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Colonial Capitalism and the American Founding

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The American founding was a momentous event in the development of modern government. It was similarly momentous in the development of modern capitalism. Our economic founding, however, was more evolutionary than revolutionary. By 1776, the 150-year colonial period had already generated a distinctive American capitalism. Political independence and the Constitution of 1787 gave that capitalism an institutional structure and a new purpose—to build a prosperous, democratic, continental nation.

The colonial era was a time of historic advances in manufacturing, finance, trade, and transportation, epitomized by the Dutch golden age of the 17th century and the first Industrial Revolution of the 18th century. The new ideas and practices originated in America's two progenitor nations, Great Britain and the Dutch Republic, and they accompanied the settlers to the New World. Here they were adapted and improved by a highly enterprising citizenry, surrounded by a staggering abundance of land and other natural resources, in circumstances that demanded creative improvisation and gave ample rein to commercial spirits.

By the later 1700s, Britain's American colonies had grown prosperous, with active markets, the widespread availability of credit, and, in the north, a substantial middle class. But the mother country remained bent on colonial mercantilism and political domination. Many of the grievances that precipitated the Revolution were economic and commercial, such as the British Trade and Navigation Acts running back to the 1620s, the settlement provisions of the Proclamation of 1763, the trade provisions of the Quebec Act of 1774, and various "taxes without representation." The short-lived Stamp Act of 1765 was a deeply resented imposition on commercial and property transactions in the colonies.

When independence had been won and the new nation began building its own political institutions, the founders faced many urgent questions of economic liberty, commercial regulation, and finance. The Constitutional Convention of 1787 was convened to address the Articles of Confederation's economic weaknesses—the national government's lack of authority over taxation, currency, foreign trade, and commercial quarrels within and among states. The Constitution included numerous provisions protecting property and contract, promoting domestic and foreign commerce, and ordaining limited government, which were enforced by early Supreme Courts. The first business of the Washington administration and the First Congress (other than drafting a bill of rights) was enacting import tariffs to promote domestic manufacturing and raise government revenue, funding continental and state war debts, and establishing a banking system and national currency.

In the 1982 predecessor to this volume—the American Enterprise Institute's (AEI) *How Capitalistic Is the Constitution?*[1]—the seven essayists agreed that the founding was capitalistic but disagreed over causes and consequences. Was our founding capitalism elitist and based on class (top-down) or democratic and populist (bottom-up)? How did this capitalism affect the course of American politics, society, and prosperity? How was it altered by subsequent events—wars and social movements, economic booms and busts, industrialization and urbanization, and the policy transformations of the Progressive and New Deal eras and the welfare state?

The AEI essayists used differing conceptions of "capitalism," a term that did not exist at the time of the founding. It came into the lexicon, and acquired a variety of systematic meanings, through the works of expositors from Karl Marx to Milton Friedman.[2] For instance, in the aftermath of the 2008–09 financial collapse, many progressive pundits announced that the event marked the "death of capitalism," necessitating financial socialism in its place; shortly thereafter, progressive economist Thomas Piketty argued that capitalism was not only alive but self-perpetuating, necessitating confiscatory wealth taxation.[3] In this chapter, I use the term to mean an economic system characterized by private property ownership, freedom of contract and association, market exchange, extensive division of labor in production, and well-developed banking and finance—with the key "capitalist" feature being profit-seeking financial markets that translate expectations about the future into current investments and consumption.[4]

In my view, the founders' government holds great lessons in capitalism for today's government.[5] It treated property and contract rights as a piece with political and personal liberties such as speech and religion—in contrast to the modern judicial practice of hiving off economic liberties and treating them as secondary.[6] It promoted private enterprise and commerce—rather than treating them as arenas of avarice in need of socializing.[7] It aimed to balance spending and revenues, reserve borrowing for investments and emergencies, and maintain a stable currency—economic disciplines now considered antediluvian.[8] I believe that these policies would be as beneficial today as they were 250 years ago and that intervening epochs have not antiquated them but rather demonstrated their enduring value.

These policies, however, were as controversial at the founding as they are today. "Crony capitalism," making sport of property and contract, was prevalent in the state legislatures both before and after the new Constitution.[9] Alexander Hamilton's debt and banking proposals were bitterly contested and enacted narrowly with a fair amount of political subterfuge.[10] Federalists and Jefferson Republicans differed vehemently on federal and state roles in economic policy.

Historian Ron Chernow notes that the founders

> inhabited two diametrically opposed worlds. There was the Olympian sphere of constitutional debate and dignified discourse—the way many prefer to remember these stately

> figures—and the gutter world of personal sniping, furtive machinations, and tabloid-style press attacks. The contentious culture of these early years was both the apex and nadir of American political expression.[11]

But the rancorous politics was not just personal: It reflected deep differences among both founders and citizenry. The authors of the Declaration, Constitution, and state constitutions agreed on certain general principles concerning natural rights, private property, and market exchange but disagreed sharply on the application of those principles to practical questions.[12] The remarkable thing is that so many hotly debated issues were decided in ways that furthered a productive capitalist order and that, over time, the nation grew rich and powerful in the face of continuing disputes and uncertainties over economic policy, the enactment of many adverse policies, and shifting court interpretations of key constitutional provisions.

Just how did this happen? That is the fundamental question of the rise of cornucopian American capitalism. Quotations from the Declaration, the Constitution, the Federalist Papers, the founders' letters and diaries, and early court decisions can illuminate the question but cannot answer it.

Competitive Pluralism

The answer offered here is that America was founded in *competitive pluralism*. I use this coinage to distinguish it from the "liberal pluralism" that is sometimes said to be the essence of American nationhood—a mosaic of cultures, religions, and ethnicities peacefully coexisting in a spirit of mutual respect, or at least toleration, and cooperating for mutual advantage as circumstances warrant.[13] Competitive pluralism sees this diversity differently, as a dynamic—disparate institutions, traditions, and associations competing with one another for adherents, prestige, and prerogatives.

Liberal tolerance is an important feature of American pluralism, but the defining feature is energetic association building and proselytizing on behalf of matters moral and practical, personal and political. The national motto is not "Live and Let Live" but "E Pluribus Unum," with its dual meaning of individualism and collective striving for unity out of diversity.[14] Our pluralism has been competitive, rather than merely enterprising, because one man's enterprise has often come into conflict with the enterprises of others, and the resulting competition has been essential to revealing their respective value and generating improvement.

Competitive pluralism has been a critical source of vitality in American culture, science, and religion, enshrined in the First Amendment. It has also been the organizing principle of our politics, government, and commerce. In politics and government, multiple institutions compete for votes, jurisdiction, and power; in commerce, multiple suppliers compete for resources, workers, and customers.

The political and economic orders have a common provenance in our colonial heritage. Although the founders disagreed about many things, they were all suspicious of power and wary of its corruptions. Their hostility was born of experience with British[15] monarchs, aristocrats, and ministers and with their mercantilist trade restrictions and chartered business monopolies. For many of them, immediate experience was reinforced by the study of ancient history and contemporary philosophers from Montesquieu to Adam Smith. And once the War of Independence was won, there were no entrenched royals and aristocrats to push back.

That is not the whole story. The founders were also suspicious of political democracy and comfortable with hierarchy and meritocracy. But the British settlement of the Eastern Seaboard and western frontier had been localized, diverse, and entrepreneurial, led by pioneers who were accustomed to freedom of action and jealous of their prerogatives. When the time arrived for constructing a national Constitution, America was an adventitious regime of multiple, competing, self-made sources of authority. These sources had to be accommodated in some way. The entrenched interests pushed for decentralization rather than, as in Britain, centralization.

The founders were brilliant men, many of them highly learned and acutely conscious of their historic calling, and altogether singular in combining love of liberty with realism about human nature. Their Constitution deserves our reverential attention, assiduous study, and careful adherence. But America's founding economic order was not the product of abstract thinking and legal proclamation. Rather, it was a colonial inheritance of dispersed government, prosperous commerce, and personal assertiveness that shaped the founders' thinking and handiwork. Fragmented political power—competition in government—permitted men of commercial temperament and ambition, who were abundant in the colonies and new republic, to establish an economic order of competitive capitalism. American capitalism was the organic institutional embodiment of a society that had competition in its DNA.

Culture and Institutions

There is a rich debate over whether the primary determinants of economic prosperity are cultural or institutional. Proponents of the cultural explanation point to the norms and habits of individualism and personal agency, self-discipline and hard work, honesty and fair dealing, and forward thinking and positive-sum social cooperation.[16] Proponents of the institutional explanation point to laws and policies that facilitate investment and market transactions in a world (our world) of limited information and time, self-interested bias, and uncertainty about the future.[17] Both schools acknowledge that culture and institutions overlap and can reinforce each other for good or ill, and that proximate natural resources (fertile land, good harbors, energy, minerals) can be a boost.

A fair interpretation of this literature is that a favorable culture is necessary but not sufficient for economic prosperity: There are many examples of entrepreneurial cultures stymied by bad laws and policies (in China, for instance, and several nations in Latin America) but none of successful economies with favorable laws and adverse cultures. This is a useful construct for considering the emergence of American capitalism, which began with a highly auspicious cultural inheritance and found its way to exceptionally productive institutions.

Let us begin with Samuel Huntington (the scholar, not the founder):

> America's core culture has primarily been the culture of the seventeenth- and eighteenth-century settlers who founded our nation. The central elements of that culture are the Christian religion; Protestant values, including individualism, the work ethic, and moralism; the English language; British traditions of law, justice, and limits on government power; and a legacy of European art, literature, and philosophy. Out of this culture the early settlers formulated the American Creed, with its principles of liberty, equality, human rights, representative government, and private property.[18]

But the founding culture featured significant variations, and the principles of the American Creed were open to conflicting interpretations. David Hackett Fischer's *Albion's Seed* identifies four distinctive "folkways" that settlers brought from specific regions of the British Isles to specific regions of the American colonies.[19] Taking root in the world's first "voluntary society," they produced distinctive conceptions of freedom—the "ordered freedom" of the New England Puritans, the "reciprocal freedom" of the Pennsylvania Quakers, the "hegemonic freedom" of the Virginia cavaliers, and the "natural freedom" of the frontier backwoodsmen. Their differing beliefs and practices, including those regarding work, time, association, and wealth, led to social and sectional conflicts during the colonial period and then, with the nation building of the founding period, to the sharp political conflicts noted by Chernow and many others. Fischer shows that these political struggles—based on conflicting cultures rather than conflicting material interests—persisted throughout our history, up to the present day.

Hence competitive pluralism. The American settlers brought with them a core culture and set of political precepts that were sufficiently strong and uniform to form a nation worth fighting for. But they also brought many differences—and in the "voluntary society" and other unique circumstances of the New World, those differences confronted and competed with one another in a way they had not in the more hierarchical, less democratic Old World. The combination set the stage for a capitalist epoch in ways I now examine.

Colonial Culture and Circumstance

America was settled by adventurers, some of them well-off but fleeing religious persecution, some of them facing worldly problems and limited opportunities, some of them poor outcasts—all of them seeking a new life in a faraway land.[20] Well into the 18th century, the pilgrimage began with a perilous ocean voyage followed by daunting uncertainties and challenges. There was plenty of land and water, and eventually towns and a few cities, but making one's way would require hard work, resourcefulness, and resilience. They must have had an unusual appetite, or at least tolerance, for risk.

Moreover, life in the colonies required active commerce with Britain and Europe—trading furs, processed fish, farm produce, harvested timber, and other staples in exchange for manufactured goods (clothing, implements, and machinery), capital loans and investments, and "human capital" in the form of additional European settlers and African slaves. Alexis de Tocqueville's 1835 appraisal was that "nature and circumstances have made the inhabitant of the United States an audacious man; it is easy to judge of this when one sees the manner in which he pursues his fortune."[21] Historian Carl N. Degler's assessment in 1959 was that "capitalism came in the first ships."[22]

The enterprising spirit went beyond colonial merchants, artisans, and shopkeepers to include the large majority who were farmers and the numerous indentured servants (as were most British immigrants before 1700) who financed their migration and initial support with several years of contract labor.[23] Many of the early settler-farmers were preoccupied with sustaining themselves and their families and local communities, with little, if any, thought to producing a capitalist "surplus" for an impersonal market. But they were not hermits: They were perforce developers, and their local endeavors depended on trade, informal lines of credit among neighbors, and some degree of wealth accumulation over time. Those who put family, community, and moral obligation first sometimes saw colonial merchants, bankers, and politicians as akin to the labor-disdaining gentry of the Old World. Yet they, too, were making powerful contributions to an emerging American "democratic capitalism" by opposing vestiges of British class distinctions and making work rather than leisure the gauge of social status. That is the conclusion of an important pair of review essays by Gordon S. Wood in the 1990s.[24]

Religion in the New World. Many of the colonists were devoutly religious and imbued with the Protestant ethic of worldly duty and striving that Max Weber later identified as the spirit of capitalism.[25] While some colonies initially supported an established church, there was never a class of leisured clergy with lives and doctrines aloof from the quotidian concerns of their flocks. Instead, the dissenting denominations that arrived in America as religious refugees, and many new ones that sprang up here, were keenly attentive to the relations of the religious and the practical in their doctrines, and necessarily self-reliant and entrepreneurial in their secular lives.[26]

Among the earliest settlers, New England's Puritans were Calvinist, communitarian, and suspicious of some market practices—yet they had been allied in England with commercial interests in opposing royal prerogatives and came to America to establish a covenantal "city upon a hill" as agents of the Massachusetts Bay Company, a profit-seeking joint-stock company. John Winthrop was from a wealthy merchant family; in his many terms as Massachusetts governor, he supported Puritan "just price" doctrines but also a variety of economic development ventures, some of them with personal investments.

William Penn, also from a wealthy, well-connected family, was an equally fervent Quaker—he had been imprisoned several times for his convictions, once in solitary confinement in the Tower of London. He received an enormous colonial land grant from King Charles II, in part to pay off a debt to his father and in part to get him and his pestiferous religious followers far away from England. This apparently made Penn the world's largest private landowner. In this manner, Pennsylvania, like Massachusetts, was expected to be economically self-sustaining. The Quakers were more market friendly than the Puritans—Penn's position was that "though I desire to extend Religious freedom, yet I want some recompense for my trouble."[27]

Subsequent religious leaders, including Cotton Mather and Jonathan Edwards, were explicit that individual self-interest was not a mark of the Fall but rather intrinsic to God-given human nature: Properly restrained and disciplined, it encouraged man to love thy neighbor as thyself and to prosper God's creation.[28] Benjamin M. Friedman explains that this line of theology, in "accepting the moral legitimacy of self-interest while seeking a means of limiting and regulating it, was fully congruent with the view of competitive markets soon laid out by Adam Smith in *The Wealth of Nations*"—that is, the view that markets direct self-interest toward the interests of others.[29] Later American theologians connected the dots. In Wood's telling:

> Most of the evangelicals in these new religious associations [Baptists, Methodists, New Divinity Congregationalists, and dozens of other new sects] were not unworldly or anticapitalist. Quite the contrary: . . . [They] helped to make possible the rise of capitalism. Evangelical religious passion worked to increase people's energy as it restrained their selfishness, got them on with their work as it disciplined their acquisitive urges. . . . It gave people confidence that self-interested individuals nevertheless believed in absolute standards of right and wrong and thus could be trusted in market exchange and contract relationships.[30]

Equally important, the emergence of numerous denominational start-ups during the colonial period made institutional competition the defining characteristic of American religion. Some sects advocated religious tolerance, while others would have been happy with an Old World–style monopoly of their own. The conditions of colonial life settled the matter. The vast, sparsely settled territory made tidy parishes impossible. The population was culturally diverse and included many who were irreligious or mere deists. Economic development was imperative, so the opposition of many merchants and traders to religious preferences had to be accommodated. When enacted a century later, the First Amendment's protection of religious freedom was not a philosophical dispensation but rather a codification of facts on the ground.[31]

In these circumstances, even otherworldly, mammon-renouncing reformers were entrepreneurs in search of adherents who had many faiths competing for their souls. Historian Mark Häberlein notes that relations among the clergy of rival sects were often highly contentious. Although they came to "accept Protestant pluralism as congruent with their basic understanding of Christianity, toleration and cooperation did not diminish doctrinal differences. . . . The struggles over religious reform and authority in the competitive, religiously and ethnically diverse environment . . . led to a heightened sense of denominational identity."[32]

Tocqueville would emphasize a separate aspect of religious competition—that between church and state. Leaders of all faiths renounced involvement with government and secular politics, devoting themselves exclusively to promoting religious belief and observance, right behavior and good works. The result was that "in diminishing the apparent force of a religion one came to increase its real power." Privatized religion was a prime example of the American spirit of democratic equality and talent for voluntary organization, and "should therefore be considered as the first of their political institutions; for if it does not give them the taste for freedom, it singularly facilitates their use of it." Americans "so completely confuse Christianity and freedom in their minds that it is almost impossible to have them conceive of the one without the other"—they establish schools and universities and missionary churches on the frontiers so that the next generation may be "as free as the one from which it has issued."[33]

The Chief Business of the American Settlers. The British colonies were founded as either joint-stock companies owned by private investors (Massachusetts and Virginia) or royal land grants owned by individuals (the Carolinas, Georgia, Maryland, and Pennsylvania). New Netherlands was founded by the Dutch East India Company then seized by the British in 1664 and parceled out as royal land grants in what became New York, New Jersey, and parts of other colonies.[34] Most of the "charter colonies" and "proprietary colonies" were eventually converted to "royal colonies" formally governed by the Crown—but the land remained owned by the original grantees, and by the innumerable individuals and associations to whom they had conveyed parcels for purposes of settlement, under terms that were free of the royal obligations attached to landownership in Britain itself.[35] Colonial government generally consisted of a governor appointed by the king, a representative assembly of locally elected lawmakers, and loose supervision by the British Privy Council and Board of Trade in London.

Privatized, localized, for-profit colonization reflected English political traditions and, in the 17th century, the rise of the bourgeoisie[36] and the distracted circumstances of kings and ministers through decades of civil war and revolution. In contrast, the Spanish and French colonies were government projects, reflecting their (temporarily) greater wealth and stronger kings, an established Catholic Church, and the paltry political rights of their subjects. The Spanish came to America as conquistadores—conquerors and soldiers. The French came as trappers and merchants who, although organized as investor-owned companies for a time, were subjects of an absolute monarch with no political rights of their own. The difference was highly consequential.

Beyond immediate survival and subsistence, the British settlers were intent on economic improvement in a world rich in resources and potential but bereft of goods and credit, isolated by a mighty ocean, and bedeviled by weak local institutions, slow communications, and elemental risks. Many initial agriculture development projects failed miserably, as poorly informed London investors and overeager local agents learned expensive lessons in the geography, soil, and climate of the new territory and the ways of its native tribes. Territorial property rights were often hazy and contestable, leading to political intrigue in Westminster and Whitehall and inside dealing among fledgling colonial authorities. For security, commercial and financial ventures were often organized around trusted family members and coreligionists.[37] But that limited "the extent of the market" (Adam Smith)—the source of specialization and economic growth—that would await legal institutions to facilitate "transactions among strangers" (Douglass North).

Colonial Democratic Capitalism

Yet the colonies prospered. In the south, cultivation of tobacco for export and domestic sale was already succeeding in the 1620s, soon to be augmented by rice and other crops and then cotton.[38] During the same period, in New England and the south, lumbering trees from the immense forests for fuel, construction, and shipbuilding was equally successful.[39] Before long, sawmills had sprung up throughout the colonies, and by 1700, Boston was second only to London as a center of shipbuilding, outfitting booming fishing and shipping businesses.

Forestry was the original American "cowboy capitalism," combining rugged and adventurous living, skilled and dangerous work, and complex production and distribution. It also heralded colonial resistance to imperial mercantilism. The British Admiralty, impressed by the size and quality of New England white pine, forbade cutting them on public lands for anything but masts and spars for British ships. The edict was widely ignored and haphazardly enforced until the mid-1700s, when the government in London had finally gotten its North American act together following a century of domestic and European tumult. Britain then commenced serious enforcement of the edict—inciting violent reactions by New Hampshire backwoodsmen that, as Robert E. Pike recounts, "although not given much space in the history books . . . did more to cause the American Revolution than the Stamp Act and the tea tax put together."[40]

That is certainly an overstatement, but laissez-faire lumbering was part of an emerging colonial capitalism that was more democratic and freewheeling than the inherited British form. The transformations came both by sea and by land.

By Sea. Transatlantic commerce was an urgent necessity that generated profound social and political changes, as Bernard Bailyn demonstrated in the first of his histories of early America.[41] The ambitions of Puritan leaders for a self-sufficient, theologically governed New England ran aground in the mid-1600s on failed efforts to establish domestic ironworks and manufacturers.[42] For the foreseeable future, the colony would be an extractive and agricultural economy, dependent on foreign trade. But ocean commerce required substantial capital investment and business acumen, reliable contacts in foreign ports, and financial arrangements for managing the enormous risks of sea transportation.

This led to the rise of the businessman on both sides of the Atlantic. In Britain, the first colonial expeditions were financed by wealthy gentry investors partnered with lowly moneygrubbing merchants—but when initial investments failed and had to be renegotiated, and new commercial arrangements became increasingly complex, the merchants came to dominate their less business-minded social betters.[43] In New England, merchants became respected, influential personages, equaling and eventually supplanting the Puritan gentlemen and church leaders in town government and, by the end of the 17th century, in colonial government.[44]

The merchants were a force for reforming the mercantilist policies and traditions of the mother country. From early colonial days, British navigation laws restricted foreign trade to British ships and ports—but the merchants impudently ignored them, trading actively with the French, Dutch, and others. Their free trading continued until the years leading to the Revolution, when a British crackdown precipitated angry popular resistance akin to that caused by the timber restrictions. Colonial settlement grants, both joint stock and sole proprietor, contained numerous provisions giving trade monopolies to local authorities. These restrictions began as legitimate property rights to secure the investments of British underwriters, but they became unsustainable when the settlements developed from proprietorships into polities. Bailyn's account is worth quoting at length:

> In March 1635 . . . [the Massachusetts Puritan government] awarded to nine men representing nine towns around the Bay the exclusive right to board incoming ships, examine the goods, decide on the prices, and . . . buy the goods. . . .
>
> Such a restriction of access to incoming goods, however appealing it might have been to the Puritan magistrates, reflected more clearly the traditional English method of controlling trade by placing it exclusively in the hands of a responsible group whose rights and obligations were defined than it did the realities of life in New England. The exercise of such rights which might have formed the basis for a guild of merchants engaged in foreign trade required amounts of capital and an institutional complexity that did not exist in America. A law that demanded of other buyers that they stand by idly while nine fortunate individuals monopolized the middleman's profit could not be enforced. Moreover, the buying of goods sufficient to satisfy the needs of a whole town required ready money in amounts above that possessed by the nine assignees. And was it realistic to hope that supercargoes and sailors with goods to sell would limit sales to those men when others might pay more? Within four months of its enactment this law, which might have affected the society and economy of New England significantly, was repealed. . . .

> The group of importers which the Puritan magistrates failed to create by franchise grew independently. The key to its formation was credit, for it was by credit alone that the necessary goods were brought from Europe to America.[45]

This was a critical step from regimented monopoly capital to generative democratic capital—which would become, for 250 years, the quintessence of American capitalism. It was helped along by the invention of modern insurance.

Marine insurance, which had previously been ad hoc arrangements on European and Middle Eastern trading routes, was first systematized in the colonial transatlantic trade.[46] By the mid-1600s, this trade included not only the approved England–North America routes but more complex itineraries involving the West Indies, Macaronesia, and Spain, with exchanges of cargo at every port. The multiple, compounding perils—tempests, navigational complexities, sickness and other hazards to life and limb, lengthy incommunicado time periods, and costly delays—focused the minds of the merchants. They began to treat the risks as a commodity—separate from the physical commodities being transported, subject to estimation, valuation, and market exchange. During the 17th century, British and American codes came to recognize "Merchants Assurances" against "perils of the seas" and "acts of God." Some merchants specialized as "merchant-underwriters," and exchanges were formed where insurance contracts could be bought and sold.

Here was another commercial development with large cultural consequences. In historian Jonathan Levy's account, marine insurance led to the American conception of freedom as self-ownership. If the future could be reckoned with, rather than passively accepted as implacable fate, then the individual should be responsible for his own life's course:

> In a democratic society, according to the new gospel, free and equal men must take, run, assume, bear, carry, and manage personal risks. That involved actively attempting to become the

> master of one's own personal destiny, adopting a moral duty to attend to the future.[47]

Levy examines the records of slave ships and court proceedings to show how this idea contributed to the abolition movement.[48] Slaves, like other seaborne commodities, had been insured by their owners. Could the shipowners recover their losses from an onboard slave revolt—or not, because the slaves had taken charge of their lives and attendant risks? If modern personhood meant self-mastery, then why shouldn't black persons be masters of their own selves?

America's emergence as a seafaring nation was driven by its competitive culture as well as business innovations. "United States ships," Tocqueville observed in the 1830s, "cross the seas most cheaply." He explained:

> The American is often shipwrecked; but there is no navigator who crosses the seas as rapidly as he does. Doing the same things as another in less time, he can do them at less expense.
>
> . . . The European navigator believes he ought to land several times on his way. He loses precious time in seeking a port for relaxation or in awaiting the occasion to leave it. . . .
>
> The American navigator leaves Boston to go to buy tea in China. He arrives in Canton, remains there a few days and comes back. In less than two years he has run over the entire circumference of the globe, and he has seen land only a single time. . . . He has drunk brackish water and lived on salted meat; he has struggled constantly against the sea, against illness, against boredom; but on his return he can sell the pound of tea for one penny less than the English merchant; the goal is attained.[49]

Tocqueville concluded that "Americans put a sort of heroism into their manner of doing commerce"—the American "not only follows a calculation, he obeys, above all, his nature."[50] This heartiness dated back at least to the founding period. In the 1770s, a British businessman in the Mediterranean Middle East groused, “Go where you will, there is hardly a petty harbor . . . but you will find a Yankee . . . driving a hard bargain with the natives.”[51]

By Land. The colonists’ most consequential economic innovation was converting the land from aristocratic endowment to democratic capital.

When Degler wrote that “capitalism came in the first ships,” he meant, as mentioned earlier, that

> in early America . . . land was available to an extent that could appear only fabulous to land-starved Europeans. From the outset, as a result, the American who worked with his hands had an advantage over his European counterpart. For persistent as employers and rulers in America might be in holding to Old World conceptions of the proper subordination of labor, such ideas were always being undercut by the fact that labor was scarcer than land.[52]

He elaborates:

> Though land was not free for the taking, it was nearly so. In seventeenth-century New England there were very few landless people, and in the Chesapeake colonies it was not unusual for an indentured servant, upon the completion of his term, to receive a piece of land. Thus, thanks to the bounty of America, it was possible for an Englishman of the most constricted economic horizon to make successive leaps from servant to freeman, from freeman to freeholder, and, perhaps in a little more time, to wealthy speculator in lands farther west.[53]

The settlers made ready use of America’s most abundant resource, in circumstances far removed from those that had shaped British property law.[54] The great land proprietors—recipients of royal grants and owners and managers of joint-stock companies—had a strong interest in remunerative settlement; so, too, did the emerging colonial governments, which gradually acquired authority over land distribution. They had to weigh immediate sales receipts against future returns from economic development. And they quickly learned that because land values were highly, often impossibly, speculative, development was the dominant consideration. That calculus aligned with the interests of the British government. Yale Law School professor Claire Priest explains:

> From the perspective of authorities in London, the colonies' role was to generate revenue for the Crown. Toward that end, British colonial land distribution policies encouraged immigration and settlement in North America by people who would actually inhabit the land and work the soil. Rather than granting land in vast parcels to a small group of elites, which was more typical in Spanish American colonies, in British America, the policy was to grant land directly to cultivators in small quantities.[55]

Colonial land was distributed by private arrangements or public sales and auctions, varying from place to place and time to time. But the dominant pattern was for parcels to be sold for low or nominal prices, often on easy credit, or given away outright in return for specific development commitments.[56] Liberal "headrights" granted heads of families ownership of 50 or 100 acres per family member and certain others—on condition that the grantees transport those persons to the land and build structures, improve the property, and meet other conditions by a certain date. These and larger grants were subdivided similarly—for example, a recipient would give away an acre in return for the construction of a sawmill. Or a township would be established by grant in return for building a community, and the township would in turn distribute small town parcels gratis to those who committed to living there.

Land was also occupied by outright squatting, which was illegal in Britain. The civil authorities and proprietary land titans, including Winthrop and Penn, regarded squatters as trespassers and banditti, a view that persisted into the 18th century (George Washington) and beyond (Henry Clay). But the practice was natural in an uncharted wilderness where "property rights" were a work in progress. The squatters, akin to those who held headrights and other concessionary grants, were populating the territory, cutting paths, building cabins and barns, clearing fields, planting crops, and endeavoring to become productive settlers. Settlers with ownership papers might themselves be quasi-squatters—their property specifications were often highly approximate, and they often claimed preferential rights to the use of adjacent land that was unclaimed or un-surveyed.

The squatters greeted eviction sheriffs with frontier defiance, but learned to manage their own property disputes by means short of force and violence. Over time, they fashioned rules and procedures for determining boundaries, tenures of possession, equity interests in cabins and crops, subdivision and transfer by sale or bequest, and other matters.[57]

Inexorably, their customs were adopted into official colonial law and legislation—some of them strikingly similar to headrights. Early on, a 1642 Virginia statute recognized what were later called "preemption rights": a squatter who had made improvements to a property could recover the value of the improvements from the rightful owner. If necessary, that value could be determined by a local jury and could result in the squatter receiving title to the property itself. Preemption rights were adopted in various forms by other colonies and were eventually joined by "settlement rights" that gave outright legal title to those who had settled unclaimed land.[58]

These innovations—wide and generous distribution of land as an inducement to settlement, governed by the settlers' own "natural law" recognized by courts and legislatures—democratized the colonies' greatest natural asset. They were radical departures from British practice, which had treated land as the foundation of hereditary social status and political stability, fenced off from the masses. Equally important were departures that transformed land into credit and currency in a society that badly needed both. That is the teaching of Priest's pathbreaking scholarship.

In her account, the departures were of two kinds, both accomplished in fits and starts over the colonial epoch amid constant controversy. The first was the creation of local (county) public records of land titles and mortgages, and courts of common pleas for resolving disputes over (among other things) landownership and creditor interests.[59] Public records and legal judgments borrowed from British institutions, but colonial authorities made them far simpler, cheaper, and more transparent. These elementary (to us) institutions formed the "backbone" of widespread property ownership, easy conveyancing, and routine use of land to facilitate private transactions. They were politically controversial because they were "the formal mechanism for protecting property rights, and essential foundation underlying the credit system and republican government"—established by representative assemblies and local councils asserting their independence from London authorities and royal governors.[60]

The second reform was expanding creditors' remedies against landowning borrowers. Public records of titles and mortgages, and simple judicial procedures for adjudicating property disputes, permitted creditors to establish repayment priorities against debtors who had fallen on hard times, disguised assets, or refused payments. More fundamentally, colonial legislation permitted creditors, in specified circumstances, to seize debtors' land in satisfaction of debts even if the land had not been pledged as security for the debts.[61] Previous histories had seen the American Revolution as inciting a revolution in land policy, aimed at rooting out remnants of British aristocratic tradition, accomplished through the founding-era wave of state abolition or reform of primogeniture and entail. (Primogeniture was the automatic conveyance of a decedent's family lands to the eldest male heir; entail was the protection of those lands against sale or seizure by creditors, to preserve them for undivided bequest to future generations.) Priest demonstrates that liberalizing creditor remedies—thereby transforming plenteous land into plenteous capital—began earlier, during the colonial period, and was powerfully motivated by economic considerations, not just republican political stirrings.

To explain: Colonies, at the outset, followed British law in distinguishing land from personal property and giving land unique protections. Much of the colonial land had been purchased on easy credit or promises of future performance, reflecting the dynamics described earlier. And, whether acquired by purchase, grant, or squatting, land was often borrowed against to finance development or consumption—farmers would purchase supplies and necessities from local merchants, for example, to be paid for by a portion of next fall's harvest. As a result, a considerable population was owed money or goods from neighbors, and complained when they discovered that their debtors' most valuable assets were legally unavailable to satisfy delinquent claims.

When the complaints reached the colonial assemblies, the politics was not a simple matter of creditors versus debtors, although it could come to that during economic downturns. The settlers were heavily dependent on credit for their livelihoods and currency. (IOUs could be passed around, as discussed in the next section.) They realized that businesslike legal remedies yielded more ample credit on better terms. Priest notes that measures to liberalize creditor remedies brought lower interest rates and that colonial officials understood that those measures expanded the availability of credit.

Moreover, many of the creditors were British. In 1732, following a recession in the Atlantic economy, Parliament enacted the Debt Recovery Act at the behest of British merchants with large colonial credit exposure.[62] The law made land, houses, and slaves available to satisfy creditors' claims in the American and West Indian colonies—but not in Britain itself. Colonial leaders were conflicted. They resented the British imposition of a uniform law on matters previously left to local legislation, but the act followed the legislative precedents of many colonies and kept the imported capital flowing.

Joseph Story, in his 1833 *Commentaries*, wrote that the colonial legal reforms made "land, in some degree, a substitute for money, by giving it all the facilities of transfer, and all the prompt applicability of personal property." He explained that "this was a natural result of the condition of the people in a new country, who possessed little monied capital; whose wants were numerous; and whose desire of credit was correspondently great"—and that "the growth of the respective colonies was in no small degree affected by this circumstance."[63] Priest goes further: The new legal structure

> made land more liquid, more extendable as collateral, and more readily available as a source of investment capital. This legal shift fundamentally transformed the economic, political, and social structure of the colonies. . . .
>
> The most important effect was to diminish the role of landed inheritance in American society by privileging the claims of creditors over heirs when debtors died.[64]

The emergence of an American "credit nation" was a complicated story with a dark side. During economic downturns, colonial assemblies could abruptly replace credit-promotion policies with debtor-protection policies that left creditors in the lurch (which was what prompted London's Debt Recovery Act). Not only land but enslaved persons were commodified and pledged as collateral for plantation loans; the expansion of creditor remedies contributed to the vigorous 18th-century growth of the slave economy and the particular horror of slave auctions to satisfy debts.[65]

But converting the land to democratic capital shaped the colonial political economy in two critical respects. First, it introduced commercial considerations into the everyday lives of large numbers of settlers. Not only merchants and shopkeepers but farmers, artisans, and townsfolk learned to balance accounts, and to balance consumption and investment, as practical means of managing the risks of an unsettled world. A people who had been self-selected for their tolerance for risk were devising institutions that harnessed that tolerance for economic, social, and political improvement.

Second, it exemplified the American practice of bottom-up nation building by local initiative and institutional competition. Colonies with disparate cultures and natural endowments adjusted their laws to attract settlers and promote growth. In so doing, they were building a nation of strong regional sovereignties that would soon become states.

Both developments were fortified by a complementary innovation, that of paper money.

Mediums of Exchange

There was an important weakness in colonial capitalism: a shortage of currency and, until the 1700s, an almost total absence of banks. This was, in part, an aspect of the times—even in Britain and Holland, money and banking were far less developed in 1700 than they would be a century hence. But it was primarily a matter of British policy, which suppressed finance in its colonies and led the colonists to improvise in ways that were characteristically enterprising and localized, setting the stage for the American capitalism to come.

For much of the colonial period, British authorities restricted the export of specie (silver and gold money) from the homeland. They also restricted the colonies from coining their own money and establishing banks; at the same time, British merchants usually required payment in specie from colonial purchasers. These practices were central prongs of mercantilism, which held that the purpose of colonial expansion was to stockpile treasure in the mother country. Indeed, mercantilism began as bullionism, aiming narrowly to find, mine, and import foreign silver and gold for purposes of financing wars and other royal initiatives. With the growth of global trade in the 1500s and early 1600s, the doctrine evolved into a more modern form: The purpose of colonization was to produce a positive balance of trade for headquarters. Jonathan Barth's vivid history of British mercantilism notes:

> By the early part of the seventeenth century, the balance-of-trade doctrine enjoyed near-universal acceptance among

> economic theorists, retaining its prized position as the central pillar of economic thought for the next 150 years. . . . Mercantilist policymakers demanded coin even more than their bullionist predecessors. [They] simply better understood now how best to acquire it and then how to retain it. . . . "Trade is a richer and more dureable Mine than any in Mexico or Peru," declared [one] writer in 1696.[66]

For the first century of colonization, when British authorities were frequently engulfed in problems at home, they enforced money and banking restrictions as haphazardly as trade restrictions such as the Navigation Acts. Massachusetts began minting its own silver currency in 1652 without seeking permission—the "pine-tree shilling," provocatively bearing a symbol of both the colonial frontier and an economic product of special value to the British Admiralty. Westminster complained and threatened but let the practice continue for 30 years, closing the mint in 1682 when its proprietor retired.[67] But when Maryland in 1659 and New York in 1675 asked for permission to establish mints, the answer was no.[68]

The colonists were able to get their hands on some foreign specie, especially Spanish dollars ("pieces of eight") from trade with the West Indies, but these were often transshipped to Britain as payment for imports. With insufficient hard currency for a growing domestic economy, they resorted to private money substitutes that were better than barter (swapping *x* hens for *y* yards of cloth) but vastly inferior to the real thing.[69] "Commodity money"—tobacco in the south and corn and other staple goods ("country pay") in the north—was widely used but physically cumbersome, hard to standardize, and subject to swings in value from good and bad harvests and shifts in consumer demand.

Closer to modern currency was the use of debt—IOUs—as money. Merchants and individuals known to each other exchanged goods and services for credit and kept careful book accounts (a practice facilitated by adding land to creditors' remedies). "Bills of obligation" and "promissory notes"—documents backed by commodity reserves or other resources, promising repayment in goods or services at a given date—circulated as money. But as Priest explains, their "circulation was likely to extend only as far as the reputation of the payor"; like books of account, they "functioned within the context of relatively small communities."[70] Another shortcoming was that notes and book accounts did not establish a uniform unit of exchange—a key benefit of denominated money—because the amounts due were based on individually negotiated transactions. So the early colonists lacked a price metric for comparing costs and opportunities across markets, regions, and time.

By the late 1600s, these expedients were no longer keeping pace with growing economies and growing demands on government, especially military demands. Thereupon the colonial governments began to "emit" official paper money (the conventional term in these matters), both directly and through rudimentary banks.[71] Much of it was "fiat money," meaning it could not be exchanged on demand for specie or other tangible assets: The paper had no intrinsic value other than government imprimatur and, sometimes, a "legal tender" requirement that it be accepted as payment for debts and purchases. It was the first modern paper currency, another profound capitalist invention of the American colonials.[72] It emerged over several decades, step by step, from individual responses to local events.

The first of these steps illustrates the element of serendipitous discovery. In 1690, a Massachusetts military expedition intending to seize Quebec from France failed disastrously, leaving the government with heavy debts and mutinous returning soldiers who had expected to be paid in victor's plunder. In desperation, the assembly offered the soldiers "bills of credit," promising to redeem the bills in specie or tangible tax revenues when available (there were none at the time), in the meantime promising to accept the bills for tax payments. The promises were doubtful at a tumultuous time—Massachusetts had lost more than 1,000 soldiers in the Quebec debacle, the British had recently closed the pine-tree shilling mint and were in the process of revoking the colony's royal charter, and the Salem witch trials were about to commence (in 1692). Many of the soldiers, equally desperate, took the bills of credit and sold them at a heavy discount for "country pay" or other goods.

And then the bills began to circulate as money. They had not been designated "money" or "legal tender"—which might have aroused opposition from London at a delicate time—but they were cleverly issued in small denominations on pocketable notepaper. Although the appearance of paper money was controversial, many colonial leaders were advocating government currency to facilitate trade, and some merchants offered to back the bills' redemption value with specie of their own. The bills soon recovered their economic value and proved to be highly popular. After a new charter had been obtained from London in 1692, Massachusetts issued additional bills of credit annually, made them legal tender for private transactions as well as tax payments, and promised to redeem them from new tax revenues at specified future dates.

Most of the other colonies followed Massachusetts's lead in the early and mid-1700s. Often they, too, were financing military emergencies. (Virginia, a paper-money holdout, finally resorted to bills of credit in 1755 during the French and Indian War.) But some colonies emitted currency to pay routine government debts and purchases and to launch development projects. Others, predominantly Pennsylvania during a local economic depression in 1723, did so purely to promote economic growth and attract new settlers; these emissions, unconnected to government expenditures, were sometimes offered to those who could secure them with land and property and sometimes distributed per capita to all taxpaying citizens.

In addition, the colonies established "land banks" or "land offices," which were essentially mortgage companies that made loans secured by real estate. The loans typically were for half the value of the pledged property, charged below-market interest rates, and were spent in the first instance on property improvements and other investments. These were secured loans from governments to citizens—in contrast to bills of credit issued as payment for military and other services, which were unsecured loans from citizens to governments. Both employed debt as a basis of currency; they were like the private money of books of account and bills of obligation but with advantages of scale, ease of use among far-flung strangers, and official units of account. Several private associations also issued bills of credit secured by land mortgages—America's first private banks.[73]

The terms of the paper moneys varied widely among colonies and over time. They carried shorter and longer redemption periods; some were legal tender, and some were not; some paid interest, while others did not. Maryland's currency was paper but not "fiat"—it was redeemable in specie on deposit in London. The economic results also varied widely. In Massachusetts, overissuance produced severe price inflation between 1720 and 1750, reducing the colony at times to a near barter economy.[74] Other colonies, including the Carolinas, mismanaged their currencies to lesser degrees; New Jersey and New York performed relatively well; and Pennsylvania was a paragon of stable money.

The worst of these episodes have been offered as examples of the political seduction of ever-depreciating fiat money, favoring debtors at the expense of creditors.[75] But "monetary policy" (a term that did not, of course, exist at the time) was new, uncharted territory and involved a good deal of novice trial and error. Shortage of currency was a nearly universal complaint.[76] Merchants and other creditors were leading proponents of generous money emissions to lubricate trade and limit consumer debt.[77] Most of the colonial economies were growing much of the time, but no one had any idea of actual or potential growth rates or how much new money would accommodate, stimulate, or suppress growth. The complex, poorly understood interrelationships of currency terms, quantity, value, velocity, and foreign trade made for many surprises. When governments postponed promised redemption dates, either to keep bills in circulation or defer raising taxes to fund their redemption, the bills' value would fall because of the reneging; when governments stuck with redemption dates, bills would disappear from circulation, hoarded for an upcoming payday.

What the colonists did have was a gradually accumulating knowledge about money from their experiences with numerous competing approaches, and the results improved over time until the desperate monetary emissions to finance the Revolutionary War. In the meantime, the new bills circulated widely, often into neighboring colonies, displacing specie and money substitutes and establishing the modern world's first paper cash economies. Because of their varying terms and stability, they did not provide a uniform unit of exchange across colonies nor a store of value for those who held them. But they were a serviceable, growth-expanding means of exchange within and between the colonies.

For all its shortcomings, paper money was a brilliant adaptation to colonial circumstances.[78] In an underdeveloped economy with little wealth but strong potential, financing public exigencies with debt rather than taxes—to be repaid when the tax levies were a smaller burden on a larger economy—was a sensible course. Government borrowing for military and economic emergencies and for investment in durable infrastructure are canonical practices of sound public finance.[79] Borrowing for routine expenditures is a no-no in a developed economy, but that was not true in the colonial economies-in-progress where immediate necessities often exceeded available resources.

For private markets, paper currency was an astute solution to the lack of mobile, tangible capital. With limited supplies of the traditional monetary asset of silver and gold coin, the colonists turned to two alternative assets that were in ample supply. The first was the tangible but immobile asset of land, whose abundance was observable to everyone, stretching endlessly to the west. Land became easily divisible, transferable, and usable as security through the legal reforms described in the previous section; it was converted to neighborhood currency through private books of account and bills of obligation and then to mobile currency through the monetary emissions of the land offices.

The second was the intangible, mobile asset of debt—which constitutes confidence in the future. That confidence was the only asset behind a merchant's sale of goods for a portion of next year's harvest or on the customer's trustworthy reputation; behind a government's bills of credit to soldiers or other suppliers, promising to pay them from future resources; and behind a government's distribution of bills in the expectation that recipients would use them productively. Basing currency on optimism is risky. It has often come to grief, including in the periods of high colonial price inflation, and it was promiscuously abused in subsequent stages of American capitalism. But the colonists were right to trust in the American promise of freedom and improvement that had brought most of them here in the first place. As discussed in coming sections, that trust was vindicated by the Revolution and then formalized by Hamilton's program of national debt assumption, money, and banking in the new republic.[80]

Paper money was also an adaptation to the British restrictions. The British could hardly object to bills of credit to finance participation in their colonial wars, and indeed those emissions were sometimes retroactively funded by British specie payments. More generally, paper money was a new phenomenon in the annals of colonial mercantilism. It reduced the demand for specie for domestic transactions, leaving more available for purchasing British imports. (The counterparties were specializing in their preferred forms of money—specie for one, land and debt for the other.) But money issued by "banks" was suspect, because banking was considered a prerogative of the mother country. (Some colonies called their mortgage banks "land offices" to avoid censure.) Beyond the doctrinal uncertainties, the British were as inexpert as the colonists in the forms and consequences of monetary emissions, which led to much confusion, vacillation, and mutual ill will.[81]

The one consistency in British policy was acute responsiveness to the complaints of London's merchant-creditors when colonial paper was depreciating sharply, as in Massachusetts in the 1730s and 1740s. In that case, the British authorities issued strenuous orders for massive redemptions of bills of credit with new taxes, which the colonists knew would be disastrous. Then Britain shuttered the colony's land bank, which had been a force for monetary stability because its bills were tied to land values. And then came another serendipity. Following a joint military attack on a French fort in 1744 (this one successful), the British withdrew their tax-and-redeem order and paid Massachusetts a large sum in specie for its costs of the operation—whereupon the colonists, of their own accord, used the payment to put their currency on a hard specie standard. That reversed the radical depreciation of the past 30 years in a stroke, and Massachusetts joined Pennsylvania as a stable-money economy.

Official paper currency was, however, a political as well as economic innovation, substantially increasing the size and scope of government.[82] Purchasing with bills of credit, whether for investments, emergencies, or routine operations, is deferred taxation. The government acquires additional responsibilities today to be paid for tomorrow, after the new responsibilities are faits accomplis, from future taxes on (if all goes well) wealthier and more numerous taxpayers. The procedure thereby paves the way for bigger government and higher taxes than most citizens would assent to at the outset. (The colonists were highly averse to both.) Moreover, it spreads the public debt widely in small lots; the alternative, selling long-term bonds in large denominations, creates a class of creditors to monitor government on behalf of fiscal rectitude, with greater motivation and organization than average voters.[83] (The colonists were highly suspicious of organized finance, viewing it as a source of corruption rather than discipline.) Most of all, controlling of the medium of exchange injects government into citizens' daily lives and fortunes, exercised by calibrating taxing, spending, borrowing, and redemption with newfound political discretion.

Many colonial merchants and thought leaders favored government money to relieve consumers of taking on too much personal debt as a means of exchange. What it did, however, was concentrate debt in the government at higher per capita levels than individuals could prudently assume. That was beneficial in establishing a regime of widely circulating money, but only to the extent the government managed the debt responsibly. And that task combined intrinsic complexity with new forms of politics. The colonial governments became immersed in managing conflicting financial interests among differently situated citizens, among different colonies (the money policies of one colony could interfere with those of neighboring colonies), and between the colonies and Great Britain. The conflicts with Britain were key progenitors of the Revolutionary War.[84]

Those within and among colonies fostered the growth of active, decentralized structure of government that awaited the framers of the Articles of Confederation and the Constitution.

Comes the Revolution

On the eve of the War of Independence, Britain's North American colonies, 150 years from an unsettled wilderness, had grown exceptionally prosperous. Our measures are approximate—economic surveys were nonexistent, and the first census came in 1790 under the new Constitution. But historians and economists who have studied records of wages, land sales, business and household purchases, imports and exports, and slave and indentured-servant contracts have found that the settlers' material circumstances were among the best in the world. Their incomes and living standards were much higher than in Britain and Europe (excepting the top of old-world royalty and aristocracy), and even higher than in Latin America and French Canada (with the short-lived exception of Barbados and perhaps other sugar islands).[85] Income distribution was unusually equal, and more than 70 percent of New England families owned their own land. Energy (wood and watercourses) was abundant, health status was good for the era, diets were rich and nutritious, and food was efficiently distributed in the port cities.[86]

Reflecting these conditions, the average stature of men was 5′9″, about three inches taller than their British and European counterparts.[87] And the population was booming—it grew from roughly 50,000 in 1640 to one million in the 1740s and then doubled to more than two million by the 1770s. This was due in part to net immigration but mostly to native increase through extraordinarily (for the era) high birth rates and long lifespans.[88]

The colonial economy was also becoming more diversified and self-sufficient. The domestic manufacturing that had baffled the early settlers was succeeding and replacing imported goods. By the 1750s, at least 80 iron furnaces in the colonies were producing about as much iron as

Britain was, and some of it was even exported to the mother country. Foreign trade—now carried primarily in American ships—remained bustling, but its composition was changing: Benjamin Franklin and other leaders worried that the colonists were now importing foreign "luxuries" rather than "necessities" and that consumerism threatened republican virtue and family savings. In other words, the colonists were producing more of their own necessities, and their standards of living were rising.[89]

Yet republican virtue appears to have been thriving as well. In New England, an informal network of civic, religious, family, and commercial institutions was decisive in resisting Britain's initial military forays in 1775, culminating in the Battles of Lexington and Concord—orchestrated by Paul Revere, artisan of silver luxuries.[90]

The colonists had made the most of their British (and Dutch) political, legal, religious, cultural, and commercial traditions. A long period of lax British oversight had permitted them to adapt those traditions to a world of endless territory, natural riches, and social space for personal initiative and to establish representative assemblies and town councils unknown to their forebears. The other American colonies—British and Dutch as well as Spanish and French—featured one or a few of these circumstances, but none featured all of them. It was in British North America that they all came together, with astonishing results.

That assessment is fortified by empirical research into the "origin factors" of colonial prosperity at the time of the American founding and down to the present day. These studies evaluate the economic consequences of

- Case-by-case British common law, as opposed to prescriptive French civil law;[91]
- Economic integration with British markets, where wages were much higher than in Spain;[92]
- A healthy climate, which attracted large numbers of permanent settlers from Britain and Europe;[93]

- Local conditions favoring social equality and widespread landownership, which produced a politics of equal opportunity and public investment;[94] and

- The simple fact of colonization by Britain rather than other powers.[95]

The factors overlap, and the authors have their disagreements over causal importance, similar to those in the broader literature on "culture" versus "institutions" discussed earlier.[96] For our purposes, what is clear is that all the factors coincided in one and only one place: the colonies that were to become the United States. Notably, the only comparably prosperous colonists were Canadians—but only British Canadians, with French Canadians lagging far behind.[97]

The Revolutionary War came at a terrible cost, documented in Deirdre Nansen McCloskey's contribution to this volume.[98] More American lives were lost per capita than in any subsequent war, incomes fell drastically, and the continental and many state governments were bankrupted. The rebelling colonies lost the tremendous economic benefits of participation in the British Empire, including favorable within-empire trade arrangements and London-financed defense against seaborne pirates, indigenous tribes, and rival French and Spanish colonizers. Those benefits certainly outweighed the costs of lethargic colonial mercantilism in the 1600s. In the 1700s, a renascent Great Britain began seriously enforcing trade, financial, and political restrictions and became embroiled in several costly wars in important North American theaters. But even then, as McCloskey and other historians have noted, the costs to the colonies of the Stamp Act and other British impositions were a pittance compared with the costs of the resulting war and the taxes the new nation would soon impose on itself.

What seems to have happened is this: First, in the 1600s settlement period, the combination of English protections, liberal land grants, and loose colonial supervision produced a national incubator where the colonists grew their own political and economic institutions, with interests and values increasingly separate from those of the mother country. Then, in the 1700s prewar period, those differences became profound and irreconcilable. Britain had become an assertive, debt-ridden, extravagantly extended colonial power, while the colonists had built prosperous societies with governments capable of mobilizing their distinctive interests and values. The commercial and financial disputes that led to revolution were not about the economic costs of the British policies—they were about the colonists' desire to govern themselves. Here is Captain Levi Preston, a veteran of the Battles of Lexington and Concord, in an 1843 interview:

> "Were you oppressed by the Stamp Act?"
>
> "I never saw any stamps and I always understood that none were ever sold."
>
> "Well, what about the tea tax?"
>
> "Tea tax, I never drank a drop of the stuff, the boys threw it all overboard."
>
> "But I suppose you have been reading Harrington, Sidney, and Locke about the eternal principle of liberty?"
>
> "I never heard of these men. The only books we had were the Bible, the Catechism, Watts' psalms and hymns and the almanacs."
>
> "Well then, what was the matter?"
>
> "Young man, what we meant in going for the Redcoats was this: we always had governed ourselves and we always meant to. They didn't mean we should."[99]

While the colonists appeared to the British to be spoiled brats (at least the rebels among them), what they really were was freedom-loving settlers with a 150-year history of successful (on the whole) entrepreneurial risk-taking. If they had been poorer, or had had weaker governments, or if more of them had been conventionally risk averse like the Tories among them and the British Canadians to the north, they would have stuck with the colonial bargain. But they had become a polity, a proto-nation, that was willing to take the enormous gamble of charting an independent course. And they had the resources to make a fight of it.

The war itself was an economic catastrophe but also a spur to many lasting improvements in production. Faced with the loss of British imports, a British naval blockade, and the urgency of arming and provisioning an army, the Americans established new industries and improved manufacturing methods in textiles, iron, arms and ammunition, shipbuilding, tools, and agriculture and began to integrate regional markets. They forged new financial arrangements with the Dutch and French. Their entrepreneurial exploits complemented their military exploits in defeating the British.[100]

The war was also the testing ground for dissimilar colonial cultures to work together for national goals. Upon taking command of the Continental Army in Cambridge, Massachusetts, in 1775, General Washington, Virginia cavalier par excellence, had an *Albion's Seed* moment, observing in dismay the radically different ways of New England individualists, Pennsylvania democrats, and backwoods roughnecks. Following his army's terrible defeats at the battles around New York City in July–November 1776, he fashioned a style of leadership that bore its first fruits in the victories of Trenton and Princeton in December and January.

It was in sharp contrast to the dictatorial British generalship he had observed as a colonial officer in the French and Indian War, where the commanding officer would convene a council of war to announce his battle plans and parcel out assignments to silent, often privately dissenting subordinates. Washington would instead open his councils with a review of circumstances, opportunities, and constraints, then preside open-mindedly over a vigorous debate among generals and colonels, and occasional guest civilians, of the pros and cons of different strategies, at length concluding with his own assessment and battle plan.[101] This was the beginning of his "team of rivals" approach to political leadership that, as president, he deployed among Thomas Jefferson, Hamilton, and other officials, and that presidents Abraham Lincoln, Franklin D. Roosevelt, and Ronald Reagan would later adopt.[102] It may fairly be described as democratic, in contrast to the hierarchical, class-infused style of

British generalship, but its essential strength was open competition as a means of discovering and interpreting available information about an uncertain situation.[103]

The Colonial Inheritance at the Founding

Immediately upon the adoption of the Constitution in 1787 and the establishment of its new government in 1788–90, the US economy began to grow dramatically faster than it had during the colonial period. From 1660 to 1780, a hypothesized colonial gross domestic product (GDP), estimated with the procedures mentioned earlier, grew by about 3–4 percent annually, about 0.2–0.5 percent per capita.[104] Then, in the 1790s, year-to-year GDP growth surged to 6 percent, 3 percent per capita; from 1800 to 1860, until the Civil War, GDP growth continued at an average annual rate of 4 percent, 1 percent per capita.[105]

Economic growth after the adoption of the Constitution was also considerably higher than in Britain and Europe and in their remaining American colonies.[106] It was powered by newfangled business corporations that had barely existed before: banking and insurance; firms building roads, bridges, and canals; and manufacturing.[107] Domestic markets became increasingly specialized and integrated across regions, and exports boomed.[108] The population grew even faster than in the late colonial period—from 3.9 million in 1790 to 5.3 million in 1800, then to 12.9 million in 1830 and 31.4 million in 1860. Much of the population went west and settled three new states by 1800, another seven by 1820, then 10 more by 1860.

The burst of economic energy was no doubt precipitated by the Constitution itself and the new government's policies. The Constitution established strong protections for property and contract, specified a system of property rights in inventions in "science and the useful arts," and enabled the federal government to negotiate the first nationwide trade and navigation agreements with foreign nations. The Washington administration and the First Congress established a largely private national banking system and a reputable national currency with uniform units of account. The Constitution gave business-minded citizens the confidence "to invest significant sums of their own money in risky, large-scale enterprises."[109] The immediate deployment of a banking system, national currency, and securities markets appears to have been essential to rapid commercial expansion and national development.[110]

Moreover, the Constitution's authors were strongly committed to private enterprise in practice and crafted a document that gave it a wide berth. In *How Capitalistic Is the Constitution?*, Mark F. Plattner shows that the founders, represented by the three who penned the Federalist Papers, favored "an economic system that allows all citizens freely to acquire, possess, and dispose of private property and encourages them to devote themselves to the pursuit and enjoyment of wealth." To them, "increasing national wealth" was desirable for political and economic reasons: "Encouraging individuals to pursue their own private gain becomes a means toward promoting the public good," while "the avarice stimulated by commerce, though undeniably a selfish passion, is nonetheless conducive to habits of industry, prudence, and sobriety—in short, to the regularity of morals."[111]

Genesis and Prelude. The founders' words, deeds, and purposes were not thunderbolts from heaven or philosophical treatises. They had a specific, practical genesis—their colonial inheritance of do-it-yourself enterprise and institutional competition. That inheritance was personified in the founders themselves. Most of the signers of the Declaration and Constitution were accomplished men of commerce—merchants and farmers, shippers and shopkeepers, investors and speculators, and land developers—albeit wealthier and more educated and learned than most.[112] These included Washington, Franklin, John Hancock, Robert Morris, James Wilson, and many lesser figures.[113] Political philosopher James Madison, lawyer John Adams, and aristocrat Jefferson were not businessmen, but all three, like Franklin, were avid, empirically minded students of science.[114] Hamilton was an immigrant and self-made lawyer and military officer, had litigated landmark commercial cases during the Articles of Confederation period, and was a brilliant student of finance. Most of the founders, who like Hamilton and Adams, were primarily lawyers, politicians, and pamphleteers, had substantial commercial backgrounds: John Dickinson, great-grandson of a Virginia indentured servant, was one of the largest landowners and richest citizens of the new nation; John Jay was from a prominent merchant family; and Gouverneur Morris was from a family of wealthy landowners.

These men were utterly unlike the leaders of most revolutions—radical intellectuals, malcontent lawyers, romantic noblemen, and ambitious military officers. Such were the members of the Committee on Public Safety in the contemporaneous French Revolution, none of whom had any significant experience in commerce and trade.[115] In contrast, the American revolutionaries, accustomed to the give-and-take of business affairs, were pragmatic, comfortable with competing interests, and amenable to compromise. America was blessed to have been founded by leaders of a society that had yet to generate elites aloof from the concerns of everyday life and contemptuous of social tradition. They were products of a world they had built for themselves, a world they wished to preserve and improve rather than overthrow.[116]

Their colonial inheritance came of age under the Articles of Confederation (1781–89). That is not the usual characterization of the 1780s, which are generally regarded as a lost decade of political and economic chaos that came close to forfeiting the promise of national independence. Chaos there surely was. The economy was in a serious depression—largely the aftermath of a ruinous war, including the devastation of urban trading centers and river towns and the expatriation of many Tory merchants.[117] Two major defects of the Articles of Confederation contributed to the chaos—the Confederation Congress's lack of authority to tax, which left it without resources to pay soldiers and other suppliers or to stem the hyperinflation of the war years, and its inability to negotiate commercial treaties, which led to a sharp decline in foreign trade.

Yet even in the face of these troubles, the colonial spirit of enterprise was showing its stuff and making good use of its new independence. In a work of economic reconstruction famous among specialists, Winifred Barr Rothenberg showed that in the 1780s, New England farm prices first began to converge across the region and move in tandem through temporal ups and downs. Her discovery was the economic equivalent of the monolith in Arthur C. Clarke's *2001: A Space Odyssey*—pointing to the formation of extended markets. Farm output began to grow, both per worker and per acre (and without the impetus of new technology), and farmers began to shift marginal resources from livestock and implements to financial assets.[118] Wood elaborates:

> It is not surprising . . . that Rothenberg should have located the emergence of a rural New England market economy in the 1780s. For the 1780s were . . . the most critical moment in the entire history of America. The few years following the end of the War of Independence clearly revealed for the first time all the latent commercial and enterprising power of America's emerging democratic society. In the 1780s we can actually sense the shift from a premodern traditional society to a modern one in which the business interests and consumer tastes of ordinary people were coming to dominate. Something momentous was happening in the society and culture that released the aspirations and energies of common people as never before in American history, or perhaps in world history. The American Revolution with its declaration that all men were created equal and had the inalienable rights to life, liberty, and the pursuit of happiness became an expression and justification of this release of aspirations and energies.[119]

Corroborating evidence: The American population surged by 41 percent in the 1780s—a higher rate of growth than any decade after the 1660s and any decade since—and "the number of nonbusiness corporations such as municipal governments, churches, and voluntary associations expanded rapidly."[120]

The reputation of state and national government under the Articles of Confederation has suffered from the animadversions of the promoters of the 1787 Philadelphia Convention and its Constitution. Prominent among them were several of Madison's and Hamilton's *Federalist* essays[121] and Madison's April 1787 tract "Vices of the Political System of the United States."[122] The criticisms of the Confederation government's lack of tax, monetary, and treaty powers (especially over trade agreements) were well-taken, widely recognized, and promptly addressed by and under the Constitution. But other criticisms were unsupported, overstated, or oblivious to the beneficial forces at work in a decentralized, state-centered political system.

The Confederation Congress, for all its weaknesses, turned in an outstanding legislative and diplomatic record. Because it voted by state and required a supermajority of nine states, its actions exemplified competitive collaboration for national goals. The Articles of Confederation required full unanimity for ratification, which obliged the states with extensive claims to western territory (primarily Virginia, the Carolinas, and Georgia) to relinquish their claims to the national government, implicitly for the formation of additional, smaller states. The states without western claims were anxious; Maryland stood firm, and after several rounds of hard bargaining the claimant states agreed to cede their land sufficiently to bring Maryland along.[123] The Congress proceeded to conclude peace negotiations and ratify the Treaty of Paris in 1784, in which Britain ceded nearly all of its non-Canadian land, nearly doubling US territory.

So the fledgling government began revenue poor but land rich. The universal expectation was that it would sell land to pay off Revolutionary War debts. But the idea ran into the same problem that had confronted the initial colonial landowners in the 1600s: The value of the unsettled land was highly speculative, and the profit-maximizing strategy was to pursue economic and political development rather than immediate sale. That required patience and vision, and the Congress came through.

Its Land Ordinances of 1784 and 1785 and Northwest Ordinance of 1787 were stunning legislative achievements. Together, they established a highly successful system for surveying and parceling the territorial land in grids, creating townships with property reserved for schools, and selling or granting manageable plots in perpetual fee simple, building on the legal reforms of the colonial period. Once again, the abundant land was shrewdly capitalized. The ordinances also made rules and procedures for chartering new states with sizes and populations consistent with those of the founding 13; laid down protections of property, political, and religious freedoms anticipating those of the Constitution and Bill of Rights; and forbade slavery in the Northwest Territory. Along the way, the Confederation Congress established a startup network of post offices and post roads and was represented in foreign capitals by the likes of Adams, Franklin, Jay, and Jefferson.

The founders who regarded the national legislature as pitifully impotent regarded the state legislatures as perniciously potent—dominated by small-minded, "middling" persons (many of them unlearned businessmen) unrestrained by either personal morality or government structure from proliferating laws for selfish "factional" advantage.[124] Those legislatures were indeed scenes of the majoritarian passions the founders feared, but the major cases in point were instances of angry postwar recrimination and turmoil—bills of attainder convicting named Tory loyalists of treason and confiscating their property, and ex post facto laws permitting debtors to pay creditors (including Washington) with badly depreciated currency. These practices would be forbidden by the Constitution without substantive objection.[125] The states' minoritarian, "special interest" practices included granting monopoly privileges to chartered corporations—which continued under the Constitution, eventually to be reformed by the states themselves (as we shall see). These characteristic deficiencies of the elected legislature were well-known to the framers of the state constitutions in the period between the Declaration and Constitution, which included Adams, Jefferson, Franklin, Dickinson, George Mason, and Robert Livingston. Their first American constitutions reflected the populist spirit of the Revolution in giving primacy to large elected legislatures, but they also included the first inklings of institutional constraints—bicameral legislatures, single executives, independent judiciaries, and bills of rights—hammered out by state conventions and written down for all to read, recite, and debate.[126]

Another frequent charge against the state legislatures was that they enacted protectionist commercial and transit laws that discriminated against citizens of other states and inhibited national development. However, almost all the proffered examples involved efforts of port states to discriminate against British shipping, turning the tables on Britain's prewar Navigation Acts.[127] Those measures led to rancorous interstate disputes over exempting imports bound for other states from port duties and restricting incoming traffic from other port states with lower or no such duties. The disputes were eventually settled through mutual agreement or at least détente—driven by the fact that the ports were competing with one another for traffic and revenue.[128]

The purely domestic commercial disputes, not involving foreign trade, mainly concerned interstate waterways. The most prominent, a dispute between Virginia and Maryland over the Potomac River, was resolved in three days at Washington's Mount Vernon estate in 1785 in an agreement covering navigation, tolls, fishing rights, and the financing of river improvements. Perversely, Madison, in his 1787 broadside, cited this "unlicensed compact" (meaning it was achieved at the state rather than national level) as one of the leading "vices of the political system of the United States."[129] Edmund W. Kitch, in his review of the state trade and tariff controversies of the 1780s, concludes:

> The theoretical arguments that decentralized authorities should be expected to cooperate to facilitate freedom of trade appear to be confirmed by the experience under the Articles of Confederation. The argument that this experience demonstrated the opposite is based on a misreading of the *Federalist* and it has no support in primary source materials.[130]

It remains to be said that state laws, then and forever after, often melded in-state commercial preferences, impositions on citizens of other states, tit for tat with laws of other states, and worthy domestic interests. Disentangling purposes and effects is problematic in all but the most egregious cases, and whether federal regulation or interstate policy competition is preferable is an open question.[131] (The same question arises in international trade policy.) The Constitution did not settle the matter unambiguously, leaving the Supreme Court to police interstate economic exploitation under a "dormant commerce clause" doctrine that has been unstable, unpredictable from case to case, and subject to endless academic debate.[132] The problem was not an artifact of the Articles of Confederation.

The Inheritance Realized. The Articles of Confederation gave the colonial-governments-turned-states—long the most powerful institutions in the nation, and now the most practiced[133]—a head start on constitution building. This was immediately apparent when the delegates gathered for the Philadelphia Convention in 1787. Madison arrived early, loaded for bear and intent on abolishing state sovereignty through two devices—a bicameral national legislature apportioned by state population in both chambers, and a summary national veto over all state laws. His plan, supported by Washington, Franklin, Hamilton, Wilson, and Gouverneur Morris, died in the opening weeks. Several of the less populous states, led by New Jersey and Delaware, were irreconcilably opposed, along with a few medium-sized states such as Maryland and Connecticut. For the rest of the convention, everyone knew that a new constitution, if it was to come into being, would be one of shared sovereignty and powerful states-as-states.[134]

In the final document, the states were equally represented by their own delegates in the Senate and were major players in elections for Congress and president. They were endowed with plenary powers independent of the national government, with specific prohibitions—states may not "coin Money, emit Bills of Credit, make any Thing but gold and silver Coin a Tender in Payment of Debts; [or] pass any Bill of Attainder, ex post facto

Law, or Law impairing the Obligation of Contract."[135] The national government was constrained by an enumeration of congressional powers and by the bicameralism and separation-of-powers architecture pioneered by the state constitutions. The supremacy, necessary and proper, and general welfare clauses would eventually facilitate enormous growth in federal power, but the potential was little anticipated at the time.

As the constitutional pieces were falling into place in Philadelphia, Madison (and others, including Washington and Hamilton) despaired of the result—a system of dual sovereignty, with some powers unique, some shared, and some ambiguous and contestable. But as Madison turned to advocating ratification in the *Federalist* and at the Virginia ratification convention, he "embraced the very ambiguity [he] had condemned as a fatal weakness of the Constitution as its central strength."[136] The profundity of his argument suggests that Madison was not merely making the best of the cards he'd been dealt. Rather, his experience in Philadelphia seems to have enlarged his thinking on the problem of self-government and its institutional correctives. His arguments may be found in three of his *Federalist* installments.

First, in *Federalist* 10, he lays out his celebrated argument that (1) the "instability, injustice, and confusion" of political factions is "sown in the nature of man" and cannot be cured without "destroying the liberty which is essential to its existence" and (2) the best way of ameliorating the problem is a republic with a "greater number of citizens, and a greater sphere of country." In such an extended nation, in contrast to the states under the Articles of Confederation, there will be a "greater variety of parties and interests," making it difficult to form effective legislative factions with uniform interests and internal cohesion.[137]

Second, in *Federalist* 39, he describes the Constitution's plan as being a "composition" of national and state government, each with sources of authority, operations, and jurisdictions that are distinct and independent in some respects and mixed and overlapping in others.[138]

Finally, in his great *Federalist* 51, Madison synthesizes his extended-republic and mixed-sovereignty arguments. He invokes the principle of competition, with a nod to commercial competition: "[The] policy of supplying, by opposite and rival interests, the defect of better motives, might be traced through the whole system of human affairs, private as well as public." The principle is applied within the proposed national government (as it had been, very imperfectly, in the state governments) by separating the powers and sources of authority of the legislature, executive, and judiciary and giving each the means and motives to resist encroachments of the others. But the proposed federalist system supplies an additional layer of protective competition:

> The power surrendered by the people is first divided between two distinct governments, and then the portion allotted to each subdivided among distinct and separate departments. Hence a double security arises to the rights of the people. The different governments will control each other, at the same time that each will be controlled by itself.

And then came the crowning advantage: The federal structure permits a more extended republic than would be possible under a unitary national government and thereby a larger "variety of interests, parties, and sects" to discourage the formation of oppressive national factions. He concludes:

> The larger the society, provided it lie within a practicable sphere, the more duly capable it will be of self-government. And happily for the *republican cause*, the practicable sphere may be carried to a very great extent, by a judicious modification and mixture of the *federal principle*.[139] (Emphasis in original.)

Edward C. Banfield described the Constitution's federalism as "an accident"; although achieved through negotiation and accommodation, it was less a product of "reason and choice" than of "competition and struggle."[140] I would describe it, less pithily, as the institutionalization of inherited circumstance. The constitutional provisions most associated with our founding capitalism—those forbidding impairment of contract and ex post facto laws and providing for a national currency, intellectual property rights, and an independent judiciary—were adaptations of British law and practice, adopted deliberately with little ado.[141] In contrast, federalism was homegrown and organic, no one's intention.[142] The decentralized political structure that had taken shape during the colonial period guided the Philadelphia Convention, which in turn bequeathed it to posterity.

The proposed Constitution corrected widely recognized deficiencies of state government and established an American national government in place of the British colonial government. During the ratification debates, the Anti-Federalists argued that the proposed national government, despite its republican foundations, limited powers, and structural constraints, would be as monarchal and abusive as Britain had been. Most citizens were apparently on the side of the Anti-Federalists (leave-us-alone revolutionary fervor was still running strong), but a sufficient majority of political leaders voted in the Constitution at the state conventions. Enterprising, entrepreneurial Americans contrived a scheme of government with rules and guidelines but no prescribed destination—a system that would depend on, and give ample opportunities to, the very qualities that brought it into being.

Competitive Pluralism in the New Republic

The extraordinary growth of the American economy after 1790 had multiple causes—the Constitution's protections of property and contract, the financial innovations of the Washington administration, and an enlarged spirit of "We the People" national destiny. It was also a period of cascading advances in transportation and manufacturing, science and technology, and literature and art that poured forth across the transatlantic world after 1815, when a long period of European and American wars subsided; Americans were in the avant-garde.[143]

Competitive pluralism, adumbrated at the beginning of this chapter, was integral to all these developments. It was an inheritance from the colonial period—the enterprising nature of the settlers and the diverse, self-governing circumstances of their settlements—that found new assignments in the new constitutional order.

Competition in political and economic affairs is different from tooth-and-claw biological competition. It is a means of directing self-seeking human beings toward cooperation with others for a larger common good (although many will enjoy the competition for its own sake). For this, it requires generally accepted rules of conduct, a degree of moral character in the participants, and an organizing structure. The rules of American competition are set forth in federal and state constitutions (such as the rule against ex post facto laws), common law and political tradition (such as rules of contract and against fraud and coercion), and statutes (such as rules for organizing corporations). Moral character is not, in America, prescribed by secular authorities, but the leading founders understood it to be essential; they preached it earnestly and often exemplified it.

Our organizing structure, since 1788, has been the Constitution's structure of government. In the remainder of this chapter, we shall examine the role of that structure in early America's energetic plunge into modern finance and the subsequent, equally energetic emergence of state-based national development.

The importance of structure is immediately apparent in the capitalist Big Bang of the early 1790s—the infant government's assumption of state and confederation war debts, creation of a national currency and national securities markets, and chartering of the Bank of the United States (BUS). These brilliant, hugely successful measures were largely the work of one man, Secretary of the Treasury Hamilton, with the strong and politically adroit support of President Washington. They would never have been adopted by Congress on its own, nor by a parliamentary government (with the president a subordinate of Congress) such as that proposed by Madison at Philadelphia along with his other doomed initiatives.

Political sentiment in Congress was for letting the debts of the old regime discretely default and starting afresh with an unburdened federal government; few legislators understood the utility of debt assumption in establishing the government's authority and creditworthiness, and many were deeply suspicious of banks and finance. Congress wanted a national currency, and might have embraced Hamilton's specie standard, as Massachusetts had done in the late colonial period. But fiat money had its advocates, and Congress would not have emitted money of any sort through the complex machinations of a national bank whose advantages took some explaining.

The adoption of the financial program was the first vindication of the framers' invention of an "energetic" single executive with his own electoral mandate independent of Congress. Separation of powers within the national government was for balancing as well as checking. The three branches were designed to specialize in distinctive political functions—the Congress in representation and deliberation, the executive in action and leadership, and the judiciary in principled dispute resolution.[144] Hamilton, like Washington, was a man of strong executive temperament, one who recognized the necessity of representation and deliberation but found them exasperating in practice. (Madison, by contrast, was a skillful legislator but a dithering, ineffective president.)

The constitutional structure obliges Congress to contend with a coequal personage whose inclinations are independent of, and often contrary to, those of its own councils and leadership. The results have been strong and durable, with a big assist from our federalist structure. In parliamentary systems (and some foreign presidential systems), the head of government is chosen from the national legislative establishment. In the United States since 1828, when Andrew Jackson brought our era of founder-presidents to a dramatic close, only four of our 34 elected presidents have come directly from Congress (all from the Senate).[145] Half of them—10 governors and seven military leaders—have been men of demonstrated executive ability. Every few decades, the new president is a determined political entrepreneur bent on overturning an ossified

Washington consensus—Jackson, Lincoln, Theodore Roosevelt, FDR, Reagan, and Donald Trump.

Hamilton's financial program was nationalist but not unitary—it depended on, and fostered, political and economic competition. The nationalization of state debts was a sweet spot in federal-state specialization. The new federal government used the debt to establish good credit for financing regular operations and future contingencies, plus a national currency and securities markets to capitalize the private economy. At the same time, the states were launched on new development ventures, from transportation to schools to manufacturing, freed from the bleak options of defaulting on debts or raising taxes for redemption. The national mint, specie standard, and dollar metric gave producers, consumers, and investors a uniform unit of account and stable, noninflationary currency.

The BUS was largely private—80 percent of its $10 million ownership capital was purchased by private (including some foreign) investors, the other 20 percent by the United States.[146] Unlike the colonial proto-banks, the BUS was full-service: It could issue bills of credit (convertible into specie) that served as currency, take deposits (with checking features), and make loans. Its primary customer for these services was the federal government, but other customers included private investors, business corporations (to whom it could make direct loans), and state banks. With a growing network of branches, the BUS made for expeditious commercial and government remittances across the nation.

But the BUS had nothing like the monopoly position of the Bank of England. In Britain, private banks were limited to small family partnerships, but in America they were corporations, propelled by interstate competition. The Constitution forbade states from coining money, emitting bills of credit, or making anything but gold and silver coin legal tender—but said nothing about banks. States immediately seized the opportunity to charter full-service banks, modeled on the BUS and intended to attune finance to state and local interests. These banks made loans to state governments and businesses, took deposits from both, and issued convertible bills of credit in small denominations suitable for everyday currency. Like the BUS, they were often owned in part by their state governments (in a few cases, fully owned) and paid dividends that were important sources of state revenue.

State-chartered banks numbered only three in 1790 but grew to 28 in 1800, 102 in 1810, 327 in 1820, and many more thereafter. The ownership capital of the state banks quickly surpassed the BUS capitalization of $10 million—totaling $17 million in 1800, $56 million in 1810, and $160 million in 1820. As best we can tell, the value of state banknotes circulating as money exceeded the sum of BUS notes and US Mint coins by 1800.

The construction of this system involved a remarkable degree of entrepreneurship. The specie standard, intended to supplant unstable fiat money, was highly aspirational. The United States was no longer being drained of specie by British mercantilism, and began accumulating gold and silver from foreign trade, foreign loans, and domestic mining. But the accumulation was slow. The US Mint was able to produce a measly $2.5 million in gold and silver coins throughout the 1790s (Martha Washington contributed some of her silverware for the project), and foreign coins predominated well into the 19th century. No one expected banknotes to be matched one-to-one by specie reserves—but the customary standard of one-to-five was little inquired into, and notes in circulation greatly exceeded available specie and were growing at a much higher rate.

Under the circumstances, government and private finance remained grounded ultimately on debt and land, just as in the colonial period. In other words, they remained grounded on confidence in the nation's future. Holders of federal debt instruments could use them as security for personal and commercial loans. Owners of state banks, including state governments, had some liability for redeeming notes and deposits beyond available specie, and in a pinch the BUS might help out, as it did on a few occasions in the early 1790s. The federal debt was on a schedule of interest and redemption payments attached to a sinking fund of tax revenues—but if the revenues failed to materialize, there was always the backstop of land sales, which were pledged exclusively to debt retirement.

That never came to pass, and early land sales were meager for reasons I have noted, but the latent treasure of undeveloped land was strong assurance of a growing economy and growing federal revenues.

The implicit growth strategy worked. The complex arithmetic of Hamilton's program of debt assumption and repayment concealed an inconvenient fact—that redemption would require revenues greatly in excess of any reasonable projections of receipts from federal duties on imports and vessels. In his first year as Treasury secretary, Hamilton had to borrow new money to cover interest payments and meet payroll for Congress and executive officials, and he floated the idea of suspending interest payments to some debt holders. But then revenues boomed—growing 26 percent annually from 1790 to 1795, from $1.6 million to $6.1 million, and then to $10.8 million in 1800. Economist Richard Sylla writes:

> The upsurge in revenue was due in good part to a higher real rate of economic growth along with a rising price level that resulted from monetary expansion rooted in both domestic (bank expansion) and foreign (capital inflows as foreign investors purchased American securities) sources. . . .
>
> . . . Economic growth ratified the risky bets on the future of entrepreneurs. In the early 1790s, the main entrepreneur was the secretary of the treasury, who bet that his comprehensive program of financial innovation and reform would jump-start economic growth and make it possible for the federal government to pay much more interest on its debt than seemed possible when the decisions were made to make those payments in 1790.[147]

Improvisation also paid off handsomely at the BUS. The bank's initial capitalization of $10 million was required by statute to include $2 million in specie (the one-to-five standard)—but it was permitted to begin operations when $400,000 in specie had come in, and apparently little or no more than that ever arrived. The government's $2 million capital contribution was legerdemain: The Treasury borrowed $2 million from the BUS itself to purchase its shares, promising to repay the loan from future dividends on those shares. And the BUS prospered. Bray Hammond, in his prodigious *Banks and Politics in America* (winner of the 1958 Pulitzer Prize for History), is more than forgiving:

> The early Americans were short of capital, particularly capital in the form of gold and silver. If that dearth of gold and silver had been allowed to hold up their formation of banks, the circle would never have been broken; instead they resorted to arrangements which had the practical virtue of establishing the proper procedure in principle if not in fact. And in time, because the pretense worked, they accumulated the gold and silver and made the principle a reality. . . . For the most part a saner and more honest practice in capitalization established itself as soon as a surplus of wealth made it possible. Without the initial act of faith, so to speak, the surplus would have been slower in coming. The Americans had declared their political independence before it was a reality, not after; and what they did in the matter of financial competence was much the same.[148]

The new financial system also featured corruption of both the hard and soft variety. By hard corruption, I mean bribery, kickbacks, and inside dealing, and there were certainly many instances at the state level. (Hamilton himself was spotless, and survived many inquiries into his financial stewardship and dealings with wealthy Federalist investors.) By soft corruption, I mean properly enacted laws that profit "special interests" at the expense of the general public—a larger and more important phenomenon. In America's early decades, corporate charters were granted by state legislation to specific individuals for specific purposes; these individuals were often politically well-connected, and the grants often included commercial privileges of one kind or another. Banks were in a class of their own because they were in continuous partnership with the states that chartered them. The states were usually major owners of the banks and thereby recipients of dividends on their earnings, giving them a joint interest with the private owners in the banks' profitability. And bank chartering process was the occasion for securing special state privileges, such as preferential interest rates on loans and charges on deposits.

As a result, states tightly restricted entry into banking, imposed geographic restrictions on their operations, and excluded out-of-state banks, all for the purpose of generating monopoly pricing power. The 28 state banks that had formed by 1800 included only two apiece in the nation's largest cities: Philadelphia, New York, Boston, and Baltimore. The BUS branches in those cities and a few others provided some competition, but it is fair to characterize the early banking system as one of "segmented monopolies."[149]

Federalism proved to be a powerful engine of creative monopoly destruction. The states were competing intensely for population and economic development, expanding the voting franchise for that purpose (eliminating property requirements, among other things). That changed the political dynamics of state legislatures, which became more attentive to demands for expanded credit and other banking services. At the same time, the federal government was proving ineffective at nation building.[150] The need for new canals, roads, turnpikes, and bridges was manifest, but federal revenues were dedicated largely to servicing the debt. In Congress, development initiatives invariably favored some states and regions at the expense of others—which defeated efforts to build coalitions for new taxing and spending. Moreover, many in the ascendant Republican Party opposed the initiatives on constitutional grounds.

The states moved into the vacuum with gusto, initiating ambitious transportation and development projects of their own that required heavy borrowing and more local banks. Between 1790 and 1860, the federal government spent only $60 million on transportation improvements (mostly scattered lighthouses and river-and-harbor projects), while the states spent more than $450 million. Westward development was driven by competition among states, regions, and private enterprises, not national planning.

Financial historians Charles W. Calomiris and Stephen H. Haber explain:

> Political competition within and among states undermined the incentives of state legislatures to constrain the number of charters they granted. Massachusetts began to increase the number of charters it granted as early as 1812, abandoning its strategy of holding bank stock as a source of state finance and instead levying taxes on bank stock. Pennsylvania followed with the Omnibus Banking Act of 1814.[151]

The result was the tenfold expansion of state banks in 20 years, from 28 in 1800 to 327 in 1820.

The federal government's constitutional reluctance to finance national development points to another impetus behind competitive state banking. This was the rise of Jefferson's Republicans in the early 1800s, as Hamilton's Federalists declined from national leadership to regional irrelevance following his death.[152] Jefferson and his followers were profoundly attached to the simplicity and connectedness of agrarian life and loathed big government and high finance. They were not, however, averse to commerce and trade so long as these were centered on the needs of farming and agriculture. Jefferson himself had orchestrated Virginia's abolition of primogeniture and entail in the mid-1770s—an extension of the colonial-era legal reforms in converting land from aristocratic bulwark to democratic asset—which most other states followed. As president, he touted more and better domestic manufacturing—always noting that it should be "household" manufacturing of "coarse and middling" family goods.[153]

Moreover, Jefferson and his party were avid for territorial expansion and westward migration. Agrarian development of the west was seen as a virtuous republican alternative to Hamilton's "consolidated" development of the urbanized Eastern Seaboard. Jefferson authored the Land

Ordinance of 1784 and Northwest Ordinance of 1787, sent the Lewis and Clark Expedition to the Pacific coast in 1804–06, and regarded the Louisiana Purchase as the crowning achievement of his presidency. In 1806, he proposed a national development program of "public education, roads, rivers, [and] canals" (which went nowhere—he thought it required a constitutional amendment).[154] His secretary of the Treasury, Albert Gallatin, was as expansion minded as Jefferson and nearly as financially sophisticated as Hamilton. Gallatin convinced the president to support (reluctantly) the BUS and demonstrated its utility in the Louisiana Purchase (largely debt financed) and other measures. Jefferson's Republican successor, Madison, unwisely permitted the BUS charter to lapse in 1811—and then, following the hard lessons of the financially starved War of 1812, presided over the chartering of the Second Bank of the United States in 1816 with strong Republican support.

The demands of national leadership moved the Republicans in a more practical direction, as did the party's growing political success and increasingly democratic followership. Jefferson historian Drew R. McCoy observes:

> The Republican party attracted political support from . . . Americans whose outlook can properly be termed entrepreneurial. Opposition to the Federalist system was never limited to agrarian-minded ideologues who unequivocally opposed a dynamic commercial economy. Many Jeffersonians were anxious to participate in the creation of an expansive economy and to reap its many rewards. . . . Ambitious men-on-the-make, engaged in a variety of economic pursuits, enlisted under the banner of Jeffersonianism in a crusade to secure the advantages and opportunities they desired.[155]

These developments illustrate the dynamic interplay of competition among states, between the federal and state governments, and between political parties. The structure of the emerging two-party system pointed political competition toward the electoral middle; ideology could not reign supreme but had to work alongside the necessities of party recruitment and victory in two-candidate races, plus the practical record of office holding in the face of outrageous fortune. The decommissioning of the First Bank of the United States was engineered by a coalition of "Old Republicans" opposed to the bank on constitutional and philosophical grounds, "New Republicans" intent on national development requiring profuse credit, and local entrepreneurs hoping to launch their own banks free of BUS competition and oversight. When the BUS lapsed, its eight branches were immediately purchased by local investors and chartered as state banks, followed by hundreds more across the country—whose founders assured state legislators of their fidelity to the Republican cause.

Similar events surrounded President Jackson's termination of the Second Bank of the United States, achieved through years of maneuvering against the bank's president, Nicholas Biddle, and vetoing of Biddle's bank reauthorization bill in 1832, leading to the bank's closure when its federal charter lapsed in 1836. Jackson was a hard-money man, opposed to debt of all varieties; many of his Democratic Party enlistees were neither of those—but shared his antipathy to centralized federal finance. Hammond writes that the Second Bank

> was not destroyed by the champions of the helpless contending against the money power, but by a rising and popular business interest that found the Bank doubly offensive for being both vested and regulatory—Wall Street, the state banks, and speculative borrowers dressing up for the occasion in the rags of the poor and parading with outcries of oppression by the aristocratic Mr. Biddle's hydra of corruption, whose nest they aspired to occupy themselves.[156]

The Second Bank of the United States was seamlessly rechartered as the United States Bank of Pennsylvania, with the identical management (including Biddle) and directors (other than ex officio Secretary of the

Treasury Roger B. Taney) and a similarly august name. Some federal deposits and other business stayed with the "United States Bank," but-most were transferred to "pet banks" with prominent Democratic investors. (An example of the tightness of government and finance in those days is that Secretary Taney was an investor in one of the state banks that received the public funds.) By 1840, the number of state banks doubled to 901 with outstanding loans of $463 million; in 1860, there were 1,562 state banks with $692 million outstanding.[157] Increasingly, loan portfolios diversified from territorial development (land and transportation) to business development (agriculture, manufacturing, and merchandising), much of it highly speculative.

Lightly regulated, pro-growth, nation-building state banking was not a model of rock-solid financial stability. The closures of the First and Second Banks of the United States eliminated a stable benchmark national currency and some regulation of the soundness of state banks, and they were followed by periods of inflation and easy credit that led to painful contractions and the failure of many state banks (especially those with heavy state ownership). The state banks were part and parcel of the pell-mell territorial development that produced spectacular successes (the Erie Canal was profitable before it was completed and reduced the price of export-bound goods in New York City by a factor of 10) but equally spectacular overborrowing that led to a cascade of state defaults in the 1839–43 financial panic and ensuing economic depression.[158] Among the state bank bankruptcies was Pennsylvania's United States Bank, in 1841.

But competitive pluralism proved to be an excellent teacher and reformer, as it had been during the colonial period of fiat currency. The most important reform was "free banking," part of a larger movement that abolished case-by-case legislative chartering of corporations with its attendant crony capitalism and special privileges.[159] Under free banking and other laws, investors could establish a bank (or other business) as a limited liability corporation without permission from the legislature—simply by filing the attendant paperwork and observing specified requirements concerning capitalization, voting rules, and other matters. Many states conditioned bond issuances on voter-approved taxes to service the bonds. Competition from the federal government returned in the National Bank Acts of 1863 and 1865, which established a new network of national banks chartered on free-banking principles but with higher capital standards than most state banks. The national banks were required to redeem each other's notes at par; this, along with a discriminatory tax on state bank notes, reestablished something of a national currency, and encouraged state banks to concentrate on lending and deposit-taking.

These measures did not eliminate all political impositions on banking. Many states continued to limit banks to a single location rather than permitting them to establish branches in multiple locations. Banks in these "unit banking" states tended to charge higher interest rates on loans, reflecting limited local competition, while being less stable and more prone to failure, reflecting lower loan diversification than banks with multiple branches.[160] But unit banks had the virtue, especially important in farming communities, of sticking with their local customers through poor harvests and other hard times, when far-off city branch bankers—stable and diversified but personally detached—would unhesitatingly foreclose.

The great strength of the state-led financial structure was a diversity of banking and development arrangements that suited the nation's tremendous variety of population, demography, culture, climate, natural resources, and forms of agriculture, industry, and trade.[161] Economists Peter Rousseau and Richard Sylla conclude:

> The early Americans did not invent the banking corporation, but as of 1790 the world had seen few examples of it, and these were privileged monopolies such as the Bank of England. What the Americans did, uniquely when they did it, was charter so many banking corporations that they had to compete with one another rather than enjoy monopolistic privileges. From the 1790s to the middle of the nineteenth century, nowhere else in the world was the banking corporation as a competitive business enterprise developed to the extent that it was in the United

> States. Only then, six or seven decades after the American innovation, did the old nations of the world begin to emulate the United States by allowing competitive corporate banking.[162]

By 1888, the 100th anniversary of the Constitution's ratification and first national elections, the United States spanned a vast continent and had become the world's largest economy and greatest industrial power. The colonial and founding bequests of political and economic competition were fundamental causes of this preeminence. Americans may or may not have understood the sources of their stupendous prosperity, but it was now theirs to enjoy, employ, and contend with in a looming new era.

Notes

1. Robert A. Goldwin and William A. Schambra, eds., *How Capitalistic Is the Constitution?* (Washington, DC: AEI Press, 1982), https://www.aei.org/research-products/book/how-capitalistic-is-the-constitution.

2. Karl Marx, *Capital: A Critique of Political Economy*, trans. Ben Fowkes and David Fernbach, vols. 1–3 (1867, 1885, 1894; London: Penguin Classics, 1992–93); and Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

3. Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge, MA: Harvard University Press, 2014).

4. For excellent expositions, see Jonathan Levy, *Ages of American Capitalism: A History of the United States* (New York: Random House, 2021), xiii–xxviii; and James Fulcher, *Capitalism: A Very Short Introduction* (Oxford, UK: Oxford University Press, 2004), 1–18. An extended treatment is Geoffrey M. Hodgson, *Conceptualizing Capitalism: Institutions, Evolution, Future* (Chicago: University of Chicago Press, 2015).

5. My views overlap broadly with those of Marc F. Plattner, Forrest McDonald, and Bernard H. Siegan in Goldwin and Schambra, eds., *How Capitalistic Is the Constitution?*, chaps. 1, 3, and 5. However, I depart sharply from McDonald's argument that the colonial economy at the time of the founding was dominated by agrarian, precapitalist norms. (My arguments are based largely on research that has appeared since his essay.)

6. James W. Ely Jr., *The Guardian of Every Other Right: A Constitutional History of Property Rights*, 3rd ed. (New York: Oxford University Press, 2008); and Paul J. Larkin Jr., "The Original Understanding of 'Property' in the Constitution," *Marquette Law Review* 100 (2016): 1–80, http://scholarship.law.marquette.edu/mulr/vol100/iss1/2.

7. Joseph E. Stiglitz, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent* (New York: W. W. Norton, 2019).

8. Christopher DeMuth, "How Entitlements Ate Our Future: From Balanced Budgets to Borrowed Benefits," *Coolidge Review*, July 15, 2024, 29, https://www.coolidgereview.com/articles/how-entitlements-ate-our-future.

9. Naomi R. Lamoreaux and John Joseph Wallis, "Economic Crisis, General Laws, and the Mid-Nineteenth-Century Transformation of American Political Economy," *Journal of the Early Republic* 41, no. 3 (Fall 2021): 403–33, https://dx.doi.org/10.1353/jer.2021.0054.

10. Thomas K. McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (Cambridge, MA: Belknap Press, 2012), 97–121; Ron Chernow, *Alexander Hamilton* (New York: Penguin Books, 2004), 295–357; Forrest McDonald, "The Constitution and Hamiltonian Capitalism," in Goldwin and Schambra, *How Capitalistic Is the Constitution?*, 68–71; and Forrest McDonald, *Alexander Hamilton: A Biography* (New York: W. W. Norton, 1982), 163–227.

11. Chernow, *Alexander Hamilton*, 275.

12. The philosophical agreements are elaborated in Thomas G. West, *The Political Theory of the American Founding: Natural Rights, Public Policy, and the Moral Conditions of Freedom* (Cambridge, UK: Cambridge University Press, 2017); and Thomas G. West, "The Economic Principles of America's Founders: Property Rights, Free Markets, and Sound Money," Heritage Foundation, August 30, 2010, https://www.heritage.org/political-process/report/the-economic-principles-americas-founders-property-rights-free-markets-and. The practical disagreements are elaborated in Michael J. Klarman, *The Framers' Coup: The Making of the United States Constitution* (New York: Oxford University Press, 2016).

13. "New Pluralists" promote the American "promise of pluralism—people of varied backgrounds and beliefs building community, finding belonging, and drawing on their differences to solve shared problems." See New Pluralists, "Many Voices, One Future: Building a Nation of Belonging for All," https://newpluralists.org. William A. Galston examines the virtues and problems of this vision in William A. Galston, *Liberal Pluralism: The Implications of Value Pluralism for Political Theory and Practice* (Cambridge, UK: Cambridge University Press, 2002); and William A. Galston, *The Practice of Liberal Pluralism* (Cambridge, UK: Cambridge University Press, 2005). Contemporary "post-liberals" such as Patrick J. Deneen see mainly problems and few virtues in liberal pluralism. See Patrick J. Deneen, *Why Liberalism Failed* (New Haven, CT: Yale University Press, 2018).

14. "E Pluribus Unum" was first proposed as a national motto in 1776 and was adopted and placed on the Great Seal of the United States by the Continental Congress in 1782. US Department of State, Bureau of Public Affairs, "The Great Seal of the United States," July 2003, https://2009-2017.state.gov/documents/organization/27807.pdf. The motto began appearing on state currency in 1786 and on national currency in 1795. It is one of many examples of the melding of individualism and communitarianism

in America's founding politics; see Christopher DeMuth, "What American Conservatism Exists to Conserve," *Quadrant* 66, no. 11 (November 2022): 43–47.

15. America's mother country was "England" during the first colonial century and "Great Britain" following the Acts of Union of 1707. For convenience, I am generally using "Britain" and "British" throughout, a conventional practice.

16. Leading contemporary expositions are Lawrence M. Mead, *Burdens of Freedom: Cultural Difference and American Power* (New York: Encounter Books, 2019); Lawrence E. Harrison and Samuel P. Huntington, eds., *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000); and David S. Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (New York: W. W. Norton, 1998). The classic forerunner is Edward C. Banfield, *The Moral Basis of a Backward Society* (New York: Free Press, 1958).

17. Douglas C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge, UK: Cambridge University Press, 1990); Daron Acemoglu, Simon Johnson, and James A. Robinson, "Institutions as a Fundamental Cause of Long-Run Growth," in *Handbook of Economic Growth*, ed. Philippe Aghion and Steven N. Durlauf (Amsterdam: North-Holland, 2005), chap. 6; and Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000). A good précis of the debate is Michael Novak, "Is It Bad Culture or Bad Laws That Keep Some Countries Poor?," American Enterprise Institute, January 15, 2001, https://www.aei.org/articles/is-it-bad-culture-or-bad-laws-that-keep-some-countries-poor.

18. Samuel Huntington, "One Nation, Out of Many," *American Enterprise* 15, no. 6 (2004): 20, https://www.aei.org/articles/one-nation-out-of-many/. See also Samuel Huntington, *Who Are We? The Challenges to America's National Identity* (New York: Simon & Schuster, 2004), 59–105.

19. David Hackett Fischer, *Albion's Seed: Four British Folkways in America* (New York: Oxford University Press, 1989).

20. In addition to the sources specifically cited, this section draws on Levy, *Ages of American Capitalism*; Alan Greenspan and Adrian Wooldridge, *Capitalism in America: A History* (New York: Penguin Press, 2018); Sven Beckert and Christine Desan, eds., *American Capitalism: New Histories* (New York: Columbia University Press, 2018); Bhu Srinivasan, *Americana: A 400-Year History of American Capitalism* (New York: Penguin Press, 2017); John Steele Gordon, *An Empire of Wealth: The Epic History of American Economic Power* (New York: Harper Collins, 2004); John J. McCusker and Russell R. Menard, *The Economy of British America, 1607–1789* (Chapel Hill, NC: University of North Carolina Press, 1985); and George L. Priest, "The Capitalist Foundations of America," American Enterprise Institute, May 14, 2007, https://www.aei.org/research-products/speech/the-capitalist-foundations-of-America.

21. Alexis de Tocqueville, *Democracy in America*, trans. Harvey C. Mansfield and Delba Winthrop (Chicago: University of Chicago Press, 2000), 279.

22. Carl N. Degler, *Out of Our Past: The Forces That Shaped Modern America*, 3rd ed. (1959; New York: Harper Perennial, 1984), 2. Carl Degler's aphorism was criticized by later historians who argued that the early settler-farmers were more communitarian than capitalist. But he was making a different point—that the settlers were attracted to the colonies by the abundance of land and scarcity of labor (the opposite of conditions in England and the Netherlands) and that those conditions fostered the rise of farmers and other working people in wealth, social status, and political influence. The point is elaborated in the text at page 123.

23. Edwin J. Perkins, "The Entrepreneurial Spirit in Colonial America: The Foundations of Modern Business History," *Business History Review* 63, no. 1 (Spring 1989): 160–86, https://www.cambridge.org/core/journals/business-history-review/article/abs/entrepreneurial-spirit-in-colonial-america-the-foundations-of-modern-business-history/580A329B3BCBEC919E56DBD2052330A5; and Stephen Innis, ed., *Work and Labor in Early America* (Chapel Hill, NC: University of North Carolina Press, 1988). North America–bound indentured servants appear to have been selected, by their brokers and employers and by themselves, for "ability, motivation, ambition, physical strength and health." Ran Abramitzky and Fabio Braggion, "Migration and Human Capital: Self-Selection of Indentured Servants to the Americas," *Journal of Economic History* 66, no. 4 (December 2006): 882, 900, https://doi.org/10.1017/S0022050706000362.

24. Gordon S. Wood, "The Enemy Is Us: Democratic Capitalism in the Early Republic," *Journal of the Early Republic* 16, no. 2 (Summer 1996): 293–308, https://doi.org/10.2307/3124251; and Gordon S. Wood, "Inventing American Capitalism," *New York Review of Books*, June 9, 1994, https://www.nybooks.com/articles/1994/06/09/inventing-american-capitalism. The essays adjudicate the arguments of "moral economy historians," who emphasize the communitarian ethos of colonial New England farmers, and "market economy historians," who emphasize the growing integration of farm economies with larger commercial markets in the 18th century. An important subsequent contribution to this literature is Naomi R. Lamoreaux, "Rethinking the Transition to Capitalism in the Early American Northeast," *Journal of American History* 90, no. 2 (September 2003): 437–61, https://doi.org/10.2307/3659440. She finds that farmers, merchants, and manufacturers were similarly (1) alert to economic circumstances and opportunities and (2) reliant on family members and attentive to community norms.

25. Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (Boston, MA: Allen and Unwin, 1930). The discussion in this section draws in several particulars on the superb studies of Benjamin M. Friedman, *Religion and the Rise of Capitalism* (New York: Knopf, 2021), 169–96, 228–62; and and Mark Valeri, *Heavenly Merchandize: How Religion Shaped Commerce in Puritan America* (Princeton, NJ: Princeton University Press, 2010).

26. The author's surname ancestors were Czech-Bohemian religious refugees brought to the colonies by James Oglethorpe and Nicolas Zinzendorf. They founded Bethlehem, Pennsylvania, as a Moravian Brethren missionary community in 1741. But the Demuths were also farmers, artisans, and merchants and helped convert

Bethlehem from a "communal economy" into a market economy in the 1760s. One of them, Christopher, established Demuth's Tobacco Shop in Lancaster, Pennsylvania, in 1770 and became a prominent businessman and real estate investor (and, despite Moravian pacifism, kept a rifle and joined the Pennsylvania militia in the Revolutionary War). "America's First Tobacco Shop" manufactured its own brand-name snuff and pipe tobacco in its nearby mill, expanded into wholesaling with credit and transportation services across the mid-Atlantic colonies, and was owned and managed by family descendants through 1986 (with the author among its latter-day cigar customers). A biographer notes that Demuth "benefitted from observing the entrepreneurial attitude of the Bethlehem elders in reaching out to non-Moravian customers and realizing profits, and he emulated this behavior when he went into business for himself." Diane Wenger, "Christopher Demuth: From 'Single Brother' to Celebrated Snuff Maker," *Pennsylvania Magazine of History and Biography* 141, no. 2 (April 2017): 115–44, https://doi.org/10.5215/pennmaghistbio.141.2.0115.

27. Gordon, *An Empire of Wealth*, 39.

28. The Puritans played a central role in the colonial innovation of government-issued currency, recounted in astonishing detail in Dror Goldberg, *Easy Money: American Puritans and the Invention of Modern Currency* (Chicago: University of Chicago Press, 2023). In particular, Cotton Mather was an influential advocate of paper money, publishing a widely read pamphlet on the subject in 1691, when Massachusetts had just issued its first "bills of credit" that were beginning to circulate as money (discussed later in this essay). That was shortly before Mather's equally influential pamphlet justifying the Salem witch trials of 1692.

29. Friedman, *Religion and the Rise of Capitalism*, 239–40.

30. Wood, "The Enemy Is Us," 307.

31. Roger Finke, "Religious Deregulation: Origins and Consequences," *Journal of Church and State* 32, no. 2 (Summer 1990): 609–26, https://doi.org/10.1093/jcs/32.3.60; and Peter L. Berger, "The Good of Religious Pluralism," *First Things*, April 2016, https://www.firstthings.com/article/2016/04/the-good-of-religious-pluralism.

32. Mark Häberlein, "Reform, Authority and Conflict in the Churches of the Middle Colonies, 1700–1770," in *Religious and Secular Reform in America: Ideas, Beliefs, and Social Change*, ed. David K. Adams and Cornelis A. van Minnen (New York: New York University Press, 1999), 20.

33. Tocqueville, *Democracy in America*, 280–83.

34. New Netherlands and its port city New Amsterdam (later New York City) were from their founding the most capitalist settlement in North America, supplying Puritan New England with valuable trade and instruction in Dutch commercial practices. Kim Todt, "Trading Between New Netherland and New England, 1624–1664," *Early American Studies* 9, no. 2 (Spring 2011): 348–78, https://dx.doi.org/10.1353/eam.2011.0018. And the neighboring Dutch colony provided all the British colonies with easy opportunities to evade Britain's mercantilist trade restrictions. Jonathan Barth, *The Currency of Empire: Money and Power in Seventeenth-Century English America* (Ithaca, NY: Cornell

University Press, 2021), 84–88, 114–16.

35. Claire Priest, *Credit Nation: Property Laws and Institutions in Early America* (Princeton, NJ: Princeton University Press, 2021), 21–37.

36. Deirdre Nansen McCloskey, *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* (Chicago: University of Chicago Press, 2016), 235–70.

37. Detailed in Bernard Bailyn, *The New England Merchants in the Seventeenth Century* (Cambridge, MA: Harvard University Press, 1955), 87–91.

38. Gordon, *An Empire of Wealth*, 14–20.

39. Colorfully recounted in Robert E. Pike, *Tall Trees, Tough Men* (New York: W. W. Norton, 1967), which begins, "It was the axe, even more than the rifle, that conquered the North American continent."

40. Pike, *Tall Trees, Tough Men*, 48.

41. Bailyn, *The New England Merchants in the Seventeenth Century*.

42. Bailyn, *The New England Merchants in the Seventeenth Century*, 61–74.

43. Bailyn, *The New England Merchants in the Seventeenth Century*, 1–15.

44. Bailyn, *The New England Merchants in the Seventeenth Century*, 38–39, 75, 169–70.

45. Bailyn, *The New England Merchants in the Seventeenth Century*, 34.

46. The account of this paragraph is drawn primarily from Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge, MA: Harvard University Press, 2012), 16–30.

47. Levy, *Freaks of Fortune*, 5.

48. Levy, *Freaks of Fortune*, 23–101.

49. Tocqueville, *Democracy in America*, 385–87.

50. Tocqueville, *Democracy in America*, 387.

51. Michael B. Oren, *Power, Faith, and Fantasy: America in the Middle East, 1776 to the Present* (New York: W. W. Norton, 2008), 18.

52. Degler, *Out of the Past*, 2.

53. Degler, *Out of the Past*, 2–3.

54. My account draws heavily on Priest, *Credit Nation*; De Soto, *The Mystery of Capital*, 105–51; and Amelia Clewley Ford, *Colonial Precedents of Our National Land System as It Existed in 1800*, University of Wisconsin, July 1910.

55. Priest, *Credit Nation*, 23.

56. Clewley Ford, *Colonial Precedents of Our National Land System as It Existed in 1800*, 83–102.

57. De Soto, *The Mystery of Capital*, 113–20.

58. De Soto, *The Mystery of Capital*, 119–20; and Clewley Ford, *Colonial Precedents of Our National Land System as It Existed in 1800*, 123–27.

59. Priest, *Credit Nation*, 38–56.

60. Priest, *Credit Nation*, 5. They were also controversial because recording fees and court fees were an important source of revenue, tussled over by local and colonial authorities.

61. Priest, *Credit Nation*, 59–111.

62. Priest, *Credit Nation*, 76–89.

63. Joseph Story, *Commentaries on the Constitution of the United States*, 3 vols. (Boston, MA: Hilliard, Gray, 1833), § 182, https://lonang.com/library/reference/story-commentaries-us-constitution/.

64. Priest, *Credit Nation*, 9, 150.

65. Story passes over the contributions of slavery to property reform, but Claire Priest examines them in unflinching detail.

66. Barth, *The Currency of Empire*, 23, 26. See also Levy, *Ages of American Capitalism*, 14–21.

67. Barth, *The Currency of Empire*, 95–98, 118–22, 167–77.

68. Barth, *The Currency of Empire*, 117, 134.

69. Claire Priest, "Currency Policies and Legal Development in Colonial New England," *Yale Law Journal* 110, no. 8 (June 2001): 1303, 1321–32, 1335–38, https://www.yalelawjournal.org/article/currency-policies-and-legal-development-in-colonial-new-england.

70. Priest, "Currency Policies and Legal Development in Colonial New England," 1331.

71. My account of colonial paper money draws on many excellent works: Barth, *The Currency of Empire*, 254–61; Goldberg, *Easy Money*, 131–41, 160–98; Peter L. Rousseau, "Monetary Policy and the Dollar," in *Founding Choices: American Economic Policy in the 1790s*, ed. Douglas A. Irwin and Richard Sylla (Chicago: University of Chicago Press, 2011), 121–49; James Macdonald, *A Free Nation Deep in Debt: The Financial Roots of Democracy* (Princeton, NJ: Princeton University Press, 2003), 277–89; Priest, "Currency Policies and Legal Development in Colonial New England," 1342–50, 1359–65, 1368–84; Leslie V. Brock, "The Colonial Currency, Prices, and Exchange Rates," *Essays in History* 34 (1992): 70–132, https://doi.org/10.25894/eih.464; Edwin J. Perkins, *The Economy of Colonial America*, 2nd. ed. (New York: Columbia University Press, 1988), 167–83; and Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (Princeton, NJ: Princeton University Press, 1957), 3–39. For an online exposition and literature summary, see Ron Michener, "Money in the American Colonies," Economic History Association, January 13, 2011, https://eh.net/encyclopedia/money-in-the-american-colonies. I am mainly offering my own interpretation of these works, so I generally omit point-by-point citations.

72. Fiat paper money had been employed in China under the Yuan and Ming dynasties but was discontinued amid high inflation in the mid-1400s. There was some intermittent use of paper credits to pay soldiers during wartime in Britain, Europe, and Canada before 1690, but nothing on the scale that began (initially for the same purpose) in Massachusetts that year.

73. But they were really just brokers of currency for land, like the public land offices. Unlike modern banks, they had no capital of their own and did not take money deposits.

74. Detailed in Priest, "Currency Policies and Legal Development in Colonial New England," 1359–84. The value of Massachusetts bills fell by about 60 percent from 1720 until 1740 and then by another 50 percent from 1740 until 1750.

75. That was the view of several founders, of opponents of Williams Jennings Bryan and other populist champions of easy money in the late 19th century, and of hard-money advocates in our contemporary times of officially inflationary fiat money.

76. Modern economic scholarship agrees that the colonial economies were seriously under-monetized. Even in colonies with a well-managed official currency, a considerable volume of trade continued to be conducted by informal local arrangements. Rousseau, "Monetary Policy and the Dollar," 141–43.

77. Hammond, *Banks and Politics in America*, 12–35, shows that the most persistent and influential advocates of paper money were merchants and entrepreneurs, who understood the link between ample currency and economic growth. The most persistent and influential of them all was Benjamin Franklin, whose first broadside, "A Modest Enquiry into the Nature and Necessity of a Paper Currency," remains a classic. See Benjamin Franklin, "The Nature and Necessity of a Paper-Currency, 3 April 1729," Founders Online, https://founders.archives.gov/documents/Franklin/01-01-02-0041.

78. Successful adaptation is emphasized by Peter L. Rousseau, James Macdonald, Edwin J. Perkins, and Bray Hammond. Priest emphasizes the economic turmoil created by the sharp depreciation of Massachusetts notes, but her purpose is to show that commercial litigation in the 1700s was driven by that turmoil rather than expanding markets. See Priest, "Currency Policies and Legal Development in Colonial New England," 1355–59, 1384–404.

79. Christopher DeMuth, "The Rise and Rise of Deficit Government," Law & Liberty, May 5, 2021, https://lawliberty.org/the-rise-and-rise-of-deficit-government; and Christopher DeMuth, "Debt and Democracy," Legatum Institute, May 21, 2012, https://ccdemuth.com/debt-and-deficits/#toggle-id-10.

80. Macdonald's *A Free Nation Deep in Debt* is a comprehensive argument that the rise of debt financing in place of stored-up specie was integral to the rise of political democracy. The modern decline of public debt as a mechanism of currency stability and democratic accountability in the United States is detailed in Editors, "America in Debt: From Hamilton to the Fiscal Brink," *Coolidge Review*, July 9, 2024, https://www.coolidgereview.com/articles/america-in-debt.

81. One British misstep, in 1764 as the revolution in the colonies approached, was outlawing legal-tender requirements for both private and public obligations, a long-established monetary status of great symbolic importance to the colonists but probably of little practical importance. (Notes without it circulated widely.) When Franklin wisely advised the British that they could end the rancorous dispute by banning legal tender only for foreign transactions, they ignored him. Perkins, *The Economy of Colonial America*, 182–83.

82. For an ambitious historical account of the concurrent growth of government money and government power, see Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (Oxford, UK: Oxford University Press, 2014).

83. Government financing by sale of investment-grade securities rather than emitting currency was a conventional practice in Britain and Europe by the 1700s.

Macdonald's *A Free Nation Deep in Debt* emphasizes the benefits of organized credit markets in disciplining government performance.

84. Joseph Ernst, *Money and Politics in America, 1755–1775: A Study in the Currency Act of 1764 and the Political Economy of Revolution* (Chapel Hill, NC: University of North Carolina Press, 1973). The British closing of the Massachusetts Land Bank in 1741 ruined Samuel Adams Sr., one of its founding subscribers, and inspired the entry of his son Sam Adams and cousin John Adams into revolutionary politics. Priest, "Currency Policies and Legal Development in Colonial New England," 1379–80.

85. Peter H. Lindert and Jeffrey G. Williamson, "American Colonial Incomes, 1650–1774," *Economic History Review* 69, no. 1 (February 2016): 54–77, https://doi.org/10.1111/ehr.12106; and Robert C. Allen, Tommy E. Murphy, and Eric B. Schneider, "The Colonial Origins of the Divergence in the Americas: A Labor Market Approach," *Journal of Economic History* 72, no. 4 (December 2012): 863–94, https://doi.org/10.1017/S0022050712000629. Robert Allen, Timothy Murphy, and Eric Schneider find that "for much of the seventeenth and eighteenth centuries, North America was the most prosperous region of the world, offering living standards at least as high as those in the booming parts of North-Western Europe. Latin America, on the other hand, was much poorer and offered a standard of living like that in Spain and less prosperous parts of the world in general."

86. Perkins, *The Economy of Colonial America*, 6–7, 212–17.

87. John Komlos, "On the Biological Standard of Living of Eighteenth-Century Americans: Taller, Richer, Healthier," *Research in Economic History* 20 (2001): 223–48, https://doi.org/10.1016/S0363-3268(01)20007-X; and Richard H. Steckel, "Stature and Living Standards in the United States," in *American Economic Growth and Standards of Living Before the Civil War*, ed. Robert A. Gallman and John Joseph Wallis (Chicago: University of Chicago Press, 1992), 265, 285–87, https://www.nber.org/system/files/chapters/c8012/c8012.pdf.

88. Perkins, *The Economy of Colonial America*, 1–14; and McCusker and Menard, *The Economy of British America*, 211–35.

89. S. D. Smith, "The Market for Manufactures in the Thirteen Continental Colonies, 1698–1776," *Economic History Review* 51, no. 4 (November 1998): 676–708, https://doi.org/10.1111/1468-0289.00110.

90. David Hackett Fischer, *Paul Revere's Ride* (Oxford, UK: Oxford University Press, 1994), 12–29, 138–64.

91. Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "The Economic Consequences of Legal Origins," *Journal of Economic Literature* 46, no. 2 (June 2008): 285–332, https://www.aeaweb.org/articles?id=10.1257/jel.46.2.285.

92. Allen, Murphy, and Schneider, "The Colonial Origins of the Divergence in the Americas."

93. Daron Acemoglu, Simon Johnson, and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91, no. 5 (December 2001): 1369–401, https://www.aeaweb.org/articles?id=10.1257/aer.91.5.1369.

94. Stanley L. Engerman and Kenneth L. Sokoloff, *Economic Development in the Americas Since 1500: Endowments and Institutions* (Cambridge, UK: Cambridge University Press, 2012). Readers interested in exploring the origins literature should begin with this magnificent essay collection.

95. Daniel M. Klerman et al., "Legal Origin or Colonial History?," *Journal of Legal Analysis* 3 (2011): 379–409, https://ssrn.com/abstract=1903994.

96. See notes 16 and 17.

97. Vincent Geloso, "The Historical Evolution of Canadian Living Standards," *Oxford Research Encyclopedias, Economics and Finance*, June 20, 2020, https://doi.org/10.1093/acrefore/9780190625979.013.791; and Vincent Geloso, "Economic History of French Canadians," in *Handbook of Cliometrics*, ed. Claude Diebolt and Michael Haupert (New York: Springer, 2023), https://doi.org/10.1007/978-3-642-40458-0_107-1. An important reason for the poorer economic performance of French Canada appears to have been its institution of seigneurial tenure—a feudal remnant that restricted landownership, labor mobility, and other rights—that reigned in Quebec from 1626 through 1791 and continued in limited form until its abolition in 1854. See Vincent Geloso, Vadim Kufenko, and Alex P. Arsenault-Morin, "The Lesser Shades of Labor Coercion: The Impact of Seigneurial Tenure in Nineteenth-Century Quebec," *Journal of Development Economics* 163 (June 2023), https://doi.org/10.1016/j.jdeveco.2023.103091. Landownership was also highly concentrated in political elites in the Spanish colonies but through different mechanisms. See Gary D. Libecap, "The Consequences of Land Ownership," Hoover Institution, August 29, 2018, https://www.hoover.org/research/consequences-land-ownership.

98. Deirdre Nansen McCloskey, "Economic Causes and Consequences of the American Revolution," in *Capitalism and the American Revolution*, ed. Yuval Levin, Adam J. White, and John Yoo (Washington, DC: AEI Press, 2025).

99. Fischer, *Paul Revere's Ride*, 163–64.

100. Robert F. Smith, *Manufacturing Independence: Industrial Innovation in the American Revolution* (Yardley, PA: Westholme Publishing, 2016).

101. David Hackett Fischer, *Washington's Crossing* (New York: Oxford University Press, 2004), 11–12, 255–57, 264–66, 283–84, 310–16.

102. Doris Kearns Goodwin, *Team of Rivals: The Political Genius of Abraham Lincoln* (New York: Simon & Schuster, 2006); and David Hackett Fischer, "American Leadership: The Invention of a Tradition," American Enterprise Institute, March 8, 2006, https://www.c-span.org/video/?191737-1/irving-kristol-award.

103. F. A. Hayek, "Competition as a Discovery Procedure," trans. Marcellus S. Snow, *Quarterly Journal of Austrian Economics* 5, no. 3 (Fall 2002): 9–23, https://cdn.mises.org/qjae5_3_3.pdf.

104. McCusker and Menard, *The Economy of British America*.

105. Samuel H. Williamson, "Annualized Growth Rate of Various Historical Economic Series," MeasuringWorth, 2024, https://www.measuringworth.com/calculators/growth. See also Thomas Weiss, "Economic Growth in the United States, 1790–1860,"

Oxford Research Encyclopedias, Economics and Finance, December 23, 2019, https://doi.org/10.1093/acrefore/9780190625979.013.489. US economic growth continued at extraordinarily high rates after the Civil War.

106. Richard Sylla, "Financial Foundations: Public Credit, the National Bank, and Securities Markets," in Irwin and Sylla, *Founding Choices*, 59, 82–83.

107. Robert E. Wright, "Rise of the Corporation Nation," in Irwin and Sylla, *Founding Choices*, 217, Table 7-1.

108. Douglass C. North, *The Economic Growth of the United States: 1790–1860* (New York: W. W. Norton, 1966).

109. Wright, "Rise of the Corporation Nation," 219.

110. Empirical evidence that economic growth in the new republic's early decades was "finance led" is presented in Peter L. Rousseau and Richard Sylla, "Emerging Financial Markets and Early U.S. Growth," *Explorations in Economic History* 42, no. 1 (January 2005): 1–26, https://www.sciencedirect.com/science/article/abs/pii/S0014498304000178.

111. Mark F. Plattner, "American Democracy and the Acquisitive Spirit," in Goldwin and Schambra, eds., *How Capitalistic Is the Constitution?*, 1–2, 9. Essentially all the *Federalist*'s examples of the debilities of the Articles of Confederation and advantages of the proposed Constitution involve economic policy. Those in the central pair of James Madison's *Federalist* 10 and Alexander Hamilton's *Federalist* 11 are laws concerning debtors versus creditors, manufacturers versus landed interests, apportionment of taxes, and promotion of competition among foreign nations to secure favorable terms for American commerce. "The principal task of modern legislation," says *Federalist* 10, is regulation of these "various and interfering interests" and of the "unequal distribution of property," the protection of which is "the first object of government." See *Federalist*, no. 10 (James Madison), https://avalon.law.yale.edu/18th_century/fed10.asp.

112. National Archives, "Signers of the Declaration of Independence," https://www.archives.gov/founding-docs/signers-factsheet; and National Archives, "Meet the Framers of the Constitution," https://www.archives.gov/founding-docs/founding-fathers.

113. Three recent books examine George Washington's entrepreneurial exploits before and after the Revolutionary War and highlight his business skills and business-friendly policies as president: Edward G. Lengel, *First Entrepreneur: How George Washington Built His—and the Nation's—Prosperity* (Boston, MA: Da Capo Press, 2016); Cyrus A. Ansary, *George Washington, Dealmaker-in-Chief: The Story of How the Father of Our Country Unleashed the Entrepreneurial Spirit in America* (Washington, DC: Lambert Publications, 2019); and John Berlau, *George Washington, Entrepreneur: How Our Founding Father's Private Business Pursuits Changed America and the World* (New York: All Points Books, 2020).

114. I. Bernard Cohen, *Science and the Founding Fathers: Science in the Political Thought of Thomas Jefferson, Benjamin Franklin, John Adams, and James Madison* (New York: W. W. Norton, 1995). Jefferson was of course an architect; he also tried his hand at

business, organizing a for-profit nail factory atop Monticello in an effort to reduce his substantial personal debts, which ultimately failed despite being manned by slave labor.

115. R. R. Palmer, *Twelve Who Ruled: The Year of the Terror in the French Revolution* (1941; Princeton, NJ: Princeton University Press, 2017), 5–18. R. R. Palmer summarizes: "Not one of the twelve had ever labored with his hands. . . . None, . . . except Saint-André for a short time, had ever engaged in trade. They had no personal knowledge of industry. . . . All twelve were intellectuals." Hamilton wrote to the Marquis de Lafayette about the French revolutionaries in 1789: "I dread the reveries of your philosophic politicians who appear in the moment to have great influence and who being mere speculatists may aim at more refinement than suits either with human nature or the composition of your nation." Chernow, *Alexander Hamilton*, 318.

116. Irving Kristol, *The American Revolution as a Successful Revolution* (Washington, DC: American Enterprise Institute, 1973), https://www.aei.org/wp-content/uploads/2016/03/BicentenUSA01.pdf.

117. Peter H. Lindert and Jeffrey G. Williamson, "American Incomes Before and After the Revolution," *Journal of Economic History* 73, no. 3 (September 2013): 725–65, https://doi.org/10.1017/S0022050713000594.

118. Winifred Barr Rothenberg, *From Market-Places to a Market Economy: The Transformation of Rural Massachusetts, 1750–1850* (Chicago: University of Chicago Press, 1992).

119. Wood, "Inventing American Capitalism." This is drawing on the larger argument of Gordon S. Wood, *The Radicalism of the American Revolution* (New York: Knopf, 1991). A more recent assessment is Gordon S. Wood, *Power and Liberty: Constitutionalism in the American Revolution* (New York: Oxford University Press, 2021), 54–71.

120. Wright, "Rise of the Corporation Nation," 219.

121. *Federalist*, no. 7 (Alexander Hamilton); *Federalist*, no. 10 (Madison); *Federalist*, no. 11 (Alexander Hamilton); *Federalist*, no. 22 (Alexander Hamilton); and *Federalist*, no. 46 (James Madison).

122. James Madison, "Vices of the Political System of the United States, April 1797," Founders Online, https://founders.archives.gov/documents/Madison/01-09-02-0187.

123. Farley Grubb, "U.S. Land Policy: Founding Choices and Outcomes, 1781–1802," in Irwin and Sylla, *Founding Choices*, 259–66. Some complicated western claims were left for resolution under the Articles of Confederation.

124. "The Constitution was a conservative counterrevolution against what leading American statesmen regarded as the irresponsible economic measures enacted by a majority of state legislatures in the mid-1780s, which they diagnosed as a symptom of excessive democracy." Klarman, *The Founders' Coup*.

125. The Constitution forbade federal and state bills of attainder and ex post facto laws with the only, fleeting objections being that they were too obviously contrary to the legislative function to be worth mentioning and had already been banned by many state constitutions. US Const. art. I, § 9, cl. 3.1–3.2. See Constitution Annotated, "Historical Background on Bills of Attainder," https://constitution.congress.gov/browse/essay/artI-S9-C3-1/ALDE_00013186; and Constitution Annotated, "Historical

Background on Ex Post Facto Laws," https://constitution.congress.gov/browse/essay/artI-S9-C3-3-2/ALDE_00013191.

126. Wood, *Power and Liberty*, 32–53.

127. An exception was the treaty proposal of Secretary of Foreign Affairs John Jay that the confederation relinquish navigation rights on the Mississippi River for several decades in exchange for favorable trade arrangements with Spain. Madison, who was strongly opposed, regarded the jockeying for regional advantages in the treaty debates as a prime example of the "predominance of temporary and partial interests over those just and extended maxims of policy" under the articles. But those debates produced exactly the result he thought just—Congress rejected the treaty. See Joseph J. Ellis, *American Creation: Triumphs and Tragedies in the Founding of the Republic* (New York: Knopf, 2007), 95–96.

128. Edmund W. Kitch, "Regulation and the American Common Market," in *Regulation, Federalism, and Interstate Commerce*, ed. A. Dan Tarlock (Cambridge, MA: Oelgeschlager, Gunn & Hain, 1981), 9, 15–19.

129. Adams's one other lamentable "unlicensed compact" was a similarly businesslike 1783 agreement between Pennsylvania and New Jersey over navigation and trade on the Delaware River.

130. Kitch, "Regulation and the American Common Market," 19.

131. That is the question addressed in the Kitch essay and others in the Tarlock volume.

132. In addition to the Tarlock volume, see Michael S. Greve, *The Upside-Down Constitution* (Cambridge, MA: Harvard University Press, 2012); Robin Feldman and Gideon Schor, "Lochner Revenant: The Dormant Commerce Clause & Extraterritoriality," *New York University Journal of Law & Liberty* 16, no. 2 (2022): 209, https://repository.uclawsf.edu/cgi/viewcontent.cgi?article=2921&context=faculty_scholarship; Daniel Francis, "The Decline of the Dormant Commerce Clause," *Denver Law Review* 94, no. 2 (January 2017): 255, https://digitalcommons.du.edu/cgi/viewcontent.cgi?article=1043&context=dlr; and Norman R. Williams, "The Foundations of the American Common Market," *Notre Dame Law Review* 84, no. 1 (2008): 409, https://scholarship.law.nd.edu/ndlr/vol84/iss1/7/.

133. Elaborated in Aaron N. Coleman, *The American Revolution, State Sovereignty, and the American Constitutional Settlement, 1765–1800* (Lanham, MD: Lexington Books, 2016).

134. A luminous account of the defeat of Madison's plan, emphasizing the delegates' practical as opposed to philosophic bent, is John P. Roche, "The Founding Fathers: A Reform Caucus in Action," *American Political Science Review* 55, no. 4 (December 1961): 799, 803–10, https://www.cambridge.org/core/journals/american-political-science-review/article/abs/founding-fathers-a-reform-caucus-in-action/CE50156024A1189BFA965DBBE1094B3A. The recent, now definitive study of the Philadelphia Convention is Klarman, *The Founders' Coup*, 126–304.

135. US Const. art. I, § 10.

136. Ellis, *American Creation*, 117.

137. *Federalist*, no. 10 (Madison).

138. *Federalist*, no. 39 (James Madison).

139. *Federalist*, no. 51 (James Madison).

140. Edward C. Banfield, "Was the Founding an Accident?," in *Here the People Rule: Selected Essays*, 2nd. ed. (Washington, DC: AEI Press, 1991), 7, https://www.aei.org/wp-content/uploads/2014/07/-here-the-people-rule_165254919061.pdf.

141. The contract clause, however, was inserted at the last minute, probably by Hamilton, in words much broader than those of an earlier proposal (directed narrowly at debtor-relief laws) that had been rejected. See McDonald, "The Constitution and Hamiltonian Capitalism," 49, 59–64. An excellent study of the genesis of the intellectual property clause is B. Zorina Khan, "Looking Backward: Founding Choices in Innovation and Intellectual Property Protection," in Irwin and Sylla, *Founding Choices*, 315.

142. Local governments in Britain and the Dutch Republic possessed significant independent authority over trade and other matters at the time of the US founding. See Barry R. Weingast, "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development," *Journal of Law, Economics, and Organization* 11, no. 1 (April 1995): 1, https://academic.oup.com/jleo/article-abstract/11/1/1/814966. But the arrangements were less formal and structured than those of the US Constitution and were not templates for American federalism.

143. The definitive account is Paul Johnson, *The Birth of the Modern: World Society 1815–1830* (New York: HarperCollins, 1991). Alan Greenspan and Adrian Woolridge emphasize the importance of America's entrepreneurial culture to the cascade of inventions and new technologies in the early 1800s in Greenspan and Woolridge, *Capitalism in America*, 40–54.

144. Specialization, like competition, is a fundamental principle of market economics—the first chapter of *The Wealth of Nations* is devoted to explaining the advantages of the division of labor. One might say that "the policy of supplying, by specialization in knowledge and function, the defect of better understanding and ability, might be traced through the whole system of human affairs, private as well as public."

145. The four senator-presidents were Benjamin Harrison, Warren Harding, John F. Kennedy, and Barack Obama. Data through George W. Bush are presented in Christopher DeMuth, "Governors (and Generals) Rule," *American Enterprise* (January–February 2004), https://ccdemuth.com//wp-content/uploads/2015/03/governors_and_genrals_rule.pdf.

146. The ensuing discussion of banking draws on Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, NJ: Princeton University Press, 2014), 153–202; McCraw, *The Founders and Finance*, 74–121, 227–306; Hammond, *Banks and Politics in America*, 114–285; Rousseau and Sylla, "Emerging Financial Markets and Early U.S. Growth"; Sylla, "Financial Foundations," 59; Rousseau, "Monetary Policy and the Dollar," 121; and Howard Bodenhorn, "Federal and State Commercial Banking in the Federalist Era and Beyond," in Irwin and Sylla, *Founding Choices*, 151.

147. Sylla, "Financial Foundations," 74.

148. Hammond, *Banks and Politics in America*, 124.

149. Calomiris and Haber, *Fragile by Design*, 163.

150. John Joseph Wallis, "The Other Foundings: Federalism and the Constitutional Structure of American Government," in Irwin and Sylla, *Founding Choices*, 177, 183–88.

151. Calomiris and Haber, *Fragile by Design*, 166.

152. Brad Littlejohn, "National Conservatism, Then and Now," *National Affairs* 60 (Summer 2023): 165, https://www.nationalaffairs.com/publications/detail/national-conservatism-then-and-now.

153. Drew R. McCoy, *The Elusive Republic: Political Economy in Jeffersonian America* (Chapel Hill, NC: University of North Carolina Press, 1980), 223–33.

154. Thomas Jefferson, "From Thomas Jefferson to the United States Congress," December 2, 1806, Founders Online, https://founders.archives.gov/documents/Jefferson/99-01-02-4616.

155. McCoy, *The Elusive Republic*, 188.

156. Hammond, *Banks and Politics in America*, 443.

157. Howard Bodenhorn, "Antebellum Banking in the United States," Economic History Association, 2023, https://eh.net/encyclopedia/antebellum-banking-in-the-united-states.

158. Wallis, "The Other Foundings," 194–201.

159. Wallis, "The Other Foundings," 201–10; Calomiris and Haber, *Fragile by Design*, 168–71; Wright, "Rise of the Corporation Nation," 230–33; and Lamoreaux and Wallis, "Economic Crisis, General Laws, and the Mid-Nineteenth-Century Transformation of American Political Economy," 415–18, 423–28, 433.

160. Bodenhorn, "Federal and State Commercial Banking Policy in the Federalist Era and Beyond," 151, 167–69.

161. Howard Bodenhorn, *State Banking in Early America: A New Economic History* (New York: Oxford University Press, 2002).

162. Rousseau and Sylla, "Emerging Financial Markets and Early U.S. Growth," 4.