THE NEW REPUBLIC AND THE NEW INSTITUTIONALISM:
HAMILTON’S PLAN AND EXTRA-LEGISLATIVE ORGANIZATION

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Abstract

Recent work under the "new institutionalism" rubric has emphasized the role that institutions play in majority rule legislatures. This paper applies this focus on institutions to examine why rudimentary political parties began to form in the early sessions of the United States Congress. While Constitutional structures could have provided institutional stability to the early Congresses, empirical evidence indicates that a necessary condition underlying the operation of Constitutional stability-enhancing structures was not fulfilled. It will be argued that in order to avoid the uncertainty inherent in the institution-free first two Congresses, political entrepreneurs (especially Hamilton and Madison) began to organize rough legislative factions behind particular political-economic policies. This paper will examine in particular the progress of Hamilton’s fiscal plans in the first Congresses and the legislative polarization which provided the foundation upon which the Federalist and Jeffersonian Republican parties were built.
A firm Union will be of the utmost moment to the peace and liberty of the States as a barrier against domestic faction and insurrection. It is impossible to read the histories of the petty republics of Greece and Italy without feeling sensations of horror and disgust at the distractions with which they were continually agitated, and at the rapid succession of revolutions by which they were kept in a state of perpetual vibration between the extremes of tyranny and anarchy. If they exhibit occasional calms, these only serve as short-lived contrasts to the furious storms that are to succeed. If now and then intervals of felicity open themselves to view, we behold them with a mixture of regret, arising from the reflection that the pleasing scenes before us are soon to be overwhelmed by the tempestuous waves of sedition and party rage … The science of politics, however, like most other sciences, has received great improvement. The efficacy of various principles is now well understood, which were either not known at all, or imperfectly known to the ancients. The regular distribution of power into distinct departments; the introduction of legislative balances and checks; the institution of courts composed of judges holding their offices during good behavior; the representation of the people in the legislature by deputies of their own election: these are wholly new discoveries, or have made their principal progress toward Perfection in modern times.

Hamilton, *Federalist No. 9*

Complaints are everywhere heard … that our governments are too unstable, that the public good is disregarded in the conflicts of rival parties, and that measures are too often decided, not according to the rules of justice and the rights of the minor party, but by the superior force of an interested and overbearing majority.

Madison, *Federalist No. 10*
THE NEW REPUBLIC AND THE NEW INSTITUTIONALISM: HAMILTON’S PLAN AND EXTRA-LEGISLATIVE ORGANIZATION*

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1 Introduction

Recently there has been a resurgence in the political science literature of the study of institutions. Originating mainly in the economic works of Arrow and Coase, this “new institutionalism” has refocused academic interest in the origins, evolution, and manipulation of institutions ranging from Congressional committees to family relationships. While this recent focus on organization is far from consistent or even coherent, it has brought attention back to the notion that institutions and organizations have independent effects on political behavior.¹

In the study of legislative institutions, Arrow’s General Possibility Theorem and the McKelvey-Schofield “chaos theorems” demonstrate that under simple assumptions any outcome of majority-rule voting systems can be arbitrary.² These findings led to a paradox of sorts: why are arbitrary outcomes not observed in today’s Congress? The answer is that the Congress we observe today is not a pure majority-rule voting institution, but instead a maze of complicated rules and institutions which provide “structure” over legislative outcomes.³ Most of the scholarship on the institutions of Congress has focused on committees, policy jurisdictions, and amendment rules, but recent work by Aldrich has added another institutional element—the political party. Aldrich stated his premise:

* I would like to thank John Aldrich, Robert Bates, Ruth Grant and Sarah Hamm-Alvarez for their advice and especially their patience.


The party can serve as an institutional device to help achieve some stability in the face of the potential chaos of pure majority rule. The political parties were early political inventions of Congress. That is, they were invented primarily for intra-congressional purposes, and they were invented before the committee system of the sort modeled in the new institutionalism.

Indeed, the structures said to induce stability in today's Congress—committees, leadership structures, formal rules, and norms of behavior—were not present in the basically institution-free first two Congresses. That implies that instability and arbitrariness should characterize the policy outcomes in the early sessions of Congress. Yet there are two different ways we can reject this hypothesis: first, the institutional structures imposed by the Constitution could have prevented instability; second, the solidification of factions into legislative parties could have prevented instability.

This first alternative was analyzed by Hammond and Miller, who argued that bicameralism and separation of powers were expressly designed for their stability-enhancing powers. These stability-enhancing abilities of bicameralism and separation of powers, however, rely on the condition that the preferences of members of the House be distinct and separate from the preferences of members of the Senate. "The fact of the matter was, of course, that the most contentious issues before the early Congresses all but certainly led to the immediate and direct violation of this condition. Instead, the policy preferences of House and Senate were distributed very similarly."

We are left, then, with political parties as the institutions designed to eliminate instability in the early sessions of Congress. While there is a lengthy and contentious academic debate concerning when political parties actually came into existence, most scholars agree that the transition from factionalism to party organization in the Congress did indeed begin in the first sessions. What most previous work disagrees on is when in the early history of the Republic one can draw a line and demonstrate that after that point "true" political parties were in existence. We are not concerned with the debate over the timing of party origins in this paper—rather, we are concerned with why they developed and how the collective action problem of their organization was solved.

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6Aldrich, "Power and Order in Congress," previously cited, p. 20. The requirement that the different legislative bodies have different distributions of preferences across the policy dimensions is termed the "separation condition" by Aldrich, who applies it later to intralegislative divisions.

7Most of this debate, then, surrounds how to actually define a political party. While it would be ideal if political scientists, historians, and political philosophers would agree on a definition of political parties, that is unlikely to ever occur. In this paper, when we speak of political parties the definition we have in mind is that offered by Sorauf: a political party is a tripartite structure composed of an organization, a party in the government, and a party in the electorate.
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Therefore, this paper will focus on the politics of the first two Congresses, specifically on the maneuvers surrounding Hamilton’s fiscal policy plans, so that we can examine the incentives the proto-Federalists and their leaders had to develop legislative institutions which eventually led to the organization of political parties. The argument presented in this paper will first focus on the problems the Revolutionary War debt posed for the new national government and the political obstacles facing any solution to the economic dilemma. We will then turn to the specifics of Hamilton’s fiscal plan to solve the debt problem and place the fiscal aspects of the national government on a firm footing. We will last turn to the progress of Hamilton’s proposals through the first two Congresses and examine the organizational means used by Hamilton and the Federalists to ensure a favorable outcome. As a conclusion, we will examine what this analysis implies about early party development in Congress.

2 The Dilemma of the New Republic

During the colonial and Confederation periods, both the States and the tiny national government had difficulties raising revenues. The problem was rooted in the fact that in colonial America, wealth was not liquid: private capital was tied up in land or commodity assets and there were few corporations or banks. This problem, moreover, stretched further than governmental revenues since the absence of any liquid capital placed serious restraints on the ability of the economy to expand.

Therefore, when war broke out in 1775, a method to finance the war effort on both the national and state level was necessary; however, without a source of liquid capital, the states and national government turned to two other alternatives—printing paper money and taking out foreign and domestic loans. The Continental Congress issued the first round of its new currency in 1775:

Care was taken to support the value of this money. Following the beaten path of colonial procedure, Congress pledged the faith of the thirteen colonies to its redemption. Each colony was made responsible for the withdrawal of a certain share or quota of the total emission . . . Continental bills bore no interest and were printed in small denominations.8

By the end of the war, the total face value of this paper money was well over $200 million. This was approximately the amount of currency the war economy of the period could absorb without inflation or devaluation since real price advances would have soaked up much of the new currency.9

The problem, however, was that the states themselves printed almost the same amount of money. This doubling of currency circulating in the economy served to rapidly devalue the real value of the Continental currency: by 1779 the currency was officially trading at a ratio of 40 1779 dollars to 1 1775 dollar while it unofficially traded at a ratio of 98 to 1 in New York.\(^\text{10}\) Therefore, not only was the national government in debt, but most states (who originally were to have paid off the Continental Congress’s debt) were themselves deeply in debt by the war’s end.

The Continental Congress had also issued loan certificates during the war, mainly at 6% interest. Clearly the interest on these certificates could not be met so the Continental Congress issued “indents” (interest certificates) which Congress then allowed the states to pledge against their annual requisitions to the national war effort. But some states like New York and Pennsylvania allowed their citizens to pay their state taxes with these certificates, thus making some of the states large creditors of the national government, holding roughly one-third of all loan certificates.\(^\text{4}\)

Last, there was the foreign debt which at war’s end totaled nearly $11 million: roughly two-thirds was from France, one-third from Holland, and a pittance from Spain. The cost of servicing this debt alone ran over a million dollars each year in interest and capital payments. After the war, most in Congress agreed that the foreign debt had top priority over any other debt, but payment of interest and principal would have eaten up all of the national government’s revenues from the only tax Congress had implemented, the 1789 tariff.

These forms of war debt—outstanding and devalued currency, domestic loans, and foreign loans—posed economic and political problems. First, they posed a serious economic problem to the new Republic. The virtual worthlessness of the various currencies combined with a post-war flood of European imports to create a serious economic depression:

The hard times of the 1780’s were indeed a depression, for prices became severely depressed. Beginning in mid-1784, wholesale commodity prices at Charleston, Philadelphia, and New York started to fall, and—with the exception of an upsurge at Charleston in 1986—followed a downward trend until 1788 or mid-1789.\(^\text{11}\)

Thus the direct economic effects were a worthless currency system, a depressed economy, and virtually no economic growth.

Put there were indirect economic effects as well dealing specifically with the reputation of the new government regarding its debts. North and Weingast found that in the development of the English economy after the Glorious Revolution political institutions

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were needed to limit government intervention into the economy and to establish for the government a credible reputation regarding its debts. This was a similar concern in post-Revolutionary America, since before the war, it was common for those who ruled in the state legislatures to set aside their contractually obligated debts when they discovered they could not pay them. Therefore, the issue of the national government’s credit and credibility was also at stake here.

The second set of problems these economic debts posed were political. The first political problem was the sectional split in the nation that the debts provoked. On one hand, there was the problem of debt documentation—when the Congress decided to settle its accounts with the states, the southern states were unprepared: “Every state in the union had difficulty arranging its accounts and supporting claims with documents, but the financial records of Virginia, North Carolina, and, apparently, Georgia were so fragmentary and confused as to defy organization.” On the other hand, the public debt was unequally distributed among the states. As we have seen, New York, Pennsylvania, and Maryland held a third of the principal of the debt, while New England and the South held virtually none of the debt. Therefore the interests of the states - were split over the public debt; any steps taken to eliminate the debt would face serious sectional opposition in Congress.

A second political problem was how the national government would actually pay off the debt. It was clear by the beginning of the first Washington administration that direct taxes would not work. Shay’s Rebellion in 1786 was primarily motivated against the heavy taxes Massachusetts attempted to impose on its citizens to pay off its own extensive war debt. Sedgewick, later speaking before the First House, noted: “The cause of this insurrection was the oppression under which the citizens groaned, from the imposition of taxes to satisfy the public creditors.” Thus direct taxes were not an alternative and the Congress would have to formulate a more ingenious and less “oppressive” means to fund the public debt.

The third political problem was the issue of speculation. Ferguson noted:

It is reasonably certain that by 1787 or 1788 the greater part of the debt not already redeemed by the states was in the possession of secondary holders of varying magnitude. It was the property of former army officers, shopkeepers, lawyers, and other professional men, prosperous landowners, merchants who traded in securities as an adjunct to commerce, [and] merchants who became security brokers.

14 Ferguson, previously cited, p. 215.
16 Ferguson, previously cited, p. 255.
The fact that men of means were able to rapidly buy and sell government securities and profit off the sky-rocketing-security market raised popular controversy. Many felt that these “speculators” were profiting unfairly on securities the original holders—those who had invested in the patriotic cause of the Revolution—had been forced to sell to survive.

The last political problem has been elsewhere called the Great Principle: the debate which underlay the Constitutional Convention and the struggle over ratification concerning whether the locus of governmental power was to be located in the state or in the federal government. There was a sharp philosophical difference among the leaders of the new nation, a difference which the Constitutional compromises had papered over but not solved. This cleavage among the nation’s leaders over the Great Principle had the potential for creating serious opposition when plans to pay off the public debt were proposed, especially if these plans implied an increase in the power of the national government.

3 Hamilton’s Plan

The First Congress, faced with economic depression and political controversy over the potential fiscal solutions, passed a resolution on September 1, 1789 calling on the Secretary of the Treasury to prepare a plan on the public debt. The following January, at the beginning of the second session of the First Congress, Hamilton submitted his first “Report on the Public Credit.” To ascertain how Hamilton’s Plan would solve the debt crisis and to determine what political obstacles the Plan would encounter, it is essential that we examine the “Report” in detail.

The easiest option, Hamilton understood, was simple repudiation of all or part of the public debt. Yet Hamilton wrote: “States, like individuals, who observe their engagements, are respected and trusted, while the reverse is the fate of those who pursue an opposite conduct.” Performance of contracts builds trust and reputation which are extremely important in relation to government finance. For, it was apparent to Hamilton that the government would have to again appeal to those with capital in the future for further loans; if the government has built a reputation as one which quickly and fully repays its debts, it will be able to obtain future loans easily and at low interest rates. On the other hand, if the government built a reputation as one which repudiates its debts, capital-holders would be reluctant to lend to the government and would do so only at high interest rates. Simply, repudiation was not an option.

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The second question Hamilton faced was whether the payment plan should distinguish between the original holders of the public debt or the subsequent purchasers. Hamilton rejected any type of discrimination between original holders and subsequent purchasers again on contractual grounds:

The nature of the contract, in its origin, is, that the public will pay the sum expressed in the security, to the first holder or his assignee. The intent in making the security assignable, is, that the proprietor may be able to make use of his property, by selling it for as much as it may be worth in the market, and that the buyer may be safe in the purchase. Every buyer, therefore, stands exactly in the place of the seller.20

Further, allowing discrimination between original holder and purchaser would eliminate the use of the various forms of public debts as a medium of exchange; such a move would have destroyed all types of legal tender then circulating throughout the nation.21

Hamilton also rejected the idea that the states should pay the public debt. He recommended that the national government should service not only the debt outstanding to individual creditors, but that the national government should assume the debts incurred by the states. First, all of these debts were contracted for one reason—“It was the price of liberty”22—and the national government should be responsible for financing that common goal. Second, the national government could more easily service these debts since the states had sharply varying abilities to provide for the public debts they held. Third, and perhaps most important, centralizing debt service would strengthen the national government:

If all the public creditors receive their due, from one source, distributed with an equal hand, their interest will be the same. And, having the same interests, they will unite in the support of the fiscal arrangements of the Government—as these, too, can be made with more convenience where there is no competition.23

After he had shown that the national government should be responsible for the entire public debt, and that there should be no discrimination between holders (past or present), Hamilton turned to how the debt would actually be serviced. He calculated the entire public debt to total $79 million dollars, on which the interest per year would amount to $4.5 million dollars. The question which Hamilton faced was whether the revenues of the national government could meet this annual interest payment and pay off

20 Hamilton's Works, p.
21 Nettels, previously cited, p. 112.
22 Hamilton's Works, p. 4; Swanson, previously cited, p. 48.
a certain percentage of the principal each year. Hamilton concluded that the government could not fund the entire debt at its current interest rate since this would require an extension of direct taxes greater than the House or the people would approve. Also, he believed that if the public credit were adequately funded the future rate of interest would fall. Therefore Hamilton proposed that the government convert the present debt to a lower rate of interest by allowing creditors to exchange their current securities for newer low interest securities. The new securities would compensate their bearers for the reduced interest return in two different ways: first by stabilizing and guaranteeing that a certain percentage of their security would be paid in full on an annual basis over an extended period of time, similar to what we today call annuities; second by redeeming a portion of the security in the form of Western land. This was the most important and subtle part of Hamilton's plan, since through this method of supporting the debt, the national government could literally force the interest rate to fall and stabilize—thus helping to remove the fluctuations in interest rates which fueled the drive toward speculation. Further, this would play against the public's hatred of speculation and reinforce popular support behind his plan. Notice also that Hamilton framed the program as an annual appropriation to slowly pay portions of the debt across time, rather than pay the entire debt in one gigantic sum.

Now all Hamilton had to do was tie up a few loose ends. First, regarding the foreign debt, Hamilton proposed that another loan be taken out abroad to pay only the interest on the existing foreign loans, not the principal. He believed that future loans could pay off the principal when it was due and that the new government could not afford to send scarce cash abroad to service foreign debts. Second, the state debts should be assumed immediately but neither the interest nor the principal should be paid for at least another year. Hamilton wished to give the national government breathing room to slowly and incrementally raise direct taxes.

Third, Hamilton proposed to increase revenues through increased duties on wines, spirits, teas, and coffees: "They are all of them in reality luxuries; the greatest part of them foreign luxuries; some of them, in the excess in which they are used, pernicious luxuries." These increased duties would net an additional $1.7 million dollars per year which would be utilized to pay interest on the public debt.

Last, Hamilton proposed to create a "sinking fund" with surplus revenues from the Post Office. A board of commissioners would be appointed to oversee this "sinking fund" and their task would be to buy public securities in the market or to buy back portions of the principal. The "sinking fund" would not independently retire a significant portion of the public debt; rather, it would buy public securities to maintain them at their face (or par) value.

24 Hamilton’s Works, p. 19-21; Swanson, previously cited, p. 49.
26 McDonald, Alexander Hamilton, p. 170.
27 Hamilton’s Works, p. 34.
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26 McDonald, Alexander Hamilton, p. 170.
27 Hamilton's Works, p. 34.
The more important purpose of the sinking fund would be what, in the twenty-first century, would be known as “pegging the market” or “open market operations,” designed to drive the market price of securities to par and maintain it at that level. With securities stabilized at par, speculation would be ended, public credit would be established, and the public debt would be monetized.  

The major aspects of the Report on Public Credit—assumption, funding, and the sinking fund—constituted most of the business before the First Congress. But in Hamilton’s understanding of political economy, these measures were all short-run: the funding plan was to buy time for the government so it could slowly increase taxes and the sinking fund was to play the role of a national bank until an official bank could be founded. Therefore, after the “Report on the Public Credit” established the short-term fiscal policies of the national government, Hamilton turned to the establishment of permanent fiscal institutions of public finance.

As Congress adjourned from the first two sessions, they instructed Hamilton to prepare an additional report on public credit concerning a national bank and a new set of taxes. The reports which Hamilton submitted to the Second Congress detailed plans for the creation of a national bank, a mint, and a taxing system: these institutions together with the funding system would be mutually supporting and would stabilize the fiscal environment of the national government to reduce risk and uncertainty of investment.

Hamilton’s proposal for a national bank listed the advantages of such an institution: first, it would increase the amount of active capital in the economy; second, it would be a source of short-term emergency loans to the government; and third, it would facilitate the payment of taxes. This national bank was to be capitalized at $10 million dollars, of which Congress would provide $2 million (half in cash, the rest to be borrowed from the bank and incrementally paid back) and the remaining $8 million would be offered for public subscription.

In Hamilton’s mind, the establishment of this bank would almost immediately stabilize the public debt. The high interest rates on the government bonds (six percent) which provided the bank’s capital assured that these bonds would be eagerly sought by investors and the government itself would be able to support and maintain the bond prices through sinking fund—purchases of bonds. The high demand for bonds would in turn build expectations concerning the bonds in particular and public credit in general which would establish the government’s reputation as a debtor.

“The Report on the National Bank,” submitted by Hamilton on December 14, 1790, was modeled on the Bank of England. This enabled Hamilton to cloak this proposal in the economic and business theories of the time: “after an experience of centuries, there exists not a question about their utility in the countries in which they have been so

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28McDonald, Alexander Hamilton, p. 171.
29Hamilton’s Works, pp. 109-112.
long established. Theorists and men of business unite in the acknowledgment of it.” But there was one very important distinction between Hamilton’s proposed bank and it’s English predecessor. The Bank of England was only an instrument of public finance since its capital was entirely public debt; Hamilton’s bank would not deal in public debt but would instead supply a national money supply.

This bank, however, needed capital to meet interest payments, which meant that additional sources of revenue would have to be found. Hamilton’s solution was two-fold. First, he reiterated his First Report where he argued for increased import duties, except that in his second “Report on the Public Credit” he realized that there were limits on how high these duties could be raised before they were detrimental to business. Second, he made a new argument in which he wanted to shift the burden of duty collection from a voluntary basis to a more coercive system relying on federal officers paid on a commission-basis.

The last aspect of Hamilton’s plan concerned the establishment of a mint. Most of the rationale behind the proposed mint was provided by others before Hamilton, but he considered a national mint to be an essential addition to his establishment of a stable public credit. The mint would foremost provide the currency which the national bank would keep in circulation, and this currency would be uniquely American. Further, the mint was another aspect of the expectation and reputation-building aspects of Hamilton’s plan since a stable currency in precious metals would provide a reliable and sound medium of exchange.

We have now outlined the essential aspects of Hamilton’s political economy: his plans for assumption, funding, the sinking fund, revenues and taxes, and the national bank and mint. These proposals each had controversial elements, sketched out briefly above, and Hamilton proposals did encounter substantial opposition in the first and Second Congresses. Now we will turn to the progress of Hamilton’s plans through Congress and the organizational means which Hamilton used to insure passage of his proposals over their heated opposition.

4 Congressional Opposition to Hamilton’s Plan

Hamilton’s first obstacle in January 1790 arose over how he would present the “Report on the Public Credit”—would he submit a written report or would he be allowed to make his report in person. Even though Hamilton and some of his early allies in the House wanted him to submit his report in person, significant opposition claimed that Hamilton’s presence would represent an intrusion of the executive branch into the legislative branch, and the opposition won this victory. Hamilton’s report was read aloud in the House and subsequently published.

30 Hamilton’s Works, p. 107.
31 McDonald, Alexander Hamilton, p. 194.
long established. Theorists and men of business unite in the acknowledgment of it.”

But there was one very important distinction between Hamilton’s proposed bank and its English predecessor. The Bank of England was only an instrument of public finance since its capital was entirely public debt; Hamilton’s bank would not deal in public debt but would instead supply a national money supply.

This bank, however, needed capital to meet interest payments, which meant that additional sources of revenue would have to be found. Hamilton’s solution was two-fold. First, he reiterated his First Report where he argued for increased import duties, except that in his second “Report on the Public Credit” he realized that there were limits on how high these duties could be raised before they were detrimental to business. Second, he made a new argument in which he wanted to shift the burden of duty collection from a voluntary basis to a more coercive system relying on federal officers paid on a commission-basis.

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Immediately it was clear that there was sectional opposition to various aspects of the plan. Two groups coalesced into a single opposition to Hamilton’s proposals on assumption, funding, and the sinking fund. On one hand, the members from Georgia, North Carolina, South Carolina, and Virginia were dead set against assumption. Led in the House by South Carolina’s Sumter and James Jackson of Georgia, the representative from the South realized that due to the decrepit nature of record-keeping in their states they stood to gain little for their constituents except higher taxes. They were convinced that Northerners stood to gain the most from assumption.

On the other hand there were the representatives from most of New England and Virginia who knew that their states held little of the national debt. The New Englanders—led by Livermore of New Hampshire—were vocal in their opposition to Hamilton’s plan. But the Virginians (led by Madison), who saw the need for a stable public credit, also understood that their support for the plan could be crucial due to the opposition of the New Englanders and their fellow Southerners. The Virginians were prepared to demand returns for their state if they were to support Hamilton’s plan.

Ironically Madison, who with Hamilton and Jay had written the brilliant essays defending the Constitution and a stronger national government, led the attack against Hamilton’s plan. He rose in the House on February 11th and proposed that secondary holders of securities should only be paid the highest market rate for their securities and the balance should be paid to the original holders of the securities. In short, Madison wished to implement exactly the type of discrimination plan that Hamilton argued against. Less than a month into the second session of the First Congress it was apparent that there was a split in the very coalition which had produced the Constitution.

Why did Madison make this move against Hamilton so quickly? It seems there are three elements of the explanation. First, “Madison saw himself as coming to the rescue of the common man.” This move can be seen as the first indication of a philosophy of human justice, of ensuring the rights of common people, in the politics of the new Republic. Second, as discussed earlier, discrimination was a very salient issue in the public at this time, and Madison may have been attempting to mobilize this potential oppositional force. Ferguson noted:

Outside of Congress, Madison’s proposal brought to focus a residual hatred of merchants, rich men, and speculators which threatened faintly to give birth to a popular movement. Scores of newspaper articles denounced the present holders.

Furthermore, Madison was also attempting to increase his political capital in his home

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33 McDonald, Alexander Hamilton, p. 194.
35 Ferguson, previously cited, p. 301.
His opposition to Hamilton’s plan signaled to the political leaders of Virginia (especially Jefferson) and to the politically relevant segments of the Virginia population that Madison was about to shift his focus from a pro-nation to a pro-Virginia stance.

Madison’s amendment was discussed and voted upon a few weeks later. Massachusetts and Middle Atlantic representatives spoke at length against the amendment, echoing Hamilton’s arguments of contract and stable public credit. In the end, the amendment was defeated 36 to 13, but this early opposition signaled the beginning of a Republican opposition in national politics.37

The next step for Hamilton’s plan was passage of the assumption bill in the House. Again, the opposition to assumption came from Southern states—Maryland, Virginia, North and South Carolina, and Georgia—who held little of the remaining public debt. Jackson and Livermore stood and spoke against assumption on the grounds that people were more familiar with state funding, state taxation, and that national assumption would eliminate the remaining powers of the states.38

White of Virginia offered an amendment to the assumption bill which restricted assumption: credit for state debts would only occur after a final settlement of accounts. Opposition to this amendment came from Gerry and Ames, staunch Federalists from Massachusetts, who rejected the idea that account settlement should occur before assumption since settlement would only delay payment of the public debt. The Federalist leaders knew they had to keep these two issues separate: they wanted the national government to approve the policy of assumption first and then later figure out how to settle the various state claims. White’s amendment was defeated 32 to 18, which seems to indicate that at this stage a majority of House members did favor assumption as long as the method of settlement was not specified.39

The debate over White’s amendment, however, had shown the preferences of most representatives over assumption. Madison, armed with this information, rose to again attack Hamilton’s plan. He proposed an amendment to broaden assumption to include existing state debts and the debts the states themselves had paid off since the war. This amendment would have served Virginia’s and the other Southern state’s interest (no issue would have arisen over settling accounts or how much public debt individual states had already retired) and would have strengthened the central government (a vast increase in federal debt and hence revenue collection powers). “The proposal was - ingenious and very subtle, because if assumption passed on these terms, Virginia’s interest were protected; but on the other hand, an assumption so large was most unlikely to pass.”40 That was what made this an ideal amendment for Madison—it earned him political capital at home, but allowed him to again attack Hamilton’s plan.

36Ferguson, previously cited, p. 298.
38Ferguson, previously cited, pp. 311-312.
40Ferguson, previously cited, p. 316.
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Madison's amendment was defeated by a vote of 28 to 22, demonstrating increasing dissatisfaction with the assumption plans. Hamilton's allies in the House grew concerned over the assumption aspects of the "Report on the Public Credit," largely due to the action of the passionate minority. They attempted to eliminate assumption from the funding bill, but that attempt was defeated. The supporters of Hamilton's plan tried to move the debate to other aspects of the plan, but it became clear that assumption would have to be settled. White then moved that Hamilton be required to submit an additional report detailing which taxes would pay for the assumed state debts—this delaying tactic failed since Hamilton had a concise report before the House in two days. Debate on funding and assumption continued, with Hamilton in the gallery watching, as six more representatives from North Carolina arrived and were seated. This provided Madison the margin he needed: they called the question on assumption and it was defeated 31 to 29. A funding bill—without assumption—was sent to the Senate on June 2, 1790.

Thus a stalemate existed between the two rough factions: Hamilton and his plan's supporters who were growing desperate over the fate of the plan were arrayed against Madison and his followers who seemed to control the fate of the assumption clause. Thus the lines were drawn for one of the earliest recorded examples of vote trading (logrolling) in American politics.

Jefferson, as Secretary of State, intervened in the stalemate on behalf of Washington and discussed various proposals to solve this dilemma over dinner with Hamilton and Madison. The opponents of assumption assured Hamilton that they would obtain the votes to pass assumption if Hamilton obtained two things in return: first, enough votes in the Senate to move the capital from New York, temporarily to Philadelphia and then permanently to the Potomac; second, he would have to relax his requirements concerning the settlement of state accounts so that the Virginians and the Southerners would not lose out in the final assumption.

Both sides carried out their ends of the bargain. Hamilton persuaded two New England Senators, Dalton and Strong of Massachusetts, to defeat the effort to keep the capital in New York. The House soon after took up both the Senate capital-moving bill and the funding-assumption bill. Four legislators had been persuaded by Jefferson and Madison to change their votes—Carroll and Gale of Maryland, Lee and White of Virginia—and the final assumption-funding bill passed with the help of these critical Southern votes exchanged for the capital-moving legislation.

Thus at the close of the First Congress, the first phase of Hamilton's plan had actually fared well. The basic aspects of assumption, funding, and the sinking fund had passed intact. There were two major exceptions: first, no action was taken on Hamilton's revenue-increasing proposals (excise taxes); second, the bargaining around the Compromise of 1790 had changed slightly the interest rates and annuity/land ratios of the funding plan. Hamilton was pleased with his legislative success in spite of the substantial oppo-

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42 McDonald, Alexander Hamilton, p. 185-186.
sition placed in his path by Madison and his followers. However, the second phase of his
economic plan—the long-term aspects of the plan—still awaited their legislative debut.

When the House reconvened in the late fall of 1790 Hamilton had his new proposals
ready. He submitted his second “Report on the Public Credit” on December 13, 1790,
his “Report on the National Bank” the next day, and his “Report on the Establishment
of a Mint” on January 28, 1791.43

The least controversial of these proposals, the mint, was passed into law with little
opposition. The only significant deviation from Hamilton’s proposal was that the Coinage
Act altered which denominations were to be minted in silver or gold.44 The excise and
bank proposals did not fare as well. The former, Hamilton’s second round of proposals for
increased taxes on commodities, were opposed by a solid Southern bloc (the reason they
were not acted upon in the previous session). Again, the vocal Jackson of Georgia led this
opposition in the House mainly to keep the level of federal taxes from increasing. Since
Madison supported the excise bill, however, the Southerners were only able to modify
slightly the commission the collection agents would receive and the excise passed.45

All that remained was the bank proposal. While the Southerners in the House were
fighting the excise bill, their Senate colleagues were fighting the bank bill. But their
opposition was insufficient in the Senate to stop the bill and it was sent intact to the
House in late January.46 In the House, the bank bill faced a large opposition due to the
location of the main branch of the bank in Philadelphia and to the general principle of
Congress-creating a separate institution:

The Virginians fear[ed] that once the bank became firmly entrenched in
Philadelphia, it would be almost impossible to move the capital a decade
later . . . As part of his maneuvering, Madison warned the Pennsylvanians
that if they failed to cooperate, he would attack the bill in the House as un-
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delivered in February 2 and 8, he maintained that Congress had no power to
charter a corporation.47

Here again, we find Madison taking a stand in opposition to Hamilton’s plan, a stand
which signaled a dramatic reversal in Madison’s earlier statements and writings. For,
Madison had himself defended the implied powers clause in Federalist No. 44 where he
stated that implied powers are in the class “of the several powers and provisions by which

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44Specifically, they did not mint a gold dollar; instead they decided upon a silver dollar. Debates of
Congress, 2. Cong, 2 Sess., III, 1351-1356; Nettels, previously cited, pp. 120-121.
45Kenneth Russell Bowling, Politics in the First Congress, 1789-1791, (University of Wisconsin, Ph.
46Bowling, previously cited, p. 230-234.
47McDonald, Alexander Hamilton, p. 201.
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efficacy is given to all the rest," and "Without the *substance* of this power, the whole Constitution would be a dead letter."48

Ames and Sedgewick rose to defend Hamilton’s plan and the doctrine of implied powers. Not surprisingly, a majority of the House supported Madison’s original defense of implied powers and the bank bill passed 39 to 20. Note however, that of the twenty nays, 19 were from the South and 12 were from Virginia and Maryland.49

More important, however, was Washington’s concern over the constitutional issue Madison raised. True to form, Washington asked members of his cabinet to prepare briefs discussing Madison’s argument against the bank. Randolph, the Attorney General from Virginia, informed Washington that the bank bill, in his opinion, was unconstitutional. Jefferson seconded Randolph in his brief a few days later, along with pages discussing other laws the bank bill supposedly violated. Washington then asked Hamilton for a defense of the constitutionality of the bill.

Hamilton’s “Opinion as to the Constitutionality of the Bank of the United States” was a point by point refutation of Randolph and Jefferson. But this brief is perhaps best known by Hamilton’s summary of why implied powers is constitutional: “If the *end* be clearly comprehended within any of the specified powers, and if the measure have an obvious relation to that *end*, and it is not forbidden by any particular provision of the Constitution, it may safely be deemed to come within the compass of the national authority.”50 This argument effected Washington’s opinion of the bank bill, since shortly thereafter he signed the bill into law.

The fight over the bank bill served to finally force the hand of Madison and Jefferson. Both had been soundly defeated by Hamilton and his allies:

Madison and Jefferson decided they must organize an opposition … To this end, they planned to combine malcontents from among the landed gentry with dissatisfied groups in the big cities, blending them together into a new force … Jefferson wrote to Madison’s old college friend, the poet and newspaper editor Philip Freneau. By offering Freneau a part-time Government job, the two statesmen were maneuvering to have at hand a newspaper friendly to their views.51

Freneau’s *National Gazette* was destined to become the written mouthpiece of the Jeffersonian Republicans. More importantly, shortly after the Second Congress adjourned, Jefferson and Madison traveled together for a lengthy “botanizing” trip to New York, where they allegedly met with the anti-Federalists Burr and Clinton: it is certain that they couldn’t avoid discussing politics during the entire trip.52

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49 *McDonald, Alexander Hamilton*, p. 201.
50 *Hamilton’s Works*, V. IV, p. 113
51 *Fribourg*, previously cited, p. 76.
52 Chambers (p. 71, previously cited) argues that this trip wasn’t political. But it is difficult to disagree
5 Hamilton and Legislative Organization

Thus far we have seen that it was predictable that the plans proposed by Hamilton would face sectional opposition: this anticipated opposition occurred and was led by Madison for his own political ends. Throughout the discussion of the legislative maneuvers surrounding Hamilton’s plan in the first two Congresses we have hinted at the role Hamilton played in prompting organization behind his proposals both inside and outside the House chambers. What remains is to explicitly examine the incentives Hamilton had in expending his own political capital to organize House members behind his proposals and what those organizational forms were.

In review, the problem facing Hamilton was roughly the problem of majority rule voting. In a sparse institutional environment, there was no means available which Hamilton could use to coordinate the actions of his House supporters with the more “marginal” members to build stable majority coalitions. In the face of instability and uncertainty, only with stable coalitions in the first two Congresses could Hamilton be certain that all the interlocking and mutually supportive aspects of his fiscal plans would pass Congress intact. Since the institutions necessary to create and maintain these stable coalitions did not exist, Hamilton set out to build them himself. In so doing, moreover, Hamilton was providing a public good to a certain segment of Congressional representatives—the means by which they could coordinate their own actions and thereby achieve the gains of cooperation. Therefore, Hamilton initiated the rudimentary provision of this public good and, in league with his staunch allies in Congress, they began to solve this collective action problem.

To analyze Hamilton’s actions, we can think of him as a “political entrepreneur.” Frolich and Oppenheimer define the term: “A political entrepreneur is an individual who invests his own time or other resources to coordinate and combine other factors of production to supply collective goods.”\(^{53}\) The political entrepreneur collects resources from others, enters into exchange with others concerning the pooled resources, and thereby satisfies his personal self-interest and the collective interest of the group. Further, the self-interest of the entrepreneur need not be equivalent to the collective interest of the group, and in fact, they are often divergent.\(^{54}\)

Hamilton’s personal interest obviously was the passage of his proposals intact into law. To insure their passage, however, he had to coordinate the resources (votes) of Congressional members in to majority coalitions. Coordination was necessary on Hamilton’s part since it was clear there were sectional interest opposed to various aspects of his plan

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with Hoadley (p. 117, previously cited) who finds it impossible that two professional statement could avoid taking politics among themselves and with others of the “Republican persuasion” during their lengthy trip.

and therefore that majorities for his proposals could not be assured. Further, it was quickly clear that there were other political entrepreneurs with other incentives working against Hamilton, which made the pressures toward organization to avoid uncertain outcomes even more imperative. Therefore, Hamilton had the personal incentives—the passage of his proposals in the light of instability and uncertainty—to invest his time, energy, and political capital in efforts to organize and coordinate legislative members.

It has long been a truism in political history that Hamilton was the organizing force behind the development of the Federalist party. Chambers writes:

> Throughout the long shaping of the Federalist formation, Hamilton played a curious though commanding role. In effect he had initiated the whole effort with his vision and advocacy, and throughout its early years he stood forth as the party's unquestioned spokesman and leader. His proposals, as he saw them, were to point the new nation in the "right" direction, place its new government on firm foundations, mobilize support for his management in that government and thwart such political foes as might appear.\(^{55}\)

But nowhere in this earlier literature on Hamilton's role in party development is an explicit rationale given for Hamilton's efforts. In examining Hamilton's actions in terms of a political entrepreneur, however, we can see that it was in his personal self-interest to organize the legislature.

In his role as a political entrepreneur, Hamilton used many means to achieve cooperation and coordination among the legislators voting over his proposals. We will discuss each different method of organization in turn: agenda-setting, formal and informal leadership, and caucuses.

The power of the agenda is one of the most frequently cited mechanisms of control in legislative politics.\(^{56}\) Agenda control, however, takes on two different guises: first, control over what the proposal actually says; second, control over what the proposal is paired against in voting. A clear example of the first type of agenda control is seen in Hamilton's ability to send his reports to the House. Although he was unable to directly present his various proposals in person, by his reports he was able to frame the parameters of discussion about economic policy and more importantly, he was able to frame the policy responses to the economic crisis. In short, Hamilton's reports gave him a great deal of power since he was able to establish how the problem was to be approached and solved.

The second form of agenda control—control over how proposals were voted on—obviously was not available to Hamilton personally. His position as Secretary of the Treasury barred

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\(^{55}\)Chambers, previously cited, p. 43, my emphasis.

him from direct manipulation of House affairs. But three strong supporters of Hamilton in the House, Ames, Sedgewick, and Trumbull, were able to wield agenda power in the House for Hamilton.\textsuperscript{57} Therefore, it is clear that Hamilton exercised both forms of agenda control in his push to get his proposals through the first two Congresses.

This power over the agenda interacted with the ability of Hamilton and his cohort of House leaders to become powerful legislative leaders in the first two Congresses. The real leader of the House Federalists was Hamilton, of course. Senator Maclay stated in his journal: "Mr. Hamilton is all-powerful, and fails in nothing he attempts."\textsuperscript{58} Further evidence comes from Hoadley, who found that "Hamilton was involved much in the manner of a modern floor leader, caucusing with members, trying to round up votes, and helping to schedule legislation."\textsuperscript{59} Hamilton was present in the gallery for all of the debates over his proposals, and further evidence from Maclay's journal shows the supporters of Hamilton often came up to the gallery to plot strategy with the Secretary.

As noted above, Hamilton couldn't directly intervene on the floor. We have frequently identified Ames and Sedgewick as Hamilton's surrogates on the floor, and it was to them which the direct responsibility of rounding up votes and defending the Hamilton plan fell. Hamilton, as the political entrepreneur, used his staunch supporters in the House to ensure passage of his proposals: "Hamilton and his congressional allies did provide strong policy leadership. While Hamilton may have been pursuing personal goals, it does appear that the various leaders were truly seeking unity behind the package of proposals initiated by the administration."\textsuperscript{60}

Last, while formal party caucuses in Congress had not been developed in the early 1790's, there is considerable evidence that informal caucuses were widespread. It is clear that Hamilton often arranged to meet with various supporters and others whose votes could be swayed. It is also clear that he quietly gathered groups of supporters together outside the House to discuss strategy.\textsuperscript{61} Hoadley describes the goal of these discrete caucuses: "the need for the party to provide a degree of coordination in its legislative strategy."\textsuperscript{62}

6 Conclusion: Hamilton and Party Development

We have now laid out the case for Hamilton as the prime political entrepreneur behind the extra-legislative organization which occurred during the first two Congresses. His self-interested incentives led to the development of rudimentary partisan institutions in the legislature which were designed to solve a particular and specific collective action

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59 Hoadley, previously cited, p. 51.
60 Hoadley, previously cited, p. 53.
61 Chambers, p. 39.
62 Hoadley, previously cited, p. 53.
problem: legislative coordination in voting over Hamilton's plans. But should we today consider this organization a political party?

This is a debate with a long history in the literature concerning political parties. There are three traditional approaches to this debate concerning the origins of political parties. One approach claims that political parties have existed throughout most of American political history, from colonial times to the present. Libby (1912), Beard (1915), and Nichols (1967) present this argument. A second approach describes how issues during the first dozen years of national government after the Revolution were the catalyst behind the development of political parties. Ryan (1971) and Henderson (1973) discuss the impact of Hamilton's plan on party development; Charles (1961), Chambers (1963), Bell (1973), and Hoadley (1986) discuss the impact of economic issues (Hamilton's plan) and foreign policy (the Jay Treaty) as the polarizing devices behind the two parties; and last Libby (1912) and Dauer (1953) examine the issues of the Adams administration and their effects on party development. The third approach, led by Hofstadter (1969) and Formisano (1981), argue that political parties did not develop until the Jackson administration.

In many ways the argument concerning Hamilton’s role as a political entrepreneur grows out of the second approach and blends into the third approach. While political parties as political scientists define them today did not exist in this period, “it is clear that two parties, as the founding fathers generally meant the term, evolved in the First Congress, especially during 1790 and 1791.”63 We have seen that under Hamilton’s leadership, rudimentary extra-legislative organization was instigated. This was in response to political opposition from sectional groups, from other political entrepreneurs (Madison, and to an extent, Jefferson), and a consequent uncertainty over legislative outcomes. Organization in this fashion does not mean that parties had formed, however.

Hamilton had self-interested incentives which were sufficient for him to expend his personal political capital to invest in political organization. In the short-run, namely these first few sessions of Congress, this investment paid off for Hamilton since his policies largely passed Congress. But in the long-run, Hamilton’s actions sparked two dynamics which had consequences far beyond his personal political returns. First, his initial investment does seem to have been sufficient to pay much or most of the start-up costs of the eventual Federalist party. For, Hamilton was out of office and largely out of national politics following his political successes, but the Federalist party survived in some form after Hamilton. Second, his actions in the first two Congresses, in part a response to the oppositional maneuvers against him, also served crystallize the opposition into a more organized framework. Therefore, while Hamilton himself cannot be said to have founded a party, or a party system, we can make the claim that his self-motivated actions, designed to solve a particular collective action problem, set into place dynamics which led to the eventual development of full-fledged political parties.

63 Bowling, previously cited, p. 243.
7 Bibliography

While this bibliography may seem extensive for a seminar paper, the intention was to provide a resource for others interested in the development of political parties in America. This reading list should fulfill the needs of those with historical, philosophical, "formal", or empirical orientations. I hope this bibliography fulfills this purpose.

Adair, Douglass. "That Politics May Be Reduced to a Science: David Hume, James Madison, and the Tenth Federalist." Huntington Library Quarterly 20 (August 1957), 343-360.


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