centered around Madison in the House of Representatives, and as early as the Second Congress there was an identifiable coalition responding to his direction.<sup>11</sup> By 1792 there was coordination among Republican leaders between the states (particularly Virginia and the George Clinton faction in New York) to nominate a candidate to challenge John Adams for the vice presidency, and this process was further refined such that Jefferson and Aaron Burr were nominated for the Republican ticket by the congressional caucus in 1800. During Jefferson’s administration, this organization would

---

<sup>9</sup> Burke, “Thoughts On the Cause Of the Present Discontents,” *PW*, 187.

<sup>10</sup> See Key, *Politics, Parties & Pressure Groups*.

<sup>11</sup> Cunningham, *The Jeffersonian Republicans: The Formation of Party Organization*, 22.

expand to include extensive inter-branch coordination, with John Randolph serving as party leader in the House (although he was quite often a thorn in Jefferson's side), as well as frequent dinners and informal meetings between the president and allied members of Congress.<sup>12</sup> The bureaucracy—such as it was—also was susceptible to partisan control. Though Jefferson was not a spoilsman in the Jacksonian sense, he was keen to restore balance between Republicans and Federalists throughout the government (which, by his view, was an approximately 2:1 or 3:1 ratio in favor of the Republicans), and reward those party leaders who were crucial to his election.<sup>13</sup> He accomplished this by removing Adams's last minute appointments, dismissing the fiercest Federalist partisans, and replacing marshals and attorneys to compensate for the Federalist tilt of the Court.<sup>14</sup> All of this served to integrate the branches of the government under Republican auspices, corralling the federal authority that the Constitution had originally dispersed.

The central means for cultivating a partisan spirit in the electorate was the Republican press, which Madison was again at the center of. Believing that “a circulation of newspapers through the entire body of the people” would “facilitate...a general intercourse of sentiments,” and thus be “favorable to liberty,” Madison and Jefferson induced Philip Freneau to publish the *National Gazette*, initiating a proliferation of Republican papers—like the Philadelphia *Aurora*, the Newark *Centinel of Freedom*, and the Pittsburgh *Gazette*.<sup>15</sup> The Republican press was so pervasive that by 1800 Federalist senator Uriah Tracy of Connecticut would lament that there

---

<sup>12</sup> Randolph served as House leader in his capacity as chairman of the Ways and Means Committee, a position to which he was appointed by Speaker Nathaniel Macon. See Remini, *The House*, 75.

<sup>13</sup> See Cunningham, *The Jeffersonian Republicans in Power*, 15-29, and McDonald, *The Presidency of Thomas Jefferson*, 34-35.

<sup>14</sup> See, for instance, TJ to William Branch Giles, 23 March 1801, *PTJ* 33, and TJ to Elbridge Gerry, 28 August 1802, *PTJ* 38. See also White, *The Jeffersonians*, 347-355.

<sup>15</sup> JM, “Public Opinion,” 19 December 1791, *PJM* 14.

was a Republican paper “in almost every town and county in the country.”<sup>16</sup> Buttressing these were the “democratic societies,” which began to spring up in 1793 as civic organizations to rally the Republican faithful.

Party organization—usually in the form of correspondence committees and nominating conventions—also developed briskly during this period, although there were striking differences in sophistication from state to state. New York and Pennsylvania took an early lead, and by 1800 both had relatively advanced operations in place to select candidates, communicate the party message, and deliver the vote.<sup>17</sup> The Republicans’ superior organization was essential to securing the support of New York’s presidential electors, and therefore the presidency itself. New York City’s at-large senate delegation was the focal point of the campaign, and Burr—an intrepid and innovative organizer of the Republican interest—was crucial in nominating a slate of esteemed candidates, then turning out the party vote.<sup>18</sup> After his election to the vice presidency in 1796, Jefferson took an active interest in developing the Republican Party in Virginia, which helped him sweep the Old Dominion's electoral vote in 1800.

As the Federalist threat faded, the Republicans allowed their party to atrophy, for in their view it had served the purpose of cleansing the government of partiality and corruption. In his first inaugural Jefferson went out of his way to be magnanimous toward his former foes, proclaiming:

[E]very difference of opinion is not a difference of principle. We have called by different names brethren of the same principle. We are all Republicans, we are all Federalists. If there be any among us who would wish to dissolve this Union or to change its republican form, let them stand undisturbed as monuments of the safety

---

<sup>16</sup> Quoted in Stewart, *The Opposition Press of the Federalist Period*, 11.

<sup>17</sup> See Cunningham, *The Jeffersonian Republicans: The Formation of Party Organization*, 33-45.

<sup>18</sup> See Larson, *Internal Improvements*, 87-111.

with which error of opinion may be tolerated where reason is left free to combat it.<sup>19</sup>

Writing for the *National Gazette* a decade earlier, Madison had struck a decidedly different note, but with victory in hand the Republicans were now looking forward to a post-partisan era. While Jefferson was an able manager of the Republican governing coalition, Madison's leadership was halting and diffident, and Monroe's was basically nonexistent.<sup>20</sup> In a letter to Andrew Jackson in 1816, Monroe rejected the notion that "free government cannot exist without parties," and instead blamed the persistence of party politics in the ancient republics and modern England on "certain defects in those governments, rather than in human nature ... and we have happily avoided those defects in our system."<sup>21</sup>

Party was thus a temporary expedient for the Virginia Dynasty, a tool to overcome the Federalists, whom they believed were a corrupt, monarchical clique intent on destroying republican government. Now that this threat was gone, it was time to unify the people in pursuit of the general welfare—and a partisan spirit is hardly conducive to such a task. As such, the first generation of Republicans always considered party an ad hoc device, and never articulated a clear justification for the vast apparatus they created.

The second generation of Republicans, Martin Van Buren in particular, would argue for a political party as a *permanent* feature of republican government, essential to vindicating the national interest against factional intrigues. Hailing from New York, a state whose politics had long been dominated by familial rivalries, Van Buren believed that party discipline helped frame

---

<sup>19</sup> Jefferson, First Inaugural Address, 4 March 1801, *PTJ* 33. Hamilton offered the speech his "approbation ... view(ing) it as virtually a candid retraction of past misapprehensions, and a pledge to the community that the new President will not lend himself to dangerous innovations, but in essential points will tread in the steps of his predecessors" (AH, Address to the Electors of the State of New-York, 21 March 1801, *PAH* 25.). Importantly, Hamilton had discouraged his Federalist allies in the House from supporting Burr during the contested election of 1800.

<sup>20</sup> See Dangerfield, *The Era of Good Feelings*, 100, and Ammon, *James Monroe*, 371-372.

<sup>21</sup> JMe To Andrew Jackson., December 14, 1816, *WJM* 5:346.

the debate for the public, and imposed discipline upon government officials to craft policy according to the people's judgments. It was through superior organization that his Bucktail faction wrested control of Empire State politics from the allies of Dewitt Clinton in 1821. Thereafter, the Albany Regency—as the Bucktail's governing council would come to be called—carefully employed patronage to control the minutest details of state politics.<sup>22</sup> When he went to Washington as a senator in 1821, Van Buren was resolved to oppose “Mr. Monroe's fusion policy” that blurred the differences between the Federalists and the Republicans.<sup>23</sup> If Jefferson and Madison were the fathers of party politics in America, Van Buren was the one who elaborated the apology for it. He writes in his *Autobiography*:

Doubtless excesses frequently attend parties and produce many evils, but not so many as are prevented by the maintenance of their organization and vigilance. The disposition to abuse power, so deeply planted in the human heart, can by no other means be more effectually checked; and it has always therefore struck me as more honorable and manly and more in harmony with the character of our People and of our Institutions to deal with the subject of Political Parties in a sincerer and wiser spirit—to recognize their necessity, to give them the credit they deserve, and to devote ourselves to improve and to elevate the principles and objects of our own and to support it ingenuously and faithfully.<sup>24</sup>

Unlike Jefferson, Madison, and Monroe, Van Buren did not see party as a temporary expedient. Because the threat of minority faction was ever-present, a strong party organization must always be in place to rally the public around republican principles.

---

<sup>22</sup> See Cole, *Martin Van Buren and the American Political System*, 65-98, and Remini, *Martin Van Buren and the Making of the Democratic Party*, 5-11.

<sup>23</sup> Van Buren, *The Autobiography of Martin Van Buren*, 197.

<sup>24</sup> *Ibid.*, 125.

While parties can be useful in promoting republican principles of governance, nothing requires them to be so. Madison, after all, had perceived in the Hamiltonian clique an “antirepublican party” whose purpose was to bewitch the public into allowing it to subjugate the general welfare for its own advancement. His criticisms from the *National Gazette* were hyperbolic in many regards, but as discussed in Chapters Two and Three, he was not entirely wide of the mark. Thus, what was to stop an elaborate, sophisticated party organization from pursuing precisely the opposite end that Van Buren had in mind? If personal factions of the kind that Van Buren had battled in New York were prone to “to abuse power,” could not a political party do so with more ruthlessness and efficiency? An antirepublican party could be a very dangerous institution indeed, if it were to take to heart Van Buren’s lessons about the proper way to organize such a faction.

### **Blending Republicanism and Federalism, Slowly**

Having disposed of the Federalists in 1800, the Republicans were faced with a dilemma: what to do with the political economy their predecessors had put in place? The more conservative elements of the party—notably Randolph and John Taylor of Caroline—retained an Anti-Federalist philosophy and wanted Hamilton’s consolidation policies dug up root and branch.<sup>25</sup> They promoted the states over the federal government, opposed expanding the franchise, cherished the ways of the Southern gentleman, and were staunchly pacifistic. Though Jefferson shared some of this outlook, the alliance between the conservatives and Madison was

---

<sup>25</sup> See Drell, “John Taylor of Caroline and the Preservation of an Old Social Order,” Kirk, *John Randolph of Roanoke*, 15-26, MacLeod, “The Political Economy of John Taylor of Caroline,” and Sims, *The Life of John Taylor*, 115-132. This was a “conservative” outlook in the traditional sense of the word—i.e., *conserving* the old ways now under threat from the forces of innovation. Randolph and Taylor were advocates of the model of governance exhibited in Virginia’s earliest period, one where the “First Families of Virginia” dominated politics by virtue of their extensive landholdings. They believed that the commercial dynamism that Hamilton advocated was not only dangerous to the interests of the landed class, and, by encouraging greed, was inconsistent with republican virtue.

an uneasy one, built on opposition to the Federalist economic and foreign policies, rather than a positive vision of the future, and the conservatives never forgot that Madison had been squarely in the nationalist camp through the 1780s.<sup>26</sup> In fact, the irascible Randolph disliked Madison so intensely that he tried to swap him for Monroe—a former Anti-Federalist—as the Republicans’ presidential nominee in 1808.

The “Revolution of 1800” was not quite what the conservatives had hoped it would be. Though Jefferson’s sunny disposition regarding human nature lent him naturally to the view that man did not need all that much governing, he was still at his core a nationalist—and acted as such as president. Jefferson could take an expansive view of federal authority when it suited his policy agenda; John Quincy Adams was not far from the mark when he commented that the Louisiana Purchase was “an assumption of implied powers greater in itself and more comprehensive in its consequences than the assumptions of implied powers in the twelve years of the Washington and Adams administrations put together.”<sup>27</sup> Notably, while his first annual address called for many long-sought Republican reforms—a reduction in taxes, imposing economy upon government, and demilitarization—it did not mention the Bank of the United States, and Jefferson never made a public move against that Republican bugaboo during his entire tenure. Though he complained about it bitterly in private, Secretary of the Treasury Albert Gallatin always coaxed him to forbear.

The Swiss-born Gallatin, who took over as party leader in the House when Madison left the lower chamber, was a Republican through-and-through—and a useful one at that, for he actually understood public finance and could debate Hamilton on the latter’s own terms. He was committed to reducing spending and taxes, and ultimately eliminating the debt, but this relentless

---

<sup>26</sup> Risjord, *The Old Republicans*, 1-10.

<sup>27</sup> Quoted in Weeks, *John Quincy Adams and American Global Empire*, 182.

advocate for economy in government understood the utility of the Bank.<sup>28</sup> In 1796, at which point the Federalist-Republican battle had reached a fevered pitch, Gallatin had the presence of mind to praise the Bank, arguing in his *Sketch of the Finances of the United States* that the “accommodations which government receives” from it were extremely useful. He also applauded its “great commercial utility,” due to the fact that it brought “into circulation moneys which otherwise would remain inactive” and increased “the rapidity of the circulation.” This was especially important in the United States, which due to its “extensive trade to the East Indies” was vulnerable to “sudden drains of specie.”<sup>29</sup> Thus, even though Gallatin was a sharp opponent of the Federalists, he nevertheless expressed a Hamiltonian view, not only of the Bank, but of what constituted appropriate political economy in the new nation. A private institution like the Bank need not be a threat to republican government, in Gallatin’s estimation, but rather could serve as an effective, even necessary, mediator of the public interest.

Jefferson never came around to this view during his administration. He always disliked the Bank, and would gripe to Gallatin about it, but ultimately his trust in the secretary was so complete that he always deferred. For instance, in the fall of 1803 Jefferson heard of a proposal to establish a branch of the Bank in New Orleans, and told Gallatin, “This institution is one of the most deadly hostility existing, against the principles & form of our Constitution.” Echoing Madison’s jeremiads from a decade prior, he warned, “An institution like this, penetrating by its branches every part of the Union, acting by command & in phalanx, may, in a critical moment, upset the government.” This is why, Jefferson reasoned, no government could be safe “which is under the vassalage of any self-constituted authorities.”<sup>30</sup>

---

<sup>28</sup> See McDonald, *The Presidency of Thomas Jefferson*, 38-43, and Walters, *Albert Gallatin*, 145-147.

<sup>29</sup> AG, “A Sketch of the Finances of the United States,” *WAG* 3.

<sup>30</sup> TJ to AG, 13 December 1803, *WTJ* 10.

Gallatin would have none of this. Though respectful in his response, he pushed back hard against the president, reiterating the importance of the government having a safe place to store its revenue and easy access to credit, as well as the Bank's utility in facilitating the circulation of currency. But he went further still than this, linking the Bank to the Louisiana Purchase. Gallatin wrote that opening a branch in far-flung New Orleans would promote "our own security," and if the government was to collect impost and land revenue from the new territory, it needed an institution like a Bank branch in operation nearby.<sup>31</sup> This is a noteworthy difference from Hamilton, who resisted opening Bank branches, and anticipates the subsequent fusion of Federalist political economy to Republican goals. In the 1790s the Republicans had found the Bank noxious because, in their view, the Federalists had used it as a way to advance the self-interests of a narrow clique of eastern speculators. But, per Gallatin, the Bank could actually be an essential ingredient of the Republican project of westward expansion, democratization, and internal development. Gallatin was the first prominent Republican to grasp this possibility, but others would in due course.

So great was Gallatin's influence during the Virginia Dynasty that Jefferson's planned execution of the Bank was always stayed, and Madison in 1811 quietly acquiesced to the proposition of a recharter. As Gallatin—who continued to serve as Treasury secretary under Madison—explained to Nicholas Biddle some years later that "the weight of the Administration was in favor of a renewal," with Madison viewing the constitutionality of the Bank as "settled by precedent."<sup>32</sup> This was an extraordinary volte-face for Madison, who had led the congressional opposition to the Bank in 1790 under the belief that it was too partial, facilitated corruption of public institutions, and was unconstitutional. That had been twenty years ago, but now the Bank

---

<sup>31</sup> AG to TJ, 13 December 1803, *WAG* 1. See also Rutland, *The Presidency of James Madison*, 68-69.

<sup>32</sup> AG to NB, 14 August 1830, *WAG* 3.

was integral to the nation's economy, for which the Madison administration was responsible. In arguing in favor of the recharter in 1811, Gallatin told the Senate that while the Bank could be dismantled without "materially derang(ing)" regular government business, the second-order effects of its dissolution would be great. The Bank, he noted, circulated \$13 million, and its demise would impose "a serious shock to commercial, banking, and national credit," an especially worrisome event "in the present state of the American commerce."<sup>33</sup> And so it was that Madison's closest advisor made precisely the same argument for rechartering the Bank that Hamilton had once made for chartering it.

For whatever reason, Madison was not prepared to make this reversal in public, refusing to intervene directly on the Bank's behalf during the recharter debate and delegating the task to Gallatin and his congressional allies. Without a push from the president, a coalition of conservative Republicans, cronies of the state banks opposing renewal, opponents of foreign ownership of Bank stock, and foes of Gallatin defeated the recharter bill ever so narrowly.<sup>34</sup> There was not yet a consensus in favor of Gallatin's yoking of Federalist programs to Republican objectives.

That would change as a consequence of the War of 1812, which remains a peculiar episode in the annals of American martial history. Perhaps Taylor, a conservative opponent of the conflict, summarized it best as a "metaphysical war—a war, not for conquest, not for defense—not for Soil...this war for honor, like that of the Greeks against Troy."<sup>35</sup> Even Madison sounded a similar note after the fact, when in his special postwar message to Congress in 1815 he called "the late war ... a necessary resort to assert the rights and independence of the nation."<sup>36</sup> It

---

<sup>33</sup> AG, "Memorial To the House of Representatives," 30 January 1811, *RD* 23: 4862-4864

<sup>34</sup> See Brant 4: 269-270.

<sup>35</sup> Quoted in Caroline, "The Letters of John Caroline (Concluded)," 128.

<sup>36</sup> JM to United States Congress, 18 February 1815, *APP*.

was a war to show the European powers that America was finally due some respect: She would assert her rights on the high sea, push the British out of Canada, and drive the Spanish from Florida. The war was urged on by the congressional “War Hawks,” a group of newcomers swept into Congress in the 1810 midterm by public outrage over British maritime high-handedness. Led by Clay, the War Hawks had mostly come of age after the Revolution—William Bibb, John Calhoun, Langdon Cheves, Clay, Felix Grundy, Richard Mentor Johnson, and William Lowndes had only known the United States as a nation, not as thirteen colonies under British rule. They may have shared the same party identification as Taylor and Randolph, but their Republicanism was instinctively nationalistic, and they intended the war with Britain as a showcase of American greatness.<sup>37</sup>

Of course, that is not how it turned out. As Leonard White aptly puts it, “The bold talk of the War Hawks in 1812 concealed an extraordinary incapacity for warlike endeavor. The country was sorely unprepared whether from the point of view of finance, of military readiness, of competent leadership, of national unity, or of administrative capacity to sustain a large-scale military operation.”<sup>38</sup> The problem was that the Republicans wanted to have their cake and eat it, too. Hamilton thought his economic program could help the country “dictate the terms of the connection between the old and the new world.”<sup>39</sup> The Republicans rejected Hamiltonianism as an unconstitutional system of partiality and corruption, yet the War Hawks thought they could dictate terms, anyway. They were wrong.

The Treaty of Ghent more or less enshrined the *status quo ante*, and Andrew Jackson’s victory at the Battle of New Orleans salvaged the national pride, but the bulk of the Republican political leadership, including Madison, was finally ready to follow Gallatin on a decidedly

---

<sup>37</sup> See Remini, *Henry Clay*, 75-76.

<sup>38</sup> White, *The Jeffersonians*, 217. See also Watson, *Liberty and Power*, 59-60.

<sup>39</sup> AH, *The Federalist* Number 11, PAH 4.

Hamiltonian course of national development. Madison's seventh annual address to Congress laid out an ambitious series of proposals, for which Clay—as he would for decades to come—provided the rhetorical covering fire:

I appeal to the friends around me ... who nobly, manfully vindicated the national character by a war, waged by a young people, unskilled in arms, single-handed against a veteran power—a war which the nation has emerged from, covered with laurels; let us now do something to ameliorate the internal condition of the country; let us show that objects of domestic, no less than those of foreign policy, receive our attention; let us fulfill the just expectations of the public, whose eyes are anxiously directed towards this session of congress; let us, by a liberal and enlightened policy, entitle ourselves upon our return to home, to that best of all rewards, the grateful exclamation, 'well done, thou good and faithful servant.'<sup>40</sup>

The first “liberal and enlightened policy” in the offing was chartering the “Second” Bank of the United States. By 1815, national finance was in its most perilous state since the 1780s. The war had drained the nation of hard currency, at least outside of New England—which opposed the war and was ill-disposed to share its precious metals—leading to a suspension of specie payments throughout most of the country. About \$68 million in paper money—mostly state-bank notes—was circulating, which was no basis for a sound currency.<sup>41</sup> Meanwhile, the Treasury Department, without access to a national bank, had to scramble to borrow even small sums of money. Wealthy merchants like John Jacob Astor, David Parish, and Stephen Girard were

---

<sup>40</sup> HC, “On the Direct Tax,” LSHC 1:285.

<sup>41</sup> Rutland, *The Presidency of James Madison*, 197. See also Dangerfield, *The Era of Good Feelings*, 167, and Taylor, “A Brief History of the Second Bank of the United States,” 1-3.

desperate for another national bank.<sup>42</sup> Aligned with them were Treasury Secretary Alexander Dallas and Calhoun, the principal designers of the new institution, who, like Gallatin and Hamilton before them, saw this Second Bank as more than a bank. As Dallas wrote to Calhoun:

It will not operate upon the funds of the stockholders alone, but much more upon the funds of the nation. Its conduct, good or bad, will not affect the corporate credit and resources alone, but much more the credit and resources of the government. In fine, it is not an institute created for the purposes of commerce and profit alone, but much more for the purposes of national policy, as an auxiliary in the exercise of some of the highest powers of the Government.<sup>43</sup>

The hope was that—in addition to the many services Hamilton’s Bank had provided the nation—the Second Bank could use its influence to induce the state banks (to whom the Second Bank would be a creditor, as tax payments were typically made in the form of state bank notes) to resume specie payments, and thus facilitate a uniform currency.<sup>44</sup> This time, Madison explicitly advocated for a new bank in his seventh address:

It is, however essential, to every modification of the finances, that the benefits of an uniform national currency should be restored to the community. The absence of the precious metals will, it is believed, be a temporary evil; but until they can again be rendered the general medium of exchange, it devolves on the wisdom of

---

<sup>42</sup> As Bray Hammond notes, Girard would become the second largest owner of Bank stock, behind only the federal government. See Hammond, *Banks and Politics in America*, 80.

<sup>43</sup> Alexander J. Dallas to JCC, 24 December 1815, *LDHBUS* 616.

<sup>44</sup> As Madison argues in his 8th and final annual message to Congress:

But, for the interests of the community at large, as well as for the purposes of the Treasury, it is essential that the nation should possess a currency of equal value, credit, and use, wherever it may circulate. The Constitution has entrusted Congress, exclusively, with the power of creating and regulating a currency of that description: and the measures which were taken during the last Session, in execution of the power, give every promise of success. The Bank of the United States has been organised under auspices the most favorable, and cannot fail to be an important auxiliary to those measures (JM to United States Congress, 3 December 1816, *PJM* Early Access.).

congress, to provide a substitute which shall equally engage the confidence, and accommodate the wants, of the Citizens, throughout the Union. If the operation of the State Banks cannot produce this result, the probable operation of a National Bank will merit consideration.<sup>45</sup>

The Second Bank was virtually a carbon copy of the First, with an initial capital of \$35 million, 20 percent subscribed by the government, which would also select 5 of the 20 directors. The Republican capitulation to the cornerstone of Hamilton's political economy came only by the hard experience of the war, but it came nonetheless.

The Republicans also altered their views on protection of domestic industries. Jefferson had hinted at this idea to Gallatin, arguing for instance in 1808 that a certain type of lead may be "worthy of being placed within the pale of protection."<sup>46</sup> Early in his career, Clay was also an advocate of protection, arguing for it as a means for American self-sufficiency against encroachments by the European powers. In his first recorded congressional speech, in 1810, he cast the argument in terms reminiscent of Hamilton's *Federalist* 11:

Dame commerce will oppose domestic manufactures. She is a flirting, flippant, noisy jade, and if we are governed by her fantasies, we shall never put off the muslins of India and the cloths of Europe. But I trust that the yeomanry of the country, the true and genuine landlords of this tenement, called the United States, disregarding her freaks, will persevere in reform, until the whole national family is furnished by itself with the clothing necessary for its own use.<sup>47</sup>

Clay's eloquence notwithstanding, there was no serious effort for protection until after the war, which proved to the bulk of Republicans that domestic industries were simply insufficient to bear

---

<sup>45</sup> JM to United States Congress, 5 December 1815, *PJM* Early Access.

<sup>46</sup> TJ to AG, 24 December 1808, *PTJ* Early Access.

<sup>47</sup> HC, "On Domestic Manufactures," *LSHC* 197.

the burdens of national greatness. In his seventh address, Madison—who twenty years earlier averred he preferred free trade, and argued that protection was arbitrary and capricious—advocated for a version of Hamilton’s *Report on Manufactures*. While insisting that it is “wise” to generally leave to individuals “the application of their industry and resources,” he acknowledged that there were exceptions. Of course, he admitted this in 1791, as noted in Chapter Three; the difference was he now saw many more exceptions. “So many circumstances must concur,” he wrote, “in introducing and maturing manufacturing establishments” without public intervention, that a more expansive effort by government was necessary. He again called for trade reciprocity, and now favored protection for industries that would “relieve the United States from a dependence on foreign supplies, for articles necessary for public defense, or connected with the primary wants of individuals,” and for materials that could be supplied by American agriculture. This, he thought, would provide the nation safety “against occasional competitions from abroad” and offer a “source of Domestic Wealth, and even of external commerce.” While the Tariff of 1789 had some protective elements in it (for instance, protecting industries that had previously enjoyed state protection in the Confederation period), the Tariff of 1816 was the first truly protective tax law, placing duties of 25 percent on wool and cotton products and 30 percent on iron products.<sup>48</sup> Madison, who had railed against such a regime in the pages of the *National Gazette*, signed it into law in the spring of 1816.

Finally, the Republicans advocated for federal sponsorship of public improvements. This idea was not proposed by Hamilton in any of his major reports, but it was Hamiltonian in its employment of mediating factions: The United States would favor certain geographical locales with internal improvements on the premise that, by facilitating commerce throughout the nation, the general welfare would be advanced. Jefferson himself saw this as a useful undertaking, once

---

<sup>48</sup> JM to United States Congress, 5 December 1815, *PJM* Early Access. See also Remini, *Henry Clay*, 139.

the debt had been paid back. In his second inaugural address, he argued “that redemption once effected the revenue thereby liberated may . . . be applied in time of peace to rivers, canals, roads, arts, manufactures, education, and other great objects within each State.”<sup>49</sup> Gallatin systematized this idea in his 1808 *Report on the Subject of Public Roads and Canals*, suggesting four types of improvements: canals running north and south; improvement to waterways connecting the Atlantic to the West; improvement to waterways connecting the Atlantic to the Great Lakes; and a system of interior canals. Such a program would of course help lower the cost of shipping existing goods, but it would have a broader utility, for new goods could also be transported, which would amount to a “clear addition to the national wealth.” Madison echoed this theme in his seventh annual address, where he argued that “[n]o objects within the circle of political economy, so richly repay the expence bestowed upon them” as internal improvements like roads and canals.”<sup>50</sup>

Internal improvements could also bind the people together in a tighter union, as Gallatin averred:

Good roads and canals, will shorten distances, facilitate commercial and personal intercourse, and unite by a still more intimate community of interests, the most remote quarters of the United States. No other single operation, within the power of government, can more effectually tend to strengthen and perpetuate that union, which secures external independence, domestic peace, and internal liberty.”<sup>51</sup>

Similarly, Madison in his seventh annual address celebrated “the political effect of these facilities for intercommunication, in bringing and binding more closely together the various parts

---

<sup>49</sup> TJ, Inaugural Address, 4 March 1805, *APP*.

<sup>50</sup> AG, *Report of the Secretary of the Treasury; on the Subject of Public Roads and Canals*.

<sup>51</sup> *Ibid*.

of our extended confederacy.”<sup>52</sup> Calhoun, who at this point was still in his nationalist phase, placed the necessity in stark terms:

We are great, and rapidly, I was about to say, fearfully growing. This is our pride and our danger, our weakness and our strength. ... We are under the most imperious obligation to counteract every tendency to disunion. ... The more enlarged the sphere of commercial circulation, the more extended that of social intercourse; the more strongly we are bound together, the more inseparable are our destinies.<sup>53</sup>

Though Hamilton never called for such a system of internal development, he had throughout his career articulated the justifications that Calhoun and the Republicans would proffer for their program. The intention was to use broad regional factions as mediators for the general welfare. Some locale would benefit directly from a new road or canal, but by facilitating commerce throughout the union, these improvements would eventually rain benefits down upon all Americans. Out with the rule by the few, in with the rule by the many/ The economics were still Hamiltonian, but the politics were decidedly Republican.

Still, this synthesis was quite contrary to many of the arguments that Madison laid down in the 1790s. In fits and starts, he had adopted the whole of the Hamiltonian program—his party’s political modifications notwithstanding. What he once thought was prone to partiality and corruption of the republic was now essential to its survival. This is the “Madison problem” that has no resolution: His Federalism of the 1780s can be reconciled to his Republicanism of the 1790s, but neither can be squared with his Hamiltonianism of 1817.

---

<sup>52</sup> JM to United States Congress, 5 December 1815, *PJM* Early Access

<sup>53</sup> JCC, Speech of 4 February 1817, *AC* 14: 854.

## **The Republican Justification of the Synthesis**

If the two Madisons cannot be reconciled to one another, they can at least be explained—by recalling his commitments to nationalism *and* republicanism. As discussed in Chapter One, these were not competing mandates in Madison’s philosophy, but principles inextricably linked by his belief that only a firm union could secure republican government. Madison, unlike the conservatives in the party, had long sought to bind the country together—while in the Confederation Congress, in the Constitutional Convention, and during his sixteen-year tenure in the executive branch. His period of opposition to Federalism in the 1790s, discussed in Chapters Two and Three, was not a renunciation of nationalism, but rather a defense of republicanism, a reaction to his view that the Hamiltonians were seeking to reward the moneyed elite at the expense of the general welfare.

When the Republicans took control of government in 1801, it became their responsibility to realize the vision of republican nationalism, but they never developed an alternative political economy for this purpose. British indulgence on the high seas during Jefferson’s first term enabled the nation to prosper, but when the Napoleonic Wars flared, Albion began interfering with American trade once again. The eventual result was the War of 1812, and afterwards came the Republican realization that the country was not nearly as developed as it needed to be. The only alternative to Hamilton’s political economy at that point was the conservatism of Randolph and Taylor, which rejected the legitimacy of the nationalist project in the first place. Failing to develop an alternative approach to governance, Madison and the nationalist Republicans were, in effect, forced into the Hamiltonian position that the union could be promoted by favoring select groups in the short term, with an eye to promoting the prosperity and harmony of all in the long run.

What then of the Republican principles from the 1790s? Hamilton, they had argued (not without merit), was unconstitutionally expanding the government's authority, unfairly showering benefits upon a select few, and facilitating corruption. Now that the Republicans had adopted his program, was the republic not under similar threat? No, they answered—offering a response to each of the three objections they had registered against Hamilton's system twenty years earlier: The meaning of the Constitution could change after due consideration; the problem of partiality could be ameliorated by intentionally balancing benefits across sections; and the danger of corruption had eased with the ousting of the Federalists. Their rejoinders, however, were unpersuasive. Their prior complaints remained in force, and while the Republicans broadened the scope of Hamiltonianism beyond the late secretary's original vision, they still were compelled to abandon their old objections for the sake of their nationalist commitments.

The problem that occupied most of the Republicans' attention was the constitutional matter—namely, whether a government of enumerated powers could exercise authority not spelled out specifically in the governing charter. This had been a major plank of the Republican argument in the 1790s, and had to be dealt with now. Clay—who had opposed the recharter of the Bank in 1811, but was a key advocate of the Second Bank's charter in 1816—adopted an interesting notion of constitutional phenomenology to legitimize his change of heart. By Clay's reckoning, the powers of the Constitution are prone to evolve over time. The “expressed” powers are constant over time, but the “constructive” powers, which are necessary “to put into motion and activity the machine of government,” are “from their nature, indefinable.” Thus, what may be “perceived” as unconstitutional at one point in time may, by “the force of circumstances and

the lights of experience ... evolve to the fallible persons charged with (government's) administration," and come to be understood as constitutional.<sup>54</sup>

Madison offered a related hermeneutic, arguing that if the meaning of the Constitution changes in the eyes of *enough* beholders, then the change is legitimate. In a letter to Charles Ingersoll in 1831, he defended his approval of the Second Bank by analogizing the legislative process to the judicial process—a comparison that was a common framework in his thinking. What is the “wisest and most conscientious judge” to do, Madison asked, when his opinion “has been overruled by the matured opinions of the majority of his colleagues?” He answered, “He will find it impossible to adhere to...his solitary opinions...in opposition to a construction reduced to practice, during a reasonable period of time; more especially where no prospect existed of a change of construction by the public or its agents.” Madison was similarly obliged to approve the Second Bank, which had been validated by “deliberate and reiterated precedents,” having “undergone ample discussions in its passage thro’ the several branches of the government;...carried into execution throughout a period of 20 years with annual legislative recognitions;...and with the entire acquiescence of all the local authorities.”<sup>55</sup>

Yet Madison was prepared to follow this reasoning only so far. As regards the Second Bank, if the matured opinions of his colleagues wanted to do away with the concept of enumerated powers altogether, then a conscientious statesman was obliged to follow the crowd. But he rejected this thinking on the matter of internal improvements, and surprisingly broke from Clay and the Republicans on the Bonus Bill of 1817, which would have used the bonus due the federal government from the Second Bank as a fund for internal improvements. In one of his last acts as president, he vetoed the measure for “insufficient precedent,” despite the fact that the

---

<sup>54</sup> HC, “On the United States Bank Question,” *LSHC* 320.

<sup>55</sup> JM to Charles J. Ingersoll, 25 June 1831, *PJM* Early Access.

federal government had been spending money on public improvements for nearly a generation under the Republicans.<sup>56</sup> Ultimately, this appears to have been an *ad hoc* rearguard action to keep the constitutional grant of authority to Congress from morphing into a plenary power, which is precisely what he argued Hamilton’s justification of the Bank would lead to. Monroe similarly followed a byzantine logic during his tenure, endorsing some public works while denying the constitutional authority of others.<sup>57</sup> John Quincy Adams, a Federalist-turned-Republican who had not boxed himself in by a prior commitment to strict construction, had no such qualms. As early as 1807 he asserted in the Senate that the national government already possessed this authority, and in his first annual message to Congress, he averred, “The great object of the institution of civil government is the improvement of the condition of those who are parties to the social compact.”<sup>58</sup> As such, he not only favored “roads and canals . . . [b]ut moral, political, (and) intellectual improvement[s].” During his four years as president, the national government would spend more on internal improvements than that appropriated during all of his predecessors combined.<sup>59</sup>

None of this answers the nuanced argument Madison made in the 1790s. His original opposition to the Bank did not reduce to the legal niceties of the Necessary and Proper Clause, but the proper balance of power relations within the new government, as discussed in Chapter One. So, what had changed in the intervening years? The experience under the Bank had been positive—at least after William Duer was consigned to debtor’s prison—but the Second Bank was similar in design to the First, and thus it was potentially dangerous in the way it distributed power across society. In 1790, Madison held that the people had to sanction explicitly such an

---

<sup>56</sup> JM to United States House of Representatives, 3 March 1817, *PJM* Early Access. See also Brant 5:416.

<sup>57</sup> See JM, Sixth Annual Message, 3 December 1822, *APP*, and Cunningham, *The Presidency of James Monroe*, 165-166.

<sup>58</sup> Adams, First Annual Message, 6 December 1825, *APP*. See also Hargreaves, *The Presidency of John Quincy Adams*. 29

<sup>59</sup> See Lewis, *John Quincy Adams*, 113.

entity, and Article V outlines the process to make that happen: Two-thirds of the Congress and three-quarters of the states must approve of the change. Madison, Clay, and the Republicans were, in effect, lowering the threshold for a previously unconstitutional measure to become constitutional, and doing so on behalf of an institution that Madison had originally warned was particularly liable to corrupt republican institutions. That Madison and Monroe could not extend this reasoning to internal improvements—which certainly by then had received a similar sanction from the people—is an indication that this constitutional defense of the Second Bank was weak.

What about the problem of partiality? Madison argued in the 1790s that the short-term benefits of the Hamiltonian system were distributed mostly to a select few, with the rest of the nation to await in hope that they would enjoy second-order gains. Gallatin's defense of a New Orleans branch of the Bank, as well as his systematic proposal for internal improvements, were early hints of the solution that the Republicans would hit upon—to broaden the scope of mediating factions, so that no single group plays the role of intercessor. Instead, virtually anybody could receive some benefit from the government that, when aggregated together, yielded a comprehensible system of national development. Clay would be the chief advocate of this solution to the problem of partiality. His “American System” was an effort to strategically dispense benefits to all factions of society: the Second Bank would facilitate a uniform currency, and responsibly extend credit so the economy might grow; protective tariffs would aid nascent American industries; and a network of roads and canals would enable farmers to get their products to market faster and cheaper. In this way, all the major economic groups as well as every region would benefit; moreover, while each provision benefitted some faction in particular,

the sum total of the policies would bind the nation together, such that everybody would become dependent upon everybody else for their prosperity.<sup>62</sup>

In many respects, this was a Hamiltonian outlook, and even the name itself—“American System”—was used by Hamilton in *Federalist* 11. Clay’s first invocation of the term was in precisely the same context as Hamilton used it: protecting the nation from foreign interference. As Clay argued in 1820,

[W]as it possible we could be content to remain, as we now were, looking anxiously to Europe...? Our institutions now make us free; but how long shall we continue so, if we mould our opinions on those of Europe? Let us break these commercial and political fetters; let us no longer watch the nod of any European politician; let us become real and true Americans, and place ourselves at the head of the American system.<sup>63</sup>

For Hamilton and Clay, the “American System” implies an aspiration as well as measures to achieve it. Hamilton’s goal was for America to resist “transatlantic force and influence,” dictating the “terms of the connection between the old and the new world.”<sup>64</sup> His economic package of 1790-91 was to be the first step in developing this hegemony. Clay had a similar goal in mind, seeking independence from the European powers and preeminence in the new world. Moreover, Clay endorsed many of the old Hamiltonian initiatives, but importantly he expanded on them, giving the old Federalist agenda a decidedly Republican quality. Hamilton’s program was primarily beneficial mainly to a small cadre of financiers, merchants, and industrialists, who would mediate the national interest. But Gallatin, Madison, Clay, Quincy Adams, and the

---

<sup>62</sup> See Heidler and Heidler, *Henry Clay: The Essential American*, 228

<sup>63</sup> HC, “Mission to South America,” *LSHC* 486. See also HC, Speech of 1832 February 2-6, *RD* 22:257-296..

<sup>64</sup> AH, *The Federalist Number 11*, *PAH* 6

second-generation Republicans sought a broader circle, and in that way improved upon the original Hamiltonian concept.<sup>65</sup>

Unfortunately, this solution never quite lived up to its billing. Clay could wax eloquently about the virtues of harmonization, and Quincy Adams could lay out a compelling, systematic program in his annual messages, but they provided no way to ensure the kind of harmonization that they promised. There was nothing to guarantee that the government actually implemented a program that fairly and equitably distributed benefits across the various regions and factions of the nation—nothing to prevent a logroll that raided the federal treasury to aid a narrow-minded congressional majority at the expense of the rest. The American System was more an ideal than a strategy, which is why it was not much of a solution to the problem of partiality. It acknowledged that the government possessed the Federalist authority to distribute benefits to factions *without* the Republican restriction that it do so in a fair and equitable manner. Worse, as will be discussed in Chapter Five, the new party politics interacted with the American System to exacerbate the problem of partiality. If the ideal Republican government was supposed to distribute benefits broadly for the sake of the general welfare, a political party could hijack this endeavor to secure its electoral position—handing out government largesse not for the good of all, but to build an antirepublican logroll that entices a bare majority of self-interested voters.

Finally, what of the possibility of corruption? Jefferson remained sensitive to it, warning Gallatin in 1803 that an institution like the Bank may be overcome by the “avarice of the directors ... for personal emolument,” and “penetrating by its branches every part of the Union, acting by command & in phalanx, may, in a critical moment, upset the government.”<sup>66</sup> This was akin to the arguments Madison had made against the Bank in 1790, during which he noted that

---

<sup>65</sup> See Lewis, *John Quincy Adams*, 101, and Hargreaves, *The Presidency of John Quincy Adams*, 173.

<sup>66</sup> TJ to AG, 13 December 1803, *WTJ* 10.

the history of European banks legitimized this anxiety. And as was shown in Chapter Three, something like this did happen in the fall of 1791—as the overzealous speculators in Bank scrip forced the government to give them a bailout. So, what changed to make the Second Bank an institution compatible with republican government?

The Republicans never addressed this question head on, but their actions were consistent with the summary offered by Ralph Ketcham: They believed they had eliminated the danger by defeating their corrupt opponents and subjecting the institutions of Federalism to “mild Republican guidance. In each case the effect was to insure subordination to the popular will and to make obvious utility, not visions of Augustan grandeur the test of programs and institutions.”<sup>67</sup> As Gallatin argued in response to Jefferson’s qualms, there was no need to fear the Bank directors. “They may vote as they please and take their own papers,” he admitted, “but they are formidable only as individuals and as merchants, and not as bankers. Whenever they shall appear to be really dangerous, they are completely in our power and may be crushed.”<sup>68</sup> The Republicans eventually accepted Gallatin’s logic. In so doing, they subtly changed the terms of their prior claims (although Gallatin was not guilty of this maneuver, having been a supporter of the Bank when it was under Federalist control): whereas they originally thought that the problem was, in part, the Federalist program, they came to remember that it was entirely about who was to manage it. Thus, they could claim that “mild Republican guidance” would bring the benefits of the Hamiltonian system without the attending corruption.

To appreciate this, it is helpful to juxtapose the first president of the Bank to the first president of the Second Bank. Thomas Willing, who had previously served as the president of the Bank of North America, helmed the Bank for most of its existence. A wealthy merchant with

---

<sup>67</sup> Ketcham, *James Madison*, 604.

<sup>68</sup> AG to TJ, 13 December 1803, *PAG* 1.

a lengthy resume of government service, he was well attuned to the unique problems of national finance. As for the Second Bank, its first president was William Jones, a thoroughly unspectacular functionary who consistently expressed reluctance when offered government posts, complained about his duties when he accepted them, and indicated a desire to be relieved from the burdens of public service. His main qualification seems to have been his early and energetic participation in Republican politics, going back to 1793 while he was still a merchant in Philadelphia.<sup>69</sup> This earned him a stint as secretary of the Navy, then as acting secretary of the Treasury, and finally as president of the Second Bank, which—as will be discussed in Chapter Five—he spectacularly mismanaged. A man such as this would be given charge over what was once thought to be such a dangerous institution only if the Republicans no longer believed there was anything to fear from it.

In many respects, the Republicans' growing comfort level with the institutions of Federalism was understandable. The Bank had functioned superbly, and the country felt its absence keenly during the war. Madison's worries about the "praetorian band of the government" were a quarter-century old when he signed the charter for the Second Bank in 1816, and time had undoubtedly eased those earlier anxieties.<sup>70</sup> Nevertheless, the original charge that the Hamiltonian political economy had the *potential* for corruption was never adequately answered when the Republicans adopted it after the war. After all, Madison originally thought that the problem was intractable, rooted in the nature of man; and it *had* occurred in several cases between 1790 and 1792, as discussed in Chapter Three. Alas, these were but hazy memories by the end of the War of 1812, when the Republicans "forgot" that the danger was really the Hamiltonian program, and instead "remembered" that it was the Hamiltonians themselves.

---

<sup>69</sup> See Alexander James Dallas to JM, 27 August 1816, *PJM* Early Access, and Eckert, "William Jones: Mr. Madison's Secretary of the Navy."

<sup>70</sup> JM to TJ, 8 August 1791, *PJM* 14.

Having driven them from the government, they felt confident that they could harness his system to their own ends—even though twenty-five years prior they would have seen this as a dangerous gambit.

## Conclusion

The Republican embrace of Hamiltonianism had been forced upon them—events had induced them to abandon their republican anxieties in pursuit of the national greatness that seemed so close at hand. Writing to the Senate in 1815, Monroe captured the moment in time as well as anybody:

The peace forms another epoch, not less interesting, tho' of a nature in some respects different from the other. By the war we have acquired a character and a rank among other nations, which we did not enjoy before. We stand pledged to support this rank and character by the adoption of such measures as may evince on the part of the United States a firm resolution to do it. We cannot go back. The spirit of the nation forbids it. The privations to which our fellow citizens have been exposed, the losses which they have suffered with extraordinary patience and fortitude, and the blood which has been gallantly shed in defence of our rights, point out our future course of conduct, and impose on us new obligations to pursue it.<sup>71</sup>

This sort of sentiment informed a lot of postwar Republican rhetoric. The signing of the Treaty of Ghent was an *epochal* moment for them. It was now their duty to bind the country together, for its prosperity, security, and perpetuation. Hamilton's agenda could do that, and the

---

<sup>71</sup> JMe to the Military Committee of the Senate, 22 February 1815, *WJM* 5:322.

Republicans had no alternatives besides the narrow conservatism of Randolph and Taylor. So, they set aside their old objections to answer the call from the “spirit of the nation.”

In an important respect, this program was a fair and judicious blending of nationalism and republicanism. A mild protective tariff, moderate support for internal improvements, and a Second Bank hardly seemed to be a threat to the nation’s experiment in self government in 1816. Instead, it appeared to yoke the Federalist ambitions to what Ketcham called “mild Republican guidance.”<sup>72</sup> The only truly controversial policy of the bunch was the national bank, but the country had suffered from its absence during the war that the conservatives were heartily outvoted in Congress.

The danger was not so much in these policies themselves, but the methodology they entailed. As moderate and sensible as they seemed, their sum total was to endorse Hamilton’s approach to governance: blessing certain factions with direct benefits in the short term, under the anticipation that, over the long run, this would redound to the benefit of the whole nation. Madison had thought this a very dangerous game to play in the 1790s, and while it is understandable that he changed his mind, this approach still had the *potential* to descend into indefensible partiality, and to corrupt the power relations in government. Republican alterations to the Federalist system—a revised constitutional hermeneutic, an effort to broaden the scope of mediators, and a reliance on good Republican partisans to manage these policies—did not alter the fact that their old critiques still retained merit, as the vexatious Randolph regularly reminded them.

In due course, Hamilton’s political economy would pose the same problems in the 1820s and 30s as it had in the 1790s. And in an ironic twist, the Republican innovations to the political order—the party system and an expanded scope of mediators—would worsen its bad effects,

---

<sup>72</sup> Ketcham, *James Madison*, 604.

enabling partisans to build expansive logrolls to secure their political fortunes, at the expense of the general welfare.

## CHAPTER FIVE

### “The Vilest of Cheats”: Partiality and Corruption in Republican America

#### Introduction

After he was inaugurated the nation’s fifth president, James Monroe embarked on a national goodwill tour. His visit to Boston, a Federalist bastion, was so well received that it prompted Benjamin Russell of the *Columbian Centinel* to declare the country had entered an “era of good feelings.” This was an apt description in many respects: By 1817 the United States was in the middle of a postwar, export-driven economic boom; it had, at least by its own reckoning, vindicated the national honor in the War of 1812; and the dark clouds of the sectional conflict over slavery were not yet on the horizon.

Moreover, there was an impressive political consensus, the likes of which the country had not seen since before Hamilton’s *Report on Public Credit*, and arguably would never see again. Part of the new unity was thanks to the Federalist Party tainting itself with secessionism during the late war, leaving the Republicans as the only game in town (at least outside New England). It was also because the Republicans had fused the old Federalist economic program with their egalitarian political outlook, bridging the divide that had separated the two parties for a generation. As discussed in Chapter Four, most postwar Republicans admitted that Hamilton’s old way of doing things—using factions as go-betweens for the general welfare—was a necessity if the project of republican nationalism was to be completed. Whereas Hamilton’s original vision was for just a handful of elite mediators, the Republicans broadened the scope dramatically, endeavoring to bring all classes directly into the quest for national prosperity. There were dissidents, naturally—Randolph was still a bugbear, and a handful of Federalist dead-enders

suddenly discovered the virtues of Jeffersonian simplicity—but the coalition in favor of this Hamilton-Madison fusion was broad indeed. Moreover, the Republican Party allayed fears that such mediation could be used against the people, for the Republicans were the ones who vindicated self-governance during the “Revolution of 1800.”

By the end of the next decade, the unity was gone. The sectional crisis of 1820 was the first time slavery would become a national issue under the Constitution, the presidential election of 1824 split the country in four, almost equal parts, and the ensuing second party system would be at least as vitriolic as the first. Some of this was due to exogenous forces shifting the political conflict—the nation’s westward expansion triggered a conflict over slavery, and the Panic of 1819 brought a sudden and jarring end to economic growth. Some of it was due to the caprice of politicians—public outrage over the “Corrupt Bargain” between Henry Clay and John Quincy Adams set the stage for Andrew Jackson, whose peremptory disposition alienated a wide swath of those who had been mollified by the moderation of Madison and Monroe.

Still, a good portion of the new divide had to do with old matters of American political economy, the same disagreements that had set the Federalists against the Republicans some 30 years prior. The partiality of postwar tariff policy did as much as anything to destroy the political consensus during the 1820s, and the corruption of the Second Bank was a headline grabber at several points during its uneven existence. That which was old was suddenly new again—and not by coincidence, either. The Republicans had enunciated a thoughtful critique of the Federalists in the 1790s, which—as discussed in Chapters Two and Three—had real merit. While the case was overstated in many respects, Madison was right to argue that Hamilton’s program was quite partial, and that this partiality lent itself to corruption. In the 1810s, the

Republicans thought they could keep the good parts of Hamilton's system without the attending problems, but the next decade proved this presumption wrong.

This chapter is divided into two sections. The first will outline the problem of partiality that emerged from the Federalist-Republican fusion. The postwar tariff facilitated majority factionalism, as the parties used it to reward key constituencies at the expense of the plantation gentry of the South. Madison argues in *Federalist* 10 that a fatal danger to republican government is a majority "united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community." He figures the extended republic, when combined with checks and balances, would impede such a majority from forming. Yet the postwar Republicans' effort to rope in a vast array of mediators created a heterogeneous interest, united by the desire to enrich itself at the government till. This patchwork was further coalesced by the efforts of the parties of the second system to win the presidential election. The second section will detail the emergence of corruption in the Second Bank of the United States. As discussed in Chapter One, corruption in Madison's thinking could be formal or informal. While the corruption of the 1790s was largely informal, the problems with the Second Bank were formal in nature—as an institution granted an explicit monopoly by the government used it against the general welfare at critical junctures.

In sum, this chapter will show that fusing the Federalist economic agenda with Republican political methods did not solve the problems of partiality and corruption, which had prompted Madison's break from Hamilton a quarter-century prior. If anything, the Federalist-Republican synthesis worsened them.

## Partiality and the Tariff of Abominations

Madison had avowed at many points in his career that he favored free trade, although the phrase had a different meaning in his day than it does in ours. Taxes on imports were the country's primary source of revenue, so the real debate was whether tariffs should be used solely for that purpose or also to protect domestic industries. On this question, he had long shown a willingness to make compromises for the greater good. The Tariff of 1789, which he shepherded through the House, had protective elements in it, as noted in Chapter Two. Massachusetts and Pennsylvania had adopted protective measures during the Confederation period, and were keen to see them retained by the new government. The House also made what Madison described to Tench Coxe as a "concession" on cotton duties for the South, which "complained of sacrifices on almost every other article. It has unluckily happened in a variety [of] instances that compromises between local views have been made at the expence of the general interest. This is an evil not to be altogether avoided."<sup>1</sup> By and large, the Tariff of 1789 was not protective, as its average rate was just 5 percent, with higher ad valorem duties on luxury goods and a handful of targeted protectionist measures.

Hamilton's *Report on Manufactures* notwithstanding, there was little pressure for protection in the early years of the republic. Before the Orders in Council of 1807, the Atlantic carry trade was enormously profitable for New England, and the South's prosperity depended upon exporting staples to Europe. The Jeffersonian embargo, followed by the War of 1812, served as massive protective stimuli for domestic industry. Imports collapsed from an average of \$130 million per year in 1805-1807 to \$64 million from 1808-1811, and just \$38 million from 1812-1815. The sudden want of cotton and woolen goods was particularly significant, as it

---

<sup>1</sup> JM to Tench Coxe, 24 June 1789, *PJM* 12.

induced the country to develop its nascent textile industry in a very short order.<sup>2</sup> After the Treaty of Ghent, British exporters dumped their surplus products on the American market, posing a dire threat to domestic manufacturers.

The Madison administration considered this situation dangerous to the national interest. Having experienced two wars with England in his lifetime, the president had no idea that the Treaty of Ghent would inaugurate a centuries-long peace. He and the old War Hawks expected more trouble down the road, and resolved to prepare the nation for future conflicts. John C. Calhoun's House speech in support of the administration's agenda was predicated upon the expectation that Great Britain would not "permit us to go on in an uninterrupted march to the height of national greatness and prosperity."<sup>3</sup> Instead, he expected "future wars, long and bloody" between the two nations.<sup>4</sup> As such, the United States had to take measures now, before the next conflict—including expanding the navy and militia, a program of internal improvements to facilitate military transport, fortification of the coasts, and protection of "the necessary materials for clothing and defence." In calling for protection, Calhoun explicitly placed "the claims of the manufacturers entirely out of view," and instead defended it "on general principles, without regard to their interest."<sup>5</sup>

Judged by subsequent standards, the Tariff of 1816 was not very protective—the rates turned out to be too low for that. Still, its manifest purpose was to offer protection, albeit it temporarily.<sup>6</sup> The duties on cotton and woolen goods would be raised to 25 percent until 1819,

---

<sup>2</sup> See Taussig, *The Tariff History of the United States*, 18-23, and Stanwood, *American Tariff Controversies in the Nineteenth Century*, 127-130.

<sup>3</sup> Calhoun, Speech of 31 January 1816, *AC* 14: 832.

<sup>4</sup> *Ibid.*, 833.

<sup>5</sup> *Ibid.*, 837.

<sup>6</sup> In proposing a protectionist schema, Secretary Dallas took a Hamiltonian tack in dividing manufacturing into three tiers: items produced in sufficient domestic quantities to meet the home demand would have a prohibitory duty; those where domestic industry offered less than a full supply would have a smaller duty to encourage development; and

and then dropped to 20 percent thereafter—thus stimulating domestic industry without burdening consumers for too long. The mild and temporary nature of the measure helped create a broad, transregional coalition in its favor. House members from the Mid-Atlantic and the West voted overwhelmingly for it, and New England (which by this point was still in favor of free trade, due to the continued importance of its shipping business) gave it a small majority. While the South voted against it, 14-31, the bill enjoyed a respectable share of the vote, and South Carolina’s representatives broke 4-3 in its favor.<sup>7</sup>

This turned out to be the beginning, not the end of agitation for protection. The Society for the Encouragement of Manufactures was founded in 1816, as a host of regional interests began to push for more assistance, and during the Panic of 1819 they claimed that protection of their industries would amount to a mass employment measure. Their efforts resulted in the Baldwin Tariff of 1820, which went down to a narrow defeat at the hands of New England and the South, whose members were still generally committed to free trade. After the census of 1820, political power shifted from those regions, and empowered the Mid-Atlantic and West to pass the Tariff of 1824, which increased duties on all manner of goods, including iron, lead, raw wool, hemp, cotton bagging, and textiles—on average the import tax rose to 50 percent on dutiable imports.

The Tariff of 1824 marks the end of the national consensus regarding protection, as the tariff came to pit region against region. The Monroe administration refused to endorse the measure, but the president signed it into law because he did not think it unconstitutional (the typical practice prior to the Jackson administration). Opposition was particularly intense from the

---

items where the domestic supply was totally insufficient would have only a duty for the sake of revenue (See Dallas, *Tariff of Duties on Imports*, *ASP*, 3:89-91.).

<sup>7</sup> Calhoun supported the bill, whose details were directed by William Lowndes of South Carolina, chair of the Ways and Means.

South. In the South Carolina upcountry, overexpansion of cotton acreage left planters especially vulnerable for years after the Panic of 1819. Cotton fetched as much as 27 cents a pound shortly after the war, but by the middle of the 1820s it was worth less than 10 cents. The wealthier lowcountry planters were in better shape—as they could grow finer types of cotton—but none was willing to abide a government-mandated increase in their costs of living that might also prompt retaliatory measures against American exports. Regardless, the measure passed on the strength of support from the Mid-Atlantic and West, with New England in opposition and just one Southern House member supporting it.<sup>8</sup>

There is little doubt that the Tariff of 1824 was partial in the sense that Madison in 1790 would have found objectionable. It had nothing to offer the South except a higher cost of living, and it imposed its burdens when the region's most profitable staple was struggling to earn half of what it had a decade ago. Petitioners from Richland County, South Carolina argued to Congress in 1828:

Your memorialists, deeply suffering under this system of protecting duties ... desire to express their deliberate conviction that Congress possesses no power under the Constitution ... to favor, in any manner, one class of citizens at the expense of the rest; that such a system has been long felt in this State as equally unjust in its principle and in its operation; that it arrays the pursuits and the interests of one section of the Union against those of another, conferring advantages and privileges arbitrarily, unequally, and in no degree sanctioned by

---

<sup>8</sup> For more on tariff politics between 1816 and 1824, see Bartlett, *John C. Calhoun*, 84, 139, Bolt, "The Tariff in the Age of Jackson," 69-70 and 125-176, Ellis, *The Union at Risk*, 7, Freehling, *Prelude to Civil War*, 26-32 and 89-133, Irwin, "Antebellum Tariff Politics," 716, Pease and Pease, "The Economics and Politics of Charleston's Nullification Crisis," 336, Rothbard, *The Panic of 1819*, 209-226, Taussig, *The Tariff History of the United States*, 27-28 and 63-69, and Wiltese, *John C. Calhoun: Nationalist*, 115-117, 287-289, and 404.

the Constitution or by justice; and that it is liable to great abuse, as a political engine, by bribing one section of the Union with the plunder of another.<sup>9</sup>

To a great extent, this is a Madisonian argument. The former president had long held that it was contrary to the principles of republican government to favor one faction at the expense of another—and had used that argument specifically against Hamilton’s protective system. But he never developed the idea that the tariff could become a “political engine,” as the Richland petitioners claimed. He believed Hamilton’s debt system and the Bank were serving such a function, but because the *Report on Manufactures* was essentially dead on arrival to Congress—and more broadly because the protective policy did not begin in earnest until after his retirement—Madison never was forced to wrestle with this claim.

The citizens of Richland were not alone in seeing dark motives behind the tariff. Speaking against the Tariff of 1824 from the Senate floor, an aged John Taylor of Caroline argued:

For in truth, this is not a tariff bill to encourage manufacturers. It is a bill of bargains, to enrich a pecuniary aristocracy. This aristocracy is a polygamist, and is, by this bill, courting a number of local interests, with a design to marry them for the sake of their fortunes ... it proposes to bribe them with small portions of their own estates, to get the rest for itself.<sup>10</sup>

Taylor was describing a legislative logroll, in which representatives of various economic sectors voted for each other’s morsels to create a majority coalition that would not otherwise exist. Such coalitions were not unprecedented in American history up to that point. Madison sought to form one with the impost of 1783, and the Compromise of 1790—which included Eastern speculators,

---

<sup>9</sup> “Memorial of the Citizens of Richmond, South Carolina Against Increase of Duties on Imports,” *ASP* 5: 707.

<sup>10</sup> Taylor, Speech of 4 May 1824, *AC* 18: 686.

Hamiltonian loyalists, indebted states, and the Potomac River districts—had a similar quality, in that the final measure provided disparate bounties for several factions. But the impost and the assumption compromises were ultimately about paying the nation’s bills, whereas the Tariff of 1824, according to Taylor, was nothing more than a way for certain factions to reward themselves at the expense of others.

This suggests a potential weak spot in Madison’s political theory—one that Calhoun would explore later in the decade. In *Federalist* 10, Madison argues that the extended republic would make it difficult for a majority faction to form, but his primary worry is preventing the coherence of a singular interest with “a common motive to invade the rights of other citizens.” Madison figures that in such a republic, factions will rarely amount to a majority, and can therefore be dispensed via “the republican principle, which enables the majority to defeat its sinister views by regular vote.”<sup>11</sup> But, per Taylor, various minorities had found a way around this: The principle of protection had empowered them to bargain with one another for their mutual gain, at the expense of those not invited into the coalition. In other words, Taylor saw a majority built from an array of minorities, united only by their common interest in enriching themselves at the expense of everybody else.

That was the argument, at any rate. There is no doubt that the Tariff of 1824 was partial in its operation, but Taylor’s broader rebuke hinges on the assumption that the law served no greater purpose than the enrichment of certain factions. This notion was hotly disputed in its day. The bill had the support of Clay, the architect of the American System, who saw in its various rate schedules the possibility for harmonization over the long haul, and that—while the planters of South Carolina and Virginia may be displeased today—his program would eventually generate a larger home market for their product, and everybody would prosper. Sure,

---

<sup>11</sup> JM, *The Federalist* Number 10, *PJM* 10.

compromises had to be made here and there, just as they had for the Tariff of 1789 or the 1783 impost, but the law was part of a system that, though imperfect, made sense for the nation as a whole.

Clay did not mount such a defense for the Tariff of 1828, instead he saw it for what it was—an egregious abuse of the principles of the American System. Indeed, the argument that Taylor made against the Tariff of 1824 was admitted in almost all quarters regarding the so-called “Tariff of Abominations.” The burgeoning partisan warfare mixed with economic self-interest to produce this red-headed stepchild of American trade policy, which, though it garnered a legislative majority, was evidently bad for the general welfare and especially harsh upon the South. It was, as George Dangerfield puts it, “An undisguised hunt for special advantages,” demonstrating that “the central government was expected to give assistance, but never to plan the assistance that it gave.”<sup>12</sup> The Tariff of Abominations perverted Clay’s grand ambition for a coherent system of national development into a scramble for plunder. Only the disastrous Smoot-Hawley Tariff of 1930 would displace it as the most obscene trade measure the government ever adopted.

The Tariff of 1824 hardly provided the protection for which the wool manufacturers had hoped. That same year, Parliament abolished the duty on raw wool, which enabled English manufacturers to lower their prices in the United States. It was not long until the woolen interests were calling upon Congress for more assistance, but the narrow scope of their request made it a losing proposition. A protective measure for their benefit failed in the Senate in 1827 by the vote of Vice President Calhoun, who was forced to take this step (harmful to his national ambitions) because Martin Van Buren (an ally of Calhoun’s old rival, William Crawford, and soon to be his nemesis in the Jackson administration) withdrew, inducing a tie in the roll call vote.

---

<sup>12</sup> Dangerfield, *The Awakening of American Nationalism*, 283.

The woolen manufacturers responded by broadening the scope of their coalition. If their congressional allies offered a bill that granted assistance to a wider range of industries, they could cobble together a majority coalition. That summer in Harrisburg, the Pennsylvania Society for the Promotion of Manufacturers and the Mechanic Arts held a convention that included luminaries such as Representative Rollin Mallery, an Adams administration ally and chairman of the Committee on Manufactures, and Hezekiah Niles, editor of the influential *Niles Register* of Baltimore. The convention's report called for increased protection for manufactured and raw wool, plus iron, hemp, distilled spirits, and printed cotton.

Coming as it did at the start of an election campaign, the Society's report created a political problem for Jackson. As a senator he voted for the Tariff of 1824 (ditto his political confidant and co-senator from Tennessee, John Eaton), but Old Hickory had otherwise remained ambiguous on the subject, merely telling the public during the prior campaign that he favored a "judicious examination and revision."<sup>13</sup> Heading into the 1828 campaign, Jackson could count on support from the South, which was staunchly opposed to protection, but the election would be decided in the Mid-Atlantic and the West, which supported it. With Clay in the Adams administration, there was no doubt that the incumbent party was squarely on the side of protection, and it threw its weight behind an upward adjustment of the tariff, in keeping with the Society's recommendations. The Jackson partisans could not suffer an alliance between New England—whose burgeoning manufacturing sector was making the region more comfortable with protection—and the Mid-Atlantic and West, especially when Jackson did not offer a clear position on the issue.

So, his partisan allies in Congress resolved to propose a bill that could not pass. Though Mallery was chair of the Manufactures Committee, it was full of Jacksonians, including Silas

---

<sup>13</sup> Andrew Jackson to Littleton Coleman, 26 April 1824, *PAJ* 5: 398.

Wright, a member of the Albany Regency and a close ally of Van Buren. The bill the committee produced was stuffed with all sorts of bounties for the Midwest and Mid-Atlantic—including protections that the Society never requested—but it did not protect the woolen manufacturers of New England, who were prime movers in the initiative. Moreover, the Jacksonians went out of their way to burden New England by hiking tariffs on raw materials critical to their industries. They proposed taxing the higher grades of wool grown in this country, but also the lower grades that were not, a maneuver whose only purpose was to harass the woolen industry. Likewise, they made no distinction between the quality of hemp in their duties, meaning that the higher grades imported by the New England cordage industry were heavily taxed. They played similar games with flax and molasses, all to burden the northeastern manufacturers. On the House floor, Southern Jacksonians refused any amendments, under the belief that the bill as written would be opposed by a critical mass of New Englanders. That way, responsibility for its defeat—and with it the calumny of the Mid-Atlantic and the West—would fall upon Adams and his allies, and not Jackson, whose northern partisans would vote for passage.<sup>14</sup>

That the law's character was wholly disingenuous is not merely an interpretation by subsequent generations of scholars; it was evident to all and sundry at the time. Representative Thomas Mitchell of South Carolina, for instance, justified his opposition to an amendment that would lower the molasses impost because “keeping it in the bill would get votes against the final passage.”<sup>15</sup> Randolph declared that the only type of manufacturing that the bill supported was “the manufacture of a president of the United States.”<sup>16</sup> An anonymous letter published in the *Franklin Repository* quoted James Buchanan, a Jackson ally from Pennsylvania (and future

---

<sup>14</sup> See Niles, "The Woollens Measure," *NWR* 32: 295. See also Dangerfield, *The Awakening of American Nationalism*, 280, Hargreaves, *The Presidency of John Quincy Adams*, 194-196, Stanwood, *American Tariff Controversies in the Nineteenth Century*, 253-270, Taussig, *The Tariff History of the United States*, 72-92, Wiltese, *John C. Calhoun: Nationalist*, 355-368.

<sup>15</sup> Mitchell, Speech of 15 April 1828, *RD* 20: 2844.

<sup>16</sup> Randolph, Speech of 22 April 1828, *RD* 20: 2472.

president), as plotting to “bring before Congress a tariff bill so larded with other than protection to wool growers and manufacturers of wool, and involving principles which we know the East will not agree to, [that] we will . . . throw the odium of its rejection off the South on . . . the East.”<sup>17</sup> In private at the time, Clay denounced the bill as “the vilest of cheats,” for it “demolishes” the woolen manufactures “with the professed purpose of protecting them.”<sup>18</sup> When he returned to the Senate in 1832, he blamed Van Buren for the mess, stating that the tariff “was framed on principles directly adverse to the declared wishes of the friends of the policy of protection . . . upon the advice of a prominent citizen, now abroad (Van Buren), with the view of ultimately defeating the bill, and with assurances that, being altogether unacceptable to the friends of the American system, the bill would be lost.”<sup>19</sup> In 1837, Calhoun made a similar claim on the Senate floor, arguing that Van Buren had offered “assurances” to place “the representatives of the South at ease” that the bill would fail.<sup>20</sup>

Nevertheless, the same regional coalition that approved the tariff of 1824 pulled that of 1828 over the finish line: The Mid-Atlantic and West gave it a combined 86 votes in favor and 20 opposed; New England broke narrowly against, 16-23; and the South pushed hard against it, 3-51.<sup>21</sup> In the Senate, Van Buren held firm with the South, except on the all-critical woolen provisions. When amendments were offered to provide more protection for this important industry, Van Buren broke with his Jacksonian allies from the South and approved the adjustment (as did Eaton).<sup>22</sup> This was sufficient to secure its passage in the upper chamber, and

---

<sup>17</sup> Quoted in Klein, *President James Buchanan*, 66.

<sup>18</sup> HC to Peter B. Porter, 1 March 1828, *PHC* 7:136.

<sup>19</sup> HC, Speech of 2-3 February 1832, *RD* 22:264.

<sup>20</sup> JCC, Speech of 23 February 1837, *RD* 24: 906.

<sup>21</sup> See Poole, “Twentieth House Page,” *VV*.

<sup>22</sup> JCC, Speech of 23 February 1837, *RD* 24: 906. Robert Remini argues that this is evidence that Van Buren wanted the measure to pass all along. Perhaps this is so, but he is on shakier ground in asserting that the South misinterpreted his overtures, and he overlooks the fact that—on the Manufactures Committee—Wright (a key Van Buren ally) was instrumental in keeping protection for the woolen industries *out* of the bill. Van Buren was always

President Adams—having no constitutional objections to the principle of protection—signed it into law, even though he recognized that it burdened the South unfairly. In his lame duck address to Congress in December 1828, he wrote:

The tariff of the last session was in its details not acceptable to the great interests of any portion of the Union, not even to the interest which it was specially intended to subserve. Its object was to balance the burdens upon native industry imposed by the operation of foreign laws, but not to aggravate the burdens of one section of the Union by the relief afforded to another. ... [I]f any of the duties imposed by the act only relieve the manufacturer by aggravating the burden of the planter, let a careful revisal of its provisions...be directed to retain those which impart protection to native industry and remove or supply the place of those which only alleviate one great national interest by the depression of another.<sup>23</sup>

The South, which gave Jackson 80 percent of its vote in 1832, was certainly optimistic that Old Hickory would provide remediation, but in his first message to Congress Jackson offered only disappointment. He wrote, “No very considerable change has occurred during the recess of Congress in the condition of either our agriculture, commerce, or manufactures. The operation of the tariff has not proved so injurious to the two former or as beneficial to the latter as was anticipated.” Moreover, he suggested that, when the national debt was extinguished, the

---

cagey about his ultimate motivations, so his true intentions are lost to history. Perhaps the best explanation is that he intended for the measure to fail—in *the House*. When the bill came to the Senate, the pro-tariff sentiment from his state was so strong that he had to assist in its passage (See Remini, “Martin Van Buren and the Tariff of Abominations.”).

<sup>23</sup> Adams, Fourth Annual Message, *APP*.

revenue from the tariff should be “apportion(ed) among the several States according to their ratio of representation.”<sup>24</sup>

To the planters of Richland, South Carolina, this had the makings of a political machine, which they were being forced to bankroll. They would pay higher prices due to the tariff, their staples would receive no benefit, and the spare revenue would largely go to the Mid-Atlantic and the West, securing those regions for the Jacksonian party. This ingenious system also happened to coincide with Jackson’s constitutional scruples (he opposed federally sponsored internal improvements) and Van Buren’s political interests (New York wanted protection of its industries, but—having built the Erie Canal by itself—no federal sponsorship of internal improvements for other states).<sup>25</sup> Clay and the National Republicans, meanwhile, had little to offer the South. They too wanted protective tariffs, but instead sought to use the surplus revenue to fund internal improvements. A decade earlier, Calhoun had clashed with Madison over the Bonus Bill, which would have created a fund for such disbursements, but ten years of spending on such projects showed that the money was bound to travel North and West. Though the West had just 13 percent of the population, it received nearly a third of federal disbursements for internal improvements in the 1820s; meanwhile, the South was nearly forty percent of the population, but received less than 20 percent of those dollars.<sup>26</sup> Thus, whether under the aegis of the Jacksonians or the National Republicans, the tariff was intended not just as reward for northern industries, but also a funding mechanism to secure western support. Either way, the South was bound to lose.

---

<sup>24</sup> Jackson, First Annual Message, *APP*.

<sup>25</sup> Though Jackson was ambiguous during his 1824 and 1828 campaigns, his views on political economy inevitably emerged during his first term—and was evidenced by the effective ousting of Calhoun from his party and the emergence of Van Buren as his top lieutenant. See Wiltes, 2: 41-48.

<sup>26</sup> See Irwin, “Antebellum Tariff Politics: Regional Coalitions and Shifting Economic Interests,” 723.

It is profitable to compare the politics of the Jacksonian tariff to Madison's laments in the *National Gazette* about the antirepublican party, discussed in Chapter Three. In both cases, it was fair to argue that a combine was lobbying for a partial economic benefit, at the expense of the general welfare. But the differences between these cases is striking: Madison saw the Federalists as a *minority faction* that had bewitched the public into voting against its interests; on the other hand, both parties in the Jacksonian period were using partial tariff policy to build *majority factions*. The Federalist-Republican fusion had exacerbated the problem of partiality that unadulterated Federalism had once presented. Broadening the scope of mediators created an opportunity to write, as Taylor called it, a "bill of bargains" to "marry" disparate local interests "for the sake of their fortunes;" the rise of popular party politics had made it easier to pull off such a trick—uniting politicians and voters across far-flung geographical regions in a joint effort for self-enrichment. This is the "political engine" that the Richland petitioners had detected, and at least regarding the Tariff of Abominations, they were not far from the mark. It is not corruption, in the Madisonian sense discussed in Chapter One, for that implies a minority grasping for power, thwarting the republican principle. Rather, the postwar tariff coalition represented a majority faction that was making full use of the republican principle to enrich itself.

In the Senate, Robert Hayne of South Carolina tried to crack the pro-tariff coalition by throwing the weight of the South behind liberal land policy. This was a priority of the West, but the North feared the draining of its population as a consequence. In December 1829 Samuel Foote of Connecticut proposed limiting the sale of public lands, which drew the ire of William Hart Benton of Missouri, who tied the issue to the tariff—the implication being that northern

industrialists wanted a supply of cheap labor.<sup>27</sup> Hayne, who had been working with Benton to develop this alternative coalition, jumped into the debate to support a speedy and cheap dispersal of the lands.<sup>28</sup> This drew a response from Daniel Webster, who artfully blocked this alliance by changing the subject.<sup>29</sup> His famous second reply to Hayne, written with the newspaper-reading public in mind, turned the political question of regional alliances into a constitutional debate over whether South Carolina's nullification plan was an affront to the union.<sup>30</sup>

Black Dan's speech made a huge splash—in his own time and in the historical memory—but the truth is the Hayne-Benton alternative was going to be shaky, as the West craved internal improvements, which could be funded only by the tariff that the South was intent on eliminating.<sup>31</sup> By that point the South Carolina legislature had already published Calhoun's *South Carolina Exposition*, although the authorship of that document was still unknown to the public at the time. Webster had expertly used the prospect of nullification to undermine the incipient South-West alliance, but Calhoun's *Exposition* implicitly assumes that Hayne's effort would eventually come to naught—and that the South needed an alternative means to protect its interests.

Calhoun's objections are worth reviewing in depth. Between Madison and Lincoln, one would be hard pressed to find a politician better able to connect seemingly mundane matters like tariff-rate schedules to fundamental questions of political philosophy. Calhoun was also uncompromising, which served him poorly in the political realm but lent clarity to his political thought. He had a definite view of right and wrong, and was never afraid to pursue a line of reasoning to its logical conclusion. While he is best known for his staunch defense of slavery in

---

<sup>27</sup> See Benton, Speech of 18 January 1830, *RD* 21:22-26.

<sup>28</sup> See Hayne, Speech of 19 January 1830, *RD* 21:31-35.

<sup>29</sup> See Webster, Speech of 20 January 1830, *RD* 21:35-41.

<sup>30</sup> See Webster, Speech of 26-27 January 1830, *RD Senate* 21:58-82.

<sup>31</sup> See Peterson, *Olive Branch and Sword*, 9.

the 1830s and 1840s, his main object in the 1820s was to stop the protective tariff. In this endeavor, he revised old Madisonian ideas to attack the Republican-Federalist political economy in a more effective way than Taylor or Randolph ever did. That he was not originally one of these conservatives, but rather a former nationalist who saw the limits of his old agenda, makes his arguments all the more interesting. The *Exposition* was published at nearly the halfway point between the “Revolution of 1800” and the Civil War. Scholars have tended to view the document as a prelude to the great sectional conflict over slavery, and rightly so. Nevertheless, the *Exposition*—as well as Calhoun’s broader work on nullification—must also be understood as a postlude to the old Republican conflict against the Hamiltonians, for Calhoun attempts to answer a decidedly Madisonian question: what is to be done in a republican government that systematically and unfairly favors one faction over another?

Calhoun tried to justify their solution by referencing the Virginia and Kentucky Resolutions. This drew a rebuke from an aged Madison, who, though crippled by rheumatism, entered the political fray one last time, arguing that a protective tariff was in principle constitutional. Madison further rejected Calhoun’s assertion that sovereignty in the constitutional order belonged ultimately to the states, that the states had a right to nullify federal laws, and that these principles had been established by the 1798 Resolutions. Madison argued, not without merit, that his Virginia Resolution—which does not use the word “nullification”—was about corralling public opinion to oppose the Federalist assault on individual rights and the republican nature of the government.<sup>32</sup>

Madison’s case was far from airtight. After all, Jefferson’s Kentucky Resolution mentions nullification, and in general was a more aggressively states-rights document;

---

<sup>32</sup> See JM to Robert Young Hayne, 3 April 1830, *PJM* Early Access Document, and JM, On Nullification, *PJM* Early Access Document. See also Brant 5: 468-500, Gutzman, “A Troublesome Legacy,” 579, McCoy, *The Last of the Fathers*, 119-170, and Spain, *The Political Theory of John C. Calhoun*, 184-215.

additionally, the Resolutions were widely interpreted at the time as an assault on the federal union, prompting Madison to pen anonymously the Report of 1800 that clarified his views.<sup>33</sup> More generally, Madison was occupying a middle position—between Webster’s absolute unionism and Calhoun’s compact theory—yet he did not enunciate a remedy for the states to protect their sovereignty beyond mobilization of public opinion to alter the composition of the federal government. What happens when a sovereign state is being mistreated by a national majority, and thus has no hope of remedy from the ballot box? Madison was not trying to answer that question in 1798, for he believed that the Federalists were a true minority, and had deceived the public into voting against its interests. And he had no answer for what South Carolina should do now, given that two oppressive tariff measures had been passed by duly constituted legislative majorities in the course of just five years.

Calhoun, therefore, was in uncharted territory, endeavoring to answer a Madisonian question that the Father of the Constitution never had to struggle with. Hamilton’s economic ideas had by this point been filtered through the Republicans’ egalitarian nationalism and the rise of party politics, substantially altering the threat from partiality. In the 1790s Hamilton thought the tariff could be a tool by which the nation as a whole would prosper in the long run, even if a handful of elite capital owners might be advantaged in the short run. The Republicans had modified this idea after the War of 1812 by expanding the range of factions that might serve as mediators, under the conviction that a broadened base would further cement the union. But now, this Hamiltonian-Republican synthesis had become a tool by which minority factions had combined into a strange bedfellows majority, facilitated by a new party coalition looking to install its leader in the White House, not for the benefit of the nation but merely to enrich themselves. Such minority-majority factionalism was unprecedented in the young republic. In

---

<sup>33</sup> See JM, *The Report of 1800*, *PJM* 17.

1798 Madison reckoned the Constitution had made factious majorities very difficult to form, and that he was dealing with a single, minority faction that had connived its way into power through deceit and fear-mongering. The solution to the Federalist threat, he believed, was to mobilize public opinion. Thirty years later, Calhoun had to grapple with the reality that public opinion *had* been mobilized, in favor of a logroll that impoverished the South to enrich the North and West.<sup>34</sup> Thus, while Calhoun's conviction that impartiality was essential to republicanism is reminiscent of Madison's view, his strategy to secure this principle had to be markedly different.

Like Madison, Calhoun in the *Exposition* avers that government should be “directed to the general good,” not used as an “instrument to aggrandize those who might be intrusted with its administration.” Laws therefore must be “uniform in their operation...that which impose(s) a burden on one, impose(s) it likewise on all.”<sup>35</sup> Like Taylor, Calhoun rejects that the tariff is impartial, and instead argues that it is a political alliance between minority factions, linked only by a desire to enrich themselves:

The woollen manufacturers found they were too feeble to enforce their exactions alone, and, of necessity, resorted to the expedient, which will ever be adopted in such cases, of associating other interests, till a majority be formed—and the result of which, in this case, was, that instead of increased duties on woollens alone—which would have been the fact if that interest alone governed, we have to bear

---

<sup>34</sup> What percentage of the population benefited from protective tariffs? It is impossible to answer this question with certitude, for public opinion polling did not exist. Still, one can reasonably infer from the posture of both parties that the protective tariff was a political winner. Moreover, throughout the 19<sup>th</sup> century the protective tariff was written *specifically* to win over a majority of factions in civil society. Whether or not they amounted to a majority of the public, or a majority of a majority of legislative districts, is impossible to say. Either way, this is a coalition that was rooted in public opinion, in one way or another.

<sup>35</sup> Calhoun, *The South Carolina Exposition*, *WJCC* 6:29. This standard may not be possible in the strictest sense, but Madison during the debate over the Tariff of 1789 argued that the *sum total* of tax benefits and burdens be distributed relatively evenly.

equally increased duties on more than a dozen other of the leading articles of consumption.<sup>36</sup>

Writing privately to Littleton Tazewell on August 25, 1827, Calhoun bemoaned the formation of “combinations” with “separate and opposing interests,” and worried that their potential political power was “the weak part of our system.”<sup>37</sup> The next day, he warned James Edward Calhoun, his cousin and trusted advisor, that though the tariff had divided the “wisest men of the country ... on principle,” the power was “highly dangerous” because through it “one section of the country may really be made tributary to the other.”<sup>38</sup>

In *Federalist* 10 Madison argues that an extended republic would reduce the likelihood of such a situation, as it would be harder for a factious majority to exist, harder for it to cohere, and harder for it to sustain itself over time. But Calhoun sees matters in precisely the opposite way. In the *Disquisition on Government*, he admits that “the various interests” will struggle “to obtain a majority,” but that “if no one interest be strong enough ... a combination will be formed between those whose interests are most alike;—each conceding something to the others.”<sup>39</sup> He fretted privately to Monroe in 1828 that the “vast extent and diversity” of the country made it more, not less likely that “some portions of the country may be enriched by legislation at the expense of others.”<sup>40</sup> Thus, there is an interactive effect at play—the broadened scope of Hamiltonian mediation had combined with the vastness of the country and the rise of party politics to create what was, in Calhoun’s judgment, a hodge-podge majority that could not be defeated at the ballot box.

---

<sup>36</sup> Ibid., 31-32.

<sup>37</sup> JCC to Littleton Waller Tazewell, 25 August, 1827, quoted in Meigs, *The Life of John Caldwell Calhoun*, 360.

<sup>38</sup> Quoted in Jervey, *Robert Y. Hayne and His Times*, 212.

<sup>39</sup> JCC, *A Disquisition on Government*, *The EJCC*, 10.

<sup>40</sup> JCC To JMe, 10th July 1828, *Annual Report*, 266.

If Calhoun thought Madison's extended republic of *Federalist* 10 had actually become counterproductive, he also believed the checks and balances delineated in *Federalist* 51 were insufficient—for the core problem was the republican principle itself. In the *Exposition* he writes, “No government, based on the naked principle that the majority ought to govern, however true the maxim in its proper sense, and under proper restrictions, can preserve its liberty even for a single generation.”<sup>41</sup> Madison's *Federalist* 51 argues that the Constitution had sufficiently tempered majoritarianism through a system of institutional safeguards, but Calhoun thinks that is not enough. Eventually, a majority faction will develop and overrun these protections. In fact, Calhoun regarded the concept of majority rule not as a normative principle, but as a political expedient.<sup>42</sup>

In *Federalist* 51 Madison argues that the Constitution, thanks to the extended republic and a system of checks and balances, had established a government whereby “a coalition of a majority of the whole society could seldom take place on any other principles than those of justice and the general good.”<sup>43</sup> It was possible for such a coalition to form, but the Constitution had minimized the changes. Though Calhoun cites the *Federalist* papers approvingly, his argument is actually a sharp critique of Madison's, for Calhoun asserts that such a fractious majority had come to exist—and were bound to recur with regularity. And how could this have happened? Calhoun indicts the principle of majority rule, but operating in the background of his

---

<sup>41</sup> JCC, *Disquisition on Government*, *EC*, 33.

<sup>42</sup> On this, Calhoun is closer to Edmund Burke than to Madison. Burke writes:

It is therefore of infinite importance that they should not be suffered to imagine that their will, any more than that of kings, is the standard of right and wrong. They ought to be persuaded that they are full as little entitled, and far less qualified with safety to themselves, to use any arbitrary power whatsoever; that therefore they are not, under a false show of liberty, but in truth to exercise an unnatural, inverted domination, tyrannically to exact from those who officiate in the state not an entire devotion to their interest, which is their right, but an abject submission to their occasional will, extinguishing thereby in all those who serve them all moral principle, all sense of dignity, all use of judgment, and all consistency of character; whilst by the very same process they give themselves up a proper, a suitable, but a most contemptible prey to the servile ambition of popular sycophants or courtly flatterers (Burke, *Reflection on the Revolution in France*, *RW*, 96.).

<sup>43</sup> JM, *The Federalist* Number 51, *PJM* 10.

thesis is his objection to the Federalist-Republican synthesis. By accepting Hamilton's idea of using factions as mediators for the general welfare, and by expanding the number of such mediators, the Republicans had created the opportunity for a "polygamist" majority to form. The party system added fuel to the fire. Though Van Buren thought that parties were integral to the maintenance of republican governance, there was no reason a party could not function in an antirepublican fashion, stitching together a majority based not on a shared conception of the public good, but a shared desire for self enrichment. This is not corruption, in the Madisonian sense of the word, for that implies an undermining of the republican principle by a minority faction. Instead, this was a "more fatal" threat of majoritarian factionalism—a conglomeration of parochial interests coming together, at the instigation of political parties, to reward itself via the republican principle of majority rule.<sup>44</sup>

From these premises, Calhoun reached the conclusion that the maintenance of republican government required a near-absolute minority veto, at least in areas where the general welfare was not concerned. This was the basis for his theory of the concurrent majority. The general government should continue to possess supreme authority to rule in all cases where there exists "a community of interests" across the nation; meanwhile, in disputes where "the States have distinct and separate interests, over which no supervision can be excised by the general power without injustice and oppression," they should retain a veto over the federal authority, with the only federal remedy being a constitutional amendment adopted by a supermajority of the other states to override the minority.<sup>45</sup>

---

<sup>44</sup> JM, Vices of the Political System of the United States, *PJM* 9.

<sup>45</sup> JCC, Disquisition on Government, *EC*, 35.

Calhoun's concurrent majority is hardly a satisfactory solution.<sup>46</sup> There was, after all, a version of nullification under the Articles of Confederation—the states retained their sovereignty, and the national government as a consequence was totally impotent, even in areas intended to be under its jurisdiction. The ultimate problem, which Calhoun failed to address, is a point that Madison makes in *Federalist* 10: “No man is allowed to be a judge in his own cause, because his interest would certainly bias his judgment, and, not improbably, corrupt his integrity.”<sup>47</sup> Calhoun rightly understood that a national majority cannot recognize when it unfairly impinges upon an innocent minority, but by the same token a minority cannot appreciate when it is guilty of thwarting the necessary actions of the majority. If the principle of majority rule is too low a threshold to protect minority rights, the supermajority requirement of a constitutional amendment is too burdensome to facilitate majority action. Moreover, Calhoun's use of the states as a check on national sovereignty is arbitrary and unpersuasive. In the *Vices of the Political System of the United States*, Madison notes that majorities in the state governments had misused their sovereignty to harass local minorities. This is as much a violation of republican probity as what South Carolina experienced at the hands of the Tariff of Abominations, but Calhoun assumes this problem away by asserting—contrary to the experience of the 1780s—that states possessed reasonably homogenous interests. Finally, Calhoun was flat wrong to argue that the notion of the concurrent majority was embedded in the Constitution itself. This conclusion rested on a controversial reading of the Virginia and Kentucky Resolutions—and after Madison's notes on the Constitutional Convention were published

---

<sup>46</sup> Even so, a version of Calhoun's idea forms the basis of the United Nations Security Council. See Faulkner, "Taking John C. Calhoun to the United Nations."

<sup>47</sup> JM, *The Federalist* Number 10, *PJM* 10.

posthumously, it was evident that he originally wanted to reduce the power of the states even more.<sup>48</sup>

Still, Calhoun's efforts are highly consequential to this discussion of American republicanism. His intellectual development is strangely parallel to Madison's trajectory between the 1780s and 1790s. After the War of 1812, Calhoun had supported all of Madison's nationalist agenda, and more. He was even an advocate of the Bonus Bill, and was frustrated by the president's punctilious reading of the General Welfare Clause, yet in ten years time Calhoun would become the intellectual force behind nullification. It is easy to accuse him of flip-flopping from nationalism to parochialism—as it is easy to charge Madison with inconsistency in the early years of the new government—but this overlooks the efforts of both to secure their consistent vision of republican governance in the face of changing circumstances. Both were committed to the principle of neutrality—that a republican government must not take from one faction and give to another, unless the welfare of all requires it. As discussed in Chapter Two, Madison's understanding of neutrality accounted for much of his opposition to Hamilton's system. Calhoun, who began his career as an advocate of Hamiltonian policies, changed his mind after it was clear to him how partial their actual operations were.

Both were also accused of shifting their views in response to narrow political calculations, Madison sensitive to the views of Orange County and Calhoun to the Palmetto State. No doubt there is some truth to these charges, but both endeavored to reconcile local views with national priorities. Madison's consistency was recounted in earlier chapters, and the same can be said of Calhounian nullification, which possessed—in its own way—a nationalist outlook. Calhoun believed that the only way to save the republic was to prevent factions from having the

---

<sup>48</sup> Indeed, the 1821 publication of Robert Yates' notes on the Convention was quite inconvenient for Madison. Released shortly after the sectional battles over Missouri and the Baldwin Tariff, they showed he had once exhibited a level of nationalism that was then out of fashion in Virginia (See Brant 5: 434-435.).

power to run roughshod over others, regardless of who amounted to a numerical majority. He anticipated that the South would never abide its role as a permanent minority in Clay's American System, subsidizing Northern industries and building western roads. Calhoun sensed that his home region would abandon the union, unless it was provided due protection for its interests.<sup>49</sup>

Indeed, there is an elitist, even Hamiltonian cast to Calhoun's theory of the concurrent majority. Irony abounds, for a version of Hamilton's economics had pushed him into adopting a version of Hamilton's constitutionalism. In 1787 Hamilton, as noted in Chapter One, held that the only sure guard for minority interests was a permanent investment in the government. "A democratic assembly is to be checked by a democratic senate, and both these by a democratic chief magistrate," Hamilton wrote in his notes. "The end will not be answered—the means will not be equal to the object. It will, therefore, be feeble and inefficient."<sup>50</sup> Calhoun, who a decade prior had been on the vanguard of Madisonian nationalism, was now echoing this anxiety. There was no hope for the plantation gentry of South Carolina in the constitutional schema—it was doomed to be defeated by an acquisitive majority. The only hope—not just for the upcountry planters but for aggrieved minorities everywhere—was a sturdy bulwark against a numerical majority. Just as Hamilton wanted to temper majoritarianism by insulating the senate and the

---

<sup>49</sup> It is tempting to backdate the fight over slavery to the Nullification Crisis, but the evidence does not support the conclusion that it was much a direct factor. The president, Jackson, and the leader of the opposition party, Clay, were both slaveholders; *The Liberator* was not first published until 1831; and the Missouri Compromise seemed to settle the sectional differences, at least for a time. Slavery, nevertheless, certainly had an *indirect* effect, in that it facilitated the rise of a cotton interest in the South that had little incentive to integrate with the national economy. The cotton gin made it easy to remove the seeds from short staple cotton, which could be grown in the South Carolina upcountry and eventually in the Old Southwest—from Georgia to East Texas. Prior to this, long staple cotton was the primary variety grown—as its seeds could be removed by hand—and its production was limited to the low country of South Carolina. The increased production was met measure for measure with increased demand, such that cotton prices in the international markets were sufficiently high to discourage economic diversification in the South. So, Dixie became increasingly tied to cotton, and thus to slavery. Hamilton in *Federalist* 11 envisions the harmonizing of one section with another, but the antebellum cotton boom pushed the South in the opposite direction, focusing on growing evermore cotton to keep up with international demand, which in turn required ever-expanding slave population. The tariff issue of the 1820s offended the interests of this new class of cotton planters, so it is closely connected to this perverse dynamic. Still, it is an inferential stretch to argue that the Nullification Crisis was actually a proxy battle over slavery.

<sup>50</sup> AH, Notes on Plan of Government, 18 June 1787, *PAH* 4.

president from the masses, Calhoun was now arguing that the Constitution protected state interests from encroaching majorities.

While Calhoun was wrong to argue that his solution was consistent with the original intent of the Constitution, he was still operating within the confines of republican political thought. Indeed, he was struggling to keep the republic from becoming the ouroboros Madison denounces in the *Vices of the Political System*, one where the republican principle ultimately consumes itself. Calhoun had sensed this threat in the protective tariff. Ultimately, he came to reject majoritarianism altogether, and endorsed the idea that republican government required a minority veto.

South Carolina's brinkmanship upended the pro-tariff coalition, at least for a spell. Clay and Calhoun brokered the compromise Tariff of 1833, which slowly scaled the tariff rates down over the next decade, until they would reach a uniform ad valorem rate of 20 percent in 1842. By then, the South-West political coalition of Hayne and Benton finally ripened within the Democratic Party, and the tariff would remain reasonable until the Civil War. Thereafter, the West realigned into a political alliance with the North, and the emergency rates set by the Union during the War would mostly be retained until the Great Depression, despite the fact that by the end of the 19th century they served no economic purpose whatsoever.<sup>51</sup> In the end, while Calhoun's solution was insufficient, his diagnosis was very sharp. Whatever merits a nationalist tariff might in theory possess, by the end of the 1820s protection had in practice become a tool for economic and political enrichment, imposed at the expense of the South. And while South Carolina's embrace of nullification broke the pro-tariff regime apart, it would eventually reform. The population growth of the North and West was such that the pro-tariff alliance would become

---

<sup>51</sup> See Bartlett, *John C. Calhoun*, 190-201, Bensel, *The Political Economy of American Industrialization*, 457-509, and Peterson, *Olive Branch and Sword*, 40-84.

a dominant majority for nearly a century. Only the economic calamity of the Depression, which was connected in the public mind to the Smoot-Hawley Tariff of 1930, finally elevated the principle of free trade that Madison had once promoted.

Calhoun is typically—and rightly—remembered as the stubborn, unyielding advocate of the southern slaveocracy, but before the sectional conflict of the antebellum period came to a head, he played another role in government. Once a fervent advocate of the new Republican nationalism, he came to appreciate the old Republican critique that favoring certain factions in society could generate intolerable partiality. Calhoun further perceived the danger of combining the old Federalist political economy with the Republicans' political egalitarianism. Whereas Madison and Jefferson had railed about Hamilton's program in the 1790s for aiding the few at the expense of the many, Calhoun saw correctly that the tariff aided the many at the expense of the few. Therefore, Calhoun—unlike Madison—could not rely upon the republican principle of majority rule to vindicate the rights of his region. He had to work out another mechanism to defend the rights of his constituents. While that solution was far from perfect, it nevertheless was an ingenious effort to deal with the problem of partiality, a problem that had grown worse as a consequence of the Republican-Federalist fusion.

### **Corruption and the Second Bank of the United States**

As discussed in Chapter One, Madison worried about corruption in two ways: formal corruption, whereby factions in possession of explicit grants of government authority pursue their own interests at the expense of the general welfare; and informal corruption, whereby conflicts of interest within or close to the government enable a faction to use power for its own purposes, even though the laws remain nominally republican. Madison feared that the Bank of

the United States could become an example of formal corruption, and this anxiety motivated his main prudential and constitutional objections to it, as discussed in Chapter One.

Ultimately, the Bank has been remembered as a beneficial institution, and not without good reason. The truth is that for its twenty years in existence, it accomplished exactly what Hamilton thought it might, and remained a model of republican probity for its whole tenure. Still, Madison's anxieties would prove prescient with regards to the *Second* Bank of the United States. Chartered in 1816, by none other than President James Madison, the managers of this institution would indeed pursue an interest adverse to that of the whole society.

If the Tariff of Abominations can be understood as a coda to the old Republican-Federalist battle, the same is true of the Second Bank of the United States. Granted, it is pretty hard to miss this, given Jackson's veto message of the recharter bill, which is a fiery revival of the old Jeffersonian faith. But Jackson's jeremiad actually obscures more than it clarifies. Because his critique of the Second Bank in 1832 was so divorced from the actual facts of the case—by that point the Second Bank under Nicholas Biddle had been performing better than anybody could have hoped in 1816—it is easy to dismiss the whole line of reasoning as hokum. But it was not. A broader view of the Second Bank, one that considers the whole period of its existence and not just the years leading up to the Bank War, demonstrates that Madison's ancient anxieties—about a national bank becoming an interest of its own, set apart from the general welfare—had some relevance. There were two distinct periods when the Second Bank behaved in ways similar to those old warnings: under its first director, William Jones, between 1817 and 1819, and under its third director, Biddle, after Jackson removed the federal deposits in 1833. Each merits closer inspection.

As noted in Chapter Four, Jones’s qualifications for the Second Bank presidency were middling at best. He had served without distinction as secretary of the Navy, and briefly as secretary of the Treasury, and had recently gone through bankruptcy—which was an omen of things to come. Nevertheless, he had long been a loyal Republican, which was good enough for the Madison administration. Speculators were to be counted among Jones’s supporters as well. Stephen Girard—the wealthy merchant who purchased most of the Bank’s stock after its charter expired, and who was an important advocate for chartering the Second Bank—complained that “[i]ntrigue and corruption had formed a ticket for twenty directors of the Bank of the United States who I am sorry to say appear to have been selected for the purpose of securing the presidency for Mr. Jones.”<sup>55</sup>

Jones himself was not corrupt, but he was tolerant of venality in others, and too ignorant of finance to serve the public reliably. The government had chartered the Second Bank in part to force the state banks to resume specie payments, which required the Second Bank to have a reasonable reserve of its own. Unfortunately, Jones’s indulgence of the speculators undermined this objective, as he and the board allowed subscribers to Second Bank stock to pay their second installment of specie on a pledge from the stock itself, permitted them to discount their stock at an advance of 25 percent, and waived the specie payment if subscribers gave up the first dividend. As a consequence, the Second Bank only raised \$2 million in hard currency (well short of its \$7 million goal), and allowed a handful of speculators to snatch up large quantities of stock for very little money down, thus creating a demand for it that inflated the value of the stock enormously. The machinations of the directors frustrated Rufus King, once again serving in the Senate, who thought the “dispensation” would “prove so seriously mischievous in the early

---

<sup>55</sup> Quoted in Hammond, *Banks and Politics in America*, 252.

resumption of Cash Payments.”<sup>56</sup> Worse, speculators evaded the rule that a stockholder could hold no more than 30 votes, by spreading nominal ownership among dummy holders. For instance, George Williams, director of the Second Bank branch in Baltimore, held 1,172 shares of stock, for which he received 1,172 votes because he registered them under 1,172 names.<sup>57</sup>

With control over so many shares, and an indulgent president seated in Philadelphia, speculators all across the country were primed to use Second Bank branches to enrich themselves. And that is exactly what they did. Defalcation was common during the tenure of Jones, but the Baltimore branch stands out—not only because of the ambitious scope of the speculative scheme (roughly \$1.5 million embezzled, a staggering sum for the 1820s) but also because the fraud went undetected for years. The central players in the drama were Williams, James Buchanan, not the future president but the branch president and a partner at the financial house of Smith and Buchanan, and James McCulloch, the clerk at the branch who would primarily be remembered as a party to *McCulloch v. Maryland*. Buchanan and McCulloch purchased nearly 30,000 shares of Second Bank stock for \$4.5 million, financed partly from Second Bank loans on a pledge of stock, and partly on advances from the Second Bank to themselves. This fraud continued for years, and yet Jones did not notice. In fact he accepted an \$18,000 “gift” from the profits made off speculating in Baltimore. The fraud was evident in the books of the branch, which the directors in Philadelphia were free to examine, but never did. Eventually, Congress detected some hints of misbehavior, and Langdon Cheves—one of the old War Hawks from South Carolina who was named successor to Jones—uncovered the whole

---

<sup>56</sup> Rufus King to C. Gore, 26 December 1816, *LCRK*, 6:38.

<sup>57</sup> See Catterall, *The Second Bank of the United States*, 40-41, Dangerfield, *The Awakening of American Nationalism*, 79, Dangerfield, *The Era of Good Feelings*, 180, Eckert, “William Jones,” 177-178, Govan, *Nicholas Biddle*, 51, and Hammond, *Banks and Politics in America*, 251-258.

affair. By that point McCulloch had about \$425,000 in unsecured loans while Smith & Buchanan had another \$350,000.<sup>58</sup>

In theory, the Second Bank could have been an asset to the economy. By collecting tax revenue mostly in the form of state-bank paper, the Second Bank was a creditor to the state banks, and thus had the power to induce them to behave properly. But under Jones it was little more than a tool for speculators, and it facilitated an egregious overexpansion of credit. When Jones entered his position, he told William Crawford, the secretary of the Treasury, that the policy of the Bank was “less enlarged, liberal, and useful than its powers and resources would have justified.”<sup>59</sup> He pursued such an expansionary policy, but crucially he failed to set the capital levels for the various branches. This meant—in effect—that the inmates were running the asylum. Of the \$33 million in total Bank loans made by October 1817, more than \$8 million had originated from Baltimore alone. Another \$13 million were sourced from Philadelphia, where fraud was also rampant. While these two offices were extremely irresponsible, they were still part of a general pattern. In region after region, local branches were captured by parochial

---

<sup>58</sup> Writing in his diary, John Quincy Adams recounted the sordid affair after it broke into the open:

The house of Smith and Buchanan ... appear to have been desperate for many years. But they were Tyrian merchants—princes—and princely expedients have they taken to save themselves from sinking. Their speculations in the United States Bank were to the amount of several hundreds of thousands of dollars, and have proved ruinous. But Buchanan and McCulloch have used the funds of the bank as if they were their own. The Congressional Bank Committee of the last session made a partial discovery of the state of affairs, and it was found that the debts of the house to the bank were enormous. Mr. Cheves, the new President of the bank, pursued the research, and found there were immense debts of the President and Cashier not secured. He obtained such security as he could, and then the Board of Directors at Philadelphia removed McCulloch (*sic*), the Cashier at Baltimore. For a day or two there was great blustering in the Baltimore newspapers, as if the grossest injustice had been done to McCulloch; but the mine was blown up. Buchanan, the President of the branch, resigned, and a debt of nine hundred thousand dollars appears against the connection, little more than one-half of which is even supposed to be effectually secured. General Smith is reported to have gone distracted, and to be confined dangerously ill in bed. This explosion has brought on others: the failures are numerous and for heavy sums. The Presidents and Cashiers of other banks have been playing the same game as Buchanan and McCulloch (Adams, *MJQA*, 4:382-383.).

<sup>59</sup> William Jones to William Crawford, 20 July 1817, *Letters from the Bank of the United States and Branches* 2: 665.

interests, and lent with gross irresponsibility, without regard to the financial well-being of the Second Bank or the economy at large. By July 1818 the Second Bank had demand liabilities of \$22.4 million to a specie reserve of just \$2.4 million, double the legal limit. This was not just irresponsible, it was disastrous. The country had been enjoying an export boom, but cotton hit a peak value of 32 ½ cents a pound on the Liverpool exchange that year, and quickly tumbled through 1819. Land values fell accordingly, and the Panic of 1819 was in full swing. A responsible institution would have checked the irrational exuberance of the postwar years, and thus been able to provide relief when the contraction came. But the Second Bank had fueled the postwar fire, and was now itself forced to contract its issues, worsening the crisis.

Enough was enough. A frustrated Girard organized a faction of stockholders to replace Jones with Cheves, who was tasked with the unenviable job of bringing order to the chaos. That meant extending the contraction that Jones started, and cleaning out the speculators who had taken control of the local branches. As Cheves later recalled, this would be no little feat. “I was satisfied that there was a great want of financial talent in the management of (the Second Bank). But I had not the faintest idea that its power had been so completely prostrated, or that it had been thus unfortunately managed or grossly defrauded.”<sup>60</sup> Cheves restored financial solvency to the Second Bank, whose specie reserve eventually reached \$8 million and its total note issuance declined from \$68 million to \$45 million. His contraction was very aggressive, given the weak state of the economy, and it drew a public rebuke. When John Marshall legitimized Hamilton’s constitutional argument in *McCulloch*, he was salvaging an institution that—had it been up for recharter at the time—would surely have been cast aside. William Gouge spoke for many when

---

<sup>60</sup> Cheves, “Exposition of the President of the Bank to the Stockholders,” *NWR* 23:91.

he wryly commented that, under the Jones-Cheves contraction, “The Bank was saved, and the people were ruined.”<sup>61</sup>

On initial inspection, the early years of the Second Bank do not seem consistent with the dire warnings issued by Madison and Jefferson in the 1790s. After all, the two believed that the Bank was facilitating a top-down form of corruption, a brigade of speculators led by the monocrat Hamilton at the front. The misbehavior by the Second Bank from 1817-19 was hardly orchestrated by Jones, who comes through the pages of history as a man quite out of his depth. Moreover, the real antagonists hardly had grand ambitions, like establishing a royal order in the United States; rather, hacks like McCulloch were simply out to line their own pockets.

But these differences mask important similarities. If the warnings of Madison and Jefferson about the royalist purposes of institutional capture were incorrect, their basic critique that a federal bank *could be captured* was right on target. In 1816 the Second Bank was framed as an institution to regulate the economy by promoting a sound currency, but it was overtaken by speculators who, thanks to credulous leaders, twisted it to their own purposes, enriching themselves at the expense of the general welfare. Upon taking the reins of the institution in 1819, Cheves complained to Crawford that “with the present organization of the Second Bank it can never be managed well. We have too many branches, and the directors are frequently governed by individual and local interests and feelings.”<sup>62</sup> In the moment when the Second Bank could have served the most use—the Panic of 1819—it was in no position to do so. Indeed, it was in such dire straits that, to fix its own problems, it had to lengthen and deepen the economic recession. The Second Bank may not have been a tool of a pretentious band of Hamiltonian

---

<sup>61</sup> See Catterall, *The Second Bank of the United States*, 29-39, Cost, *A Republic No More*, 50-53, Dangerfield, *The Awakening of American Nationalism*, 73-76, Dangerfield, *The Era of Good Feelings*; 183, Hammond, *Banks and Politics in America*, 256-258, Howe, *What Hath God Wrought*, 142-144, Remini, *Andrew Jackson and the Bank War*, 2.; and Rothbard, *The Panic of 1819*, 10-18.

<sup>62</sup> Langdon Cheves to William Crawford, 27 May 1819, *Report On the Condition of the Bank of the United States*, 73.

monarchists, but it was still ruled by a “pretorian band,” a faction of stockholders and managers that owed its position to a government sanction, and which in turn used its powers to dominate American monetary policy for its own enrichment.<sup>63</sup>

Moreover, Madison understood that banks could be used merely for such grubby purposes. In an unpublished essay from around 1820 entitled “Banks,” he fretted about exactly the kind of abuses that the Second Bank would perpetuate under Jones:

The greatest, certainly the most offensive abuses of Banks proceed from the opportunity and interests of the Directors. They can obtain discounts for themselves, even it is said to privileged amounts: They can suspend limit and resume the discounts to others as they please: Their stations inform them of the wants and business of all who deal with and depend on the Bank under their management. With these advantages alone they may by first lending money to themselves, and then immediately shutting the Bank to others, with a knowledge of the effect on others, carry on speculations as gainful as reproachful.<sup>64</sup>

This is a near-perfect description of the Baltimore cabal. Though the literature of the Republican party in the 1790s connected the Bank to Hamilton’s supposed royalist machinations, Madison understood clearly that its public privileges could be used simply for private enrichment.

It is a credit to Cheves that these “Tyrian merchants,” as John Quincy Adams called them, were routed from power in short order.<sup>65</sup> By 1822, with the fiscal health of the Second Bank sound, the stockholders were ready for the resumption of dividend payments and an expansion of credit. They also, at least by Cheves’ telling, wanted a Philadelphian running the institution. So, he was pushed aside for Biddle, then just 36 years old.

---

<sup>63</sup> JM to TJ, 8 August 1791, *PJM* 14.

<sup>64</sup> Madison, Banks, *PJM* Retirement Series 1.

<sup>65</sup> Adams, *MJQA*, 4:382.

Biddle's performance as president of the Second Bank was nothing short of spectacular. He advanced the concept of central banking farther than it had ever gone by that point, outdoing even the Bank of England. Under Biddle, the Second Bank served as a fiscal steward of the government, just as the Bank had been under Hamilton and Gallatin. Biddle also regulated the supply of credit throughout the country. Because the Second Bank was a creditor to the state banks, it could induce them to curtail their issues by presenting state notes for payment in specie. Unlike Jones, Biddle retained tight control over the branches scattered across the country, so he could expand or contract credit as necessary in any given region. This was an especially welcome development in the South and West, where a want of responsible lending institutions made the Second Bank essential. Additionally, the Second Bank promoted interregional and international trade by popularizing bills of exchange, which enabled merchants to buy and sell goods across vast distances with only modest transaction costs.

In sum, the Second Bank under Biddle was everything that its advocates had ever hoped it could be—and more. He did more for the nation's economy than even the perspicacious Hamilton predicted was possible in the *Report on a National Bank*. Biddle's superlative work may be appreciated by comparing the Panic of 1819 to the Panic of 1825. The first overwhelmed the Second Bank, which was awash in incompetence and graft, but in 1825 Biddle had the foresight to see the trouble that was brewing in England before it hit American shores, and the Second Bank was in a good position to provide relief as needed. Thus, while the former devastated the American economy, the latter passed with hardly a notice.

It is a popular misconception that Jackson acted as the tribune of the people when he vetoed the bill to recharter the Second Bank in 1832.<sup>66</sup> The Hero's popularity was so great that, in a head-to-head political battle, he was bound to crush Biddle. Even so, people *liked* the

---

<sup>66</sup> See Jackson, Veto Message of The Re-authorization of Bank of the United States, *APP*.

Second Bank, which, all things considered, is truly remarkable. When Biddle became president in 1822, the Second Bank was so unpopular that there was a real concern Congress would revoke its charter. A decade later, when Biddle applied for recharter, testimonials in its favor flooded in from all across the country, especially the South and West, which—despite voting overwhelmingly for Jackson—appreciated how well the institution had treated them.<sup>67</sup> Naturally, that praise came primarily from the financial class, but when combined with the broad support from members of Congress from this region, it is pretty clear that the Second Bank had greatly improved its reputation in the South and West in the decade that Biddle had been in charge.

Congressional support in favor of the recharter was overwhelming, just not enough to overcome Jackson's veto. Old Hickory hated banks, and had long professed a preference for hard currency as the circulating medium. Voting to sustain his veto in Congress was a faction of conservative Jeffersonians who opposed the Second Bank on principle. Jackson also had support from a faction motivated not by abstract principles of republican propriety, but concrete matters of dollars and cents—namely, rival banking interests and their patrons in the New York Democratic Party. The South and West otherwise lacked a good financial network, so the Second Bank was a welcome facilitator of those regional economies. But in the Mid-Atlantic and New England, the banking systems were better developed, and bankers chafed under Biddle's yoke. It did not help matters that, though the Second Bank served many functions that a modern central bank does, it was still a for-profit institution held in private hands. Many state banks were thus inclined to see Biddle's institution not as a public servant, but as a competitor favored by the government.

---

<sup>67</sup> See Catterall, *The Second Bank of the United States*, 96-108, Davies, Phil. "The "Monster" of Chestnut Street," Hammond, *Banks and Politics in America*, 323-324, Govan, *Nicholas Biddle*, 85-87, Hammond, "The Second Bank of the United States," 81, Howe, *What Hath God Wrought*, 374, Taylor, "A Brief History of the Second Bank of the United States," 7-8, and Wilburn, *Biddle's Bank*, 85, 120-121.

The rivalry with New York was especially acute. With the Erie Canal facilitating commerce between the East Coast and the Great Lakes region, New York City was now the commercial and financial center of the nation. Yet the Second Bank—the country’s single most powerful economic institution—was based in Philadelphia, owned largely by Philadelphians, and run by Biddle, a native of the city. As such, tax revenue from the port of New York, now the nation’s busiest, was not held in native New York banks, but rather in the New York branch of the Second Bank. As Richard Rush warned Biddle in December 1828, “You have probably as much or more to fear for the Second Bank, from New York, as from Virginia, and with even less excuse. In Virginia, there are still constitutional scruples. In New York, none. But the frog of Wall Street, puffs himself into the Ox of Lombard Street, and will not have you abuse him.”<sup>68</sup>

The main antagonist was Thomas Olcott, cashier of the Mechanics and Farmers Bank of Albany. His institution already held state tax revenue in its vaults, making it the preeminent bank in the upstate system. Olcott was aligned with Edwin Crosswell of the *Albany Argus*, the main newspaper of the Albany Regency and holder of the state printing contracts, and Benjamin Knower, principal stockholder of the Farmers’ and Mechanics’ Bank. This combine also had acquired stakes in several New York City banks. So, if Jackson shattered Biddle’s institution, “this cabalistic political combination” (as Adams called it) would be well-positioned to pick up

---

<sup>68</sup> Richard Rush to NB, 10 December 1828, *CNB* 60. Lombard Street runs east to west through Center City, Philadelphia, four blocks south of Chestnut Street, where the Second Bank is located. Rush is suggesting to Biddle that New York bankers have pretensions to the financial authority that was then lodged in Philadelphia. The House Committee of Inquiry argued that the Second Bank was “doubly obnoxious to the system of safety fund banks” which were the main regulators of New York banking. “[I]nasmuch as their discounts, at the rate of one percent a year, curtail one percent of the dividends which otherwise, by the laws of New York they would be able to levy upon the community. It is, therefore, not surprising, that in the City, and even in the State of New York, that animosity against the Bank of the United States of almost all the local banks should have been so great as even to spread its influence into the Legislature of the State” (Committee of Inquiry, *Reports on the Bank of the United States*, 77.).

the pieces, and the largest share of economic power would finally transfer from Philadelphia to New York.<sup>69</sup>

Taken together, the anti-bank prejudices of Jackson, the old Jeffersonians of the South, and the Regency of New York were sufficient to block the recharter. It is highly unlikely that Biddle could ever have overcome this alliance, even if he had been a political maestro—the fates were just aligned against him. Alas, Biddle was terrible at politics, which only made the Second Bank’s bad situation worse.<sup>70</sup> Though he had wisely steered clear of partisan politics for most of his tenure, he allowed the Second Bank to become the central political issue in the 1832 election. This gave Clay something to run for president on, but it was terrible for the Second Bank’s reputation as an impartial steward of the national interest. Biddle’s politicking also infuriated Jackson, a man who never forgave offenses to his honor. Worse, Biddle blundered his way into New York politics, whose byzantine and grimy ways were totally foreign to this Philadelphia patrician. He essentially bribed the anti-Bank *Courier and Enquirer* to change its position—and

---

<sup>69</sup> Adams, *MJQA*, 4: 490. As Van Buren’s friend Jabez Hammond would argue in his *History of Political Parties in the State of New York*:

The personal and political friends of Gen. Jackson generally declared themselves opposed to a recharter of the bank. In this position they were supported by another interest, which was or ought to have been entirely detached from each of the political parties. The interest to which I allude, was the local banks chartered by the different states, and especially the safety fund banks of New York. More than two-thirds of the revenue of the United States, amounting to many millions annually, was paid into the United States Branch Bank, and when there, was under the absolute control of the mother bank at Philadelphia. The state banks believed, that if the United States Bank should be annihilated, these immense deposits would be made in their own vaults, and hence all the benefits arising from these deposits, and also the whole profits of the very great circulation of United States Bank notes would be transferred from the United States to the state banks, without compelling them to increase their capital to the amount of a single dollar (Hammond, *The History of Political Parties In The State of New York*, 350.).

See also Bodenhorn, *A History of Banking in Antebellum America*, 169-177, Dangerfield, *The Era of Good Feelings*, 168, Govan, *Nicholas Biddle*, 151-152 & 175, Hammond, *Banks and Politics in America*, 343, Hammond, “The Second Bank of the United States,” 84, Taylor, “A Brief History of the Second Bank of the United States,” 5-6, and Wilburn, *Biddle’s Bank*, 85, 100-102, & 127-129.

<sup>70</sup> When asked by Congress whether the Second Bank oppressed the state banks, Biddle offered a very impolitic line that illustrates his deaf ear for politics: “Never. There are very few banks which might not have been destroyed by an exertion of the power of the Bank” (Quoted in Benton, *Thirty Years View*, 159.). Though Biddle did have Clay and Webster on the Second Bank’s payroll, this turned out to do him more harm than good. Clay used the recharter issue to try to win in 1832; the effort came to naught, it further politicized the Second Bank, and encouraged Jackson’s retaliatory removal of the federal deposits. See Cost, *A Republic No More*, 57-59.

though the ethical standards in his day were often blurrier than our own, he endeavored to hide the gift from the Second Bank board, which was most certainly inappropriate. This malfeasance did not do the Second Bank any good, anyway, for Biddle's main contact in New York was a con man who did not know how to help the Second Bank, and time and again offered bad advice.<sup>71</sup>

Jackson's reelection in 1832 settled the issue of the recharter, but the Hero—true to form—was still nursing a grudge against Biddle. Jackson instructed William Duane, the secretary of the Treasury, to remove the federal deposits from the Second Bank. When Duane refused, arguing that he could legally remove them only if they were deemed unsafe, Jackson replaced Duane with Roger Taney, who promptly followed the president's orders. The Senate censured Jackson for this action, the only time in history that has ever happened, but Old Hickory was unbowed. His cronies distributed the federal funds to state banks, mostly "pets" whose managers had proven themselves loyal Jacksonians (or, at least, not partial to the Clay faction, which by this point was calling itself the Whigs).<sup>72</sup>

Jackson's removal of the deposits was bound to provoke a contraction from the Second Bank. Biddle was a responsible lender, and he was not going to allow the reserve ratio of his institution to get out of hand, but—still oblivious to the political realities—he thought he could yet snatch victory from the jaws of defeat. He used the removal of the deposits as an excuse to initiate a contraction that was longer and deeper than what the security of the Second Bank required—decreasing earning assets by 25 percent and demand liabilities by 22 percent, and increasing specie reserves by 34 percent. All told the Second Bank's reserve ratio increased from

---

<sup>71</sup> See Govan, *Nicholas Biddle*, 128-158, Howe, *What Hath God Wrought*, 375, and Watson, *Liberty and Power*, 140-141.

<sup>72</sup> See Gatell, "Spoils of the Bank War."

.359 in July 1833 to .670 in October 1834. This produced a mild recession—not very painful, but considering its political origins, totally offensive.<sup>73</sup>

Biddle’s Second Bank was similar to what scholars today call government-sponsored enterprises, like Fannie Mae and Freddie Mac.<sup>74</sup> Empowered by a federal charter, the Second Bank had advantages that competitors simply lacked—and though it was obliged to carry out certain responsibilities on behalf of the government, it was still mostly free from interference. Biddle had been long aware of his unique position; in a May 1824 letter to President Monroe, he informed him that the board would “respectfully consider” any proposals from the government regarding payments related to a treaty with the Spanish, and would “cheerfully agree” to any proposal, *provided* that it was “not inconsistent with (his) duty to the institution.”<sup>75</sup> At the same time, he still felt a keen obligation to provide for the public interest. As such, the Second Bank’s independence had been a national blessing in the 1820s, as it allowed him to develop new techniques in central banking. But Jackson’s removal of the deposits had, in Biddle’s mind “relieved” him of his “responsibility for the currency,” and forced him to “look primarily to the interest of the Stockholders committed to our charge.”<sup>76</sup>

Moreover, Biddle felt free to impress upon the public mind just how much it needed the Second Bank. As he told William Appleton in January 1834:

(T)he ties of party allegiance can only be broken by the actual conviction of existing distress in the community. Nothing but the evidence of suffering abroad will produce any effect in Congress. If the Bank remains strong & quiet, the

---

<sup>73</sup> See NB To Robert Lennox, 1 October 1833, *CNB* 215-216, NB To Thomas Cooper, 16 August 1834, *CNB* 215, Hammond, *Banks and Politics in America*, 418-433, Meerman, “The Climax of the Bank War,” 379-384, Temin, *The Jacksonian Economy*, 61, and Watson, *Liberty and Power*, 157

<sup>74</sup> For good reviews of government-sponsored enterprises, see Acharya et al., *Guaranteed To Fail*, Koppell, *The Politics of Quasi-Government*, Kosar, *Government-sponsored Enterprises*, Stanton, *Government-Sponsored Enterprises*, Wallison, *Serving Two Masters, Yet Out Of Control*

<sup>75</sup> NB to JMe, 28 May 1824, *CNB* 147.

<sup>76</sup> NB To Charles Hammond, 11 March 1834, *CNB* 225-226.

course of events will save the Bank & save all the institutions of the country which are now in great peril. But if, from too great a sensitiveness—from fear of offending or the desire of conciliating, the Bank permits itself to be frightened or coaxed into any relaxation of its present measures, the relief will itself be cited as evidence that the measures of the Govt. are not injurious or oppressive, and the Bank will inevitably be prostrated. Our only safety is in pursuing a steady course of firm restriction—and I have no doubt that such a course will ultimately lead to restoration of the currency and the recharter of the Bank.<sup>77</sup>

The next month, Biddle swore to John Watmough that “all the other Banks and all the merchants may break, but the Bank of the United States shall not break.”<sup>78</sup> As it turned out, however, Biddle did indeed break. The clamor of the merchant and financial classes for relief, amplified by an infusion of capital from England, induced him to ease his assault by the end of 1834.<sup>79</sup> When the Second Bank’s charter expired in 1836, Biddle secured a state charter from Pennsylvania, but the institution was badly equipped for the Panic of 1837. It suspended specie payments in 1839 and was liquidated in 1841.

Biddle was a rare talent, and he did more than any nineteenth-century American to advance the principles of central banking, but his behavior in the latter stages of his presidency is consistent with the Republican warnings from the 1790s. Consider again Madison’s House speech against the Bank in 1790:

The power of granting Charters, he observed, is a great and important power, and ought not to be exercised, without we find ourselves expressly authorised to grant

---

<sup>77</sup> NB To William Appleton, 27 January 1834, *CNB* 219.

<sup>78</sup> NB To John G. Watmough 8 February 1834, *CNB* 221.

<sup>79</sup> See Govan, *Nicholas Biddle*, 249-267, Remini, *Andrew Jackson and the Bank War*, 126, and Temin, *The Jacksonian Economy*, 67.

them: Here he dilated on the great and extensive influence that incorporated societies had on public affairs in Europe: They are a powerful machine, which have always been found competent to effect objects on principles, in a great measure independent of the people.<sup>80</sup>

The Bank was hardly such a threat, and for most of his tenure Biddle was an earnest and effective agent of the national interest. But when Jackson removed the deposits, he turned the full force of the Second Bank against the people, in the hope they would demand the government restore its status.

And how did Biddle have such authority? From the government itself. Because the Second Bank had been the depository of federal tax returns, and because it alone had a charter to bank across state lines, Biddle was in a position to build an enormously powerful financial institution. The Second Bank's stockholders were, in other words, a *faction* that had been blessed by government benefits—including the Republican desire to expand the branch network as part of its egalitarian project. Biddle used these extensive, state-sponsored resources not only to help the economy, but to expand the scope and importance of his institution. When Jackson removed the deposits, he weakened the Second Bank, but Biddle still had extensive resources at his disposal—thanks to its federal charter, it had become an integral cog in the national economy, and could exert influence even after Jackson had removed the deposits. And he turned them against the federal government that had originally empowered it. The Second Bank's ability to rebut the government even after the deposits were removed is reminiscent of Madison's analysis of the British ecclesiastical authority during the Reformation, discussed in Chapter One.

“Growing wealth,” Madison argued, “never fails to be a source of abuses.” By the time of the Reformation, the “Church (had) amassed half perhaps the property of the nation,” and it could

---

<sup>80</sup> JM, Speech of 8 February 1791 Bill, *PJM* 13.

not be removed so easily.<sup>81</sup> Similarly, Biddle's bank was, by 1833, the pivot point of the entire American economy. The government had granted it the political power to extract vengeance if it so chose, and it did.

In sum, if the period of the Second Bank between 1820 and 1832 represents everything Hamilton once hoped such an institution could be, the periods of 1817-1819 and 1833-1834 represent everything that Madison once feared. At its best, the Second Bank was a harmonizing force, linking the regions of the nation into a more cohesive economic unit. At its worst, the Second Bank was a destructive force, enriching the directors and shareholders while proving ruinous to the economy. And, just as Madison had once warned, there was very little the government could do to stop such misbehavior—short of revoking its charter altogether. For good and for ill, the government, though it had created the Second Bank, was always at its mercy.

## **Conclusion**

As discussed in Chapters One through Three, Madison saw two serious threats to republicanism in Hamilton's economic policies: partiality, or the systematic favoring of certain groups over others by the government, and institutional corruption, or the ability of favored factions to gain control of public authority for their own purposes.<sup>82</sup> Madison saw these as existential threats to the American experiment in self-government, which helps account for why he and Jefferson launched the Republican Party to oppose the secretary of Treasury. But, as

---

<sup>81</sup> JM, Monopolies. Perpetuities. Corporations. Ecclesiastical Endowments, *PJM* Retirement Series 1.

<sup>82</sup> In the case of the Second Bank, the stockholders did not gain control over the government *per se*, but the government had public power granted power to the Second Bank, which was then misused—first by Jones and later by Biddle. This gets back to the distinction between formal and informal corruption. Informal corruption works upon the government directly, via the mixed motives of legislators or other public officials. Formal corruption works through an entity empowered by the government but not subjected to the rigors of electoral competition or checks and balances.

described in Chapter Four, the Republicans were ultimately confronted with the reality that Hamilton's program, for all its flaws, was the only coherent system to promote national development. Because the mainstream of the party—which after the War of 1812 was Madison, Monroe, Clay, etc.—were republican *nationalists*, they were obliged to embrace Hamilton's approach to governance, over the objections of Randolph, Taylor, and the conservative *Tertium Quids*. They gave Hamilton's elitism a thoroughly Republican gloss—rather than favoring a few factions, they took an egalitarian approach to mediation. Through a Bank with many branches (Hamilton had opposed this), internal improvements, and a wide-ranging protective tariff, just about everybody could gain something while helping advance the general welfare. In *Federalist* 11, Hamilton had coined the phrase “American System,” but Clay made the concept uniquely his own. And what reason was there to worry about political corruption, now that the Republican party had vindicated the general welfare from the Federalists? The country could rest assured that the Republicans in power were faithful servants of the people's interests.

Yet as discussed in this chapter, the Hamiltonian system produced the same defects once again—even though it was filtered through the Republican rubric. The Tariff of Abominations demonstrated how dangerous partiality could be under this Republican-Federalist synthesis: Hamilton's economic system provided the policy mechanism for partiality; the breadth of Clay's program increased the number of potential mediators who could participate; and the party system gave these minority factions a medium to band together in a logroll to enrich themselves at the expense of everybody else. This was the sort of majoritarian factionalism that Madison had hoped the Constitution would prevent. For a group on the outside looking in, like the plantation gentry of South Carolina, there was little hope of remediation via the ballot box, which is why Calhoun proffered his theory of nullification. For all his many errors, Calhoun was trying to

ameliorate a real problem: What shall a minority do when a self-interested majority is running roughshod over its interests?

As for corruption, when Madison complained to Jefferson about a “pretorian band of government, at once its tool and its tyrant,” he was agitated by a gang of speculators who had, in effect, gained leverage over Hamilton. They never actually acquired control of the Bank, but not of the Second Bank. While the Second Bank was run brilliantly for a decade, its first and last years were marked by corruption on the inside—as small-minded branch officials lined their own pockets in 1817-1819, and Biddle used his vast authority to induce a recession to teach the country a lesson in 1833-34. Madison’s worst fears from the 1790s had come true, through policies that he had sanctioned in 1816. Madison’s original critique was right all along—such an institution had the *potential* to become “a powerful machine ... competent to effect objects on principles, in a great measure independent of the people.”<sup>83</sup>

Madison passed away in 1836—the same year that the charter for the Second Bank expired. The country by this point was enjoying a great measure of economic prosperity—and indeed more was to come, as the Industrial Revolution was just starting to transform the nation. Civil society was also at relative peace, at least among those white males who were permitted to participate in it. A few incidents (like the Whiskey Rebellion and the Nullification Crisis) notwithstanding, the diverse and far-flung states had joined together into the union that Hamilton thought was necessary to squash domestic insurrections. Slavery was an institution that sanctioned violence upon black Americans, but was not much of a cause for disagreement among white Americans. On the 60th anniversary of the Declaration of Independence, white America was enjoying the sort of harmony that Hamilton promises in *Federalist* 11-13. And yet the ideal of republican nationalism that he and Madison advocated in those essays had *not* been realized.

---

<sup>83</sup> JM, Speech of 8 February 1791 Bill, *PJM* 13.

Across nearly a half-century of political experimentation, the nation's leaders never figured how to square the circle. They could develop the nation's economic infrastructure, or they could remain true to republican principles, but they were unable to do both. By the time Madison—the last of the Founding Fathers—finally shed his mortal coil, the long-sought ideal of a strong nation that bound everybody together under republican principles had still not been achieved.

## CONCLUSION

During the early years of the new nation, the project of republican nationalism ran simultaneously along two tracks. The first was the task of designing an instrument of government that enshrined both ideals. This project was advanced by the ratification of the Constitution, a document that united the 13 states into a single, republican union premised on the rule of the people, but with multiple safeguards to protect against the excesses of majoritarianism. While the debate about the particular meaning of this or that clause of the Constitution continued during this period (and through our own as well), there was a widespread consensus that the governing instrument provided the framework for republican nationalism.

But filling in that framework with policy—the second track—was a different task altogether. This dissertation reviewed several attempts to balance republicanism and nationalism in the crafting of economic policy, and none was entirely successful.

The first was Alexander Hamilton's effort to develop the national economic marketplace by patronizing the moneyed class. Hamilton believed that policies favoring this select group would facilitate the development of a uniform currency, generate confidence in the government, spur economic investment, and eventually generate prosperity for all. Hamilton's plan was ingeniously nationalistic, and largely successful on its own terms—but it negatively affected the republican project. Hamilton's plan, with its relentless favoritism toward the wealthy few, created a policy imbalance that offended the republican sensibilities of James Madison and others. Madison held that, while many of the principles of Hamilton's program were more or less sound, its benefits should have been more broadly distributed across society.

Moreover, Madison detected a dynamic relationship between economic benefits and political power. The clique of speculators that Hamilton favored did not sit idly by as the secretary developed his program. Taking advantage of inside information, they plunged further into their ventures, and—as discussed in Chapter Three—effectively extorted immediate assumption of the state debts from their opponents. They were able to do this because many legislators were themselves major speculators; when Hamilton proposed to favor the speculators, he created for the legislators a conflict of interest between their constituents and their pocketbooks. Ultimately, Madison and the opponents of assumption had no choice but to forebear. But that was not the end of the story. Hamilton’s program was premised on maintaining a stable rate for government securities, which meant that the government was, in a sense, bound to those who owned the public debt. Within a year after Hamilton’s program was passed, not one but two manias began, and in both cases the secretary felt obliged to stabilize the market by bailing out the bulls with money from the sinking fund. During the second mania, he implicitly offered a *quid pro quo* to the Bank of New York, promising to protect its control of tax revenue in exchange for a loan to the Society for the Employment of Useful Manufactures.

Madison, in private correspondence to Jefferson, called this the “pretorian band of the Government—at once its tool & its tyrant; bribed by its largesses, & overawing it, by clamours & combinations.”<sup>1</sup> This description was not far from the mark. Hamilton had hoped his financial program would rope the interests of the speculators to the government, and it did, but the opposite also happened. The speculators transformed their bounties into real political power over the course of public policy, guiding it toward their own ends rather than the demands of the general welfare.

---

<sup>1</sup> JM to TJ, 1 May 1791, *PJM* 14.

Hamilton's political economy, favorable as it was to the commercial class, was not well suited to a still mostly agrarian America. In due course, the Republican Party—the political vehicle Madison and Thomas Jefferson used to mobilize the people against Hamilton—took control of the national government, and initiated a second effort at republican nationalism—cutting taxes, reducing military expenditures, and promoting westward expansion. Jefferson saw the future of the country, not as a commercial nation in competition with the British, but as a largely agricultural one, pushing farther and farther into the western frontier. For a while, this endeavor seemed to work, but its success was illusory, dependent mostly upon British toleration of American shipping. When Britain returned to war with the French, she clamped down on American merchants, prompting a diplomatic crisis that led ultimately to the War of 1812, a conflict for which the United States was desperately unprepared. The military was understaffed and poorly equipped; the country lacked good roads to move men and materiel, and the government—having foregone Hamiltonian finance—lacked the ability to borrow money reliably and at low rates of interests. A combination of luck and Jacksonian panache kept the nation from embarrassing itself, but Republican leaders realized that they had to adopt a more aggressive course of national development.

This led to the third attempt to balance nationalism and republicanism. If Hamilton had favored the first over the second, and Jefferson favored the second over the first, Madison—as he so often endeavored during his career—would try to balance the two goals more carefully. Thus, the main precepts of Hamilton's economic program were accepted, but with substantial political modifications. Madison and the second generation of Republicans therefore modified his constitutional hermeneutic to accept the Hamiltonian system, but not in a way that obliterated the notion of enumerated powers. They broadened the scope of mediation—whereby any faction, not

just the wealthy few, could receive direct benefits for the sake of the general welfare. And they employed the Republican Party as a safeguard against the abuse of power; Madison himself was not a vigorous steward of party organization, but successors like Martin Van Buren viewed it as an essential element of good governance.

When Madison left office in 1817, this seemed to be a sensible middle ground between the extremes of Jefferson and Hamilton. In his final year as president, he had enacted a modestly protective tariff whose purpose was to develop domestic industries for the sake of national security, chartered a Second Bank, and sanctioned a limited federal involvement in internal improvements. James Monroe's overwhelming victories in 1816 and 1820 testify to the broad popularity of this fusion policy.

Yet over the course of the 1820s and 30s, the problems of this fusion were made manifest. Corruption was not mitigated: While the Bank had performed ably during its twenty-year tenure, the Second Bank was a cesspool during its early years, and in its final years Nicholas Biddle—an able financier but a terrible politician—used the power of the institution to create a recession that, he hoped, would induce President Andrew Jackson to sanction its recharter. In both these instances, the Second Bank embodied the worries Madison had expressed thirty years prior when he opposed it—an institution unto itself, using its federal authority to advance its own interests, rather than the nation's.

The Federalist-Republican synthesis accidentally magnified the problem of partiality. In the 1790s, Madison's problem was that Hamilton was dispensing benefits to the few, at the expense of the many, so he and the postwar Republicans sought to broaden the scope of potential mediators. But this had the effect of creating opportunities for what John Taylor of Caroline aptly called “polygamous” coalitions, disparate interests united only by their common desire for

self-enrichment. The parties further served to facilitate the development of such minority-majority factions, as building such a logroll could serve a party's purpose of taking control of the government. This problem manifested itself primarily with the protective tariff. While a transregional coalition had approved the Tariff of 1816, the Tariff of 1824 was highly sectional by nature, so also was the Tariff of 1828. This measure—often and rightly called the “Tariff of Abominations”—represented the nature of partiality under the Federalist-Republican fusion: the parochial push for self-enrichment, spurred on by partisan angling for the presidency, created a measure that failed to advance the national welfare, but did material damage to the South. John C. Calhoun—himself one of the architects of the Republican-Federalist synthesis—was so appalled by the nature of the postwar tariff that he abandoned much of his old nationalism, and reworked the old Republican critique to fight the new regime.

Thus, by the time of Madison's death in 1836, the country had succeeded in framing an instrument of government that was broadly consistent with the principles of republican nationalism, but it had failed to develop a political economy that did the same.

\*\*\*\*

Though Jackson destroyed the Second Bank, the Federalist-Republican synthesis was quite durable on the whole. For nearly a century, internal improvements and protective tariffs were the main tools of policymakers to harmonize a vast array of interests in pursuit of the general welfare. But the same problems of the 1820s and 1830s, and for that matter of the 1790s, were still present throughout the remainder of the period. Public policy was extremely partial, often indefensibly so, and this partiality tended to distort power relations in the government, twisting the authority of the people to the benefit of a small, moneyed elite.

Regarding partiality, Richard BenseI describes the operation of tariff policy by the end of the 19th century:

Standing at the very center of the Republican coalition that guided late nineteenth-century industrialization, the tariff most immediately benefited industrial manufacturers who were exposed to foreign competition. But the benefit conferred on these producers was not enough to politically sustain the tariff. For that reason, the tariff coalition was broadened by protecting selected agricultural products as well...

The revenue generated from protection, in turn, supported a vast pension system for Union veterans who, through the Grand Army of the Republic, subsequently enlisted in the tariff coalition. ... In sum, Republican management of the tariff coalition spawned a vast, interrelated policy complex in which the original impulse to protect emerging industrial sectors became embedded in an extended system of alliances and working arrangements between widely separated groups in the national political economy. In the process, the tariff lost whatever coherence it might have had as a national economic policy and became a political instrument for regional industrialization of the Northeast and Great Lakes littoral.<sup>2</sup>

This program was a loser for the farmers of the Great Plains and the planters of the South, who were burdened with a higher cost of living—and who further suffered under the crippling deflation of the Gilded Age. Under Jackson, the Democratic Party had once been ambivalent regarding the tariff, but by the 1840s, it became the home of those who counted themselves as

---

<sup>2</sup> BenseI, *The Political Economy of American Industrialization*, 457-458. See also Irwin, "Tariffs and Growth in Late Nineteenth Century America" and Yoon, "The Role of Tariffs in U.S. Development, 1870-1913."

losers in this great scheme. The party's 1892 platform rejected the tariff system in uncompromising terms:

We denounce Republican protection as a fraud, a robbery of the great majority of the American people for the benefit of the few. We declare it to be a fundamental principle of the Democratic party that the Federal Government has no constitutional power to impose and collect tariff duties, except for the purpose of revenue only, and we demand that the collection of such taxes shall be limited to the necessities of the Government when honestly and economically administered.<sup>3</sup>

This is another verse from the ancient Republican hymnal. Under the Constitution, the government is authorized only to lay and collect taxes for "the general welfare." The protective system was not consistent with this purpose, by this logic; instead, it rewarded Republican voters at the expense of Democratic voters. How is such partiality defensible in a republican form of government, especially as the tariff was such a hodgepodge that served no greater purpose? Unfortunately for those on the outside looking in, the tariff coalition was a political winner, and President Grover Cleveland's effort at reform in 1887-88 not only failed, but contributed to his narrow defeat for reelection.<sup>4</sup>

The tariff was furthermore a tool of political corruption. Consider the case of Nelson Aldrich, Republican senator from Rhode Island from 1881 until 1911. He is rightly celebrated for his role in drafting the Federal Reserve Act, which finally made up for Jackson's reckless destruction of the Second Bank. But Aldrich was also "the commercial ideal of a political character," as Lincoln Steffens argued, and the faithful defender of the protective tariff for thirty

---

<sup>3</sup> Democratic Party, "1892 Platform."

<sup>4</sup> See Calhoun, *Minority Victory*, 144-151, and Welch, *The Presidency of Grover Cleveland*, 83-89.

years.<sup>5</sup> There was nobody in the Senate who understood its arcane rate schedules better, and time and again he could be counted on to thwart House-driven efforts to reform the regime. As David Graham Phillips put it, Aldrich was “the head of it all.”<sup>6</sup>

By the 1890s, life as a senator began to drag on Aldrich, who dreamed of owning a fine estate on Warwick Neck. This would be calamitous for the great concatenation of business interests that profited from the tariff. No interest depended on the tariff more than the American Sugar Refining Company: It needed the rates on raw sugar kept low, which the cane growers in Louisiana hated, and rates on refined sugar kept high, which burdened consumers and contributed to the embarrassingly high surplus in the federal coffers. It was essential to have a fixer like Aldrich in the Senate, so John Searles, the company’s chief lobbyist, made Aldrich an offer he could not refuse. Searles would stake roughly \$6 million to form the United Traction and Electric Company, which would modernize street railways in Rhode Island. Aldrich would become president of the company, despite investing none of his own money. All he had to do was supply the votes in the Rhode Island legislature to grant the company a new franchise. It was thus a sure-fire winner, and \$100 par value shares sold for \$40 in 1896 and \$110 in 1901. Aldrich became a millionaire many times over, just as he always dreamed, and he remained in the Senate, protecting the interests of the trusts for another decade.<sup>7</sup>

Aldrich was hardly alone. The list of politicians who were bought off by the great industrial trusts was seemingly endless: Simon and Donald Cameron, Matthew Quay, Philander Knox, and Boies Penrose of Pennsylvania; Thomas Platt and Chauncey Depew of New York, Richard Allison of Missouri; John Spooner of Wisconsin; William Foraker, Marcus Hanna, and John Sherman of Ohio, and more. In 1912 William Randolph Hearst published the “Standard Oil

---

<sup>5</sup> Steffens, *The Struggle for Self-Government*, 126.

<sup>6</sup> Phillips, *The Treason of the Senate*, 79.

<sup>7</sup> See Sternstein, “Corruption in the Gilded Age Senate,” and Stern, *Republican Heyday*, 22.

Letters,” which showed how a representative for John D. Rockefeller’s massive concern traded campaign contributions and personal kickbacks for governmental favors. The tariff was at the foundation of the relationship—as it provided the money that businesses and politicians needed—but as Hearst’s scoop demonstrated, the conflicts of interest stretched far beyond trade policy, reaching even into the smallest matters of state politics. United States senators whom Standard Oil purchased were expected to use their influence to jawbone state and local politicians on any issue of concern to Rockefeller.<sup>8</sup>

It was not just the tariff and the trusts, either. Federal sponsorship of internal improvements eventually helped create a spectacular network of railroads that crisscrossed the continent, but it also corrupted the legislative process. Railroad tycoons who built their companies upon government loans used just a small quantum of their fortunes to purchase the support of politicians, to ensure that the government would continue to bless them. James G. Blaine, the Republican nominee for president in 1884 and one of the most charismatic politicians of the Gilded Age, was a key ally of the railroads. In 1877, when several railroads had failed to repay overdue government loans worth \$65 million, Senator Allen Thurman of Ohio introduced legislation to impose a schedule of repayment. But Jay Gould of the Union Pacific and Collis Huntington of the Central Pacific called on Blaine to defeat it, which is precisely what he did.

This prompted Senator George Edmunds of Vermont to complain bitterly:

It is my opinion that Mr. Blaine acts as the attorney of Jay Gould. Whenever Mr.

Thurman and I have settled upon legislation to bring the Pacific railroads to terms

---

<sup>8</sup> The “Standard Oil Letters” were published in serial form in *Hearst’s Magazine* beginning in the spring of 1912, in part as a way to influence the upcoming presidential election in favor of House Speaker Champ Clark, whom Hearst supported during the Democratic primary. See, for instance, Hearst, “New Standard Oil Letters and Their Lessons.”

of equity with the government, up has jumped James G. Blaine, musket in hand, from behind the breastworks of Gould's lobby, to fire at our backs.<sup>9</sup>

Blaine was always well compensated for his troubles. In 1869, for instance, he secured a land grant for a southern railroad, and as a gratuity received \$150,000 in land and bonds to sell to his friends. When the company went under, Tom Scott, president of the mighty Pennsylvania Railroad, bought them from Blaine at a price far greater than the market value. This nifty kickback became public knowledge prior to the 1876 presidential campaign, and damaged Blaine's efforts to win the Republican nomination that year.<sup>10</sup>

Blaine was hardly the sole politician in the pocket of the railroads. The *Crédit Mobilier* scandal, which the *New York Sun* crowned "the King of Frauds," ensnared dozens of government officials, including Vice President Schuyler Colfax, future vice president Henry Wilson, and future president James Garfield. The managers of the Union Pacific Railroad created a dummy corporation named *Crédit Mobilier* to do construction work, at a handsome profit for its owners. As a way to hide this defalcation from the government (the Union Pacific, after all, was incorporated by the federal government in 1862), its managers contracted Representative Oakes Ames of Massachusetts to sell stock in *Crédit Mobilier* to members of Congress. There was little initial interest in the shares, but when Ames allowed members to buy stock with no money down, so long as they forfeited the first dividend payment, the scramble was mad indeed. The newspapers blew the lid off the scheme, but Congress quickly covered it back up. The ensuing investigation found Ames guilty of buying congressional influence, but no member of Congress was found guilty of selling it.<sup>11</sup>

---

<sup>9</sup> Quoted in Ginger, *Age of Excess*, 104-105.

<sup>10</sup> See Cashman, *The Gilded Age*, 249-252, Rolde, *Continental Liar from the State of Maine*, 177-183, Rugoff, *America's Gilded Age*, 27, and Summers, *Rum, Romanism, and Rebellion*, 62.

<sup>11</sup> See Gordon, *An Empire of Wealth*, 219-220, and Klein, *Union Pacific*, 291-302.

This kind of corruption is understandable through Madison's framework. Directing some benefit to a particular faction of society has the potential to corrupt the power relations of republican government, as that faction has an incentive to mobilize to maximize its gains from the state, even if the bounties are not in the interest of the public. And because legislators are so often governed by personal ambition and greed, they are easy marks for such factions. Men like Aldrich and Blaine were charged with exercising their authority on behalf of the public, but they misused that power to satisfy their private avidities. The Progressive Party's rebuke of the Gilded Age system is decidedly Madisonian in this respect. Its 1912 platform declared:

Political parties exist to secure responsible government and to execute the will of the people.

From these great tasks both of the old parties have turned aside. Instead of instruments to promote the general welfare, they have become the tools of corrupt interests which use them impartially to serve their selfish purposes. Behind the ostensible government sits enthroned an invisible government owing no allegiance and acknowledging no responsibility to the people.<sup>12</sup>

This is reminiscent of Madison's old complaint about the "praetorian band of government" using "clamours and combinations" to dominate public policy. The form of government remains the same in both cases, but behind the scenes, special interests have taken effective control of the state.

"To destroy this invisible government" and "dissolve the unholy alliance between corrupt business and corrupt politics," the Progressives offered an ambitious series of reforms, including a "non-partisan scientific tariff commission, reporting both to the President and to either branch of Congress" to help design a tariff that "equalize(s) conditions of competition between the

---

<sup>12</sup> Progressive Party, "1912 Platform."

United States and foreign countries, both for the farmer and the manufacturer, and which shall maintain for labor an adequate standard of living.” More generally, the Progressives called for a renegotiation of the implicit contract between business and government:

We therefore demand a strong National regulation of inter-State corporations. The corporation is an essential part of modern business. The concentration of modern business, in some degree, is both inevitable and necessary for national and international business efficiency. But the existing concentration of vast wealth under a corporate system, unguarded and uncontrolled by the Nation, has placed in the hands of a few men enormous, secret, irresponsible power over the daily life of the citizen--a power insufferable in a free Government and certain of abuse.

This power has been abused, in monopoly of National resources, in stock watering, in unfair competition and unfair privileges, and finally in sinister influences on the public agencies of State and Nation. We do not fear commercial power, but we insist that it shall be exercised openly, under publicity, supervision and regulation of the most efficient sort, which will preserve its good while eradicating and preventing its ill.<sup>13</sup>

In *The Promise of American Life*, published in 1909, Herbert Croly characterized this approach as employing Hamiltonian means for Jeffersonian ends.<sup>14</sup> This is a fair description, but it overlooks the fact that the second generation of Republicans, led by Madison, thought they were

---

<sup>13</sup> Ibid.

<sup>14</sup> As Croly put it:

[R]eviving the practice of vigorous national action for the achievement of a national purpose ... implies the rejection of a large part of the Jeffersonian creed, and a renewed attempt to establish in its place the popularity of its Hamiltonian rival. On the other hand, it involves no less surely the transformation of Hamiltonianism into a thoroughly democratic political principle. Croly, *The Promise of American Life*, 153.

doing *precisely that* a century prior. They reckoned they could yoke the Hamiltonian machine for Republican purposes, but they were wrong.

\*\*\*\*

Recall the discussion of the “Madison Problem” from the Introduction. Scholars of late have done excellent work in solving its narrow version, whether he changed his views between the 1780s and the 1790s, but the broader version remains unresolved. He undoubtedly shifted between the 1790s and the 1810s, of this there can be no doubt. The question is, why?

The implication of this research is that he was trying to solve a problem that could not actually be solved. The challenge facing the new nation was to develop quickly, while remaining true to republican principles. *Nobody* solved this problem in the period under study. Hamilton, Jefferson, Madison, and even Calhoun offered solutions, but none was satisfactory. And the problem remained unresolved for the remainder of the 19<sup>th</sup> century; as the grievances of the Progressives illustrate, the same old troubles were hanging around 100 years after Madison left the White House.

The problem was that mediation, the basic component of Hamilton’s political economy, was the essential ingredient for national development, but it was simultaneously anathema to republican governance.

The early United States was in a precarious situation. The national wealth was paltry compared to foreign nations; it had little internal infrastructure; it had a vast expanse of territory that was basically left undefended; and it faced European powers on two fronts—in the western frontier as well as on the high seas of the Atlantic Ocean. The country needed to develop its God given potential, and quickly, if she hoped to secure her experiment in self-government; otherwise, she would always remain dependent upon the indulgence of the European

principalities (which was, after all, the main reason she won her independence in the first place).

But how to do this?

The public services that contemporary Americans take for granted—a currency managed by an independent authority, a robust armed services, direct and vigorous public support for infrastructure—were inconceivable in the early years of the republic. The government simply lacked the resources, expertise, and disposition to fashion such programs. As such, it had to rely on private factions to bear much of the burden of national greatness. But if these groups were going to mediate the general welfare in this fashion, they would naturally expect to reap many of the rewards. Hamilton was prepared to make this bargain, and so was Madison—eventually.

But mediation imposes negative externalities upon republican governance. It creates a problem of partiality—distributing specific benefits to some group instead of others, even if done for the sake of the general welfare, may not be fair to all parties. It may be possible to distribute the benefits in a neutral fashion, but an arbiter with such perspective does not exist in republican government, where, per Madison, “the parties are, and must be, themselves the judges.”<sup>15</sup> The Republican solution was thus to expand the scope of mediators, but this created more problems than it solved—as it paved the way for majoritarian coalitions united only by their desire for riches. This is, again quoting Madison, a “more fatal ... cause” of injustice in a republic.<sup>16</sup>

Mediation also creates the potential for corruption—as economic benefits and political power can be fungible. Groups in receipt of some bounty often have the opportunity to acquire authority over the state, guiding public actions for the sake of their private profit. Madison understood this when he opposed Hamilton’s finance. Jackson, in his way, appreciated that the Second Bank was a political rival, even though its charter was strictly economic in nature. And,

---

<sup>15</sup> JM, *The Federalist* Number 10, *PJM* 10.

<sup>16</sup> JM, “Vices of the Political System of the United States, April 1787,” *PJM* 9.

as noted above, the Progressives acknowledged that the great industrial trusts had become a kind of praetorian guard—the economic beneficiaries and the political guardians of the status quo.

Thus, national development was incompatible with republican principles in the early years of the republic. A wealthier country, or one that was happy to remain an underdeveloped agrarian state, could have maintained the kind of republican purity that Jefferson idealized. But, as Monroe put it, “the spirit of the nation” forbade such simplicity. Instead, the country had to develop to survive—and toot sweet, at that. There was no reason to expect the British, French, and Spanish to indulge American independence, unless she was prepared to vindicate her interests. That required her to acquire “a character and rank among other nations, which we did not enjoy before,” which in turn meant mediation had to be employed, and which in turn meant that the republican principles of the Revolution had to be foregone, at least to an extent.<sup>17</sup>

Madison bears responsibility for this only insofar as he was the indispensable man of the new republic. Between 1780 and 1817, no single American consistently was as influential in charting the course of the nation as James Madison, Jr. He endeavored honestly and ingeniously to reconcile nationalism and republicanism, a task that all but the most obstreperous conservatives agreed was necessary, but the two poles could not be joined. As such, what looks like inconsistency on his part is in fact an illustration of the contradiction at the heart of the early American republic.

---

<sup>17</sup> JMe to the Military Committee of the Senate, 22 February 1815, *WJM* 5:322.

## BIBLIOGRAPHY

### *Individual Abbreviations*

|    |                    |     |                  |
|----|--------------------|-----|------------------|
| AG | Albert Gallatin    | JCC | John C. Calhoun  |
| AH | Alexander Hamilton | JM  | James Madison    |
| ER | Edmond Randolph    | JMe | James Monroe     |
| GW | George Washington  | NB  | Nicholas Biddle  |
| HC | Henry Clay         | TJ  | Thomas Jefferson |

### *Collections*

- AC* *Annals of Congress*, compiled by Joseph Gales. 1<sup>st</sup> Congress—18<sup>th</sup> Congress. Washington, D.C.: Gales and Seaton, 1834-1856. <http://memory.loc.gov/ammem/amlaw/lwaclink.html>
- APP* *The American Presidency Project*, edited by Gerhard Peters and John T. Woolley. Accessed August 26, 2016. <http://presidency.ucsb.edu>.
- ASP* *American State Papers, Finance*, edited by Walter Lowrie et. al. 5 vols. Washington: Gales and Seaton, 1832-1858.
- BRW* Edmund Burke: *Revolutionary Writing*, edited by Iain Hampsher-Monk. Cambridge: Cambridge University Press, 2014.
- CNB* *The Correspondence of Nicholas Biddle Dealing with National Affairs, 1807-1844*, edited by Reginald C. McGrane. Boston: Houghton Mifflin Company, 1919.
- EC* *The Essential Calhoun: Selections from Writings, Speeches, and Letters*, edited by Clyde Norman Wilson. New Brunswick: Transaction Publishers, 1992.

- HPE* *David Hume: Political Essays*. Hume, David, edited by Knud Haakonssen, Cambridge: Cambridge University Press, 1994.
- LCRK* *The Life and Correspondence of Rufus King*, edited by Charles R. King. 6 vols. New York: G.P. Putnam's Sons, 1894-1900
- LDHBUS* *Legislative and Documentary History of the Bank of the United States*, compiled by M. St. Clair and D.A. Hall. Washington: Gales and Seaton, 1832.
- LSHC* *The Life and Speeches of Henry Clay*, compiled by Daniel Malloy. 2 vols. New York: Robert P. Bixby & Co., 1844.
- MF* *The Mind of the Founder: Sources of the Political Thought of James Madison*, edited by Marvin Meyers. Hanover: Brandeis University Press, 1973.
- MJQA* *Memoirs of John Quincy Adams*, edited by Charles Francis Adams. 12 vols. Philadelphia: J.P. Lippincott & Co., 1874-1877.
- NDFC* *Notes of Debates in the Federal Convention of 1787*, reported by James Madison. Athens: Ohio University Press, 1966.
- NWR* *Niles' Weekly Register*, edited by Hezekiah Niles and William Ogden Niles. 52 vols. Vol. XXXII. March to September, 1827. Baltimore: Franklin Press, 1814-1837-.
- PAH* *The Papers of Alexander Hamilton*, edited by Harold C. Syrett, et al. 26 vols. New York: Columbia University Press, 1961-1979. <http://founders.archives.gov>.
- PAJ* *The Papers of Andrew Jackson*, edited by Sam B. Smith, et al. Knoxville, University of Tennessee Press, 1980—.
- PGW* *The Papers of George Washington*, edited by Donald Jackson, et al. Charlottesville, University Press of Virginia, 1976—. <http://founders.archives.gov>.
- PHC* *The Papers of Henry Clay*, edited by Donald Jackson, et al. Lexington: University Press of Kentucky, 1959-.
- PJM* *The Papers of James Madison*, edited by William T. Hutchinson, et. al. Chicago and Charlottesville: University of Chicago Press and University Press of Virginia, 1962—. <http://founders.archives.gov>.
- PTJ* *The Papers of Thomas Jefferson*, edited by Julian P. Bond, et al. Princeton: Princeton University Press, 1950—. <http://founders.archives.gov>.

- RD* *Register of Debates in Congress*, compiled by Joseph Gales. 18<sup>th</sup> Congress—25<sup>th</sup> Congress. Washington, D.C.: Gales and Seaton, 1824-1837. <http://memory.loc.gov/ammem/amlaw/lwrmlink.html>
- SAL* *The Statutes at Large; Being a Collection of All the Laws of Virginia from the First Session of the Legislature, in the Year 1619*, compiled by William Waller Hening. 13 vols. Richmond: George Cochran, 1823. <http://vagenweb.org/hening>.
- VV* *VoteView*, compiled by Keith Poole. Accessed August 25, 2016. <http://voteview.org>.
- WAG* *The Writings of Albert Gallatin*, edited by Henry Adams. 3 vols. Philadelphia: J.B. Lippincott. <http://oll.libertyfund.org>.
- WJCC* *The Works of John C. Calhoun*, edited by Richard K. Crallé. Charleston and New York: Walker and James and D. Appleton and Co., 1851-1870.
- WJM* *The Writings of James Monroe*, edited by Stanislaus Murray Hamilton. 7 vols. New York: G.P. Putnam's Sons, 1902-1903.
- WTJ* *The Works of Thomas Jefferson*, edited by Paul Leicester Ford. 12 vols. New York: G.P. Putnam's Sons, 1904. <http://oll.libertyfund.org>

#### *Books and Articles*

- Acharya, Viral V., Matthew Richardson, Stijn Van Nieuwerburgh, and Lawrence J. White. *Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance*. Princeton: Princeton University Press, 2011.
- Adams, William Howard. *Gouverneur Morris: An Independent Life*. New Haven: Yale University Press, 2003.
- Ammon, Harry. *James Monroe, the Quest for National Identity*. Charlottesville: University of Virginia Press, 1990.
- Bachrach, Peter and Morton S. Baratz. "Decisions and Nondecisions: An Analytical Framework." *The American Political Science Review* 57, no. 3 (Sep., 1963): 632-642.
- . "Two Faces of Power." *The American Political Science Review* 56, no. 4 (Dec., 1962): 947-952.
- Banning, Lance. *The Jeffersonian Persuasion*. Ithaca: Cornell University Press, 1978.
- . *The Sacred Fire of Liberty: James Madison & the Founding of the Federal Republic*. Ithaca: Cornell University Press, 1997.
- Bartlett, Irving H. *John C. Calhoun: A Biography*. New York: W.W. Norton & Co., 1993.

- Bates, Whitney K. "Northern Speculators and Southern State Debts: 1790." *The William and Mary Quarterly* 19, no. 1 (January 1962): 30-48.
- Beard, Charles A. *An Economic Interpretation of the Constitution of the United States*. New York: Macmillan, 1921.
- . *Economic Origins of Jeffersonian Democracy*. New York: Macmillan, 1915.
- Bensel, Richard Franklin. *The Political Economy of American Industrialization, 1877-1900*. Cambridge: Cambridge University Press, 2000.
- Benton, Thomas Hart. *Thirty Years View; A History of the Working of the American Government for Thirty Years, From 1820 to 1850*. Vol. 1. New York: D. Appleton and Company, 1886.
- Berkeley, Edmund, and Dorothy Smith Berkeley. *John Beckley; Zealous Partisan in a Nation Divided*. Philadelphia: American Philosophical Society, 1973.
- Bodenhorn, Howard. *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-building*. Cambridge: Cambridge University Press, 2000.
- Bolt, William K. "The Tariff in the Age of Jackson." PhD diss., University of Tennessee, 2010. Accessed August 26, 2016. [http://trace.tennessee.edu/utk\\_graddiss/679](http://trace.tennessee.edu/utk_graddiss/679).
- Brant, Irving. *James Madison*. 6 vols. Indianapolis: Bobbs-Merrill, 1941-61.
- Burns, James MacGregor. *The Deadlock of Democracy: Four-party Politics in America*. Englewood Cliffs: Prentice-Hall, 1967.
- Burstein, Andrew, and Nancy Isenberg. *Madison and Jefferson*. New York: Random House, 2013.
- Calhoun, Charles. W. *Minority Victory: Gilded Age Politics and the Front Porch Campaign of 1888*. Lawrence: University Press of Kansas, 2008.
- Calomiris, Charles W. *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*. Princeton: Princeton University Press, 2015.
- Carey, George W. *The Federalist: Design for a Constitutional Republic*. Urbana: University of Illinois Press, 1989.
- Carpenter, Daniel P., and David A. Moss. *Preventing Regulatory Capture: Special Interest Influence and How to Limit It*. Cambridge: Cambridge University Press, 2013.
- Cashman, Sean Dennis. *American in the Gilded Age: From the Death of Lincoln to the Rise of Theodore Roosevelt*, 3<sup>rd</sup> edition. New York: New York University Press, 1993.
- Catterall, Ralph C. H. *The Second Bank of the United States*. Chicago: University of Chicago Press, 1903.

- Channing, Edward. *A History of the United States*. Vol. IV. Federalists and Republicans, 1789-1815. New York: Macmillan Company, 1920.
- Cheney, Lynne V. *James Madison: A Life Reconsidered*. New York: Penguin Books, 2015.
- Chernow, Ron. *Alexander Hamilton*. New York: Penguin Press, 2005.
- Cole, Donald B. *Martin Van Buren and the American Political System*. Fort Washington: Eastern National, 2004.
- Committee of Inspection and Investigation. *Report On the Condition of the Bank of the United States*. Philadelphia: William Fry, 1822.
- Committee Of Inquiry. *Reports on the Bank of the United States*. Accessed August 28, 2016. [https://fraser.stlouisfed.org/docs/bankunitedstates/firstsecondbank\\_rptcomminq\\_18320314.pdf](https://fraser.stlouisfed.org/docs/bankunitedstates/firstsecondbank_rptcomminq_18320314.pdf).
- Connelly, William F. *James Madison Rules America: The Constitutional Origins of Congressional Partisanship*. Lanham: Rowman & Littlefield, 2010.
- Connors, Anthony J. "Andrew Craigie: Brief Life of a Patriot and Scoundrel: 1754-1819." *Harvard Magazine*, November 2011. <http://harvardmagazine.com/2011/11/andrew-craigie>.
- Cost, Jay. *A Republic No More: Big Government and the Rise of American Political Corruption*. New York: Encounter Books, 2015.
- Croly, Herbert. *The Promise of American Life*. New York: The Macmillan Company, 1904.
- Cunningham, Noble E. *The Jeffersonian Republicans: The Formation of Party Organization, 1789-1801*. Chapel Hill: University of North Carolina Press, 1957.
- . *The Presidency of James Monroe*. Lawrence: University Press of Kansas, 1996.
- Dahl, Robert A. *A Preface to Democratic Theory*. Chicago: University of Chicago Press, 2006.
- Dangerfield, George. *The Awakening of American Nationalism, 1815-1828*. New York: Harper & Row, 1965.
- . *The Era of Good Feelings*. Chicago: Ivan R. Dee, 1989.
- Davies, Phil. "The "Monster" of Chestnut Street." Federal Reserve Bank of Minneapolis. September 1, 2008. <https://www.minneapolisfed.org/publications/the-region/the-monster-of-chestnut-street>.
- Davis, Joseph Stancliffe. *Essays in the Earlier History of American Corporations, Numbers I-III*. Cambridge: Harvard University Press, 1917.
- Department of Veterans Affairs. "America's Wars." May 2016. [http://www.va.gov/opa/publications/factsheets/fs\\_americas\\_wars.pdf](http://www.va.gov/opa/publications/factsheets/fs_americas_wars.pdf).

- Drell, Bernard. "John Taylor of Caroline and the Preservation of an Old Social Order." *The Virginia Magazine of History and Biography* 46, no. 4 (October 1938): 285-98.
- Dubin, Michael J. *United States Congressional Elections, 1788-1997*. McFarland & Company: Jefferson, 1998.
- Eckert, Edward K. "William Jones: Mr. Madison's Secretary of the Navy." *The Pennsylvania Magazine of History and Biography* 96, no. 2 (April 1972): 167-82.
- "Election for the Directors of the Bank of the United States." *General Advertiser* (Philadelphia), January 5, 1792, 396th ed.
- Elkins, Stanley M., and Eric L. McKittrick. *The Age of Federalism*. New York: Oxford University Press, 1993.
- Ellis, Richard E. *The Union at Risk: Jacksonian Democracy, States' Rights, and the Nullification Crisis*. New York: Oxford University Press, 1987.
- Epstein, David F. *The Political Theory of the Federalist*. Chicago: University of Chicago Press, 1984.
- Faulkner, Ronnie W. "Taking John C. Calhoun to the United Nations." *Polity* 15, no. 4 (July 1983): 473-91.
- Federici, Michael P. *The Political Philosophy of Alexander Hamilton*. Baltimore: Johns Hopkins University Press, 2012.
- Ferguson, E. James. *The Power of the Purse*. Chapel Hill: The University of North Carolina Press, 1961.
- Ferling, John E. *Jefferson and Hamilton: The Rivalry That Forged a Nation*. London: Bloomsbury Press, 2014.
- Fish, Carl Russell. *The Civil Service and the Patronage*. New York: Longmans, Green, & Co., 1905.
- Fleming, Thomas J. *The Great Divide: The Conflict between Washington and Jefferson That Defined a Nation*. Cambridge: Da Capo Press, 2015.
- Freehling, William W. *Prelude to Civil War: The Nullification Crisis in South Carolina, 1816-1836*. Oxford: Oxford University Press, 1966.
- Gallatin, Albert. *Report of the Secretary of the Treasury; on the Subject of Public Roads and Canals*. Weightman: R.C., 1808.
- Gibson, Alan. "Madison's "Great Desideratum": Impartial Administration and the Extended Republic." *American Political Thought* 1, no. 2 (Fall 2012): 181-207.
- Ginger, Ray. *Age of Excess: The United States from 1877-1914*. New York: MacMillan Publishing Company, 1975.

- Gordon, John Steele. *An Empire of Wealth: The Epic History of American Economic Power*. New York: Harper Collins, 2004.
- Govan, Thomas P. *Nicholas Biddle, Nationalist and Public Banker, 1786-1844*. Chicago: University of Chicago Press, 1959.
- Grymes, Charles A. "Virginia Land Cessions." *Virginia Places*. Accessed August 22, 2016. <http://www.virginiaplaces.org/boundaries/cessions.html>.
- Gutzman, Kevin R. "A Troublesome Legacy: James Madison and 'The Principles of '98'" *Journal of the Early Republic* 15, no. 4 (December 1995): 569-89.
- Hammond, Bray. *Banks and Politics in America, from the Revolution to the Civil War*. Princeton: Princeton University Press, 1957.
- . "The Second Bank of the United States." *Transactions of the American Philosophical Society* 43, no. 1 (January 1953): 80-85.
- Hammond, Jabez D. *The History of Political Parties in the State of New York*. 4th ed. Vol. 2. Buffalo: Phinney &, 1850.
- Hargreaves, Mary W. M. *The Presidency of John Quincy Adams*. Lawrence: University Press of Kansas, 1985.
- Heidler, David Stephen, and Jeanne T. Heidler. *Henry Clay: The Essential American*. New York: Random House, 2011.
- Hofstadter, Richard. *The Idea of a Party System; the Rise of Legitimate Opposition in the United States, 1780-1840*. Berkeley: University of California Press, 1969.
- Holdsworth, John Thom, and Davis R. Dewey. *The First and Second Banks of the United States*. Washington, D.C.: Government Printing Office, 1910.
- Howe, Daniel Walker. *What Hath God Wrought: The Transformation of America, 1815-1848*. Oxford: Oxford University Press, 2007.
- Hulbert, Archer B. *Andrew Craigie and the Scioto Associates*. Worcester: American Antiquarian Society, 1913.
- . "The Methods and Operations of the Scioto Group of Speculators." *The Mississippi Valley Historical Review* 1, no. 4 (March 1915): 502-15.
- Irwin, Douglas A. "Antebellum Tariff Politics: Regional Coalitions and Shifting Economic Interests." *The Journal of Law & Economics* 51, no. 4 (November 2008): 715-41.
- . "Tariffs and Growth in Late Nineteenth Century America." *National Bureau of Economic Research*, April 2000. <http://www.nber.org/papers/w7639.pdf>.

- Jervey, Theodore Dehon. *Robert Y. Hayne and His Times*. New York: Macmillan Company, 1909.
- Johnson, Simon, and James Kwak. *13 Bankers: The Wall Street Takeover and the next Financial Meltdown*. New York: Pantheon Books, 2010.
- Jones, Robert F. *The King of the Alley: William Duer, Politician, Entrepreneur, and Speculator, 1768-1799*. Philadelphia: American Philosophical Society, 1992.
- Jones, William. "From William Jones to William Crawford, Philadelphia, 20 July 1817." In *Letters from the Bank of the United States and Branches*, 664-71. Vol. 2. Washington: Gales & Seaton, 1823.
- Kernell, Samuel, ed. *James Madison: The Theory and Practice of Republican Government*. Stanford, CA: Stanford University Press, 2003.
- Ketcham, Ralph. *James Madison: A Biography*. Charlottesville: University Press of Virginia, 1990.
- Key, V.O. *Politics, Parties & Pressure Groups*. 5th ed. New York: Thomas Y. Crowell, 1964.
- Kirk, Russell. *John Randolph of Roanoke: A Study in American Politics, with Selected Speeches and Letters*. 4th ed. Indianapolis: Liberty Fund, 1997.
- Klein, Maury. *Union Pacific: Birth of a Railroad, 1862-1893*. Garden City: Doubleday, 1987.
- Klein, Philip S. *President James Buchanan: A Biography*. University Park: Pennsylvania State University Press, 1962.
- Knott, Stephen F., and Tony Williams. *Washington and Hamilton: The Alliance That Forged America*. Naperville: Sourcebooks, 2015.
- Koch, Adrienne. *Jefferson & Madison: The Collaboration*. New York: Oxford University Press, 1950.
- . *Madison's "Advice to My Country"*. Princeton: Princeton University Press, 1966.
- Koppell, Jonathan G.S. *The Politics of Quasi-Government: Hybrid Organizations and the Dynamics of Bureaucratic Control*. Cambridge: Cambridge University Press, 2003.
- Kosar, Kevin R. *Government-sponsored Enterprises (GSEs): An Institutional Overview*. Washington, D.C.: Congressional Research Service, 2008.
- Labunski, Richard E. *James Madison and the Struggle for the Bill of Rights*. Oxford: Oxford University Press, 2006.
- Larson, John Lauritz. *Internal Improvements: National Public Works and the Promise of Popular Government in the Early United States*. Chapel Hill: University of North Carolina Press, 2008.

- Lewis, James E. *John Quincy Adams: Policymaker for the Union*. Wilmington: Scholarly Resources, 2001.
- Lodge, Henry Cabot. *Alexander Hamilton*. Boston: Houghton, Mifflin and Company, 1898.
- Maclay, William. *The Journal of William Maclay*. Edited by Edgar S. Maclay. New York: D Appleton and Company, 1890. <http://www.constitution.org/ac/maclay/journal.htm>.
- Macleod, Duncan. "The Political Economy of John Taylor of Caroline." *Journal of American Studies* 14, no. 3 (December 1980): 387-405.
- Martis, Kenneth C. *The Historical Atlas of Political Parties in the United States Congress 1789-1989*. New York: Macmillan, 1989.
- Mayfield, Luke. *John Adams and the Fear of American Oligarchy*. Princeton: Princeton University Press, 2016.
- McCoy, Drew R. *The Last of the Fathers: James Madison and the Republican Legacy*. Cambridge: Cambridge University Press, 1989.
- McDonald, Forrest. *Alexander Hamilton: A Biography*. New York: Norton, 1979.
- . *Novus Ordo Seclorum: The Intellectual Origins of the Constitution*. Lawrence: University Press of Kansas, 1985.
- . *The Presidency of Thomas Jefferson*. Lawrence: University Press of Kansas, 1976.
- Meerman, Jacob P. "The Climax of the Bank War: Biddle's Contraction, 1833-34." *Journal of Political Economy* 71, no. 4 (August 1963): 378-88.
- Meigs, William Montgomery. *The Life of John Caldwell Calhoun*. New York: The Neale Publishing Company, 1912.
- Morse, John T. *The Life of Alexander Hamilton*. Vol. 1. Boston: Little, Brown & Company, 1867.
- Muñoz, Vincent Phillip. "James Madison's Principle of Religious Liberty." *American Political Science Review* 97, no. 01 (February 2003): 17-32.
- Nothstine, Ray. "Madison the Politician." Acton Institute PowerBlog. February 03, 2012. <http://blog.acton.org/archives/29084-madison-the-politician.html>.
- Pease, Jane H., and William H. Pease. "The Economics and Politics of Charleston's Nullification Crisis." *The Journal of Southern History* 47, no. 3 (August 1981): 335-62.
- Perkins, Edwin J. *American Public Finance and Financial Services, 1700-1815*. Columbus: Ohio State University Press, 1994.
- Peterson, Merrill D. *Olive Branch and Sword—The Compromise of 1833*. Baton Rouge: Louisiana State University Press, 1982.

- Rakove, Jack N. *James Madison and the Creation of the American Republic*. New York: Pearson/Longman, 2007.
- Rappleye, Charles. *Robert Morris: Financier of the American Revolution*. New York: Simon & Schuster, 2010.
- Remini, Robert V. *Andrew Jackson and the Bank War: A Study in the Growth of Presidential Power*. New York: W.W. Norton, 1967.
- . *Henry Clay: Statesman for the Union*. New York: W.W. Norton, 1991.
- . *The House: The History of the House of Representatives*. Washington D.C.: Smithsonian Press, 2007.
- . *Martin Van Buren and the Making of the Democratic Party*. New York: Columbia University Press, 1961.
- . "Martin Van Buren and the Tariff of Abominations." *The American Historical Review* 63, no. 4 (July 1958): 903-917.
- Risjord, Norman K. *The Old Republicans: Southern Conservatism in the Age of Jefferson*. New York: Columbia University Press, 1965.
- Rothbard, Murray N. *The Panic of 1819: Reactions and Policies*. Auburn: Ludwig Von Mises Institute, 2007.
- Rolde, Neil. *Continental Liar from the State of Maine: James G. Blaine*. Gardiner: Tilbury House Publishers, 2007.
- Rugoff, Milton. *America's Gilded Age: Intimate Portraits from an Era of Extravagance and Change, 1850-1890*. New York: Henry Holt and Company, 1989.
- Rutland, Robert Allen. *The Presidency of James Madison*. Lawrence: University Press of Kansas, 1990.
- Schattschneider, E.E. *Party Government*. New Brunswick: Transaction Publishers, 2008.
- . *The Semisovereign People: A Realist's View of Democracy in America*. Fort Worth: Harcourt Brace.
- Sheehan, Colleen A. *James Madison and the Spirit of Republican Self-government*. New York: Cambridge University Press, 2009.
- Sheldon, Garrett Ward. *The Political Philosophy of James Madison*. Baltimore: Johns Hopkins University Press, 2001.
- Sims, Henry H. *The Life of John Taylor: The Story of a Brilliant Leader in the Early Virginia State Rights School*. Richmond: William Byrd Press, 1932.

- Sloan, Herbert E. *Principle and Interest: Thomas Jefferson and the Problem of Debt*. New York: Oxford University Press, 1995.
- Spain, August O. *The Political Theory of John C. Calhoun*. New York: Octagon Books, 1968.
- Stanton, Thomas H. *Government-sponsored Enterprises: Mercantilist Companies in the Modern World*. Washington, D.C.: AEI Press, 2002.
- Stanwood, Edward. *American Tariff Controversies in the Nineteenth Century*. Vol. 1. Boston: Houghton, Mifflin and Company, 1903.
- Stern, Clarence A. *Republican Heyday: Republicanism Through the McKinley Years*. Ann Arbor: Edwards Brothers, 1962.
- Sternstein, Jerome L. "Corruption in the Gilded Age Senate: Nelson W. Aldrich and the Sugar Trust." *Capitol Studies* 6, no. 1 (Spring 1978). <http://starkman.com>.
- Phillips, David Graham. *The Treason of the Senate*. Chicago: Quadrangle Books, 1964.
- Steffens, Lincoln. *The Struggle for Self-Government*. New York: McClure, Phillips & Col, 1906.
- Stewart, Donald Henderson. *The Opposition Press of the Federalist Period*. Albany: State University of New York Press, 1969.
- Summers, Mark Wahlgren. *Rum, Romanism, & Rebellion: The Making of a President, 1884*. Chapel Hill: University of North Carolina Press, 2000.
- Taussig, F.W. *The Tariff History of the United States*. 5th ed. New York: G.P. Putnam's Sons, 1910.
- Taylor, George Rogers. "A Brief History of the Second Bank of the United States." In *Jackson vs. Biddle's Bank: The Struggle over the Second Bank of the United States*, edited by George Rogers Taylor, 1-8. 2nd ed. Lexington: D.C. Heath and Company, 1972.
- Taylor, John. "Letters of John Taylor of Caroline (Concluded)." *The Virginia Magazine of History and Biography* 52, no. 2 (April 1944): 121-34.
- Temin, Peter. *The Jacksonian Economy*. New York: W.W. Norton, 1969.
- Trenchard, John, and Thomas Gordon. *Cato's Letters, Or, Essays on Liberty, Civil and Religious, and Other Important Subjects*. Edited by Ronald Hamowy. Indianapolis: Liberty Fund, 1995.
- Truman, David B. *The Governmental Process: Political Interests and Public Opinion*. New York: Knopf, 1951.
- Van Buren, Martin. *The Autobiography of Martin Van Buren*. Edited by John C. Fitzpatrick. Washington, D.C.: Government Printing Office, 1920.
- Wallison, Peter J. *Serving Two Masters, Yet out of Control: Fannie Mae and Freddie Mac*. Washington, D.C.: AEI Press, 2001.

- Walters, Ray. *Albert Gallatin: Jeffersonian Financier and Diplomat*. Pittsburgh: University of Pittsburgh Press, 1969.
- Watson, Harry L. *Liberty and Power: The Politics of Jacksonian America*. New York: Hill and Wang, 2006.
- Weeks, William Earl. *John Quincy Adams and American Global Empire*. Lexington: University Press of Kentucky, 1992.
- Weiner, Greg. *Madison's Metronome: The Constitution, Majority Rule, and the Tempo of American Politics*. Lawrence: University Press of Kansas, 2012.
- Welch, Jr., Richard E. *The Presidencies of Grover Cleveland*. Lawrence: The University Press of Kansas, 1988.
- White, Leonard D. *The Federalists: A Study in Administrative History, 1789-1801*. New York: Free Press, 1948.
- . *The Jeffersonians: A Study in Administrative History, 1801-1829*. New York: Macmillan, 1951.
- Wilburn, Jean Alexander. *Biddle's Bank; the Crucial Years*. New York: Columbia University Press, 1967.
- Wiltese, Charles M. *John C. Calhoun*. 3 vols. Indianapolis: Bobbs-Merrill, 1944-1951.
- Yoon, Yeo Joon. "The Role of Tariffs in U.S. Development, 1870-1913." The University of Warwick. October 2013. <http://www2.warwick.ac.uk/fac/soc/economics/staff/yoon/jobmarket3.pdf>