

Cement of Our Union: Hamilton, the Treasury, and the Federalist Party

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A Senior Thesis submitted in partial fulfillment
of the requirements for graduation
in the Honors Program
Liberty University
Spring 2017

Acceptance of Senior Honors Thesis

This Senior Honors Thesis is accepted in partial fulfillment of the requirements for graduation from the Honors Program of Liberty University.

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April 26, 2017

Abstract

This thesis examines the impact of Alexander Hamilton and the policies he proposed and implemented as Secretary of the Treasury on the emergence and rise of the Federalist Party. This was achieved both by examination of the content of Hamilton's financial plans as well as the responses they provoked. Both the support of fellow Federalists and the opposition of those who eventually became the Democratic-Republicans provide insight into the forces driving the partisan split. Information was drawn from both primary and secondary sources, including the writings of Hamilton and his contemporaries as well as subsequent studies of his life and work. The evidence of these sources points to a substantial role for Hamilton in the timing and nature of the formation of the Federalist Party in addition to its political positions. His vision of a unified republic built on a strong commercial foundation set the trajectory for the party and for the nation as a whole.

Cement of Our Union:

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The first President of the United States of America, George Washington, famously warned in his *Farewell Address* against the dangers of party politics. The statesman did not believe that the fledgling republic could endure the sort of rent in the newly woven national fabric which the formation of political parties would bring. America had managed to avoid this fate for the duration of Washington's two terms in office; however, this condition was not to prevail. Before long, the Federalists and the Democratic-Republicans were at each other's throats battling for supremacy in Congress and the Electoral College. Interestingly enough, the man behind the elegant prose of Washington's admonition against such a division was in large part responsible for the existence and maintenance of the former party.

Over the course of his brief yet remarkable life, Alexander Hamilton accomplished a variety of feats, any one of which would have been sufficient to ensure his memory lived on in the country he helped to build. Born into poverty on an obscure Caribbean island, he made his way to New York City, which he would call home for the rest of his life (Chernow, 2004). Following a meteoric ascent through the ranks of the Continental Army, he led a daring charge in the decisive battle of the American Revolution, and after the war, the newly elected Washington requested his former aide-de-camp to serve as Secretary of the Treasury (Chernow, 2004). It was for his accomplishments in this position that Hamilton was to be primarily remembered by his countrymen.

The first Treasury Secretary faced the monumental task of creating *ex nihilo* a financial system for the United States. In doing so, he was required to avoid upsetting the delicate balance achieved at the Constitutional Convention among thirteen unique states eager to preserve their independence and identities. Hamilton believed that this could be accomplished through the careful handling of issues such as the debt, taxation, and currency. He even wrote of his project of national unification, “It is an essential cement of our Union” (Hamilton, 1850, p. 387). The Secretary of the Treasury was able to utilize these issues to create greater unity among the states, but in doing so he garnered both supporters and opponents enough to coalesce into America’s first political parties. In attempting to cement the union of the states and their people, he had inadvertently contributed to a fracture which would remain in the foundation of the Republic. Through his plans for the United States’ finances, including the debt, domestic manufacturing, and a national bank, Alexander Hamilton helped to create the Federalist Party and to shape the American party system as a whole.

Parties and the Constitution

The United States Constitution makes no mention of, or provision for, political parties. The possibility that they might come to play a significant role in American politics does not appear to have been a major consideration for the Framers. However, the competing visions for the future of the nation which would eventually cause the split between the Republicans and the Federalists were present from the beginning. The principal factions in the debate over the Constitution disputed many of the same points as these later parties. By tracing the trajectories of the founding factions, one can view more

clearly the conditions which gave rise to their successors, the first American political parties.

Those who advocated the adoption of the proposed system, which divided power between state and central governments, were known as Federalists, and those opposed as Anti-Federalists. These groups were not directly analogous to the political parties that would eventually develop, but the questions they debated and the concerns they raised would play a substantial part in the division. Their primary point of difference was in their view of the role of central government as opposed to individual state government, with numerous well-respected figures of the Revolution on both sides of the question. Among them was Alexander Hamilton who, as usual, was to be found at the center of the fray; he devoted his energies to defending the Federalist position. After the war, he was dispatched to the Confederation Congress by his home state of New York; he continued to advise Washington on political matters while serving (Murray, 2007). In this period, Hamilton would have had a clear view of the problems confronting the fledgling nation and the need for a better form of government.

The Federalists

The Federalists favored a more centralized system that would correct the deficiencies of the Articles of Confederation government, which allowed the states a great deal of self-determination but was unable to bind them together in a stable union. This goal, though, was difficult considering Americans' abiding attachment to their personal freedom and devolved state governance. In order to secure the support of the nine states necessary for ratification, the Federalists needed to convince a majority of Americans that the Constitution would sufficiently defend their liberties and ensure their

prosperity (Potter, 2002). They took to the newspapers to accomplish this task, and the Federalist Papers provided an eloquent defense of the proposed document and its vision for the new nation (Potter, 2002). That the Federalists of the title were not identical with those who later composed the party of the same name was evidenced by the fact that one of the primary authors, James Madison, chose to focus his contributions more on the need for checks on power than the need for union (Koritansky, 1979). However, the seeds of the Federalist Party were sown early on in this process, and the Federalist Papers contributed to their growth. Hamilton, as the author of fifty-one of the eighty-five essays, expounded a number of his cherished ideals regarding the finances of the proposed government. Among these was his vision of an economy which incorporated both rural and urban contributions. Many thought that agrarian and industrial sectors could not coexist in a nation, but Hamilton was determined to prove them wrong. In *Federalist 12*, he expressed disbelief regarding the idea that farmers and industrialists were necessarily in conflict:

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 entire satisfaction of their friends, that their interests are intimately blended and interwoven. (Jay, Madison, & Hamilton, 2006, p. 66)

His vision for the United States included a variety of economic interests working side-by-side to achieve maximum prosperity for all. Despite the confidence expressed here, the adversarial relationship between agricultural and commercial interests would become a

fundamental point of tension. The Constitution was unable by itself to dictate the foundation of the nation's economy, and the resolution of the question was left for a later date. Hamilton would become a primary player in shaping the United States' economic and financial affairs. His financial plans eventually alienated those who favored an agrarian republic and contributed to the formation of America's first political parties along these lines.

Hamilton's support for an energetic federal government was also visible at this stage, including with respect to foreign commerce. He asserted that the United States did not enjoy the luxury of being able to merely ignore Europe and remain neutral, occupied with its own internal business affairs. A strong government was necessary for both prosperity and security. In *Federalist* 11 he states, "A nation, despicable by its weakness, forfeits even the privilege of being neutral" (2006, p. 61). Through the construction of an active and prudent national government, America would be enabled both to compete with Europe economically and to be more secure in its international position. It is clear that these objectives drove Hamilton in his pursuit of financial stability and independence for his country both at this early stage and later on when he was able to implement his vision as Treasury Secretary.

The Anti-Federalists

Those opposed to the adoption of the Constitution, known as Anti-Federalists, took issue with the proposed federal system, seeing it as ripe for domination by a tyrant. They comprised a substantial portion of the populace in the years prior to ratification (Kenyon, 1955). The new government, therefore, had good cause to take into account their concerns even though they had ultimately lost the debate over the Constitution. The

Anti-Federalists disliked the plan of central government, believing it to be unworkable in the United States. This was in large part to the idea, propounded by Montesquieu and confirmed by their experience, that republican government was unworkable in an extended and diverse territory such as America (Kenyon, 1955). Many of the Federalists' attempts to persuade their compatriots centered on this very point, with Hamilton and others declaring that a large republic would actually be safer from despotism than a small one. However, the anxieties regarding the problem of centrally governing a heterogeneous nation were to resurface in future debates..

Another expostulation against federalism was raised by the pseudonymous "Federal Farmer" in the Poughkeepsie Country Journal. He wrote, "It has long been thought to be a well-founded position that the purse and sword ought not to be placed in the same hands in a free government" (Allen & Lloyd, 1985, p. 88). Drawing on British experience, this writer expressed a fear of the possibility that a national government could abuse its power in carrying out grandiose financial or military schemes. It was precisely this accusation which was leveled at Hamilton and his plans for the American system of finance; eventual Republicans saw a member of the executive branch overstepping his constitutionally mandated bounds in order to implement an unnecessary and undemocratic proposal (Edling, 2007). Americans were persistently wary of encroachments on their liberty and state sovereignty, and this strand of Anti-Federalist thought was to prove enduring in the country's politics. Thomas Jefferson expressed succinctly the form which it eventually took: "The standard to which our country will forever rally, will be, 'federal union and republican government'" (Sawvel, 1970, p. 39). The Anti-Federalists came to accept the Federalists' structure of government but not their

preferences for its operation. Though the Constitution's limitations on federal power did not satisfy this faction's demand for checks on government, resistance to actions perceived as unconstitutional would arise from numerous sources, leaving no shortage of opposition to potential autocrats. This concern was evident in the resistance to Hamilton's efforts in the economic realm. Anti-Federalists such as Elbridge Gerry opposed the delegation of financial powers to the Treasury Secretary, fearing undue influence on the House of Representatives' fiscal policy by an unelected official (Meyer, 1964). Secretary Hamilton's large-scale plans for the nation's finances provoked a fear of policy driven by love of money rather than love of liberty.

Hamilton as Treasury Secretary

Following the adoption of the Federalist-backed constitution, George Washington was elected the first President of the United States. He then selected Alexander Hamilton as his Secretary of the Treasury. The president chose to take a personal interest in areas such as foreign policy and war, lessening the independence of the respective cabinet secretaries (Meyer, 1964). This was not the case for the Secretary of the Treasury, though. Hamilton was granted free rein in his plans for the nation's finances, allowing him to apply his formidable intellect to solving the numerous problems at hand (Meyer, 1964). He and his fellow members of the administration were essentially creating a nation from the bottom up, and very little in the way of national finances existed when Hamilton assumed office. The challenges he faced included the creation of a monetary system, a restructuring of the national debt, and the development of public credit and a customs service (Gordon, 1997). All these had to be addressed in light of the complicated political situation which had prevailed since the Convention.

As soon as Hamilton assumed his position, he began to search for a way to address the mounting concerns over the nation's almost nonexistent financial system. His philosophy of politics and economics allowed for a more active governmental role in financial affairs than that of his rivals. He believed that free commerce was the cure for any number of ills but also that commerce could not be truly self-sustaining if the government did not fulfill its proper role (Koritansky, 1979). A rightly ordered government will provide efficient administration and true representation of its people, taking care to advocate for that which individual interests have in common rather than for competing visions of the common good (Koritansky, 1979). This view, which proved continuously controversial, was the foundation of his later proposals regarding the finances and economy of the United States.

Deeply concerned with the economic stability of the growing country, Hamilton sought first to deal with its substantive war debts in a manner that was avoided both fiscal ruin and dishonest machinations to avoid obligations. The states owed a combined total of approximately \$18 million, most of which was held in securities by American citizens (Edling, 2007). Between the considerable expense of a war against a large military power and the ensuing political chaos which led up to the creation of the new government, the nation's financial situation was precarious. John Steele Gordon (1997) notes that this situation was the primary motive for discarding the Articles of Confederation and drafting the Constitution, meaning the Treasury Department was destined to play a vital role going forward. This dynamic was visible in the events surrounding the Treasury Secretary's inaugural proposal for the United States' fiscal affairs.

First Report on the Public Credit

Hamilton drafted his first *Report on the Public Credit* in 1789 at the request of Congress, creating a document which would serve as the cornerstone of his economic program. The first difficulty to be addressed was the question of how to pay back the United States' war debts. Thereafter, it would be necessary to structure and fund a national debt in a manner which would be sustainable for the government and beneficial for the private sector. Hamilton based his plan for debt repayment on the principle that both individuals and nations were morally bound to honor their obligations (Chernow, 2004). This precluded the possibility of simply ignoring the problem or attempting to avoid paying back creditors. A guarantee of repayment could also boost the value of the bonds which had been sold to fund the war and which had lost much of their worth (Chernow, 2004). The Secretary of the Treasury therefore had incentive to seek an innovative solution such as he eventually produced.

One potential problem to be confronted was the issue of discrimination. This was the question of whether repayment should be awarded to the original owners of the bonds or the speculators to whom they had been sold. Many of the original owners were soldiers of the Continental Army who had accepted nearly worthless bonds as payment for their service to their country. Max M. Edling (2007), though, believes that the charge of rampant, extravagant profiteering is exaggerated, as this was only possible for speculators several years after the war ended, not for those who assumed greater risk in the immediate aftermath by purchasing securities from soldiers. Hamilton decided against discrimination, preferring to run the risk of encouraging unscrupulous speculation rather than attempting to trace the bonds back to the soldiers who had originally received them

and raising the ire of James Madison, who had formerly been Hamilton's ally in the battle for the Constitution (Edling, 2007). The incident was to be of note later, as the two men's differences widened into a rift between political parties.

Another issue which the *Report* addressed was the manner in which the debt was to be funded. The federal government's inability to collect revenues had been a primary difficulty under the Articles of Confederation, and Hamilton was determined to make use of the Constitutional power to levy taxes in order to service the debt. First, he suggested an excise tax on distilled spirits as well as import duties. In addition, he advocated the use of a sinking fund, which would set aside portions of revenue at regular intervals in order to retire the debt gradually. This fund would dedicate a portion of revenue specifically to the payment of debt, which would both raise the value of securities and ensure that the dedicated funds could not be misappropriated by politicians (Chernow, 2004). Hamilton hoped to increase confidence in the government's finances by means of this plan. He was anxious to reassure creditors that there was no attempt to take advantage of them, writing in his *Address to the Public Creditors*: "But whether you will accept the terms offered to you is certainly left to your own choice...there is in it an express ratification of your former contracts" (Syrett & Cooke, 1961, p. 3). He had no wish to upset confidence in the newly formed government and therefore sought to implement his controversial plan in a manner which would conciliate all of the nation's debt holders. Hamilton was attempting to strike the delicate balance between stability and innovation. These steps, though not always popular, were far from the most controversial portion of the report.

A further step in the elimination of war debt was for the federal government to assume the debts of the individual states. There were a number of advantages to this idea,

known as assumption. It would provide a unifying force to draw the American people together as creditors began to look to the federal government rather than individual states for repayment of their investments (Chernow, 2004). The loyalty of individuals, as well as that of the states as units, was necessary to stabilizing the financial and political situation. Hamilton's debt plan could therefore serve more than one purpose, each working toward the goal of a stronger and less turbulent union. This approach, though, was bound to become a point of contention. States with relatively minor financial obligations would object to sharing the burden with their less well-off counterparts, again highlighting the split between the future political parties and particularly between the Northern and Southern economic interests (Edling, 2007). The Anti-Federalist, and eventually Republican, concern for states' rights and distrust of the central government seemed validated by this latest scheme of the Federalists. Additionally, there was a great deal of opposition to anything that looked like executive interference in the business of the legislature, meaning that the *Report on Public Credit* was read to Congress in the absence of its author (Chernow, 2004). Assumption promised what seemed to be unrealistic benefits at the price of dangerous sacrifices of independence.

Hamilton's plan also evinced an admiration for the British system. Hamilton sought inspiration from both France and Britain, including the work of French finance minister Jacques Necker, though his ideas were primarily modeled on British achievements (Chernow, 2004). Believing that America could benefit from some of the same measures, Hamilton sought to apply them to the peculiar circumstances of the nascent republic. The maintenance of a public debt in Britain had supplied merchants with more capital, which in turn prompted economic growth (Edling, 2007). Hamilton's

goal, therefore, was to use a growing public credit to strengthen both the government and the economy, helping the United States to achieve greater independence from Britain rather than merely becoming its satellite (Chernow, 2004). This ideal encapsulates the Hamiltonian and Federalist goals for the nation: one that could stand on its own, competitive but not in armed conflict with the other great powers of the world. In this way, they could create a country that was outward-looking but lacked the lust for power that had been the downfall of so many others.

This plan was anathema to the pro-French and anti-British wing of the nation, which saw independence from European powers as the driving cause of the American Revolution and a cornerstone of American governance. The *Report on Public Credit* was the polar opposite of the Jeffersonian vision of a nation of small farmers, keeping to itself and avoiding grandiose schemes for international power and influence. The plan highlighted the principal divide in American politics at the time, which would later deepen into the rift separating the Republican and Federalist parties.

The reception of the *Report* was mixed, and the fears of the critics mirrored the concerns of the future Republicans as a whole. They included a fear that government officials were profiting dishonestly from the scheme and a strong dislike for its resemblance to policies implemented by the hated British (Chernow, 2004). The financial system introduced at the Glorious Revolution utilized a sizable permanent public debt, which opponents saw as an attempt by the executive to intrude upon the power of the legislature; Hamilton's plan was criticized along the same lines (Edling, 2007). Hamilton was consistently accused by his political opponents of seeking to benefit the wealthy rather than the common man (Moramarco, 1967). This was largely due to the fact that the

debt plan increased the debt rather than reducing it, and this allowed those with the resources to engage in speculation (Moramarco, 1967). Speculators could purchase shares cheaply from owners who were more often than not in desperate financial straits, then hold the shares until they were worth much more than their original value. Hamilton's convenient alignment with the rich and privileged classes was frowned upon by those who saw speculation as unscrupulous profiteering.

Those in opposition to this plan formed the core of future Republican Party. These included Thomas Jefferson, who later described the debt plan as having "two objects; 1st, as a puzzle, to exclude popular understanding and inquiry; 2nd, as a machine for the corruption of the legislature" (p. 30); he then asserted that Hamilton's plan reflected his belief that the only alternative to governance by brute force was by appealing to special interests (Sawvel, 1970). This reflected Jefferson's perception of Hamilton as a power-hungry speculator who did not have the good of the nation in mind. The Secretary of State's populist views contrasted markedly with the Treasury Secretary's skepticism of the same, and this incident was the beginning of a long train of hostilities between the two and the parties they would eventually spearhead.

The capital city agreement. Hamilton's political genius was not solely confined to monetary matters, however. Another important question was at hand during the debate over the *Report on Public Credit*: the location of the nation's capital city (Meyer, 1964). This issue also related to the development of America's first political parties. Jefferson and Madison preferred a capital in the South that was separated from the wealthy commercial interests of the North (Chernow, 2004). This obviously conflicted with the vision presented by Hamilton, a New Yorker who wanted to see America expand and

strengthen rather than remaining a collection of disparate interests. These two opposing views, which would eventually form the basis for the Republican and Federalist parties, seemed to be at an impasse over this issue and that of assumption. However, Hamilton found a way to turn the situation to his advantage. Over a famously secretive dinner at Jefferson's lodgings, he conceded the capital city to the Southerners in exchange for support of his debt plan (Chernow, 2004). Despite forging a temporary compromise, this deal in reality helped the factions to entrench their positions for further battle. At this stage, Jefferson had decided that it was better to allow Hamilton's economic vision to dominate, and he recognized the significant benefit it brought to the nation despite the continuing opposition in his home state (Malone, 2005). This state of affairs was not to last long, however. Madison, Hamilton, and Jefferson never again joined together to achieve their aims but rather retreated into greater opposition (Chernow, 2004). Their rivalry was soon to become public once again thanks to another of Hamilton's ambitious financial schemes.

Creation of a National Bank

Federalist-Republican tensions flared once again on the occasion of Hamilton's second *Report on the Public Credit*. This work proposed the creation of a national bank, which would be largely directed by private interests rather than the government (Malone, 2005). Though his first plan had been generally successful despite early conflicts, many on the Republican side were reluctant to entrust Hamilton and the government as a whole with such a task. For his part, the Treasury Secretary was firm in his conviction of the necessity of a central bank in order to provide a national currency, increase the money supply, and aid the new government in its quest for financial stability and prosperity

(Chernow, 2004). Such an institution would further the Federalist aim of strengthening and unifying the federal government. As with his plan for the national debt, Hamilton drew inspiration from Europe and England in particular. The charter of the Bank of England was a central text in his research and thought on the subject (Chernow, 2004). In the same way, the opposition garnered by the assumption plan grew even stronger with this next step.

Hamilton's bill easily passed the Senate but faced more opposition in the House (Chernow, 2004). The question arose: Did the Constitution allow the federal government to charter a bank? The split between America's first political parties occurred in part over this debate. The vote in the House was divided along geographical lines, with Southerners opposed and Northerners in favor (Chernow, 2004). The constitutional debate centered on the notion of implied powers: Hamilton's case for the bank rested on the assumption that the "necessary and proper" clause of the document endowed the federal government with the ability to create a national bank. The opposition under Jefferson and Madison contended that, since this power was not expressly delegated to the federal government, it was therefore prohibited to it. Madison expressed a fear that Hamilton's course of action would gradually move the American constitutional system away from its stated intentions and limitations and toward a more undefined system with greater potential for abuse (Malone, 2005). Such an argument was well-calculated to appeal to American's continual wariness of overreach by a centralized state.

Jefferson's position on the matter was similarly cautious concerning the expansion of government power. Washington requested his opinion on the matter, and he submitted one which emphasized the potentially unconstitutional nature of the powers to

be exercised in the creation of the proposed bank. Hamilton's specialization in financial policy forced them to a defensive position from the outset. Substantial resistance flowed from the dislike of large banks which was widespread among the citizenry, and therefore he spent a substantial amount of time debunking popular myths about the evils of banking (Chernow, 2004). However, Madison's and Jefferson's situations had never required them to devote significant time to the study of banking, giving the Federalists the advantage on this contentious issue (Malone, 2005).

Republican concerns were well-founded; however, the difficulty lay in finding an unchanging method for determining the constitutionally mandated balance of power between the states and the federal government (Malone, 2005). This incident illuminates a striking feature of the nascent party system: each party was defined not so much by consistent ideological positions as by opposition to the other. The Virginians' reaction to his plan prompted a lengthy and eloquent response from the Treasury Secretary. He asserted that since sovereignty is vested in government, it may therefore do all that is necessary to accomplish its lawful ends (Malone, 2005). This opinion was an encapsulation of Federalist political philosophy, envisioning the federal government not merely as a tightly circumscribed entity which left most matters to the states but as a positive force for the growth and welfare of the nation as a whole.

The opening of the bank in July 1791 was met with enthusiasm. Madison and his future fellow Republicans viewed this event with skepticism, considering such hasty and risky investment a testament to the folly of trusting in banks (Chernow, 2004). They considered Hamilton's means of ensuring national prosperity to be less than honest and certainly unsustainable. Hamilton's victory in both the policy debate and the execution of

his plan further embittered his rivals. As time wore on, the Federalists were able to paint the constitutional question as a merely partisan one, “attributable to local and political considerations” (p. 340), which did little to reconcile the factions (Malone, 2005). For Jefferson in particular, Hamilton’s victory clarified the necessity of better-organized opposition to Federalist ideas in view of the inadequacy of simple strict-construction arguments (Malone, 2005). He believed the bank to be Hamilton’s attempt to entrench his position and embed his ideals in the permanent functioning of the American government. He wrote, “The effect of the funding system, and of the Assumption, would be temporary...some engine of influence more permanent must be contrived” (Sawvel, 1970, p. 35). Since Hamilton and his fellow Federalists were taking steps to ensure lasting dominance of the American political system, Jefferson and his future Republican compatriots would have to mount a resistance to equal or surpass them. This development foreshadowed the rise of political parties as effective weapons against opposing views of the nature and function of the republic.

Report on the mint. Shortly after the passage of his bank bill, Hamilton published another report containing his recommendations for the national currency. These included standardizing the value of the dollar and the creation of uniform coinage. He based his arguments on these commonly acknowledged needs. The *Report* states, “The immense disorder, which actually reigns in so delicate and important a concern, and the still greater disorder, which is every moment possible, call loudly for a reform” (Syrett & Cooke, 1961, p. 571). His proposals regarding coins, which were spurred by a desire to benefit both rich and poor and to prevent the counterfeiting which was rampant at the time, were generally approved by Jefferson, who had long had an interest in the

matter (Chernow, 2004). Again, the two rivals briefly cooperated but did not achieve a lasting consensus.

The Report on Manufactures

The Federalist vision of a unified nation necessitated not only internal cohesion but also an international reach. Washington had admonished America to avoid entangling military alliances. Therefore, relations with other countries would have to be carried on through commerce, which would be economically advantageous as well as helping the U.S. to win a reputation abroad. In 1791, Hamilton would issue his *Report on Manufactures* to promote his views. Hamilton's plans for American manufacturing and industry were vital to gaining respect for this nation and its unique new form of republican government (Ben-Atar & Oberg, 1998). He emphasized the need for federal support of manufacturing and commerce, which the Federalists argued would not long survive unsupported in a fiercely competitive world market. He proposed a protective tariff on certain goods in order to allow newly-formed industries to strengthen to the point where the tariff would no longer be needed. The proposals contained in this document were largely driven by military necessity; Washington, Hamilton, and others who had experienced the critical lack of supplies during the Revolutionary War desired to forestall a recurrence of that desperate situation (Chernow, 2004). The development of domestic manufacturing could ensure that the United States was always well-prepared for any future armed conflicts rather than being reliant on foreign nations.

This new plan, which involved substantial government intervention in economic affairs, was controversial on a number of points. The primary accusation leveled against it was that of overweening protectionism which ignored the fundamental principle that

market freedom was more productive. Louis Hacker argues that Hamilton saw such a policy as a temporary, extreme measure rather than a standard for policy given his libertarian bent (Moramarco, 1967). This plan stood opposed to the Jeffersonian ideal of a nation of small farmers, living off the land and avoiding pretensions of international grandeur. America, it was argued, lacked both the ability and the need for large-scale industry, and its resources would be better employed in agricultural pursuits (Chernow, 2004). Despite this purported conflict of interests, the primary purpose of introducing domestic manufacturing was to diversify the economy, not hand it over to a single set of interests (Moramarco, 1967). Manufacturing was also associated with the hated regimes of Europe, as was the case with much of Hamilton's other work. Once again, the future partisan divide appeared over the issue of foreign influence.

The reaction against the *Report on Manufactures* was intense. It provided the impetus for the Republicans, who had previously kept to themselves, to present their party to the public eye (Nester, 2012). The divide which had been steadily growing throughout the early years of the republic was finally reaching the stage where the split was inevitable due to the sharply contrasting visions for the future of the nation. Jefferson did choose to express objections based on the constitutional issues involved rather than defending his own self-interest in the fate of farmers (Malone, 2005). The objections raised to this manufacturing scheme formed the core of opposition to the Federalist vision. With this proposal, Hamilton marked a new phase in his emergence as the leader of a new political party. According to Fred Moramarco (1967), the *Report* was "clearly a Hamiltonian document, hardly inspired or promoted by Washington at all" (p. 40). His role was clearly no longer confined to that of advisor; he was taking an active role in the

creation and promotion of policy based on his own political philosophy and vision for the nation.

The Whiskey Rebellion

Hamilton's excise tax on whiskey led to one of the first major tests of the new federal government when it provoked a rebellion in the United States' western region. Westerners were highly suspicious of easterners and the federal government, and this tax on one of their chief exports only raised tensions (Nester, 2012). This split highlighted another longstanding regional conflict in addition to the perpetual acrimony between North and South. The issue came to a head in 1794, and Washington was forced to a difficult decision. Richard H. Kohn (1972) contends that the primary question faced by the president was whether or not to use force; armed suppression could either create newfound respect for the federal system or cause an uprising. At the center of it all was Alexander Hamilton, whose financial plans continued to be a source of division between what increasingly looked like established political parties.

This incident embodied a number of the Federalists' fears. They viewed resistance to the tax as a symptom of an overall anti-government and anti-constitution attitude and believed that the very foundation of the U.S. government was being threatened (Kohn, 1972). This conflict was in some ways a resurgence of the old Federalist-Anti-Federalist divide, with the rebels believing their rights as individuals and independent states were being violated. Hamilton in particular was in favor of a military response (Kohn, 1972). This reflected his desire to see the federal government established and secured against the warring interests of the states and factions within them. The disturbing resurgence of domestic insurrection demonstrated the precariousness of the system which had been

adopted a mere six years earlier. Washington finally decided to issue an ultimatum to the rebels, which was ignored; he then deployed the militia to end the rebellion (Nester, 2012). Thus the Whiskey Rebellion was crushed without further incident. However, it had lasting consequences for America's nascent political parties. The Republicans took offense at this ostentatious display of federal power, which in turn rendered Washington more and more hostile to Republican ideas and the Democratic Societies in particular (Nester, 2012). The rebellion demonstrated and consolidated the powers of the federal government, which was the Republican's chief fear. The nation appeared to be on an irreversible course toward Federalist domination, furthering the split between the growing parties.

The Parties

The nation's first parties were not directly analogous to any preceding or following category in American political life. Roger G. Kennedy (2000) asserts that the Federalists and the Republicans were more political factions than political parties; the party system as we understand it today developed later. They are best understood in the context of their times and unique political situation. Though the Federalist Party would soon dissolve as a formal entity, its ideas have resurged in various forms throughout the history of the United States. The Republican Party, however, has undergone a number of transformations to survive today as the Democratic Party.

Federalists

The Federalists are often primarily conceived of as favoring strong central government at the expense of the rights of individual states. Hamilton himself has been accused by some, such as Thomas Jefferson, of being set on building a new aristocracy

(Koritansky, 1979). However, this view does not do sufficient justice to the reality of Federalist ideals and policies, which were designed to ensure that both state and central governments could function efficiently and to maintain the proper balance of power between them. Stuart Bruchey (1970) writes that, upon closer examination of his writings and the relevant data, "Hamilton emerges as less a centralizer than he is sometimes believed to have been," specifically with regard to financial matters (p. 348). Broadus Mitchell (1958) notes that Hamilton's political and economic aims were not in conflict; he always aimed to build a nation on constitutional principles which could also thrive economically. In order to gain a more complete picture of the Federalists' ideals and goals, both of these aspects must be considered. Hamilton's view of man provides useful insight on the worldview of the Federalists: he "deemed human nature as both mercurial and recalcitrant," requiring a firm guiding hand in the form of prudent governance in order to prevent anarchy (Schapsmeier & Schapsmeier, 1971, p.141). This was a less optimistic perspective than that which was held by most Republicans. Jefferson in particular rested considerable faith on the perfectibility and inherent goodness of mankind, believing progress was both possible and likely when men were freed from unnecessary governmental restraints (Schapsmeier & Schapsmeier, 1971). These divergent views of human nature are evident in the positions of each party, though not exclusive to them.

One of the primary challenges faced by the Federalists both before and after the ratification of the Constitution was that of transforming a disparate collection of states into a unified nation. The thirteen states, separated by vast differences in wealth, culture, and economic structure, were often deeply suspicious of each other, and citizens often

felt a stronger loyalty to their states than to the nation as a whole; for example, during the revolution and before the Constitutional Convention, many states refused to support the Continental Army or provide revenue to Congress (Murray, 2007). This division was again visible in the battle over the Constitution, which saw the Antifederalists vehemently opposing the Federalist plan, which they viewed as aristocratic rather than democratic (Kenyon, 1955). The Federalist vision, however, prevailed, and brought with it the task of convincing Americans that a system which balanced the claims of state and national government would best protect their liberties and ensure their prosperity.

Kathleen O. Potter (2002) notes that “the phrasing of the Preamble to the Constitution presupposes the existence of a people” (p. 30). It is “We the People,” not “We the States.” The Federalists therefore had the valuable support of the founding document when making their case for the virtues of unified nationhood. Federalist sentiment had prevailed over Antifederalist advocacy in the adoption of the Constitution; it therefore remained to Hamilton and his colleagues to convince the American people to carry this vision forward. The ideal of American identity added a more positive common purpose to the idea of the social contract (Potter, 2002). The union was not merely adopted for economic or military convenience but rather had a definite purpose to preserve and promote the shared values of liberty. Hamilton’s financial plans played an integral part in achieving this goal. The creation of a financial system which required each of the states to assume the burdens of the others as well as their blessings, for example, would prove a monumental step in the direction of national unity. There were, though, broader consequences which did not further this end. Historian Joseph Charles pointed out the fact that this plan brought about great discord in contrast to the early unity

of the nation (Moramarco, 1967). Hamilton's legacy was both national unity in the form of a strong central government and division in the form of entrenched political parties.

Republicans

In order to more fully grasp the shaping of the Federalist Party one must study the formation of its opposite in the Republican Party. Thomas Jefferson was a key figure in its development, both as a member of the presidential cabinet and eventually as chief executive. He and his colleague James Madison possessed starkly different backgrounds and interests from Hamilton's, shaping their views and actions. Both Virginians, they were deeply suspicious of Hamilton, a New Yorker whom they regarded as too closely entwined with Northern moneyed interests. Jefferson in particular feared that Hamilton's plans would lead to the dominance of commerce at the expense of agriculture, which he saw as the nation's primary calling (Malone, 2005). His concerns reflect those of the Republicans at large; the party arose out of opposition to what they viewed as overreach by the federal government. Jefferson had a perpetual apprehension of elite power and what he viewed as rule by economic interests, which is what he feared from Hamilton's schemes (Schapsmeier & Schapsmeier, 1971). A desire to forestall the possibility of the development of any form of tyranny in the United States lay at the heart of the Republican vision.

The eventual trajectory of the party, however, did not adhere closely to its original antipathy toward centralized government. While the South, as the primary stronghold of Republicanism, gained political power, the desire to limit it lessened (Kennedy, 2000). The tenants of strict construction and opposition to centralization in the executive became more flexible with time. As president, Jefferson himself undertook the constitutionally

dubious Louisiana Purchase on the pretext of executive powers while also refraining from attempting to demolish one of his rival's signature accomplishments, the Bank of the United States (Schapsmeier & Schapsmeier, 1971). Once again, the nature of both of the original parties becomes clear; they were established primarily for political convenience rather than along unflinching ideological lines. This change of course was also due in part to the strength of the ideals and practices which Hamilton and the Federalists had implemented which had become elementary to the government's functioning. John C. Koritansky (1979) posits that "it is remarkable how little President Jefferson dismantled the engine of central authority that Hamilton called into being, and how little Jefferson was able to alter the nation's course from the vision of commercial union that Hamilton had set forth" (p. 99). The Federalist vision had irreversibly charted a course for the nation, due in large part to Hamilton's ingenuity on financial questions.

Use of Media

The initial division of the nation into two political parties was unusually acrimonious and featured a high level of vitriol on both sides. Joseph Charles (1955) notes that "All reflecting people were oppressed by the fact that the danger in later years arose primarily not from a foreign invader, but from former comrades-in-arms or fellow-legislators. Each side, as the division grew wider, came to regard the other as traitors to the common cause of their earlier years" (p. 220). The unlikely triumph of a ragtag band of colonists over the preeminent military power of the time had provided a strong unifying force which dissipated as the new nation confronted the practical problems of self-governance. Political disputes increasingly fell along party lines, and as the rhetoric escalated, both sides sought new outlets through which each could censure the other. This

eventually led to the creative use of mass media to propagate the ideals of the respective parties.

Just as the *Federalist Papers* had originated as a collection of anonymous essays appearing in newspapers, the Federalist and Republican parties chose to employ new publications to persuade and attack. James Madison was the first to attempt this strategy, prodding a journalist friend named Philip Freneau to found a new paper in Philadelphia. Despite his protestations of disinterested personal concern, Madison confessed his hope that such a publication could help to counter the aristocratic ideals of the Federalists (Malone, 2005). The *National Gazette* was to play a prominent role in the coming media contest. Its introduction coincided with Hamilton's *Report on Manufactures* and evidenced a more open animosity between those in favor of such grandiose plans for the nation's finances and those opposed. Differences of policy were rapidly becoming differences of vision for the country's future path. In March 1792 the paper began to publish a series of letters signed "Brutus" which took Hamilton to task for the consequences of his policies. This event demonstrated more openly the publication's commitment to advancing the cause of the Republicans (Malone, 2005). Its open partisanship marked a new phase in the development of America's political parties. A lengthy war between the *National Gazette* and the pro-Federalist *Gazette of the United States* began in 1792 (Nester, 2012). Both Hamilton and his opponents such as Jefferson used these outlets to great effect in their constant political battles. Eventually Hamilton would found the New York Post, which continues in circulation today (Gordon, 1997). The newspaper wars marked a new phase in American politics and set a lasting standard for partisan politics.

Conclusion

Whether the United States' partisan split was unavoidable will remain a hotly debated question. It is nearly undeniable, though, that the Federalist Party and by extension the Democratic-Republican Party would not have traced the paths they did without the influence of Hamilton and his ambitious vision for the nation's finances and character as a whole. His brilliant handling of an insurmountable debt, encouragement of commercial prosperity, and chartering of a national bank, among other accomplishments, combined to exert a significant influence on the founding and progress of the Federalists as a party and therefore on the nation itself. Though the party as a political entity was short-lived, its core values and ideals proved a permanent feature of American politics and governance. Despite disregarding the counsel of its foremost Founding Father, the United States of America went on to achieve a level of prosperity, freedom, and power unrivaled in its time; for this the nation must thank a man who was both unifier and divider, Alexander Hamilton.

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