On December 14, 1820, a frail eighty-five year old former President John Adams rose to address a convention of delegates meeting to revise the Massachusetts state constitution. The delegates were to decide whether to continue property ownership requirements for voting and holding office or move to equal representation for all white males. Noting that he was fearful of speaking because his voice and memory were failing, Adams passionately supported maintaining property requirements. He stated,

“The Constitution declares, that all men are born free and equal. But how are they born free and equal? Has the child of a North American Indian, when born, the same right, which his father has, to his father’s bow and arrows? No – no man pretends that all are born with equal property, but with equal rights to acquire property. The great object [of government] is to render property secure… [If] it were left to mere numbers, those who have no property would vote us out of our houses.” (Daily Advertiser 1820, 154)

Adams went on to argue that “universal suffrage” would lead the many to plunder the property of the few, similar to what had occurred during the French revolution.

Adams’ disdain for popular democracy was reflective of an eighteenth century Federalist philosophy that dominated the federal constitutional convention and early American government. However, the Federalist philosophy was out of favor by the time of Adams’ speech. A push for greater democracy had emerged during the first term of the Washington administration. By the 1800 elections, Democratic-Republicans had gained control of both houses of Congress, as well as the presidency. Federalist opposition to the
War of 1812 and the Hartford Convention resulted in the almost total demise of party loyalty. Accordingly, the Democratic-Republican movement saw most states abolish property requirements for both voting and holding office by 1820. And, Massachusetts was about to do the same after the former president’s speech.

**The Constitutional Origins of American Polarization**

Two schools of political thought coexisted in the early American republic. One school advocated a government that protected the patrician class, which was viewed as wiser, less corruptible, and more capable of advancing the economic and political interests of the nation. The other school favored a government more sympathetic to the plebian class, which was deemed capable, trustworthy, and deserving of full consideration.

Those favoring the elitist view in the early American republic were called Federalists. Those more sympathetic to the common class were called anti-Federalists, and later when political parties formed, Democratic-Republicans. Continuous from the early days of the republic, the struggle for dominance between these two schools of political thought have defined the history of party polarization in the United States.

The origins of the elitist view lay in early colonial governments and their British roots. For at least a decade before the federal constitutional convention, the colonies were writing their own suffrage laws and determining the qualifications of office holders. Their precedents were grounded in the British principle that only property owners should participate in representative government (Keyssar 2009, 4-7). Men who possessed property had a “unique stake in society – meaning that they were committed members of (or shareholders in) the community and that they had a personal interest in the policies of
the state, especially taxation.” (Keyssar 2009, 4-5) Further, “property owners alone possess sufficient independence to warrant having a voice in governance.” (Keyssar 2009, 5) In other words, property owners were less likely to be corrupted by others or by the power of governing.

Federalists espousing the elitist view dominated the constitutional convention of 1787 and early American government. Past president of the American Political Science Association Charles A. Beard offered empirical evidence that the propertied class comprised a strong majority at the constitutional convention of 1787 in his *Economic Interpretation of the Constitution of the United States* (see especially Beard 1913, 189-216; more recently see McGuire 2003, 51-54). The delegates were chosen by state legislatures that had property requirements for holding office, thereby removing them from popular influence (Beard 1913, 64-72). Of the fifty-five delegates participating, nearly two-thirds were descended from old colonial families. Most were of British descent with demographics similar to the British ducal class. They were well educated and among the nation’s most economically and politically advantaged. Sixty-two percent of the delegates were merchant-bankers and/or lawyers (mostly from New England and Middle Atlantic states), while another twelve percent were planter-farmers (mostly from Middle Atlantic and Southern states). Variations across regions reflected differences in sources of wealth, with those from New England reflecting the merchant-banker class, and those from the South reflecting the plantation slave owner class (Brown 1976; McGuire and Ohsfeldt 1984). Not a single delegate to the convention represented the small farming or mechanic classes (Beard 1913, 149; see also McGuire 2003, 52-53).
Further, “The overwhelming majority of members, at least five-sixths, were immediately, directly, and personally interested in the outcome of their labors at Philadelphia, and were … economic beneficiaries from the adoption of the Constitution.” (Beard 1913, 149). Forty of the fifty-five delegates appeared in later records of the Treasury Department as holders of public debt; fourteen were land speculators; twenty-four were private creditors; eleven were involved in mercantile, manufacturing, or shipping enterprises; fifteen held slaves (Beard 1913, 150; more recently see McGuire 2003, 54).

Under the Articles of Confederation, states were issuing paper money as legal tender for payment of debts. An earlier regime, in which gold and silver specie had been the only accepted currency, was supplanted under the Articles of Confederation by a regime that enabled debtors to pay creditors with paper money created under state sanctioned inflation. “Large and important groups of economic interests were adversely affected by the system of government under the Articles of Confederation, namely those of public securities, shipping and manufacturing, money at interest; in short, capital as opposed to land.” In response, “[T]he leaders in the movement set to work to secure by a circuitous route the assembling of a Convention to ‘revise’ the Articles of Confederation with the hope of obtaining, outside of the existing legal framework, the adoption of a revolutionary programme.” (Beard 1913, 63)

From the time of publication in 1913, Beard’s *Economic Interpretation* was bitterly attacked by the popular press, with many deeming it unpatriotic and even Marxist in perspective. Nevertheless, Beard’s interpretation of the founding became the dominant view of economic historians until the early-1950s (McGuire and Ohsfeldt 1986, 83).
Starting in the mid-1950s many historians began to challenge Beard’s work, but with little systematic evidence. Kenyon (1955) argued that Beard had misinterpreted the motivations of the Founders. Commager (1958) questioned the logic of Beard’s analysis. The most powerful critiques came from Robert Brown and Forest McDonald. Brown (1956) argued that early American society was not so undemocratic as portrayed by Beard. MacDonald (1958, 349-357) descriptively examined the wealth, economic interests, and votes of those at the Philadelphia convention and at the state ratifying conventions. He concluded that economic interests were clearly important, but what motivated the Founders and those voting for ratification was too complex to be boiled down to pure economic self-interest. Debate over the motivations of the Founders continued until the mid-1980s, with no definitive conclusions (e.g., see Bensen 1961; Calhoun 1979; Diggins 1981; Hutson 1984; Jensen 1964; Main 1960, 1961; McCorkle 1984; McDonald 1965; Riker 1984; Rossiter 1966).

However, starting with McGuire and Ohsfeldt (1984, 1986), economic historians and public choice economists and political scientists definitively confirmed Beard’s *Economic Interpretation*. The seminal analyses employed a theory of economic self-interest that took into account both the personal economic interests of the delegates to the convention and constituent economic interests. Using multivariate statistical methods and voting data from both the constitutional convention and state ratifying conventions, McGuire and Ohsfeldt (1984, 509) concluded “[S]ignificant patterns related to economic interests are found in the voting, with the division of interests generally consistent with that outlined by Charles A. Beard seventy years ago.” Extending this analysis, McGuire and Ohsfeldt (1986, 110) stated “The voting patterns indicated by our statistical analysis
generally support an economic interpretation of the Constitution because personal and constituent interests affected voting behavior on particular issues primarily when the interests could be significantly advanced by the outcome.” McGuire (2003) later replicated and extended his work with Ohsfeldt, reaching the general conclusion that “Constitutions are the products of the interests of those who frame and adopt them.” (2003, 8)

McGuire and Ohsfeldt (1984, 1986) and MacGuire (2003) remain the definitive theoretical and empirical validation of Beard’s *Economic Interpretation*. Flowing from their work, a consensus now exists among public choice economic historians that the personal economic interests of the Founders strongly affected outcomes at the constitutional convention (Whaples 1995). It should also be noted that while Beard is sometimes labeled a Marxist, scholars working from a public choice tradition are anything but Marxists. Rather, they often come from the rational choice perspective. Hence, the elitist view of the founding is not grounded in ideology, but in theory and empirical evidence.

The theory and empirics associated with this economic view of the founding are also tied to similar work in Constitutional Economics (Voigt 1997), Transaction Cost Economics (Macey 1988), Principal-Agent Theory (McGuire and Ohsfeldt 1989), the Theory of Economic Regulation (Stigler 1972), and the Law and Economics movement (Buchanan and Tullock 1961; Crain and Tollison 1979; Landes and Posner 1975; Posner 2007; Tollison 1988). These scholarly movements posit that economic self-interest is very important to the formation and behavior of all political institutions, constitutions, lawmaker, judicial behavior, and economic regulation. According to all of these
perspectives, the Founders can be thought of as rent-seekers, trying to further their personal economic interests at a cost to the general population (Macey 1987, 1988).

Aside from these theory-driven quantitative analyses, a good case can also be made for the *Economic Interpretation* based on qualitative evidence. Twelve of the original states (Rhode Island boycotted) appointed seventy delegates, but only fifty-five attended. At the constitutional convention there was a notable absence of leading figures that would surely have favored greater representation for the masses. Samuel Adams, Richard Henry Lee, John Hancock, Patrick Henry, and others declined invitations believing the purpose of the convention was to trample Americans’ rights. Other likely advocates of greater democracy were also missing. Thomas Jefferson was serving as ambassador to France; Thomas Paine had returned to Europe and was busy stirring up the French Revolution (McGuire 2003, 51; Rude 1964, 183).

However, a few dissenting voices were heard in the constitutional debates as reported in Madison’s (1787) *Notes on the Debates in the Federal Convention*. For example, Benjamin Franklin said “It is of great consequence that we should not depress the virtue and public spirit of our common people; of which they displayed a great deal during the war, and which contributed principally to the favorable issue of it.” (Madison 1787, August 7). George Mason stated “We ought to attend to the rights of every class of the people. … Every selfish motive therefore, every family attachment, ought to recommend such a system of policy as would provide no less carefully for the rights and happiness of the lowest than of the highest orders of Citizens.” (Madison 1787, May 31)

Nevertheless, most delegates to the convention feared and loathed the concept of popular democracy. John Dickinson, one of the nation’s wealthiest men, considered
freeholders “as the best guardians of liberty; and the restriction of the right to them as a necessary defence against the dangerous influence of those multitudes without property and without principle with which our Country like all others, will in time abound.”

(Madison 1787, August 7) For Edmund Randolph the nation’s worst problems were caused by “the turbulence and follies of democracy.” (Madison 1787, May 31) Elbridge Gerry commented that democracy is “the worst of all political evils.” (Madison 1787, September 17) Roger Sherman agreed saying, “The people should have as little to do as may be about the Government.” (Madison 1787, May 31) Governor Morris also expressed disdain for the “commoner” class, commenting “Give the votes to people who have no property and they will sell them to the rich. … The time is not distant when the country will abound with mechanics and [fabricators], who will receive their bread from their employers. Will such men be secure and faithful guardians of liberty?” (Madison 1787, August 7)

James Madison, a major architect of the Constitution, argued “the freeholders of the country would be the safest repositories of republican liberty.” (Madison 1787, August 7) Later in Federalist 10, Madison wrote “Democracy is the most vile form of government ... democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property; and have in general been as short in their lives as they have been violent in their deaths.” (1788)

Alexander Hamilton was the most vehement in advocating the elitist paradigm. He stated “All communities divide themselves into the few and the many. The first are the rich and well born, the other the mass of the people. … The people are turbulent and
changing; they seldom judge or determine right. Give therefore to the first class a distinct, permanent share in the government.” (Yates 1787, June 19)

Flowing from this Federalist perspective, the Constitution was a veiled attempt to squash democratic tendencies, provide security for the propertied class, and at the same time secure a document that could be ratified. The convention initially considered imposing specific property requirements for voting in federal elections, but decided that such requirements would make ratification difficult. As a result, the right to vote in federal elections was left to mirror existing requirements in the states by enfranchising only those who could vote in state elections for the most numerous branch of the state legislature (Madison 1787, June 21).

Of the original thirteen states, ten had property requirements for voting in state elections and seven had tax paying requirements serving the same purpose (Keyssar 2009, Tables A.2 and A.3). Twelve of the thirteen states imposed such high requirements that only white males with substantial wealth could vote. Pennsylvania was the most democratic, owing to the efforts of Thomas Paine and Benjamin Franklin, with all white tax-paying males eligible to hold public office. In contrast, Massachusetts required a member of the lower house to possess at least £100 in property (about $140,000 in today’s currency), while those in the upper chamber needed at least £300 (about $420,000). In New Jersey a legislator had to show he was worth at least £1,000 (about $1.4 million). In South Carolina state senators needed estates worth at least £7,000 (about $9.8 million) (Aronson 1964, 35; Beard 1913, 64-72; McKinley 1905).

The final document from the constitutional convention established only one institution chosen by the people, the House of Representatives. Yet, the House was
counter-balanced by multiple institutions representing the propertied class. Members of
the Senate were chosen by state legislatures, which were largely reflective of property
holders. The president was chosen by an electoral college, which in turn was selected by
state legislatures, most of which had no requirement that its members be reflective of a
popular vote. The president appointed the judiciary, with the advice and consent of the
Senate. Separation of powers, an appointed Senate representing property owners, an
insulated Supreme Court, and a president wielding the veto erected a barrier to passing
legislation disadvantageous to the propertied class.

Other specific provisions of the Constitution also solidified favor for the propertied
class. Critical economic powers limited state power and were made exclusive to the
national government. McGuire (2003, Chapter 3) showed statistically that voting on these
limitations was significantly affected by the personal economic interests of delegates. For
example, the Contract Clause in Article 1, Section 10 read “No State shall … coin
Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in
Payment of Debts; pass any … Law impairing the Obligation of Contracts…” These
limitations on states ended the popular practice of issuing paper money, thereby diluting
debts and upholding the perpetual legitimacy of contracts. Prohibiting states from altering
contracts and debt obligations advantaged creditors by guaranteeing payment, while
taxpayers later had to pay the debt obligations. Making gold and silver the only currency
for fulfilling contracts guaranteed creditors freedom from inflation, while the debtor class
remained a perpetual victim of deflation. Thus, the original Constitution advantaged
creditors, bankers, merchants, and holders of public securities to the disadvantage of
debtors and taxpayers.
Article 6 stated, “All Debts contracted and Engagements entered into, before the Adoption of this Constitution, shall be as valid against the United States under this Constitution, as under the Confederation.” This Article made sure that creditors’ notes would not be nullified by either states or the national government, and pertained especially to Revolutionary War debts. Many of the Founders held that war debt, and later benefitted personally from this article (Beard 1913, 150; see also McGuire 2003, 54. They received certainty of monetary payment under the new Constitution for the debt that they had acquired, often through speculation rather than patriotic investment.

The Constitution granted Congress in Article 1, Section 8 plenary power to raise and support military forces, with the president having authority under Article 2, Section 2 to call these forces into action. Implicitly, the military was to be at the disposal of the president in executing national laws and guarding against renewed attempts by “desperate debtors” like Daniel Shays (Beard 1913, 171-175). Later, President Washington used this power to quell a popular uprising over taxes, the so-called Whiskey Rebellion (Elkins and McKittrick 1993, 461-485; Hogeland 2006; Slaughter 1986).

Further, the Constitution granted Congress in Article 1, Section 8 authority to lay and collect taxes, duties, imposts and excises, to pay the debts, and to borrow money on the credit of the United States. These powers clearly served the interests of the many delegates at the convention holding public debt, and who would benefit from protective and discriminatory tariffs favoring commercial interests. Through these powers, holders of public debt could be “paid in full, domestic peace maintained, advantages obtained in dealing with foreign nations, manufactures protected, and the development of territories go forward with full swing.” (Beard 1913, 176)
Further, Article 1, Sections 2 and 9 prohibited direct taxation on any basis other than state population size. Under the new Constitution, people could not be taxed individually on the basis of their wealth or income. Prohibiting direct taxation of individuals gave rents to the propertied class, since the only other means for funding the government was through tariffs and excise taxes. These requirements implied that the patrician class would pay far less than the plebian class in taxes as a proportion of their wealth or income. The framers seemingly intended to place most of the national tax burden on the masses through tariffs and excise taxes (Beard 1913, 170-171, 176).

Thus, the social contract emerging from the constitutional convention reflected the economic class polarization of the early American republic. Class polarization existed between property holders and non-property holders, creditors and debtors, holders of public securities and taxpayers, wealthy and poor, etc. Given these obvious class biases, one might ask how the Constitution achieved ratification. Certainly, the phrase “We, the people of the United States, …” (Wikipedia 2014) does not adequately describe the ratification process. The Constitution was ratified by state conventions, with delegates elected by those qualified to vote in each state. In general, state legislatures imposed the same property requirements for voting as they applied for membership in the lower house of the state legislature. As a result, the Constitution was ratified by the vote of probably no more than one-sixth of the adult males in the United States (Beard 1913, 239-252, 325). As at the constitutional convention, economic self-interest was the primary factor affecting the votes of delegates to the state ratifying conventions (McGuire 2003, 159-161). The ratification process was not fully complete until May of 1790 when Rhode Island finally assented.
During the ratification process, partisan conflict had clearly emerged (McGuire 2003, 132-134). As expressed by Beard (1913, 292), “No one can pore for weeks over the letters, newspapers, and pamphlets of the years 1787-1789 without coming to the conclusion that there was deep-seated conflict between a popular party based on paper money and agrarian interests, and a conservative party centered in the towns and resting on financial, mercantile, and personal property interests, generally.” Thus, even though there were no formal political parties, partisan polarization had already begun.

**The Polarizing Effect of the Washington Presidency**

George Washington was widely believed by delegates to the constitutional convention to be a unifying figure, as well as the embodiment of the Federalist values (Elkins and McKitrick 1993, 33-34). Accordingly, Washington was expected by the Founders to be the nation’s first president. He was one of the wealthiest men in America. His plantation at Mount Vernon consisted of five separate farms on 8,000 acres of prime Virginia farmland. He was a slaveholder with over 300 of his own, and 150 dower slaves owned by his wife Martha. She came from an even wealthier background, having inherited several plantations and much land from her first husband. More important, Washington understood the expectations of the Founders for the presidency (Elkins and McKitrick 1993, 34-46; Sharp 1993, 26-27). Washington presided over the constitutional convention, and his prestige was highly instrumental in achieving ratification.

Washington lacked formal education, but was broadly perceived as a strong leader (Longmore 1999, 6-10; Moore 1927, xi-xv). As commanding general of the revolutionary forces, Washington was a war hero and exceedingly popular. Bolstering that popularity, he was viewed as wise and virtuous. Voluntarily returning to private life after the
Revolution, he was compared during his day to the Roman general and hero Cincinnatus (519-430 BC), who had twice relinquished supreme power when it was no longer necessary (Hovde and Myer 2004). Washington was to most Americans an exemplar of leadership, courage, and sacrifice, and his election was a foregone conclusion.

The 1788 presidential election saw George Washington elected unanimously as president, with John Adams as Vice President. Under the Federalist system only 38,818 citizens were qualified to vote. The 1790 Census counted a total U.S. population of 3.0 million, with a free population of 2.4 million and 600,000 slaves. Thus, initial voter participation under the new Constitution was about 1.3 percent of the population (Dubin 2002, 2-3; Rusk 2002, 171). After the 1788 election, the composition of the House of Representatives was 37 Federalist versus 28 anti-Federalist representatives (about a 60-40 majority)(Office of the Clerk U.S. House of Representatives 2012). The composition of the Senate chosen by state legislatures was even more skewed, with 18 Federalist versus 8 anti-Federalist senators (about a 70-30 majority)(United States Senate Office of the Clerk 2012).

_Polarization in Domestic Affairs During the Washington Administration_

President Washington was a unifying and popular leader who for many embodied the statesman ideal. However, his administration’s actions in domestic affairs were quickly and visibly favorable to the patrician class. The Constitution had “rigged” the system to protect men of wealth and property from popular democracy. The Washington administration laid the groundwork for men of wealth and property to expand their wealth into the future.
In staffing the administration Washington chose mostly Federalists whose beliefs were similar to those framing the Constitution. Alexander Hamilton, a strong advocate of the British model (Madison 1787, June 18-19), was named Secretary of Treasury. Edmund Randolph, sponsor of the Virginia Plan for separated powers (Madison 1787, May 29), was named Attorney General. Of eleven cabinet appointments across his two administrations, Washington’s only non-Federalist appointment was Secretary of State Thomas Jefferson.

Washington did not have the first rate mind of many in his cabinet, but many argue that he had good judgment (Chernow 2004, 289-290). Understanding his own limitations, he relied heavily on his cabinet for guidance, and especially on Treasury Secretary Alexander Hamilton. Indeed, Hamilton was the driving intellectual force of the Washington presidency in both domestic and foreign affairs.

Hamilton’s vision for the new nation more or less epitomized the Federalist philosophy. He and other appointees consistently pursued policies favoring the propertied class, and especially the merchant-bankers of the Northeast. Hamilton’s grand vision was that of a great nation, expanding westward, with an economy rooted in commerce and banking. He favored a strong central government that would foster such development. The economic theory driving his policies was top-down, advocating an accumulation of wealth at the top that would employ the great mass of workers and citizens at the bottom. Trade internally and with other nations, especially with Great Britain, were important ingredients for making his vision true. Accordingly, Hamilton supported a system that would promote commercial development, including tariffs and centralized credit and
banking. He also wanted to protect and subsidize the men of property who would capitalize the new economy (Elkins and McKitrick 1993, 114-123).

The new government that would promote Hamilton’s commercial utopia was initially funded by tariffs. The Tariff Act of 1789, signed into law by President Washington on July 4 of that year, was the first substantive legislation passed by the first Congress. Section 1 read “… it is necessary for the support of government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures, that duties be laid on goods, wares, and merchandise imported.”

House leader James Madison initially proposed the tariff bill. He sought to include provisions discriminatory toward Great Britain to induce more trade with France. Hamilton opposed Madison’s discriminatory provisions, since he believed that the basis of American economic expansion would be trade with Great Britain (Elkins and McKitrick 1993, 113, 125; Miller 1960, 18-19). Most Federalists in Congress also opposed the discriminatory provisions for the same reason. The final legislation was not discriminatory toward the British, due to opposition from the administration and commercial class (Elkins and McKitrick 1993, 65-74).

The Tariff Act imposed duties that were costly to ordinary consumers, while protecting certain manufacturers. For example, an import tax was levied on rum and other distilled spirits, wine, ale, beer, cider, malt, sugar, molasses, salt, coffee, cocoa, tea, candles, cheese, soap, clothing, boots, shoes, buttons, gloves, hats, manufactured tobacco, snuff, fish, gunpowder, playing cards, etc. These items are consumed largely by the general public. A duty was also levied on imported tin, lead, pewter, brass, iron and brass wire, copper, wool, cotton, dyes, raw hides, furs, paint, cabinet wares, etc. These items
are used primarily by domestic manufacturers. The Tariff Act was largely a consumption tax on the broad public, raising prices in an indirect and invisible way, while at the same time providing protection for manufacturers (Hill 1893).

Hamilton’s subsequent plans for promoting American entrepreneurship were rooted in three reports to Congress issued during the first two years of the Washington administration. The first report on January 9, 1790 was called the *First Report on Public Credit* and proposed that the federal government assume all debts resulting from the American Revolution (referred to as the assumption plan below) (Hamilton 1790a, 15-25). The second report on December 13, 1790 was called the *Second Report on Public Credit* and proposed establishing a national banking system (referred to as the banking plan below) (Hamilton 1790b, 67-76). The third report on December 5, 1791 was called the *Report on Manufactures*, and recommended policies to protect and subsidize wealthy individuals who would expand American commerce (referred to as the tariff and subsidies plan below) (Hamilton 1791b, 971-1034). All three reports sparked significant controversy, and ultimately led to the formation of the first political parties.

Hamilton’s assumption plan was for the federal government to assume all debts from the American Revolution, including those held by individual citizens and the states. The purpose of the assumption plan was to inject new capital into the American economy, specifically targeting those at the top of the economic system. Many wealthy individuals had invested heavily in the Revolution with the expectation that they would be repaid after independence. States had borrowed money from businesses and individuals, having exchanged promissory notes for supplies in support of the war effort. The Confederation had itself also borrowed substantial money from European powers. Yet, under the
Articles of Confederation there was little prospect that these debts would be repaid. Indeed, states and banks often paid war creditors in greatly devalued paper currency, making the debt essentially worthless (Markham 2002, Chapter 2.1). As observed earlier, wealthy creditors were the biggest losers from this practice.

Hamilton believed that American commercial interests seeking to expand would never be able to do so until these war debts were paid. Paying the debts would generate new capital for wealthy entrepreneurs, as well as enable future borrowing. Hamilton’s assumption plan was, therefore, an effort to inject new capital into a particular segment of the economic system. Underlying Hamilton’s assumption plan was the belief that American economic development depended on the upper class (Chernow 2004, 297-301; Elkins and McKitrick 1993, 114-131). Under the assumption plan creditors were to be paid off by issuing U.S. government bonds yielding a guaranteed four percent interest.

Hamilton saw four primary benefits flowing from his plan. First, assumption would establish the full faith and credit of the nation, both at home and abroad. Second, assuming state war debts meant that the federal government would not be competing with states for certain revenues. Hamilton wanted to “preempt the best sources of revenue for the United States Treasury” (Chernow 2004, 299; Elkins and McKitrick 1993, 118-119). Third, centralizing war debts away from the states to the national government had the advantage of concentrating capital. Rather than leaving the debt dispersed, this approach was more likely to result in productive capital (Elkins and McKitrick 1993, 118). Finally, tying wealthy creditors who held the debt to the national government, rather than to state governments, increased their future commitment to the nation. Wealthy individuals were less likely to support state secession if they were to suffer great financial losses for such
action. As expressed by Hamilton, a permanent and moderately sized public debt would form “the powerful cement of our Union.” (Meyer 2007).

Initially, Hamilton’s assumption plan was not well received. In April 1790, the House of Representatives voted it down. The opposition was led by House leader James Madison and Secretary of State Thomas Jefferson, who preferred a plan more beneficial to citizens and veterans of the American Revolution. After the American Revolution, veterans had been given promissory notes in lieu of back pay they were owed, and in reward for their service to the nation. However, many of these veterans had grown uncertain that the notes would ever be honored. As a result, many sold them for a fraction of their face value to wealthy speculators. Madison saw Hamilton’s plan as unfairly rewarding the wealthy, rather than the worthy individuals responsible for the success of the American Revolution. He proposed that “One of three things must be done; either pay both [the original holders and the assignees], reject wholly one or the other, or make a composition between them on some principle of equity.” (Ellis 2002, 56) In other words, Madison’s plan was to provide a modicum of justice for common Americans.

As a veteran himself, Hamilton certainly understood the justice in rewarding soldiers of the American Revolution. However, he staunchly opposed Madison’s plan (Chernow 2004, 297-298). He argued that it would be a breach of contract to split payment between the original note holders and the assignees. Hamilton also argued that the principle contained in Madison’s plan “was subversive of the public credit because it impaired the liquidity of public securities – their capacity, that is, guaranteed by security of transfer, to pass as money.” Finally, and most revealing of Hamilton’s mindset,
“He did not want holdings in the public debt widely dispersed. He wanted the resources which they represented concentrated as much as possible in the hands of a particular class of men, because he wanted those resources maximally available for productive economic uses. … For the capital created by a funded debt to become ‘an accession of real wealth,’ it must serve ‘as a New power in the operation of industry,’ and this would occur only if it went through the hands of men who would use it to build ships and factories, launch business ventures and augment commerce.” (Elkins and McKitrick 1993, 117-118)

Jefferson and Madison also objected to Hamilton’s plan because it discriminated against states that had already made substantial progress toward retiring their war debts. Jefferson and Madison’s home state of Virginia had paid off a large part of its debt by 1789. In contrast, Massachusetts and South Carolina were still heavily burdened by their war debts (Elkins and McKitrick 1993, 119-120). It is probably no coincidence that many of the debt-ridden states were in the manufacturing regions of the Northeast, while most that had made progress in retiring their debts were in the South.

Despite the Federalist composition of Congress, the inequities in Hamilton’s assumption plan were very divisive, evidenced by its initial failure to secure passage (Chernow 2004, 301-306). Opposition to the plan was rooted in both economic conflict (merchant-bankers versus planter-farmers) and sectionalism (the Federalist North versus the anti-Federalist South). However, a compromise with the encouragement of President Washington was reached between Hamilton, Madison, and Jefferson over dinner in June of 1790. Jefferson and Madison agreed to Hamilton’s assumption plan on the condition that the nation’s new Capital be located in the Southern slave-holding states of Virginia.
Virginia was also given financial compensation for its already retired war debts. The assumption plan finally passed Congress on July 26, 1790.

Later that year, Hamilton proposed his banking plan, which was an effort to establish a centralized credit system for commercial expansion (Chernow 2004, 344-355; Elkins and McKitrick 1993, 223-244). The plan was again especially beneficial to the merchant-banker class of the Northeast, and provided little or no benefit to the planter-farmers of the South. The proposal was to establish a First Bank of the United States through an initial sale of $10 million in stock. The United States government would purchase the first $2 million in shares, with the remaining $8 million available to the private investors. The government shares were to be funded by a loan from the bank, thereby increasing the federal debt on top of what was incurred with the assumption plan. In contrast, private investors were required to purchase their shares through a combination of specie (gold or silver) and acceptable notes. Through this plan, the First Bank of the United States would be capitalized at $10 million, “more than that of all existing American banks combined.” (Elkins and McKitrick 1993, 226)

Hamilton drew inspiration for his banking plan from the Bank of England, established in 1694 to handle the finances and fund the overwhelming debt of Great Britain (Chernow 2004, 347). Indeed, Elkins and McKitrick (1993, 227) state that “in all likelihood he worked with a copy of the British statute at his elbow.” (see also Hamilton 1904c, 332-333, 339, 439) However, there was a major difference between the Bank of England and the U.S. bank. The Bank of England was established solely to serve the
government. In contrast, the First Bank of the United States was established to serve both the government and commercial interests.

The bank was to be the government’s chief financial agent, issuing paper currency backed by gold or silver specie, holding government assets, collecting taxes, disbursing and transferring funds, and providing short-term credit in case of liquidity shortfalls. However, the most important function of the bank was carrying out commercial operations. It was to provide the mercantile community with a large base of credit for expanding their businesses (Elkins and McKitrick 1993, 226-227). Hamilton saw this concentration of capital through the national bank as essential to the future growth of the nation.

Hamilton’s banking plan again sparked an uproar in Congress (Chernow 2004, 349-352). Maryland Representative Michael Stone declared “This bank will swallow up the State banks; it will raise in this country a moneyed interest at the devotion of Government; it may bribe both States and individuals.” (Gales 1834, February 7, 1791) Georgia Representative James Jackson stated it “is calculated to benefit a small part of the United States, the mercantile interest only; the farmers, the yeomanry, will derive no advantage from it; as the bank bills will not circulate to the extremities of the Union.” (Gales 1834, February 1, 1791) Of course, this was Hamilton’s very purpose in establishing the bank. The bank would enrich its private stockholders and centralize economic power to Northeastern financial communities (Weisberger 2000, 63). As a result, it would give little benefit to planter-farmers in rural areas who were persistent borrowers.
While there was again an economic and sectional divide over Hamilton’s bank proposal, a primary rationale of those opposing the bank was constitutional. Madison argued that it was not within the power of the Congress to establish a national bank. In House debates on February 2, 1791 he stated, “Reviewing the Constitution … it was not possible to discover in it the power to incorporate a Bank.” (Gales 1834) Madison went on to argue that none of the enumerated powers to Congress contained an explicit authorization to establish a bank. Therefore, under a strict construction view of the Constitution, doing so would be illegal.

Nevertheless, Hamilton quickly had sufficient votes to win passage of the bank plan (Chernow 2004, 350-351). The House voted 39 in favor and 20 opposed. Evaluating the votes, 33 of 39 yes votes came from representatives of Northern states, while 15 of 20 no votes came from representatives of Southern states (Weisberger 2000, 63-64). On the Senate side, the bill passed in the negative on third reading, with 6 yes votes and 16 no votes on a motion to reconsider the term of incorporation. Again, solid support for the bank came from senators representing Northern states, with all of the opposition to the bank coming from Southern senators (Gales 1834, January 21, 1791).

Madison recognized that there was little chance of stopping Hamilton’s banking plan in Congress. Given this reality, he focused on persuading President Washington to veto the bank bill on constitutional grounds. Washington “held several free conversations” on the bank’s constitutionality and listened attentively to Madison’s arguments. The president even went so far as to ask Madison to pen a veto message in case he decided to veto the bill (Elkins and McKitrick 1993, 232). He also asked for the opinion of three
officials within his administration, Attorney General Randolph, Secretary of State Jefferson, and Treasury Secretary Hamilton.

Randolph responded that he believed the bill was unconstitutional because, as Madison had argued, “there was no way of construing the incorporation of a bank from the Constitution’s enumerated powers.” (Elkins and McKitrick 1993, 232) Jefferson cited the Tenth Amendment, arguing that “The incorporation of a bank, and the powers assumed by this bill, have not, in my opinion, been delegated to the United States, by the Constitution.” (Jefferson 1791)

Hamilton was the last to respond to Washington’s request for advice, arguing that to employ such a strict construction of the Constitution was to deny the sovereignty of the national government. “[E]very power vested in a government is in its nature sovereign, and includes, by force of the term, a right to employ all the means requisite and fairly applicable to the attainment of the ends of such power, and which are not precluded by restrictions and exceptions specified in the Constitution, or not immoral, or not contrary to the essential ends of political society.” (Hamilton 1791a) Under Hamilton’s argument, sovereign governments have a right to do whatever enables the legitimate ends of government. Much to the chagrin of his anti-Federalist adversaries, Hamilton was likening the powers of the American national government to those of the British monarch.

President Washington received Hamilton’s opinion on February 23, 1791, and signed the bank bill two days later. The president’s alignment with Hamilton against Secretary of State Jefferson and House leader Madison opened a fissure that ultimately led to the first party system of the United States (e.g., see Chernow 2004, 349-355; Elkins and
McKitrick 1993, 233-242). Madison and Jefferson quickly began to organize a political opposition to what they perceived as Hamilton’s pernicious, aristocratic, pro-merchant-banker, pro-British, and unconstitutional plan for the nation.

As expressed by Elkins and McKitrick, they

“spent much of the spring and summer of 1791 laying the basis for a systematic effort to obstruct Hamilton’s program and to curtail his influence with Congress and the President. … [They] tested the political sentiments of various notables throughout the country, with an eye toward possible regional alliances. … [They] expended much anxious effort in … [establishing a] newspaper there which might have a national circulation” through which they could arouse public sentiment against the administration (1993, 263-270).

The fruits of their efforts grew to maturity over the coming years. Between 1790 and 1808, the number of newspapers in the United States increased from 92 to 329. All but 56 identified with a political party. Jefferson and Madison provided encouragement, money and a position in Jefferson's State Department for newspaper editor Philip Freneau to establish a Democratic-Republican newspaper, the *National Gazette*. The *National Gazette* became the leading critic of Federalist programs during its two-year existence. Equally important, their efforts led to the formation of many other partisan news outlets that continuously aroused sentiment against the administration (Library of Congress 2013). Madison and Jefferson’s anti-Federalist efforts paid off in the mid-term congressional elections the following year. Anti-Federalists took control of the House of Representatives (but not the Senate), and maintained their majority from 1793 through the remainder of the Washington administration.
The primary funding mechanism for the assumption and banking plans was the Tariff Act of 1789. However, tariff revenues were insufficient to fully fund the new public debt from the assumption and banking plans. Therefore, Hamilton also proposed a domestic excise tax on distilled spirits (Hamilton 1790a, 2067-2070). Many poor workers were actually paid in whiskey, as it was a commonly bartered commodity. Distilled spirits were the preferred drink of the lower class, and especially workers in frontier regions and the South. Further, virtually all farmers raising grain possessed a still for converting some of their produce into whiskey for sale elsewhere. They objected strongly to paying a tax on their refined produce. The distilled spirit tax proved exceedingly unpopular with the masses, ultimately leading to the Whiskey Rebellion of 1794 (Hogeland 2006; Slaughter 1986).

The tax on distilled spirits also sparked sectional divisions. The moralistic culture of the Northeast saw the tax as a way of curbing the depravities associated with hard alcohol consumption, versus their own consumption of cider and beer. As stated in Hamilton’s First Report on Public Credit (1790a, 2065), “The consumption of ardent spirits … [is] very much on account of their cheapness, is carried to an extreme, which is truly to be regretted, as well in regard to the health and the morals as to the economy of the community.” Hamilton presented a letter from the Philadelphia College of Physicians stating “domestic distilled spirits, the cheap drink of the laboring classes, had become a ravaging plague requiring immediate treatment.” (Hogeland 2006, 63) Representative Samuel Livermore of New Hampshire commented that the distilled spirits excise is “an equal and just mode of taxation and, as such, will be agreeable to the people – they will consider it as drinking down the national debt.” (Gales 1834, 1896)
In contrast, representatives from states with frontier regions and the South saw the tax as discriminatory. Senator William Maclay of Pennsylvania said the measure was “the most execrable system that ever was framed against the liberty of a people … War and bloodshed are the most likely consequence of all this.” (Maclay 1790, 386-387) Representative James Jackson of Georgia noted that it was “odious, unequal, unpopular, and oppressive, more particularly in the Southern states; … as the citizens of those states have … no breweries or orchards to furnish a substitute for spirituous liquors … It will deprive the mass of [Southern] people of almost the only luxury they enjoy, that of distilled spirits.” (Gales 1834, 1791)

Owing again to the Federalist majority in Congress, Hamilton’s spirit tax easily passed. After a heated debate, the House of Representatives approved it on January 25, 1791 by a vote of 35-20. Of those representatives voting against the bill, all were from Southern states or districts in the frontier regions of Pennsylvania, New York, and Maryland. The bill passed the Senate on February 12, 1791 by a vote of 20-5, also along sectional lines. The excise tax on distilled spirits to pay for Hamilton’s assumption and banking plans became law with President Washington’s signature on March 3, 1791.

The final part of Hamilton’s plan to promote the propertied class was contained in his subsidies and tariff plan. Hamilton’s proposal was to establish a system of “pecuniary bounties” to encourage entrepreneurship. Specifically, he argued for bounties to be paid to potential investors, noting that subsidies are commonly used in other countries to encourage development. They are a direct method “to stimulate and uphold new enterprises, increasing the chances of profit and diminishing the risk of loss in first attempts.” (Hamilton 1791b) Contrary to protective tariffs, subsidies do not produce
greater scarcity, thereby increasing prices for the general population. However, Hamilton also proposed a system of additional tariffs to fund the bounties to be paid to the captains of commerce (Hamilton 1791b, 1009-1016).

Hamilton recognized in his *Report on Manufactures* that bounties paid to wealthy entrepreneurs might be “less favored by the public than some other modes…” (Hamilton 1791b, 1009) Further, as so often occurs in politics, the political environment had changed by the time Hamilton issued his subsidies and tariff plan to Congress in December of 1791. By this time, the efforts of Madison and Jefferson at organizing a political opposition were paying off. As a result, Hamilton’s plan to subsidize the wealthy was viewed more critically.

Additionally, two attention-focusing events occurred soon after Hamilton issued his *Report on Manufactures*. President Washington received a dispatch on December 9, 1791 that Indians had massacred American militia and military under the command of General Arthur St. Clair in Ohio. Only 26 of the 920 officers and men in the engagement were unscathed, with 632 dead and 264 wounded. Virtually all of the 200 camp followers had been slaughtered (Eckert 1995). The House of Representatives began an investigation of the military debacle, as well as of the War Department. The investigation sidetracked congressional consideration of Hamilton’s subsidy and tariff proposal (Elkins and McKitrick 1993, 270-272).

Another attention-focusing event was the financial panic of March and April 1792. This was the first of thirty-five such financial panics, recessions, and depressions through 1933. The cause of the 1792 financial panic, as with many later ones, was misbehavior by bankers and wealthy individuals (e.g., see Markham 2002, Chapter 2.3). Wealthy
speculators William Duer and Alexander Macomb attempted to drive up the prices of shares of public debt held by the newly established First Bank of the United States and the Bank of New York. At the same time, the Livingston family attempted to drive the prices down. The uncertainty produced by these competing speculators led to a run on banks, and tightening of credit. These speculative activities produced a perception that the wealthy class could not be trusted. Making matters worse, Duer was an old friend and Treasury Department colleague of Hamilton (Chernow 2004, 292-294). While it was generally agreed that Treasury Secretary Hamilton performed admirably in combating the financial panic, there was nevertheless a pall of suspicion and soured taste by members of Congress for any measure that would continue favoring wealthy investors (Cowen et al. 2006; Elkins and McKitrick 1993, 272-276).

For these reasons, Hamilton’s subsidies and tariff plan was dead on arrival in Congress and never considered as a complete package. As expressed by Elkins and McKitrick “The rout of St. Clair’s army by the Indians, and then the money panic of March 1792 – with their consequences and the emotions they produced – probably destroyed between them any likelihood there may have been of such a program’s being undertaken, or even seriously considered… The Report on Manufactures was not acted upon at all.” (1993, 270-271) Similarly, Ferling observed that Hamilton’s plan for manufacturing “which was at least a quarter century ahead of its time, died quickly in Congress without coming to a vote.” (1992, 350)

However, these bleak assessments understate the success of Hamilton’s subsidies and tariff plan. It is true that the bounty part of the plan received no serious consideration by Congress, except for an “allowance” made to American fisheries. However, virtually all
of the added tariffs from the plan gained approval by Congress as a means of funding an army to regain control of the Western frontier from the Indians (Irwin 2003). Congress passed the tariff measure in March 1792, again with a sectional divide. Representatives of Northern states in the House voted 20-7 in favor of the bill, and those from the South voted 13 to 7 against it. According to Clarfield (1975), “Had circumstances been different, it is extremely doubtful that this tariff proposal would have stood much chance in Congress. By linking military appropriations to the impost, however, Hamilton managed to neutralize a good deal of the opposition” (Clarfield 1975, 459). Hamilton finessed congressional approval of tariffs favorable to the commercial class by advocating for national security, when in fact the enacted tariffs were lifted directly from his *Report on Manufactures*.

*Polarization in Foreign Affairs During the Washington Administration*

Hamilton’s domestic vision for the nation was to promote economic development by expanding the American commercial class. However, his approach for doing this depended heavily on a steady supply of tariff revenues. The Tariff Act of 1789 was the primary revenue source for funding the credit and banking system upon which the American economic expansion depended. Tariffs had also expanded in 1792 as a measure to fund protecting the frontiers. Of course, these tariff revenues depended on maintaining trade with the rest of the world, and especially Great Britain.

The American commercial class depended heavily on the British commercial class for both imports and exports. Hamilton’s vision also depended on westward expansion to the Mississippi, and beyond, to supply an abundance of natural resources for manufacturers, as well as land for settlers who would become future consumers and producers in his new
commercial utopia. However, there were problems associated with these dependencies, rooted in complex foreign relations with the French, British, and the British allies in the West, the Indians.

The French Revolution began in 1789, the first year of the Washington presidency, and lasted for ten years. It threatened monarchies and aristocracies across Europe, both physically and philosophically. The French deposed their monarch and seized the estates of nobles benefitting from a tax system supporting their sumptuous and gluttonous lifestyles at the expense of the plebian class. The guillotine was applied liberally to silence anyone perceived as unfriendly to the French Revolution, and especially against the aristocracy. The French Revolution took an even more radical turn in April 1792, when the new French republic declared war on the Austrian Empire. In January 1793, the French executed their former monarch, and during this same month Spain and Portugal entered the war as part of the anti-French coalition. In February, the French declared war on Great Britain and the Dutch. The French revolutionary spirit directly challenged the divine right of sovereigns and the aristocracy, and those challenged responded accordingly. As a result, all of Europe was engulfed in a war that threatened American commercial interests and sharply polarized the nation (Sharp 1993, 69-91).

Anti-Federalists and most Southerners detested anything British. The British campaign through the South during the American Revolution had been especially brutal. Southern plantation owners had also chafed at their business experiences with the homeland prior to the Revolution (Chernow 2004, 313-314, 392-393; Elkins and McKitrick 1993, 83, 269). From an economic perspective, House Leader James Madison believed that as long as the nation was heavily dependent on British commerce, it could
never be truly independent. British imports dominated the U.S. market, while American exports were severely restricted from Britain through a system of protective tariffs. With their dominant sea power, the British were also restricting American trade with the rest of Europe, even embargoing American shipping to the West Indies. In response, Madison revived his earlier calls for a discriminatory tariff system that would heavily penalize British trade with America. (Elkins and McKitrick 1993, 381-388).

Ideologically, most ordinary Americans favored the French in their European war (Elkins and McKitrick 1993, 303-373; Sharp 1993, 69-74). After the French Revolution numerous private Jacobin societies arose in both North and South. The French Revolution was viewed popularly as an extension of the American Revolution to Europe. As Americans had done earlier, the French were casting off the chains of monarchy and aristocracy to establish a government of, by, and for the people. The French republic attempted to cultivate American support by sending Ambassador Edmund-Charles Genet to solicit money, provisions, and even an invasion force to attack Spanish Florida (Elkins and McKitrick 1993, 330-36; Ferling 1992, 337-38; McCullough 2001, 444-45; Sharp 1993, 69-91). American support for the French would, in fact, have been consistent with the Treaties of Alliance and Commerce of 1778 that were the primary basis for French support during the American Revolution.

In contrast, most Federalists preferred strong ties with Great Britain. Such ties were conducive to the commerce beneficial to the Northeast. Far more commerce occurred between America and Great Britain and its allies, than between America and France (Elkins and McKitrick 1993, 70-72). Hamilton saw maintaining good relations with Britain as essential to the trade upon which his new economic system depended. Funding
the newly acquired federal debt and government was based largely on tariffs levied against foreign goods. Most of these goods were British. If trade with the British declined, then Hamilton’s credit system and source of government revenues would likewise fail (Elkins and McKitrick 1993, 399).

More theoretically, Federalists saw the French Revolution as directly challenging the philosophical basis of the new American republic. They viewed the French Revolution as reflecting the same evils of popular democracy the Founders had sought to curtail when framing the new Constitution. Property was being indiscriminately confiscated by the French masses. The unicameral French assembly represented only popular interests and did not protect the propertied class. Most Federalists saw the new French government as nothing more than “mobocracy,” destined to become yet another failed democracy piled onto the heap of failed democracies from times past. Vice President John Adams, representing the views of most Federalists, launched a philosophical attack on the French Revolution during 1790 and 1791 through a series of essays entitled “Discourses on Davila” published in the Federalist newspaper, Gazette of the United States. In his rambling diatribe, Adams (1790) basically decried the radicalism and unbalanced democracy that was developing in France (Elkins and McKitrick 1993, 536; Ferling 1992, 340-41, 306-307, 364-65).

Because of these divisions between Federalists and anti-Federalists, when the French declared war on the British in February 1793 the Washington administration was in a precarious position. Favoring the British would have been politically unpopular and divisive. Favoring the French would have endangered essential trade relations with Great Britain. Thus, President Washington faced a difficult choice. Upon receiving word of the
French declaration of war in April 1793, the president traveled quickly from Mount Vernon to Philadelphia to counsel with his cabinet. Arriving on April 17, the next day he sent his four cabinet officers a list of questions seeking advice on how to proceed. Interestingly, the president had already asked Treasury Secretary Alexander Hamilton to prepare the questions for the cabinet. This fact irritated Secretary of State Thomas Jefferson, who by right should have been the president’s chief foreign policy advisor (Elkins and McKitrick 1993, 336-341).

A meeting occurred on April 19 in which cabinet members uniformly advised the president that the nation should steer a neutral course. Hamilton wanted a formal declaration of neutrality by the president. In contrast, Jefferson believed the nation should hold off a formal declaration, and simply behave in a neutral fashion. He also argued that it was not constitutionally within the president’s power to declare neutrality (Elkins and McKitrick 1993, 336-341). Again siding with Hamilton, President Washington issued a Proclamation of Neutrality on April 22, 1793, without consulting Congress.

Of course, simply declaring neutrality did not prevent the warring parties from acting in ways hostile to American interests. In response, President Washington delivered a foreign policy address on December 5, 1793 focusing on American grievances. He noted in particular that the British had failed to carry out their obligations under the Peace Treaty of 1783 through their continued occupation of fortifications in the Northwestern territories. The British had also broadened their definition of what constituted wartime contraband. The British Order in Council of June 8, 1793, declared it “lawful to stop and detain all vessels loaded wholly or in part with corn, flour, or meal, bound to any port in France, or any port occupied by the armies of France. …” (Elkins and McKitrick 1993,
Finally, Washington’s message implied distress over the British system of restrictions on American maritime commerce requiring American goods to be transported on British ships. The implication of the President’s message was that he considered Great Britain the greater threat to American interests after the outbreak of war in Europe.

Complicating the situation, President Washington received word in late March 1794 of a new set of British provocations. They had issued a new Order in Council on November 6, 1793 that ordered their navy to stop all American shipping through the West Indies whatever the destination. Over 250 American ships were subsequently seized, with the cargoes of around 150 confiscated. Many of the seized ships “were stripped of their sails and condemned, on the mere suspicion of intending to trade with the French. Sailors, all their possessions taken from them, were in considerable distress.” (Elkins and McKitrick 1993, 391) Many American seamen were impressed into British service (Beschloss 2007, 2-3; Elkins and McKitrick 1993, 388-396; Sharp 1993, 114-115).

Most Americans viewed the British actions as an arrogant affront to national pride, and there was growing talk of renewed war. Congress immediately passed a thirty-day embargo on all British goods. However, President Washington recognized that the embargo was more harmful to American economic interests than it was to the British. Regarding war, the nation had no standing army or navy, and little ability to raise taxes and establish a military such as would be required to expunge British fortifications or defend American shipping. If a new war was to occur, the president wanted the nation to be ready (Beschloss 2007, 31; Sharp 1993, 121). More generally, war with Britain at this time would have been disastrous to the American commercial class, government
revenues, and very divisive to an increasingly polarized system (Elkins and McKitrick 1993, 424).

Given these circumstances, Washington deemed it better to negotiate a treaty with the British than to make war. Again, the president selected a strong Federalist to lead the negotiations. He chose John Jay of New York, who was the Chief Justice of the Supreme Court. Jay was descended from a family of wealthy merchants and government officials in New York City. While not a participant at the constitutional convention, he did author the second, third, fourth, fifth, and sixty-fourth Federalist Papers, all of which dealt with foreign policy. Jay was a strong advocate of centralized government and a leading opponent of slavery (Nuxoll 2012). Given his Federalist and abolitionist proclivities, it was virtually certain that his appointment and the resulting treaty would not be well received by anti-Federalist and Southern partisans.

Revealing of the president’s mindset, Washington asked Treasury Secretary Alexander Hamilton, rather than Secretary of State Thomas Jefferson, to draft the instructions that Jay was to follow during negotiations with the British (Elkins and McKitrick 1993, 396-403; Kafer 2004, 87). This unusual choice further alienated anti-Federalists. In drafting the instructions Hamilton primarily sought to defend his credit and banking system by assuring that tariff revenues from trade with Great Britain would not decline. However, his initiative was much bolder than mere defense of his domestic program. Hamilton wanted to stabilize and actually increase trade by removing British restrictions on American goods and open up the West Indies to American shipping (Elkins and McKitrick 1993, 399).
Additionally, Jay was to make “strenuous efforts” to gain compensation for British spoliations of American commerce and formulate rules preventing their reoccurrence. He was to insist that the British honor the Peace Treaty of 1783 by evacuating the Northwestern outposts. That treaty had also required indemnification for Southern slaves recruited and freed by the British. However, Hamilton saw this matter as less important. In his letter of instructions to Jay on May 6, 1794, he stated “If you can effect solid arrangements with regard to the points unexecuted of the treaty of peace, the question of indemnification may be managed with less rigor, and may be still more laxly dealt with, if a truly beneficial treaty of commerce, embracing privileges in the West India Islands, can be established.” (Hamilton 1904a) Of course, disregarding Southern interests on indemnification was certain to spark Southern opposition.

Hamilton listed several other matters as desirable. Jay was to seek the same “free ships, free goods” principle as was embodied in the 1778 Treaties of Amity and Commerce with France. He was to seek a provision allowing no assistance to the Indians (Hamilton 1904b). Jay was also to seek a commission to establish a boundary line with Canada. In return, America would guarantee American debts owed to British creditors. Disregarding anti-Federalist tariff preferences, Hamilton also directed Jay to give the British “most favored nation” trading status, assuring that American tariffs would be non-discriminatory and capped at a maximum of ten percent.

Jay arrived in Britain for the negotiations in June 1794, and the treaty was finalized on November 19 (Elkins and McKitrick 1993, 406-410). Under the terms of the treaty, the United States and Britain mutually granted one another “most favored nation” trade status. No tariff discrimination was permitted toward one another’s trade. The United
States was also granted restricted commercial access to the West Indies. Britain relinquished control of their Northwestern outposts. Free navigation of the Mississippi River was guaranteed to both nations. The matter of American debts owed to British creditors was sent to arbitration by a commission of five representatives of both countries. Compensation for British spoliations of American commerce was sent to arbitration by a separate commission of identical design. The matter of the boundary between the United States and Canada was to be decided by yet another commission.

Hamilton got most of what he had wanted in stabilizing and improving commerce with Great Britain. However, there were some failures that became points of contention during the ratification process. Indemnity for American slaves freed by the British during the American Revolution was not granted, and per Hamilton’s instructions, not pursued very vigorously (Elkins and McKitrick 1993, 411). The rights of neutral shipping embodied in the “free ships, free goods” principle was never a matter of serious negotiation (Elkins and McKitrick 1993, 410). The definition of what constituted contraband in British seizures of American goods was not settled. Thus, the British maintained their discretionary right to continue seizing American goods bound for France. The treaty also contained nothing about the impressment of American seamen (Elkins and McKitrick 1993, 411).

On March 7, 1795, the Jay Treaty arrived in Philadelphia (Elkins and McKitrick 1993, 417). Upon reading the Treaty, President Washington determined that it should be kept secret until after Senate ratification. On June 24 the Senate ratified the treaty along strict partisan lines by the precisely required two-thirds majority. Twenty Federalists voted for the treaty, and ten anti-Federalists voted against it. The anti-Federalists bitterly
opposed the treaty for its alleged deference to the British, hostility to the French, and failure to achieve war reparations for Southern slave owners (Elkins and McKitrick 1993, 418-419).

Even before the treaty was made public, the partisan opposition had denounced it as traitorous, surrendering to the British monarchy and the American mercantile class. A series of fourteen essays decrying the treaty based on nothing but rumor appeared in the *Philadelphia Independent Gazetteer*. One article read, “there is not a nation upon the earth so truly and justly abhorred by the People of the United States as Great Britain; and if their temper and sensibility were consulted, no Treaty whatever would have been formed, especially at the expence of the French Republic.” (Elkins and McKitrick 1993, 416)

When the text of the treaty was finally made public in early July after Senate ratification, mobs took to the streets. James Madison wrote that Virginians were almost unanimously opposed to the treaty in every “Town or county” with the exception of perhaps Alexandria. He also reported that in Boston, Portsmouth, New York, and Philadelphia, there had been unanimous “remonstrances” against the treaty. In Charleston, Boston, New York, and Philadelphia, copies of the treaty had been burned, along with effigies of John Jay (Combs 1970, 162). Graffiti appeared on walls in Boston reading “Damn John Jay! Damn everyone who won't damn John Jay!! Damn everyone that won't put lights in his windows and sit up all night damning John Jay!!!” One newspaper editor wrote, “John Jay, ah! the arch traitor – seize him, drown him, burn him, flay him alive.” (McDougall 2008, 29) The British flag was dragged through the streets in Charleston. Rioters in Philadelphia broke the windows of British officials. At a town
meeting in New York, Alexander Hamilton, attempted to give a speech in support of ratification. However, he was “drowned out by hisses and catcalls, the mood of the audience being so ugly and the sentiment so hostile” that he was pelted by stones (Beschloss 2007, 1-17; Elkins and McKitrick 1993, 420-421; Sharp 1993, 119).

President Washington himself received numerous petitions warning that ratification of the treaty would mean the dissolution of the union. For example, citizens of Clarke County Kentucky told him that if he signed the treaty “western America is gone forever – lost to the union.” Similar resolutions were passed in North Carolina. A Virginia newspaper declared that accepting the treaty would initiate a petition to the legislature that it secede from the union (Sharp 1993, 119). President Washington was also subject to personal attacks. In Virginia, Revolutionary War veterans toasted “A speedy Death to General Washington!” Newspapers published cartoons of the president being marched to a guillotine for favoring the British over the French. Several columnists alleged that Washington had been secretly bribed by the British (Beschloss 2007, 2). The president was also attacked for forming a closer union with “despotic” England, being hostile to France, and for having conducted his administration on principles incompatible with the spirit of republicanism and on precedents derived from the corrupt government of England (Sharp 1993, 126).

President Washington had his own reservations about the treaty. He considered the merits and demerits of signing for almost two months, but knew that he had to sign the treaty precisely because of the uproar it had caused. The nation was highly polarized between those supporting the British and those supporting the French, as well as between the mercantile class of the Northeast and the planter-farmer class of rural areas and the
South. Under such conditions, the union could not survive a war. Further the nation’s fledgling economy could not survive another war. Thus, he reluctantly signed the Jay Treaty on August 14, 1795.

Refusing to give up after the president’s signing of the treaty, the anti-Federalists made a final attempt to block its implementation through the House of Representatives (Sharp 1993, 127-133). The Constitution gives the president the authority to negotiate treaties with the advice and consent of the Senate. However, the treaty required $90,000 to implement the three provisions requiring arbitration. The power of appropriations must originate in the House of Representatives, and both chambers must agree for passage. Due to Madison and Jefferson’s earlier effort at organizing a political opposition, the anti-Federalists had gained control of the popularly elected House of Representatives starting in 1793, and controlled the House at this time by a margin of 59-47.

If the president and the Federalists were to prevail, then it was obviously necessary to persuade several anti-Federalist opponents to support funding the treaty. Recognizing this, Washington and the Federalists set about the task of changing public opinion. Washington remained the most highly respected leader in the nation, and his reputation was a powerful weapon in this effort. The Federalists organized petition campaigns in support of the treaty. They also used the anti-Federalist threats against the president to mobilize Washington’s popular support. In a series of 38 essays published in newspapers across the nation under the pseudonym “Camillus,” Alexander Hamilton and Rufus King vigorously defended the treaty (Elkins and McKitrick 1993, 432-436; Hamilton and King 1904). Contrary to what was claimed by the anti-Federalists, they argued, “the treaty
made no improper concessions to Great Britain …” (Sharp 1993, 121) They also framed
the debate over the treaty as a choice between war and peace.

After a nine month public relations campaign, public opinion had swung in the other
direction toward support of the treaty. The appropriations measure passed the House of
Representatives on April 30, 1796 by a vote of 51-48 (Elkins and McKitrick 1993, 441-
449). The treaty was finally approved, but the nation would never be the same after the
fight over the Jay Treaty. As observed by Elkins and McKitrick (1993, 415), “The
outpouring of popular feeling over the Jay Treaty, as has long been understood, was more
directly responsible than anything else for the full emergence of political parties in
America.”

Interestingly, the fight over the Jay Treaty was as much about class-based economic
conflict, as it was about love and hate toward the British and the French. Hamilton and
the Federalists sought to defend and expand their tariff system, which supported British
and American commercial interests. Madison, Jefferson, and the anti-Federalists sought
to promote the mass egalitarian values of the French Revolution by restricting trade with
the British in favor of the French. Thus, polarization over foreign policy during the
Washington administration was also rooted in economic class conflict.

**Comparing Early American Polarization to Modern Polarization**

How did polarization in the early American republic compare with polarization in the
modern era? Quantitative historical measures of the degree of polarization among the
population in early America do not exist. However, anecdotal evidence suggests that
opposition to the Washington administration and its Federalist policies was quite strong.
After the start of the French Revolution in 1789, support for the rights of the common
man and democracy increased sharply in the United States through the formation of numerous private Jacobin societies. Starting in 1793, Democratic-Republican societies formed to promote democracy and fight the aristocratic tendencies of the new administration (Sharp 1993, 53-54, 69-70, 85-89). Members of these societies preached the equal rights of man, and sought to restore what they considered the promise of democracy embodied in the American and French Revolutions.

Federalists were appalled at the formation of these democratic societies, viewing them as not sanctioned by the Constitution. Washington denounced the societies as “self-created,” illegitimate, and dangerous extra-constitutional organizations. In the view of most Federalists, they were a threat to the government’s authority, weakened the government’s ability to govern, and threatened the stability of the new republic (Sharp 1993, 92-105).

Madison and Jefferson contributed greatly to increased mass polarization after 1791 as they began organizing a political opposition. Their opposition spurred the development of partisan newspapers and pamphleteers in every major American city. Of particular importance was Madison’s publication of a series of eighteen essays in the anti-Federalist *National Gazette* that provided an intellectual basis for opposition to Hamilton’s commercial utopia, an alternative view of American democracy, and a justification for emerging partisanship (Elkins and McKitrick 1993, 257-302). As a result, it became common for citizens to decry the aristocratic tendencies of the new administration. Madison and Jefferson also organized local factions for electoral competition with the Federalists. The result was that anti-Federalists gained control of the House of
Representatives starting in 1793, and maintained their majority through the remainder of the Washington administration.

Regarding Congress, there are quantitative measures of the degree of polarization in the early American republic? Poole and Rosenthal (2012) gathered data on all roll call votes in the House of Representatives and Senate from 1789 to present. Using these data, they constructed measures of party unity and party cohesion by Congress for the two chambers over time. While not a precise measure of polarization (as will be presented in chapters 7 and 8), unified and cohesive congressional factions are a good indicator of polarization as members cluster around their respective party positions. Figure 2.1 reports time series of their data from the 1st through 112th Congress. The shaded areas in the graphs mark periods of especially high party polarization. The lines and associated legends in panel A mark House and Senate party unity. The lines and associated legends in panels B and C mark the right party as the party representing the patrician class and the left party as representing the plebian class.

### FIGURE 2.1: History of Party Unity and Party Cohesion in the United States House of Representatives and Senate

<table>
<thead>
<tr>
<th>Year</th>
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<th>Senate</th>
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<tr>
<td>1789</td>
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<td>2009</td>
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</tbody>
</table>

- **Panel A:** Party Unity Votes
- **Panel B:** House Party Cohesion
- **Panel C:** Senate Party Cohesion
Focusing on the data in the first period of high polarization (first shaded area), the levels of polarization in Congress in the Founding Era can be compared with those of the modern era (third shaded area). One take on polarization is how frequently the majorities in the two parties lined up against one another in party unity votes. These data are in panel A of Figure 2.1. Considering the 3rd through 7th Congresses when political parties began to emerge, a majority of Federalists lined up against a majority of anti-Federalist/Democratic-Republicans in the House on average about 80 percent of the time. In the Senate a majority of Federalists lined up against a majority of anti-Federalist/Democratic-Republicans on average about 74 percent of the time. For the current era, the comparable figures for the 112th Congress were 75 percent for the House and 56 percent for the Senate. Thus, using this measure partisanship in Congress was stronger in the Founding Era than in the current era.

Another take on polarization is the rate at which party members vote with their party on roll call votes. This approach measures the relative cohesion of the parties in Congress. These data are in panels B and C of Figure 2.1. From the 3rd through 7th Congress, an average of 88 percent of Federalists voted with their party on roll call votes in the House of Representatives, reaching a maximum of 96 percent for the 7th Congress starting in 1801. The average for the anti-Federalists/Democratic-Republicans in the House over the same period was 89 percent, reaching a maximum of 93 percent for the 6th Congress starting in 1799. On the Senate side for the same period, an average of 87 percent of Federalists voted with their party, reaching a maximum of 96 percent for the 7th Congress starting in 1801. The average for the anti-Federalists/Democratic-Republicans was 90 percent, reaching a maximum of 94 percent for the 6th Congress.
starting in 1799. By way of comparison, the 112th Congress, which ended in 2012, found House Republicans voting with their party 93 percent of the time, with House Democrats at 91 percent. On the Senate side Republicans voted with their party 85 percent of the time, with Democrats at 93 percent. Thus, using this measure the level of polarization in Congress during the Founding Era was not much different from what exists in the current era.

**Implications of the Founding Era for Understanding Polarization Generally**

An overarching purpose of this book is to understand the nature of party polarization in America. At the onset, it appears that polarization in the early American republic reveals much about American polarization generally.

Early American politics was characterized by conflict over who would benefit from government, and at whose expense. There is a scholarly consensus that the Founders’ Social Contract, embodied in the original Constitution, was a veiled attempt by the patrician class to achieve economic advantage at the expense of the plebian class. The core principles of the Constitution made it difficult for the national government and states to confiscate income or wealth through taxation, currency inflation, or other means. The Constitution also limited taxation in such a way that income and wealth would not be taxed, placing the primary burden on the masses through tariffs and excise taxes.

Further, the activities of the Washington administration actually promoted the accumulation of wealth by the patrician class. This promotion occurred through debt assumption, a national credit system favoring economic elites, tariffs that protected commercial interests while raising the general price level for consumers, funding the government exclusively through imposts and excise taxes on the larger population, and a
foreign policy that benefitted the commercial class. Thus, at the core, early American polarization was a fight about economic advantage.

A fight over economic advantage has also been a common thread separating the two political parties though American history. This fight continued during the post-Civil War Reconstruction period through the industrialization era, the Progressive Era, and the New Deal. This same fight over economic advantage is at the core of polarization in the modern era. Conflict over taxing the rich, regulation, redistribution, trickle down economics, and the degree to which the government should protect the population are essentially the same fights that occurred in the beginning. The two political parties that emerged during and after the Washington administration represented two distinctive viewpoints on who should benefit from government. Similarly, modern Republicans and Democrats continue to represent these viewpoints. Thus, the American party system has from the beginning involved a struggle between divergent views of the extent to which the patrician or plebian class should benefit from government.

An ancillary issue flowing from these fights over economic advantage has been the degree to which power should be centralized to the federal government versus reserved to the states. The two parties have also been divided over whether the Constitution should be interpreted strictly or flexibly. However, the two political parties have been opportunistic through time in their arguments for and against centralization, and for strict versus flexible interpretation. During the Washington administration Federalists (similar to modern day Republicans) sought to centralize federal power relative to the states to protect and bolster the propertied class. The Constitution was viewed by Federalists as a flexible document that allowed the assumption of state debts, creation of a national bank,
a proclamation of neutrality, and later the building of roads, canals, and infrastructure to enable commercial development. In contrast, the anti-Federalists believed in a strict interpretation limiting the powers of the national government. However, as the federal government became more menacing to propertied interests through the latter part of the nineteenth century, the patrician party (i.e., Republicans) began to view centralization as a bad thing. Indeed, Republican dominated courts of the late nineteenth and early twentieth centuries consistently used the Tenth Amendment and a strict interpretation of the Constitution to overturn efforts of the plebian party (i.e., Democrats) to intervene in markets. These same views on the virtues of centralization remain a matter that separates the two political parties today.

The next chapter turns to analysis of a second period of high polarization in American history. Specifically, it examines how partisan fights over economic advantage, centralization, constitutional interpretation, and market intervention manifested themselves in the polarized politics of national development from Reconstruction to the Great Depression.

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