tions in the new government. It is even more astonishing that Hamilton and Jefferson were able to accomplish as much as they did with so little assistance.

Congress also provided for a federal court system. The Judiciary Act of 1789, the work primarily of Connecticut Congressman Oliver Ellsworth, created a Supreme Court staffed by a chief justice and five associate justices. In addition, the statute set up thirteen district courts authorized to review the decisions of the state courts. John Jay, a leading figure in New York politics, agreed to serve as chief justice, but since federal judges in the 1790s were expected to travel hundreds of miles over terrible roads to attend sessions of the inferior courts, few persons of outstanding talent and training joined Jay on the federal bench. One who did, Judge James Iredell, complained that service on the Supreme Court had transformed him into a "travelling postboy."

Remembering the financial insecurity of the old Confederation government, the newly elected congressmen passed the tariff of 1789, a tax of approximately 5 percent on imports. Even before it went into effect, however, the act sparked controversy. Southern planters, who relied heavily upon European imports, claimed the tariff discriminated against their interests in favor of those of northern merchants. The new levy generated considerable revenue for the young Republic, but responsibility for shaping the economy of the new nation fell mainly to Alexander Hamilton, the first secretary of the treasury.

Opposing Views on the Destiny of America

Washington's first cabinet included two extraordinary personalities, Alexander Hamilton and Thomas Jefferson. Both had served the country with distinction during the Revolution, were recognized by contemporaries as men of special genius as well as high ambition, and brought to public office a powerful vision of how the American people could achieve greatness. The story of their opposing views during the decade of the 1790s provides insight into the birth and development of political parties. It also reveals how a common political ideology, republicanism, could be interpreted in such vastly different ways that decisions about government policy turned former friends into bitter adversaries. Indeed, the falling out of Hamilton and Jefferson reflected deep, potentially explosive, political divisions within American society.

Hamilton was a brilliant, dynamic young lawyer who had distinguished himself as Washington's aide-de-camp during the Revolution. Born in the West Indies, the child of an adulterous relationship, Hamilton employed charm, courage, and intellect to fulfill his inexhaustible ambition. He strove not for wealth but reputation. Men and women who fell under his spell found him almost irresistible, but to enemies, Hamilton appeared a dark, calculating, even evil, genius. He advocated a strong central government and refused to be bound by the strict wording of the Constitution, a document Hamilton once called "a shilly shally thing." While he had fought for American independence, he admired British culture and during the 1790s, he advocated closer commercial and diplomatic ties with the former mother country with whom "we have a similarity of tastes, language, and general manners."

Jefferson possessed a profoundly different temperament. This tall Virginian was more reflective and shone less brightly in society than did Hamilton. Contemporaries sometimes interpreted his retiring manner as lack of ambition. They misread Jefferson. He thirsted not for power or wealth but for an opportunity to advance the democratic principles that he had stated so eloquently in the Declaration of Independence. When Jefferson became secretary of state in January 1790, he had just returned from Paris where he witnessed the first, exhilarating moments of the French Revolution. These earthshaking events, he believed, marked the beginning of a worldwide republican assault on absolute monarchy and aristocratic privilege. His European experiences biased Jefferson in favor of France over Great Britain when the two nations clashed.

The contrast between these two powerful figures during the early years of Washington's administration should not be exaggerated. They shared many fundamental beliefs. Indeed, both Hamilton and Jefferson insisted that they were working for the creation of a strong, prosperous republic. Hamilton was publicly accused of being a secret monarchist, but he never repudiated the ideals of the American Revolution. Rather than seeing them as spokesmen for competing ideologies, one should view Hamilton and Jefferson as different kinds of republicans who during the 1790s attempted as best they could to cope with unprecedented political challenges.

However much these two men had in common, serious differences emerged. Washington's secretaries disagreed on precisely how the United States should fulfill its destiny. As head of the treasury department, Hamilton urged his fellow citizens to think in terms of bold commercial development, of farms and factories embedded within a complex financial network that would reduce the nation's reliance upon foreign trade. Because Great Britain had already established an elaborate system of banking and credit, the secretary looked to that country for economic models that might be reproduced on this side of the Atlantic.

Hamilton also voiced concerns about the role of the people in shaping public policy. His view of human nature caused him to fear total democracy. He assumed that in a republican society, the gravest threat to political stability was anarchy rather than monarchy. "The truth," he claimed, "unquestionably is, that the only path to a subversion of the republican system of the Country is, by flattering the prejudices of the people, and exciting their jealousies and apprehensions, to throw affairs into confusion and bring on civil commotion." The best hope for the survival of the Republic, Hamilton believed, lay with the country's monied classes. If the wealthiest people could be persuaded that their economic self-interest could be advanced—or at least made less insecure—by the central government, then they would work to strengthen it, and by so doing, bring a greater measure of prosperity to the common people. From Hamilton's perspective, there was no conflict between private greed and public good; one was the source of the other.

On almost every detail, Jefferson challenged Hamilton's analysis. The secretary of state assumed that the strength of the American economy lay not in its industrial potential, but in its agricultural productivity. The "immensity of land" represented the country's major economic resource. Contrary to the claims of some critics, Jefferson did not advocate agrarian self-sufficiency or look back nostalgically to a golden age dominated by simple yeomen. He recognized the necessity of change, and while he thought that persons who worked the soil were more responsible citizens than were those who labored in factories for wages, he encouraged the nation's farmers to participate in an expanding international market. Americans could exchange raw materials "for finer manufactures than they are able to execute themselves."

Unlike Hamilton, Jefferson expressed faith in the ability of the American people to shape policy. Throughout this troubled decade, even when the very survival of constitutional government seemed in doubt, Jefferson maintained a boundless optimism in the judgment of the common folk. He instinctively trusted the people, feared that uncontrolled government power might destroy their liberties, and insisted that public officials follow the letter of the Constitution, a frame of government he described as "the wisest ever presented to men." The greatest threat to the young Republic, he argued, came from the corrupt activities of pseudo-aristocrats, persons who placed the protection of "property" and "civil order" above the preservation of "liberty." To tie the nation's future to the selfish interests of a privileged class—bankers, manufacturers, speculators—seemed cynical as well as dangerous. He despised speculators who encouraged "the rage of getting rich in a day," since such "gaming" activities inevitably promoted the kinds of public vice that threatened republican government. To mortgage the future of the common people by creating a large national debt struck Jefferson as particularly insane.

Hamilton's Grand Design

The unsettled state of the nation's finances presented the new government with a staggering challenge. In August 1789 the House of Representatives announced that "adequate provision for the support of public credit [is] a matter of high importance to the national honor and prosperity." However pressing the problem appeared, no one was prepared to advance a solution, and the House asked the secretary of the treasury to make suggestions.

Congress may have received more than it bargained for. Hamilton threw himself into the task. He read deeply in abstruse economic literature. He even developed a questionnaire designed to find out how the United States economy really worked and sent it to scores of commercial and political leaders throughout the country. But when Hamilton's reports were complete, they bore the unmistakable stamp of his own creative genius. The secretary synthesized a vast amount of information into an economic blueprint so complex, so innovative that even his allies were slightly baffled. Theodore Sedgwick, a congressman who supported Hamilton's program, explained weakly that the Secretary's ideas were "difficult to understand . . . while we are in our infancy in the knowledge of Finance." Certainly, Washington never fully grasped the subtleties of Hamilton's plan.

The secretary presented his *Report on Public Credit* to Congress on January 14, 1790. His research revealed that the nation's outstanding debt stood at approximately $54 million. This sum represented various obligations that the United States government had incurred during the revolutionary war. In addition to foreign loans, the figure included loan certificates that the government had issued to its own citizens and soldiers. But that was not all. The states still owed creditors approximately $25 million. During the 1780s, Americans desperate for cash had been forced to sell government certificates to speculators at greatly discounted prices, and it was estimated that approximately $40 million of the nation's debt was owed to twenty thousand people, only 20 percent of whom were the original creditors.

Funding and Assumption

Hamilton's *Report on the Public Credit* contained two major recommendations covering the areas of funding and assumption. First, under his plan the United States promised to fund its foreign and domestic obligations at full face value. Current holders of loan certificates, whoever they were and no matter how they obtained them, could exchange the old certificates for new government bonds bearing a moderate rate of interest. Second, the secretary urged the federal government to assume responsibility for paying the remaining state debts.

Hamilton reasoned that his credit system would accomplish several desirable goals. It would significantly reduce the power of the individual states in shaping national economic policy, something Hamilton regarded as essential in maintaining a strong federal government. Moreover, the creation of a fully funded national debt signaled to investors throughout the world that the United States was now solvent, that its bonds represented a good risk. Hamilton argued that investment capital, which might otherwise flow to Europe, would remain in this country, providing a source of money for commercial and industrial investment. In short, Hamilton invited the country's wealthiest citizens to invest in the future of the United States. Critics claimed that the only people who stood to profit from the scheme were Hamilton's friends—some of whom sat in Congress and who had purchased great numbers of public securities at very low prices.

To Hamilton's great surprise, Madison—his friend and collaborator in writing *The Federalist*—attacked the funding scheme in the House of Representatives. The Virginia congressman agreed that the United States should honor its debts. He worried, however, about the citizens and soldiers who, because of personal financial hardship, had been compelled to sell their certificates at prices far below face value. Why should wealthy speculators now profit from their hardship? If the government treated the current holders of certificates less generously, Madison declared, then there might be sufficient funds to provide equitable treatment for the distressed patriots. Whatever the moral justification for Madison's plan may have been, it proved unworkable. Far too many records had been lost since the Revolution for the Treasury Department to be able to identify all the original holders. In February 1790 Congress soundly defeated Madison's proposal.

Assumption unleashed even greater criticism. Some states had already paid their revolutionary debts, and Hamilton's program seemed designed to reward certain states—Massachusetts and South Carolina, for example—simply because they had failed to put their finances in order. In addition, the secretary's opponents in Congress became suspicious that assumption was merely a ploy to increase the power and wealth of Hamilton's immediate friends. "The Secretary's people scarce disguise their design," observed William Maclay, a crusty Scotch-Irish senator from Pennsylvania, "which is to create a mass of debts which will justify them in seizing all the sources of government."

No doubt, Maclay and others expressed genuine fears. It is also true that some congressmen who fought assumption were looking after their own investments. As speculators in state-owned lands, they stood to lose a great deal of money if the federal government assumed responsibility for the outstanding state debts. These congressmen bought up depreciated state securities, exchanged them at face value for state-owned lands, and pocketed the difference. Hamilton's plan threatened to destroy these lucrative transactions by cutting off the supply of cut-rate state securities. On April 12 a rebellious House led by Madison defeated assumption.

The victory was short-lived. Hamilton and congressional supporters resorted to legislative horse-trading to revive his foundering program. In exchange for locating the new federal capital on the Potomac River, a move that would stimulate the depressed economy of northern Virginia, several key congressmen who shared Madison's political philosophy changed their votes on assumption. Hamilton may also have offered to give the state of Virginia more federal money than it actually deserved. Whatever the details of these negotiations may have been, in August, Washington signed assumption and funding into law. The first element of Hamilton's design was now securely in place.

The Controversial Bank of the United States

The persistent Hamilton submitted his second report to Congress in January 1791. He proposed that the United States government charter a national bank, much like the Bank of England. This privately owned institution would be funded in part by the federal government. Indeed, since the bank would own millions of dollars of new United States bonds, its financial stability was tied directly to the strength of the federal government and, of course, to the success of the Hamiltonian program. The secretary of the treasury argued that a growing financial community required a central bank to facilitate increasingly complex commercial transactions. The institution not only would serve as the main depository of the United States government but also would issue currency acceptable in payment of federal taxes. Because of that guarantee, the money would maintain its value while in circulation.

Madison and others in Congress immediately raised a howl of protest. While they were not oblivious to the many important services that a national bank might provide for a growing country, they suspected that banks—especially those modeled on British institutions—might "perpetuate a larged monied interest" in this country. And what about the Constitution? That document said nothing specifically about chartering financial corporations, and they warned that if Hamilton and his supporters were allowed to stretch fundamental law on this occasion, they could not be held back in the future. Popular liberties would be at the mercy of whoever happened to be in office. "To take a single step," Jefferson warned, "beyond the boundaries thus specifically drawn around the powers of Congress is to take possession of a boundless field of power, no longer susceptible to definition." On this issue Hamilton stubbornly refused to compromise, announcing angrily, "This is the first symptom of a spirit which must either be killed or will kill the constitution of the United States."

This intense controversy involving his closest advisers worried the President. Even though the bank bill passed Congress (February 8), Washington seriously considered vetoing the legislation on constitutional grounds. Before doing so, however, he requested written opinions from the members of his cabinet. Jefferson's rambling, wholly predictable attack on the bank was not one of his more persuasive performances. By contrast, in only a few days, Hamilton prepared a masterful essay entitled "Defense of the Constitutionality of the Bank." He assured the President that Article I, Section 8 of the Constitution—"The Congress shall have Power . . . To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers"—justified issuing charters to national banks. The "foregoing Powers" upon which Hamilton placed so much weight were taxation, regulation of commerce, and making war. He boldly articulated a doctrine of *implied powers*, an interpretation of the Constitution that neither Madison nor Jefferson had anticipated. Hamilton's so-called loose construction carried the day, and on February 25, 1791, Washington signed the bank act into law.

Hamilton triumphed in Congress, but the general public looked upon his actions with growing fear and hostility. Many persons associated huge national debts and privileged banks with the decay of public virtue. Men of Jefferson's temperament believed that Great Britain—a country that Hamilton held in high regard—had compromised the purity of its ancient constitution by allowing speculators to worm their way into positions of political power.

Hamilton seemed intent on reproducing this corrupt system in the United States. When news of his proposal to fund the national debt at full face value leaked out, urban speculators rushed to rural areas where they purchased loan certificates from unsuspecting citizens at bargain prices. An anonymous New Yorker who signed a newspaper article "A Dutchess County Farmer" claimed that the certificates had been taken up by "brokers, speculators, Jews, members of Congress and foreigners." To backcountry farmers, making money without actually engaging in physical labor appeared immoral, unrepublican, and certainly, un-American. When the greed of a former Treasury Department official led to several serious bankruptcies in 1792, people began to listen more closely to what Madison, Jefferson, and their associates were saying about growing corruption in high places.

Setback for Hamilton

In his third major report, *Report on Manufactures*, submitted to Congress in December 1791, Hamilton revealed the final details of his grand design for the economic future of the United States. This lengthy document suggested ways by which the federal government might stimulate manufacturing. If the country wanted to free itself from dependence upon European imports, Hamilton observed, then it had to develop its own industry, textile mills for example. Without direct government intervention, however, the process would take decades. Americans would continue to invest in agriculture. But, according to the secretary of the treasury, protective tariffs and special industrial bounties would greatly accelerate the growth of a balanced economy, and with proper planning, the United States would soon hold its own with England and France.

In Congress the battle lines were clearly drawn. Hamilton's opponents—not yet a disciplined party but a loose coalition of men who shared Madison's and Jefferson's misgivings about the secretary's program—ignored his economic arguments. Instead, they engaged him on moral and political grounds. Madison railed against the dangers of "consolidation," a process that threatened to concentrate all power in the federal government, leaving the states defenseless. Under the Confederation, of course, Madison had stood with the nationalists against the advocates of extreme states' rights (see chapter 6). His disagreements with Hamilton over economic policy, coupled with the necessity of pleasing the voters of his Virginia congressional district every two years, transformed Madison into a spokesman for the states.

Jefferson attacked the *Report on Manufactures* from a different angle. He assumed—largely because he had been horrified by Europe's urban poverty—that cities bred vice. The government, Jefferson argued, should do nothing to promote their development. He believed that Hamilton's proposal guaranteed that American workers would leave the countryside and crowd into urban centers. "I think our government will remain virtuous for many centuries," Jefferson explained, "as long as they [the people] are chiefly agricultural . . . When they get piled upon one another in large cities, as in Europe, they will become corrupt as in Europe." And southern congressmen saw tariffs and bounties as vehicles for enriching Hamilton's northern friends at the planters' expense. The recommendations in the *Report on Manufactures* were soundly defeated in the House of Representatives.

Washington detested political squabbling. The President, of course, could see that the members of his cabinet disagreed on many issues, but in 1792 he still believed that Hamilton and Jefferson—and the people who looked to them for advice—could be reconciled. In August, he begged them personally to rise above the "internal dissensions [which are] . . . harrowing and tearing at our vitals." The appeal came too late. Hamilton's reports eroded the good will of 1788, and by the conclusion of Washington's first term, neither secretary trusted the other's judgment. Their sparring had produced congressional factions but as yet no real political parties with permanent organization which engaged in campaigning. As yet, Hamilton and Jefferson only dimly appreciated the force of public opinion in shaping federal policy.

Foreign Affairs: A Catalyst to the Birth of Political Parties

During Washington's second term (1793–1797), war in Europe dramatically thrust foreign affairs into the forefront of American life. The impact of this development upon the conduct of domestic politics was devastating. Officials who had formerly disagreed on economic policy now identified their interests with either Britain or France, the world's most powerful nations. Differences of political opinion, however trivial, were suddenly cited as evidence that one group or the other had entered into treasonous correspondence with external enemies eager to compromise the indepen-