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Capitalism and Republicanism in the Founding Era

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It seems as though the left and right can't agree on anything these days—including the American Revolution. Was it a bold stab for universal liberty? Conservatives say of course it was. Was it another effort by a privileged class to exploit the impoverished masses? Progressives, echoing Marxist critiques from a century or more ago, affirm it was. One of the many problems with polarization is that its relentless Manichaeanism prohibits any kind of nuanced thinking. Everything must be all-or-nothing. And so it is with the Revolution—despite that period's incredible subtlety, richness of thought, and fascinating ambiguity.

This is the case with many aspects of the American Revolution, but perhaps none more so than its economic aspect. To what extent was the American Revolution capitalistic? The totalitarian mindset of contemporary debate seemingly requires us to answer that the two were one and the same and then debate whether this was a good thing. But in truth, Americans then had decidedly mixed feelings about what we today would call capitalism. Especially if we expand our time horizon to consider not just the Revolutionary War but the building of a new American state—for the 25-year period between the Revolution and Thomas Jefferson's inauguration—we find an American commitment to capitalism that was equivocal in many respects.

While Americans were nearly unanimous in their support of the rights of private property—holding that the protection of property was one of the central functions of government—they had doubts about many institutions of modern capitalism, or at least contemporary efforts to bring them about. Classical antiquity had taught many of them to be skeptical of wealth inequality, and the Financial and Industrial Revolutions happening in Great Britain likewise inculcated in them a deep mistrust of any political economy that would de-emphasize landownership, which they believed was the great equalizing force in American politics. This group would eventually cohere around the personality of Jefferson, largely in opposition to Alexander Hamilton. An ardent believer in the benevolent effects of economic growth, Hamilton sought to bootstrap the United States into a world power by adopting many of the policies employed in Great Britain.

This divide touched off a heated and sustained political battle, which was resolved only when Jefferson won the presidency in 1800. And while today we take for granted that Hamiltonian economics were superior, we must at the same time acknowledge that the Jeffersonians got the politics more than a little right. Vast inequalities in wealth can and do lead to inequality of political power, which in turn challenges the republican character of our regime. One need not reject the virtues of capitalism to accept that this is one vice. It would behoove us in the 21st century to reconsider this Jeffersonian critique and think through ways we can live in a dynamic capitalist economy that nevertheless treats citizens as truly politically equal.

Liberty and Property

The core principle of modern capitalism is the private ownership of property. As Milton Friedman put it in *Capitalism and Freedom*, the "principles of private property" constitute the bedrock "on which a free enterprise society rests."[1] The founding generation was overwhelmingly disposed to this proposition.

For starters, the modern alternatives to capitalism—socialism and Communism—were wholly impractical, and in the case of Communism not yet invented. The modern administrative state was still a century away, meaning the government simply did not have the capacity to determine the disposition of private property. It would be privately held, by necessity. And in America, those decisions would be widely dispersed. Lacking a hereditary aristocracy and possessing millions of acres of unsettled territory, the future—at least as it was perceptible in the late 18th century—belonged to the yeoman farmer, the man of the preindustrial "middle class."

Moreover, Americans had labored for too long under the contemporaneous alternative to competitive capitalism—mercantilism. The mercantilist system, adopted by the major European empires in the early modern era, posited that colonial systems existed to enrich the mother countries. The British limited the industries Americans could develop so as not to compete with extant manufacturing in the home country. They also restricted the scope of American trade, forbidding American merchants from engaging in direct commerce with foreign powers. The result was widespread discrimination against American property rights that had the cumulative effect of keeping the colonial economy in a state of forced infancy. Americans were free to do with their property as they pleased—so long as they maximized British wealth, which in practice usually meant supplying the home country with natural resources and cash crops to facilitate the latter's Financial and Industrial Revolutions.

The upwardly mobile American colonies chafed under this regime, as it kept them relatively poor to enrich the British. Yet they also had dispassionate and normative reasons to believe in the legitimacy of private property. The politics of the American revolutionary generation, and later those who formed the Constitution, were decidedly Whiggish, inherited from the tradition of British liberalism that grew from the tumult of the 17th century. They agreed with John Locke that not only was private property a right; it was an essential right—the protection of which was at the heart of civil society. Property for Locke was an extension of the person, a product of the mixing of that person's labor with the natural world.

The American Revolution was in many respects an articulation of this Lockean proposition. The famous rallying cry "No taxation without representation" expressed the conviction that there was something almost sacred about an individual's property. The government could not seize it without following established rules. In the Declaration of Independence, Jefferson famously wrote that protecting the rights of "Life, Liberty, and the pursuit of Happiness" was the essential purpose of government. While property goes unmentioned, it is certainly implied. And George Mason, expressing a similar sentiment in the preamble to the Virginia Declaration of Rights, declared that we "enter into a state of society" for "the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety."[2]

The founding generation was likewise sensitive to the threat unchecked democracy could pose to property rights. If the people at large have the sole power to rule, what is to stop them from seizing the wealth of the propertied few? Hamilton expressed this fear at the Constitutional Convention, arguing that

> in every community where industry is encouraged, there will be a division of it into the few & the many. Hence separate interests will arise. There will be debtors & creditors &c. Give all power to the many, they will oppress the few. Give all power to the few, they will oppress the many. Both therefore ought to have power, that each may defend itself agst. the other.[3]

But he was far from alone. James Madison, in advising Kentucky on how to fashion a new constitution, suggested that property be a qualification for voting rights for the state senate but not the state house:

> To restrain [suffrage] to the landholders will in time exclude too great a proportion of citizens; to extend it to all citizens without regard to property, or even to all who possess a pittance may throw too much power into hands which will either abuse it themselves or sell it to the rich who will abuse it. I have thought it might be a good middle course to narrow this right

> in the choice of the least popular, & to enlarge it in that of the more popular branch of the Legislature.[4]

The Constitution and the Bill of Rights are replete with protections of property rights. The federal government cannot seize property without first providing due process, which specifically entails the right to a trial by jury in many instances. Moreover, the taxing authority is specifically intended for the "general Welfare";[5] it was not intended to seize the property of one group to distribute it to another. The contracts clause prohibits the state governments from enacting any law "impairing the Obligation of Contracts."[6] And the design of the Senate had the function of protecting property rights, albeit indirectly. The framers hoped the process of selecting senators—through the state legislators—would elevate men of weight and substance, who would act as a check on the intemperate and more democratic House.

In his defense of the constitutional system in *Federalist* 10, Madison argued that a central purpose of the Constitution was to facilitate the fair resolution of factional disputes, the most dominant being that between those with property and those without:

> The most common and durable source of factions, has been the various and unequal distribution of property. Those who hold, and those who are without property, have ever formed distinct interests in society. Those who are creditors, and those who are debtors, fall under a like discrimination. A landed interest, a manufacturing interest, a mercantile interest, a monied interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of government.[7]

Madison's idea here is not for an oligarchy, whereby the rich dominate the poor. But it is also not for a democratic tyranny, whereby the unpropertied masses dispossess the wealthy. Instead, Madison envisions the Constitution reconciling these otherwise competing groups around the public good—policies that work for the entire community without denying anybody their rights, including the right to property.

The right to own property is the essential component of modern, competitive capitalism. In this sense, the Revolution, the Constitution, and the course of events in the late 18th century that we commonly take as the "founding" can be said to be capitalistic. Yet capitalism as we understand the concept today entails a large number of ancillary institutions and policies to function—both domestically and internationally. Domestically, access to credit requires financial institutions to provide it and ultimately some central institution to manage the flow of credit. Networks of trade likewise necessitate an expansive merchant class to facilitate capitalist exchanges. Economic diversification implies multiple opportunities for individuals to pursue their talents. Internationally, competitive capitalism requires a mutual commitment to free trade among nations so that capital may flow freely within borders and between them.

On these points, the founding generation often blanched—not always, not universally, and not on every institutional mechanism to support competitive capitalism. But there were important pockets of sustained resistance. Consider, for instance, Hamilton, the first secretary of the Treasury, the architect of the nation's financial system, and in many respects the father of American capitalism. He was a staunch opponent of free trade for the United States. His 1791 *Report on Manufactures* cut against many of Adam Smith's arguments from *The Wealth of Nations* and called for an elaborate protectionist system to facilitate the development of American industry. Hamilton believed the way to maximize American wealth was not open trade with the rest of the world but a careful, programmatic husbanding of essential resources for American use. This, he believed, was a way to overcome "the embarrassments, which have obstructed the progress of our external trade"—namely, colonial America's long suffering under the British mercantile system, which had kept it in an artificial state of economic underdevelopment.[8]

In due course, Hamilton's vision of protectionism would dominate American political economy for over a century, not so much for economic reasons but political ones. Protectionism was of limited (if any) economic value, but it did help policymakers achieve harmony between various economic groups through the application of tariffs. The tariff was of great political use to the Lincolnian Republican Party in stitching together a national political coalition between 1860 and 1932, uniting otherwise disparate factions in New England, the mid-Atlantic, and the West. It was only after the Great Depression—worsened by the extravagantly protective tariff of 1932—that protectionism became widely discredited as a way to achieve national prosperity.

Of course, Hamilton's opposition to free trade was largely instrumental. Hamilton believed in the centrality of private property. He believed in free enterprise. He believed in building out governmental institutions to facilitate the flow of capital. He was, at his core, an 18th-century capitalist. But he saw the United States as a rival of the European powers. The way to grow American wealth was to protect it from foreign meddling. His objections to free trade were thus offered within the broader capitalist conversation.

A much more fundamental critique of competitive capitalism came from those with commitments to classical notions of republicanism. Economically speaking, this republican critique usually stemmed from the agrarian class, which disdained the shift of American wealth away from land into commerce and industry. Politically, it usually came from Jefferson's allies or followers, who organized themselves into the Republican Party in the early 1790s (today remembered anachronistically as the Democratic-Republican Party). Ideologically, their critique had deep roots. The Republicans drew on a tradition stretching back thousands of years, to the golden age of ancient Greece and the last decades of the Roman Republic, that warned about the inequality of wealth, the shift of labor away from yeoman farming, the linkage between money and power, and the threat that an overly acquisitionist ethos could pose to civic virtue. And they pointed specifically to the Financial Revolution that had occurred in Great Britain following the Glorious Revolution of 1688 as modern corollaries to these ancient warnings.

While this faction, which would come to be represented by the Republican Party of Madison and Jefferson, was staunchly committed to private property, it believed that the best type of property for a healthy republic was land and that the government should not facilitate the development of what we today consider modern capitalist institutions, especially banks, which encouraged any number of vices detrimental to good republican government.

Capitalism and Republicanism

The revolutionary American of the late 18th century was simultaneously committed to the principles of liberalism and republicanism. Liberalism was an ideology that emphasized freedom of conscience, due process, and the right to private property. Republicanism was an ideology that envisioned government as the property of the citizenry, responding to the people's direction and working on their behalf alone. Many from the revolutionary generation—men like Robert Morris, Gouverneur Morris (no relation), Rufus King, and above all Hamilton—were convinced that republicanism could be sustained alongside a dynamic commercial economy ultimately supported by the state through institutions like a national bank. Others disagreed, adhering to what historian Lance Banning has called the "Jeffersonian persuasion," so named because Jefferson was the center of political gravity for this faction. Their skepticism toward the modern institutions of competitive capitalism flowed not from a lack of commitment to property rights but rather from an anxiety that these institutions facilitated economic inequality, which challenged the republican principle of political equality among citizens.

The Jeffersonian faction was a sprawling, dynamic force in American politics—encompassing a broad array of ideological commitments, enduring for more than a quarter century, and evolving during that time. That makes it hard to pin down, but a few general points characterize the vast majority of its members. Contra Hamilton, the Jeffersonians generally believed ownership of farmable land was the backbone of a prosperous republic. Landownership promoted a rough (though far from perfect) equality among the citizenry, and it encouraged personal habits like self-sufficiency, personal responsibility, and civic commitment. Their vision for America was an agrarian republic, with the North American continent populated by a sturdy class of yeoman farmers. They worried the transformation of wealth brought about by the Financial Revolution—which was ongoing in Great Britain and which Hamilton sought to begin in the United States—was an existential threat to true republicanism.

The Jeffersonians had a narrative built on philosophy and history that informed their views. No less an eminence than Aristotle believed the ideal body politic was one dominated by the middle class, as it was most likely to avoid the twin disasters of democratic tyranny and oligarchy:

> It is manifest that the best political community is formed by citizens of the middle class . . . for where some possess much, and the others nothing, there may arise an extreme democracy, or a pure oligarchy; or a tyranny may grow out of either extreme. . . . The mean condition of states is clearly best, for no other is free from faction; and where the middle class is large, there are least likely to be factions and dissensions.[9]

At least as significant was the example of the Roman Republic—particularly its collapse into civil war and the emergence of Augustus as its emperor. The classical history of the republic emphasized the class of yeoman farmers as its great strength—independent, virtuous, and willing to serve in its legions during times of war. But after the Roman conquest of Greece, the yeomanry began to decline. After years away from their farms in service to the state, many farmers were forced to sell their land to the wealthy, who imported Greek slaves to work their fields. This growing faction of landless men eventually was consolidated by the warlords of the late republic—Marius, Pompey, and Julius Caesar. By offering them pay, in either plunder or land, these generals turned a large portion of Roman society into their clients, and it was in this way that Caesar was eventually able to overthrow the republic.

The founders also drew important instruction from the experience of northern Italy during the late Middle Ages. Amid consistent conflict between the papacy and the Holy Roman emperor, northern Italian communities like Florence, Genoa, and Milan were able to secure effective independence by the end of the 13th century and reorganized themselves into communes, where power was shared among the citizenry. Yet by the middle of the 16th century, the only republic left in the region was Venice. The rest had been transformed into oligarchies, dominated by the wealthy. Florence proved a harrowing example. Along with Venice, it had held out for decades against the rise of the oligarchs, but the Medici family—grown rich from its extensive banking operations—established a network of clients so influential it could acquire power. And even after the Medicis were overthrown in 1494, their influence throughout the region was still so vast they were able to return to power in 1512. Indeed, the fact that four Renaissance popes were from the Medici clan starkly illustrates the potentially dangerous relationship between economic wealth and governing power.

Ancient Rome and Renaissance Florence provided historical evidence of the theory that economic independence was a prerequisite for political independence. Yeoman farmers who could take care of themselves did not need any patrons to take care of them in exchange for political support. They thus served as a bulwark against the self-aggrandizement of the rich, who are always looking to transform their wealth into power. On the other side, those without means of self-support will gratefully accept patronage, especially in times of economic hardship. This is how a republic, which is a government ruled by and for the citizenry, can be corrupted into an oligarchy, which is a government by and for the benefit of the wealthy.

If Italian history—ancient and modern—demonstrated how disparities in wealth could threaten a republic, the experience of Great Britain in the 18th century identified commercialization and industrialization as twin threats. As a means to fight its wars against France without raising taxes to crippling levels (and thereby entangling Parliament in foreign affairs), the British Crown under William III undertook financial reforms that facilitated what became known as the Financial Revolution. He used revenue from the land tax as a permanent fund to pay interest on the debt. He sanctioned government lotteries. And above all, he chartered the Bank of England, a private-public institution owned by private investors but able to loan money to the government. William's intention was to harness the nation's growing trade wealth for public purposes, and he was successful. William and his successor, Queen Anne, drew on Britain's growing prosperity to check the aspirations of Louis XIV against the Netherlands and Spain.

While Britain's Financial Revolution no doubt created the financial preconditions for its domination over the French, it also brought about substantial, albeit at times subtle, changes in the dynamics of British politics. The combination of growing trade and growing government activity had created a faction of men whose wealth was increasingly in government "paper"—be it the public debt or stock of publicly chartered corporations. Having grown wealthy from public policy, they were not inclined to sit on the sidelines under the assumption that the state would continue to bless them. Instead, they migrated into Parliament, forming a bloc of "purchasable" votes for the Crown.

Not everybody thought this was a bad idea. David Hume, one of the leading figures of the Scottish Enlightenment, thought it was essential to the preservation of the balanced system of king and Parliament:

> The House of Commons stretches not its power, because such an usurpation would be contrary to the interest of the majority of its members. The crown has so many offices at its disposal, that, when assisted by the honest and disinterested part of the

> house, it will always command the resolutions of the whole. . . . We may, therefore, give to this influence what name we please; we may call it by the invidious appellations of *corruption* and *dependence*; but some degree and some kind of it are inseparable from the very nature of the constitution, and necessary to the preservation of our mixed government.[10] (Emphasis in original.)

But the losers in this scheme were the landed class, especially its more prosperous members. For starters, the debt was financed on the back of a land tax—meaning that it was the landowners effectively subsidizing the merchants. Their critique was not purely self-interested, however. They perceived that the Crown had intervened in the people's capacity to govern through Parliament. Members of the House of Commons, who were elected by their constituents but followed their own interests at the behest of royal patronage, were undermining self-government, creating what economists would today call a principal-agent problem. Elected to represent their communities, paper wealth had in effect turned them into agents of the Crown.

Those who stridently denounced this nexus of government and economic power came to be known as the Country Party (as distinguished from a Court Party, which drew wealth and power from the government itself). As Cato (the pen name of John Trenchard and Thomas Gordon) put it,

> I would lay it down as a rule for all nations to consider and observe, that where bribery is practised, 'tis a thousand to one but mischief is intended; and the more bribery, the more mischief. When therefore the people, or their trustees, are bribed, they would do well to consider, that it is not, it cannot be, for their own sakes. Honest and open designs, which will bear light and examination, are hurt and discredited by base and dark expedients to bring them about.[11]

Not only did the alliance between the government and this new moneyed class corrupt the representative quality of the British system; it also brought about financial calamity. A speculative bubble surrounding the government-created South Sea Company popped in 1720, leading to widespread economic suffering and proof, in the eyes of the Country Whigs, that the fix was in. As Cato put it,

> To see one's country labouring under all the sad symptoms of distress, without the violence of war, without the diabolical refinements of able politicians; but purely from the dull cunning of inferior rogues, void of bravery, void of abilities; wretches that would run away in the field, and be despised in assemblies; this is what should turn pity into rage, and grief into vengeance.[12]

This was a story the Jeffersonians knew well. They ate up Cato and similar polemicists like Viscount Bolingbroke, both of whom demonstrated to their satisfaction that Great Britain was not a free state but rather the domain of an unduly powerful king and a network of clients grown rich on government paper and royal largesse.

The Jeffersonians were also nonplussed over the prospects of Britain's Industrial Revolution migrating to the Americas. Industrialization had followed on the heels of the Enclosure Movement—as peasants who had been kicked off much of their land were directed into factory work. Great Britain at this point had an extremely limited franchise: One had to be either a landowner or a substantial member of the middle class of merchants and artisans. In America, however, land was plentiful. Why, in the Jeffersonian vision, should Americans give up the farm for life in a factory? They would only sacrifice their economic independence for the whims of what Madison derided as "fashion." In a critique that anticipated future Marxist theory, the Jeffersonians were horrified at the prospect of a nation of small, independent landowners being transformed into wage workers, dependent on the owners of industry and the broader forces of market dynamics. This was no way to maintain a free state.

A consistent theme through these various ideological and historical narratives was that the distribution of political power inevitably mimicked the distribution of economic wealth. Thomas More—an adviser to Henry VIII and leading political theorist of the early modern era—went so far as to envision his theoretical republic, the "Utopia," being built on the common ownership of property. "I'm quite convinced," says More's fictional interlocutor, Raphael,

> that you'll never get a fair distribution of goods, or a satisfactory organization of human life, until you abolish private property altogether. So long as it exists, the vast majority of the human race . . . will inevitably go on labouring under a burden of poverty, hardship, and worry.[13]

The Jeffersonians did not have to resort to such heavy-handed ideas as state control of property. Instead, they believed that the virgin territory of the West would support wave after wave of aspiring yeomen for generations and thus serve as an equalizing force for the new nation. From their perspective, it was madness for the United States to follow in the path of 18th-century Britain. Or if not madness then a deep-seated preference for oligarchy, or even worse, "a monarchy bottomed on corruption."[14] These are the words Jefferson chose to describe Hamilton's ambitions, and it helps explain why the Jeffersonians derided Hamilton—today remembered as the architect of American capitalism—as the great enemy of republicanism.

"One Great American System"

The Jeffersonian persuasion was certainly extant during the revolution, although it remained mostly latent. There was wide agreement among the Americans—be they eventually partial to the ideas of Jefferson or Hamilton—that the colonies had to break free from the yoke of British tyranny. The shared enemy mostly subdued the salience of an eventually significant disagreement. Still, there were portents of the coming divide, mainly thanks to the polarizing figure of Robert Morris.

Morris is a study in contrasts. It is easy to see why those who were suspicious of the Financial Revolution would disdain him, yet at the same time, his contributions to the American Revolution are undeniable; the man still does not get his due. On the one hand, Morris, who made his money as a merchant in Philadelphia, led a life of urban opulence in a nation dominated by yeoman farmers. On the other hand, he staked his own fortune as collateral for American debts. Ultimately, Morris understood that government success depended on institutions that could tap into the nation's commercial wealth, but at the same time—as the premier man of American commerce—he knew it would work to his benefit. So while Morris was the obvious choice to oversee the Continental Congress's finances, he was also an extremely controversial one. Ultimately, anxiety about Morris's vast powers led Congress to redesign how its money was managed, eliminating his old role of superintendent of finance and replacing it with a three-member Board of Treasury.

Washington initially offered the job of secretary of the Treasury to Morris, but the latter turned it down, opting instead to enter the Senate as a member from Pennsylvania. Fatefully, the president then turned to Hamilton, his former aide-de-camp in the Continental Army. Hamilton shared Morris's commitment to a political economy that would stabilize and encourage American capitalism, but he was so much more than this. He was a true visionary—sensing the economic potential of the United States and appreciating how government policy could make that happen. He was also a whirling dervish of activity—a workaholic whose ability to think, write, and advocate was unmatched among his peers. Hamilton being Hamilton, he would be no mere secretary of the Treasury. He instead would become the most divisive and polarizing figure in American politics and, in so doing, would offer enormous clarity around the competing visions of American republicanism.

The beginning of the Hamiltonian era in American political economy can be identified precisely: January 9, 1790, the day his monumental *Report* *on the Public Credit* was submitted to Congress and unveiled to the nation. This was the first of three reports—followed by the *Report on a National Bank* and the *Report on Manufactures*—that Hamilton would unveil over the next 23 months and in which he would lay out his vision for a commercialized and economically diversified American republic. Hamilton, above and before anybody else, intuited that the Financial and Industrial Revolutions of Great Britain would eventually come to the United States.

Assuming the government instituted the correct policies, the "thirteen States," as Hamilton argued in *Federalist* 11, could erect "one great American system, superior to the controul of all trans-atlantic force or influence, and able to dictate the terms of the connection between the old and the new world!"[15] As secretary of the Treasury, Hamilton prioritized three policies: a permanent, public debt guaranteed by the federal government; a national bank; and government support for manufacturing. Hamilton believed these policies would promote prosperity and, eventually, national unity. Stated simply, if Americans were making money off each other through a robust national economy, they would have more reasons to get along. In *Federalist* 12, he argued that

> the prosperity of commerce is . . . the most useful as well as the most productive source of national wealth; and has accordingly become a primary object of their political cares. . . . It serves to vivify and invigorate the channels of industry, and to make them flow with greater activity and copiousness. The assiduous merchant, the laborious husbandman, the active mechanic, and the industrious manufacturer, all orders of men look forward with eager expectation and growing alacrity to this pleasing reward of their toils. The often-agitated question, between agriculture and commerce, has from indubitable experience received a decision, which has silenced the rivalships, that once subsisted between them, and has proved to the satisfaction of their friends, that their interests are intimately blended and interwoven.[16]

The proper disposition of the public debts was of crucial importance to Hamilton. He wanted a commitment to pay the debts of the country in full—no haircuts for investors. He wanted the debt centralized—shifted away from the states and placed under the aegis of the federal government. These policies would have two important consequences: First, they would make it easier for the United States to borrow money in the future. And second, they would reorient the loyalties of the moneyed class, those who had lent the government cash in the first place, from the states to the federal government. But Hamilton also saw the potential for a funded debt to satisfy one of the preconditions of a capitalist economy: a stable and uniform currency. If people are confident the government will pay back its debts, then a $10 debt certificate will be worth $10 in goods and services, wherever in the country it might be exchanged. Per Hamilton:

> It is a well known fact, that in countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are there equivalent to payments in specie; or in other words, stock, in the principal transactions of business, passes current as specie.[17]

Hamilton modeled his Bank of the United States on the Bank of England, a public-private partnership that could lend money to the government in a pinch. Unlike Great Britain, the United States had virtually no banking infrastructure in the 18th century, and literally none outside the major cities of the Atlantic coast. Hamilton intended to place the tax revenues of the federal government in the bank, which then could serve as the initial capital infusion necessary to extend credit to private enterprise:

> Gold and Silver, when they are employed merely as the instruments of exchange and alienation, have been not improperly denominated dead Stock; but when deposited in Banks, to become the basis of a paper circulation, which takes their

> character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality.[18]

The secretary does not use the phrase "fractional-reserve lending" in his treatise, but he certainly had that concept in mind.

Hamilton's *Report on Manufactures* calls for an elaborate network of government patronage of American industry, which at this point was still in a stage of infancy. As mentioned previously, while Hamilton's program is inconsistent with Smith's arguments for free trade in *The Wealth of Nations*, the divide essentially boils down to an internecine dispute among capitalists. Hamilton agreed with Smith that economic diversification would be key to economic success; he just thought the government should help bootstrap the country to that position.

It is a testament to Hamilton's farsightedness that many of his ideas seem like no-brainers to us today: a national currency with uniform value across the country, a central lending authority to facilitate the proliferation of credit, and a diversified economic base. These were controversial propositions in the late 18th century. Within a few short months of the release of the *Report on Public Credit*, the disparate factions of opponents to his ideas would begin to cohere under the banner of the Republican Party, which Jefferson would helm in due course and which would be committed to the defeat of Hamiltonianism. It is not that Hamilton's opponents despised economic prosperity. Rather, they believed that his vision of an American economy was incompatible with a true republic and more in keeping with an oligarchy. Some suspected that Hamilton's true design was to establish an American monarchy, with himself wielding power from behind the scenes.

The Jeffersonians did not have a problem with a national currency, but they generally believed it should be specie—or precious metals—rather than government paper. After all, using the debt as a national currency would make it a *permanent* debt, one that would therefore give rise to endless opportunities for the moneyed class to profit on government activity and, in so doing, come to control the state itself. This anxiety persisted through a number of Republican writings of the early 1790s, and none more sharply perhaps than Madison's letters to Jefferson. Writing from New York, Madison noted in the summer of 1791 that "stockjobbing drowns every other subject," and that "the gamblers" make an "eternal buzz."[19]

The following month, he warned Jefferson about the growing political power of the bondholders: "The stockjobbers will become the pretorian band of the Government—at once its tool & its tyrant; bribed by its largesses, & overawing it, by clamours & combinations."[20] The reference to the "pretorian band" illustrates how large the example of Rome loomed in the collective imagination of the age. During the imperial age, the military was forbidden from entering the city of Rome, so the emperor was protected by a special group of soldiers known as the Praetorian Guard, but their proximity to the emperor enabled them to murder several emperors and install new ones.. Madison's implication was that Hamilton, having forged such a tight connection with the public bondholders, had effectively handed control of the government to them.

The Bank of the United States was likewise a nonstarter for most Republicans. Jefferson himself articulated some of the sharpest opinions against it, at one point arguing that "banking establishments are more dangerous than standing armies."[21] This was not an idea pulled out of whole cloth, even though it might seem peculiar to modern readers. The Republicans believed the Bank of England was essential to the rise of the moneyed class that had come to dominate British politics in the late Stuart and early Hanoverian eras. And looking back to Renaissance Florence, it was surely no coincidence that the Florentine Republic fell to the Medicis, who had established themselves as Europe's premier banking family, leaving them flush with resources sufficient to purchase loyalty among the citizenry and eventually the Holy See itself.

And the bank could not be seen independently from Hamilton's debt plans, for one could use government debt to purchase two-thirds of bank stock—thereby ensuring that the same people who owned the bank would be the ones who had owned government debt. On the floor of the

House of Representatives, Madison argued that "incorporated societies" had a "great and extensive influence . . . on public affairs in Europe: They are a powerful machine, which have always been found competent to effect objects on principles, in a great measure independent of the people."[22]

Finally, with respect to Hamilton's plan for economic diversification and industrialization, the Republicans likewise were staunchly opposed. Any policy that would so aggressively redirect the country from a commitment to yeoman farmers was unacceptable. In an essay titled "Fashion," Madison made his point by pitying the lamentable state of the British working class:

> An humble address has been lately presented to the Prince of Wales by the BUCKLE MANUFACTURERS of Birmingham, . . . stating that the buckle trade gives employment to more than TWENTY THOUSAND persons, numbers of whom, in consequence of the prevailing fashion of SHOESTRINGS & SLIPPERS, are at present without employ, almost destitute of bread, and exposed to the horrors of want at the most inclement season . . . and finally, IMPLORING his Royal Highness to consider the deplorable condition of their trade, which is in danger of being ruined by the *mutability of fashion*, and to give that direction to the *public taste*, which will insure the lasting gratitude of the petitioners.[23] (Emphasis in original.)

In Madison's judgment, industrial workers are inevitably at the mercy of "mere fashion," for they do not produce the necessities of life. "What a contrast is here," he concluded,

> to the independent situation and manly sentiments of American citizens, who live on their own soil, or whose labour is necessary to its cultivation, or who were occupied in supplying wants, which being founded in solid utility, in comfortable

> accommodation, or in settled habits, produce a reciprocity of dependence, at once ensuring subsistence, and inspiring a dignified sense of social rights.[24]

As independent landowners who produce the food necessary to sustain life itself, American citizens do not have to beg the crown prince of Great Britain to change the way he fastens his shoes.

Even though Jefferson became the leader of the Republican faction, Madison was its chief intellectual during its early period. Some of this had to do with where the two men found themselves. Jefferson, being inside Washington's cabinet along with Hamilton, was constrained in what he could do and say. Madison, on the other hand, was in the House, where he took public positions against Hamilton. Madison was also more disposed to polemical writing than Jefferson, having participated (with Hamilton, ironically) in the writing of the Federalist Papers. Many of Madison's most aggressive denunciations of Hamilton's system of finance appeared as anonymous essays for the *National Gazette*, a Republican newspaper that Madison and Jefferson helped found in 1791.

What really comes out in Madison's attacks on Hamilton's system are its political dangers. Emblematic of the Jeffersonian position, Madison is not making an economic case against Hamilton's system. His argument, rather, is that adopting these policies will degrade the republican characteristic of the new nation. Madison was likewise convinced that Hamilton was the head of a faction intent on doing precisely that. In one of his most striking essays, "A Candid State of Parties," he contrasted what he took as the Jeffersonian and Hamilton views of politics:

> One of the divisions consists of those, who from particular interest, from natural temper, or from the habits of life, are more partial to the opulent than to the other classes of society. . . . Men of those sentiments must naturally wish to point the measures of government less to the interest of the many than

> of a few . . . that by giving such a turn to the administration, the government itself may by degrees be narrowed into fewer hands, and approximated to an hereditary form.
>
> The other division consists of those who believing in the doctrine that mankind are capable of governing themselves, and hating hereditary power as an insult to the reason and an outrage to the rights of man, are naturally offended at every public measure that does not appeal to the understanding and to the general interest of the community, or that is not strictly conformable to the principles, and conducive to the preservation of republican government.[25]

Put simply, Madison's objections—and those of the larger Jeffersonian party—to Hamilton's economic policies were substantially political in nature. Hamilton's system would empower the few at the expense of the many and transform the hearty, independent American into a servant of the wealthy and well-connected. Hamilton's vision for a dynamic, commercial, and diversified American economy was, in this view, a vision of oligarchy, if not outright monarchy.

It may seem odd for us today to read Madison denouncing Hamilton for what are essentially core components of our modern capitalist system: a national currency, a centralized bank, and economic diversification. What we must remember is that Madison, like all those of the Jeffersonian persuasion, advanced an ideology that predates the emergence of modern capitalism. Theirs was a critique that went far back into classical antiquity, emphasizing the importance of equal wealth in a republic and looking at the examples of Florence and Great Britain as cautionary tales, in which public policy can distort economic equality and thereby threaten self-government. Their vision was for an "empire of liberty," as Jefferson would later put it, built on the backbone of a network of yeoman farmers stretching across the continent.

Money and Power

The Jeffersonian critique of Hamiltonian economics proved exceptionally durable in American politics. After the War of 1812, a large portion of the Republican coalition—Madison chief among them—reconciled themselves to much of Hamilton's system, including a national bank. They recognized that commercial vigor and economic diversification were necessary to secure American prestige and independence, just as Hamilton had argued in *Federalist* 11, back in 1787.

Yet a powerful faction of the old Jeffersonians remained intractably opposed, and they eventually found themselves a champion in the person of Gen. Andrew Jackson. As president, Jackson vetoed a bill to recharter the Second Bank of the United States, drawing on many of the old Jeffersonian themes:

> It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purposes. Distinctions in society will always exist under every just government. Equality of talents, of education, or of wealth can not be produced by human institutions. In the full enjoyment of the gifts of Heaven and the fruits of superior industry, economy, and virtue, every man is equally entitled to protection by law; but when the laws undertake to add to these natural and just advantages artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society—the farmers, mechanics, and laborers—who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of their Government. There are no necessary evils in government. Its evils exist only in its abuses. If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing. In the act before

> me there seems to be a wide and unnecessary departure from these just principles.[26]

This criticism of capitalism has remained remarkably salient through American history. Sen. Ted Kennedy (D-MA) quoted from Jackson's veto message in his 1980 address to the Democratic National Convention—some 147 years after it was first delivered.

Indeed, even as we rightly dismiss the Marxist notion that capitalism impoverishes the masses for the benefit of the few—an idea that history has decisively disproved—we can and should acknowledge the challenges economic inequality poses to the republican character of our society. Wealth can and does grow, which means one person's increase does not necessitate another's decrease. But political power—the authority to guide, direct, and rule—is by its nature finite. And it is unfortunately but indubitably the case today that the wealthy and well-connected have greater access to the halls of power than the average citizen, enabling them to better understand what the government is doing and make sure their views are fully considered. Likewise, the representatives of the people too often sacrifice the public interests for their own greed. How many members of Congress leave the legislature an order of magnitude wealthier than when they arrived?

This is not a coincidence. The power of the businessman and the wealth of the legislator are demonstrations of the theorem that wealth and power are fungible. This is ultimately why Aristotle argued, some 2,400 years ago, that the best-run societies are those dominated by a middle class in which wealth is fairly equally shared. The Jeffersonian Republicans may not have understood Hamilton's economic genius, but they did understand how and why a commercialized and industrialized economy can challenge traditional notions of civic equality. These are lessons we should take to heart today, even if the Jeffersonians' anxieties about banking and debt seem backward in historical retrospect. They might not have understood how money works, but they understood how power works.

None of this means we should reject capitalism. Indeed, Friedman was fundamentally correct when he argued that economic liberty is the backbone of political liberty. The revolutionary generation, including the Jeffersonians, acceded heartily to this notion, hence their unequivocal support for private property. Yet even as the United States has built out what Hamilton had called "one great American system" of wealth, prosperity, and capitalism,[27] we too often have allowed our republican character to be corrupted. There have been and continue to be "pretorian band[s] of the Government—at once its tool & its tyrant," as Madison put it—those whose wealth purchases them power allied with those who wish to sell their power for wealth, at the expense of the public interest.[28]

A nuanced and thoughtful approach to public policy would be one in which we try to balance the protection of private property and the promotion of economic dynamism with true civic equality—and in which the government is equally disposed to consider the petitions of all citizens, regardless of how much wealth they may possess. Republicanism is still the answer.

Notes

1. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 2002), 59–60.

2. Virginia Declaration of Rights, § 1. This language is, of course, also rooted in John Locke's *Second Treatise of Government*.

3. Alexander Hamilton, "James Madison's Version, [18 June 1787]," Founders Online, https://founders.archives.gov/documents/Hamilton/01-04-02-0098-0003.

4. James Madison, "From James Madison to Caleb Wallace, 23 August 1785," Founders Online, https://founders.archives.gov/documents/Madison/01-08-02-0184.

5. U.S. Const. pmbl.

6. U.S. Const. art. 1, § 10, cl. 1.

7. *Federalist*, no. 10 (James Madison), https://founders.archives.gov/documents/Madison/01-10-02-0178.

8. Alexander Hamilton, "Alexander Hamilton's Final Version of the Report on the Subject of Manufactures, [5 December 1791]," Founders Online, https://founders.archives.gov/documents/Hamilton/01-10-02-0001-0007.

9. Aristotle, "Politics," in *The Complete Works of Aristotle*, ed. Jonathan Barnes (Princeton, NJ: Princeton University Press, 1984), 2:2057.

10. David Hume, "Of the Independency of Parliament," in *Political Essays*, ed. Knud Haakonssen (Cambridge, UK: Cambridge University Press, 1994), 26.

11. Cato, "General Corruption, How Ominous to the Publick, and How Discouraging to Every Virtuous Man. With Its Fatal Progress Whenever Encouraged.," in *Cato's Letters*, ed. Ronald Hamowy (Indianapolis, IN: Liberty Fund, 1995), 1:197.

12. Cato, "The Fatal Effects of the South-Sea Scheme, and the Necessity of Punishing the Directors.," in Hamowy, *Cato's Letters*, 1:43.

13. Thomas More, *Utopia*, ed. Paul Turner (New York: Penguin Books, 2003), 45.

14. Thomas Jefferson, "Thomas Jefferson's Explanations of the Three Volumes Bound in Marbled Paper (the So-Called 'Anas'), 4 February 1818," Founders Online, https://founders.archives.gov/documents/Jefferson/03-12-02-0343-0002.

15. *Federalist*, no. 11 (Alexander Hamilton), https://founders.archives.gov/documents/Hamilton/01-04-02-0163.

16. *Federalist*, no. 12 (Alexander Hamilton), https://founders.archives.gov/documents/Hamilton/01-04-02-0165.

17. Alexander Hamilton, "Report Relative to a Provision for the Support of Public Credit, [9 January 1790]," Founders Online, https://founders.archives.gov/documents/Hamilton/01-06-02-0076-0002-0001.

18. Alexander Hamilton, "Final Version of the Second Report on the Further Provision Necessary for Establishing Public Credit (Report on a National Bank), 13 December 1790," Founders Online, https://founders.archives.gov/documents/Hamilton/01-07-02-0229-0003.

19. James Madison, letter to Thomas Jefferson, July 10, 1791, Founders Online, https://founders.archives.gov/documents/Madison/01-14-02-0034.

20. James Madison, letter to Thomas Jefferson, August 8, 1791, Founders Online, https://founders.archives.gov/documents/Madison/01-14-02-0062.

21. Thomas Jefferson, letter to John Taylor, May 28, 1816, Founders Online, https://founders.archives.gov/documents/Jefferson/03-10-02-0053.

22. James Madison, "The Bank Bill, [8 February] 1791," Founders Online, https://founders.archives.gov/documents/Madison/01-13-02-0284.

23. James Madison, "For the *National Gazette*, 20 March 1792," Founders Online, https://founders.archives.gov/documents/Madison/01-14-02-0231.

24. Madison, "For the *National Gazette*, 20 March 1792."

25. James Madison, "For the *National Gazette*, 22 September 1792," Founders Online, https://founders.archives.gov/documents/Madison/01-14-02-0334.

26. Andrew Jackson, "Bank Veto Message (1832)," National Constitution Center, https://constitutioncenter.org/the-constitution/historic-document-library/detail/andrew-jackson-bank-veto-message-1832.

27. *Federalist*, no. 11 (Hamilton).

28. Madison, letter to Jefferson.