8.36 Explain the strict versus loose interpretation of the Constitution and how the conflicts between Thomas Jefferson and Alexander Hamilton resulted in the emergence of two political parties by analyzing their views of foreign policy, economic policy (including the National Bank), funding, and assumption of the revolutionary debt. (C,E,G,H,P)

Biography of Alexander Hamilton

http://www.biography.com/people/alexander-hamilton-9326481

Hamilton’s Financial Plan

(Pictured Above: Alexander Hamilton is one of the few American figures featured on U.S. Currency who was never president. He was killed in 1804 in a duel with Aaron Burr.)

Presidents Washington ($1), Lincoln ($5), Jackson ($20), and Grant ($50) all appear on currency. But what about this guy Alexander Hamilton on the ten-spot? How did he get there? You’ll know the answer after reading this piece.

A major problem facing the first federal government was how to deal with the financial chaos created by the American Revolution. States had huge war debts. There was runaway inflation. Almost all areas of the economy looked dismal throughout the 1780s. Economic hard times were a major factor creating the sense of crisis that produced the stronger central government under the new Constitution.

George Washington chose the talented ALEXANDER HAMILTON, who had served with him throughout the Revolutionary War, to take on the challenge of directing federal economic policy as the treasury secretary. Hamilton
is a fascinating character whose ambition fueled tremendous success as a self-made man. Born in the West Indies to a single mother who was a shopkeeper, he learned his first economic principles from her and went on to apprentice for a large mercantile firm. From these modest origins, Hamilton would become the foremost advocate for a modern capitalist economy in the early national United States.

Hamilton’s influential connections were not just with Washington, but included a network of leading New York merchants and financiers. His 1780 marriage to Elizabeth Schuyler, from a wealthy Hudson River valley landholding family, deepened his ties to rich and powerful leaders in New York. His innovative financial policies helped overcome the fiscal problems of the Confederacy, and also benefited an economic elite with which he had close ties.

( Pictured Above: Alexander Hamilton conceived of the First Bank of the United States as a way to standardize American currency and cope with national Revolutionary War debt. The Bank still stands today on Independence National Park in Philadelphia.)

The first issue that Hamilton tackled as Washington’s SECRETARY OF THE TREASURY concerned the problem of public credit. Governments at all levels had taken on so much debt during the Revolution. The commitment to pay them back was not taken very seriously. By the late 1780s, the value of such public securities had plunged to a small fraction of their face value. In other words, state IOU’s — the money borrowed to finance the Revolution — were viewed as nearly worthless.

Hamilton issued a bold proposal. The federal government should pay off all Confederation (state) debts at full value. Such action would dramatically enhance the legitimacy of the new central government. To raise money to pay off the debts, Hamilton would issue new securities (bonds). Investors who had purchased these public securities could make enormous profits when the time came for the United States to pay off these new debts.

( Pictured Above: The spinning jenny was one of several major technological innovations that made British textiles such an economic force.)
Hamilton’s vision for reshaping the American economy included a federal charter for a national financial institution. He proposed a BANK OF THE UNITED STATES. Modeled along the lines of the Bank of England, a central bank would help make the new nation’s economy dynamic through a more stable paper currency.

The central bank faced significant opposition. Many feared it would fall under the influence of wealthy, urban northeasterners and speculators from overseas. In the end, with the support of George Washington, the bank was chartered with its first headquarters in Philadelphia.

The third major area of Hamilton’s economic plan aimed to make American manufacturers self-sufficient. The American economy had traditionally rested upon large-scale agricultural exports to pay for the import of British manufactured goods. Hamilton rightly thought that this dependence on expensive foreign goods kept the American economy at a limited level, especially when compared to the rapid growth of early industrialization in Great Britain.

Rather than accept this condition, Hamilton wanted the United States to adopt a mercantilist economic policy. This would protect American manufacturers through direct government subsidies (handouts to business) and tariffs (taxes on imported goods). This protectionist policy would help fledgling American producers to compete with inexpensive European imports.

Hamilton possessed a remarkably acute economic vision. His aggressive support for manufacturing, banks, and strong public credit all became central aspects of the modern capitalist economy that would develop in the United States in the century after his death. Nevertheless, his policies were deeply controversial in their day.

Many Americans neither like Hamilton’s elitist attitude nor his commitment to a British model of economic development. His pro-British foreign policy was potentially explosive in the wake of the Revolution. Hamilton favored an even stronger central government than the Constitution had created and often linked democratic impulses with potential anarchy. Finally, because the beneficiaries of his innovative economic policies were concentrated in the northeast, they threatened to stimulate divisive geographic differences in the new nation.

Regardless, Hamilton’s economic philosophies became touchstones of the modern American capitalist economy.

Bet you $10 you now see why he’s on the $10 bill.
The ELECTION OF 1796 was the first election in American history where political candidates at the local, state, and national level began to run for office as members of organized political parties that held strongly opposed political principles.

This was a stunning new phenomenon that shocked most of the older leaders of the Revolutionary Era. Even Madison, who was one of the earliest to see the value of political parties, believed that they would only serve as temporary coalitions for specific controversial elections. The older leaders failed to understand the dynamic new conditions that had been created by the importance of popular sovereignty — democracy — to the American Revolution. The people now understood themselves as a fundamental force in legitimating government authority. In the modern American political system, voters mainly express themselves through allegiances within a competitive party system. 1796 was the first election where this defining element of modern political life began to appear.
The two parties adopted names that reflected their most cherished values. The Federalists of 1796 attached themselves to the successful campaign in favor of the Constitution and were solid supporters of the federal administration. Although Washington denounced parties as a horrid threat to the republic, his vice president John Adams became the de facto presidential candidate of the Federalists. The party had its strongest support among those who favored Hamilton’s policies. Merchants, creditors and urban artisans who built the growing commercial economy of the northeast provided its most dedicated supporters and strongest regional support.

( Pictured Above: This mural, located at the Library of Congress in Washington, D.C., represents Thomas Jefferson’s views on the necessity of education.)

Two Party System


The opposition party adopted the name DEMOCRATIC-REPUBLICANS, which suggested that they were more fully committed to extending the Revolution to ordinary people. The supporters of the Democratic-Republicans (often referred to as the Republicans) were drawn from many segments of American society and included farmers throughout the country with high popularity among German and Scots-Irish ethnic groups. Although it effectively reached ordinary citizens, its key leaders were wealthy southern tobacco elites like Jefferson and Madison. While the Democratic-Republicans were more diverse, the Federalists were wealthier and carried more prestige, especially by association with the retired Washington.

The 1796 election was waged with uncommon intensity. Federalists thought of themselves as the "friends of order" and good government. They viewed their opponents as dangerous radicals who would bring the anarchy of the French Revolution to America.

The Democratic-Republicans despised Federalist policies. According to one Republican-minded New York newspaper, the Federalists were "aristocrats, endeavoring to lay the foundations of monarchical government, and Republicans [were] the real supporters of independence, friends to equal rights, and warm advocates of free elective government."

( Pictured Above: This chart depicts the electoral vote distribution for the election of 1796. John Adams (green) edged out Thomas Jefferson (yellow) for the Presidency, with Thomas Pinckney (purple) and Aaron Burr (blue) leading the runners-up. Jefferson’s second-place earned him the Vice Presidency.)
Clearly there was little room for compromise in this hostile environment.

The outcome of the presidential election indicated the close balance between the two sides. New England strongly favored Adams, while Jefferson overwhelmingly carried the southern states. The key to the election lay in the mid-Atlantic colonies where party organizations were the most fully developed. Adams ended up narrowly winning in the electoral college 71 to 68. A sure sign of the great novelty of political parties was that the Constitution had established that the runner-up in the presidential election would become the vice president.

John Adams took office after a harsh campaign and narrow victory. His political opponent Jefferson served as second in command.