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Centralizing the Purse: Why a More Centralized National Government Was Crucial for Managing America's Revolutionary War Debt

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CENTRALIZING THE PURSE: WHY A MORE CENTRALIZED NATIONAL GOVERNMENT WAS CRUCIAL FOR MANAGING AMERICA'S REVOLUTIONARY WAR DEBT

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ABSTRACT

Research on the American Revolutionary debt has particularly focused on the leadership of American financial figures: most notably Superintendent of Finance Robert Morris and U.S. Treasury Secretary Alexander Hamilton. While scholars affirm their indispensable leadership, they also acknowledge institutional and political conditions that distinguish their tenures. This CE/T seeks to further analyze these conditions. It draws upon scholarly works while evaluating different aspects and time frames of Americas' public debt, including the initial accumulation of debt, the tenure of Robert Morris, the formation of the U.S. Constitution, and the tenure of Alexander Hamilton. The CE/T also analyzes the papers of James Madison, Robert Morris, and Alexander Hamilton, the Journals of the Continental Congress, *The Federalist Papers*, the Articles of Confederation, and the U.S. Constitution. It asserts that, without centralizing political authority in the national government during the 1780s and early 1790s—specifically, without key economic powers granted to the national government by Article I, Section 8 of the U.S. Constitution—the United States would have lacked the apparatus and decisive leadership necessary to install proper management of its Revolutionary War debt. The nation's financial ruin, which would have caused its political disbandment, was averted by embracing a strong national government.

I dedicate this thesis to my parents, Kristin and Lance Berg, who have continued to motivate me to strive for academic excellence and pursue my passion of writing and historical research.

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INTRODUCTION: UNDERSTANDING PAST RESEARCH ON THE AMERICAN REVOLUTIONARY WAR DEBT AND WHAT MUST BE FURTHER CONSIDERED

Research on the American Revolutionary War debt has put particular emphasis on the leadership of American financial figures, such as Philadelphian merchant and Superintendent of Finance Robert Morris and the First U.S. Treasury Secretary Alexander Hamilton. Scholars demonstrate how their financial policies were critical to stabilizing the early American Republic's finances. Although historians have shown the indispensable leadership of Robert Morris and Alexander Hamilton in stabilizing the national debt, more attention needs to be given to how government reform and the formation of the U.S. Constitution gave these men the tools necessary to accomplish this financial feat. The focus of this paper is to identify these restraints mentioned or alluded to in scholarly works and, with primary sources, show a close relationship between the centralization of political power and the stabilization of the American Revolutionary War debt between the 1770s and 1790s.

Historians tend to identify Robert Morris's tenure as the Superintendent of Finance (1781-1784) as crucial to the United States avoiding financial ruin during the final years of the American Revolution. In *The Price of Liberty: The Public Debt of the American Revolution* (1983), William G. Anderson explains how Robert Morris assumed office in February 1781 as the Confederacy dealt with the collapse of the Continental

Currency and was accumulating millions of dollars in foreign and domestic debts.[1] Historical biographer Charles Rappleye, author of *Robert Morris: Financier of the American Revolution* (2010), listed out the obstacles Morris faced in 1781, including the disorder with the nation's currency and immense public expenditures.[2] He addressed administrative problems Morris faced such as the confusion in government departments, weariness in the general system of government and failure for government operations to produce desired results.[3] Anderson claims Morris tried to restore public credit with his debt program, administrative reforms, and advocating for taxation powers.[4]

William G. Anderson, Charles Rappleye, and finance historian Robert Wright, author of *One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (2008), all agree that Morris successful proposal for the Bank of North America was a key foundation to his efforts to revitalize public credit.[5] Rappleye and Wright also explain how Morris helped personally finance the continental army and negotiated with military contractors when the national government was financially unable to.[6] Wright even goes further to point out how Morris financed the continental army during the Battle of Yorktown in 1781, which was a decisive victory for the patriots.[7] As a wealthy

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[1] William G. Anderson, *The Price of Liberty: The Public Debt of the American Revolution* (Charlottesville: University Press of Virginia, 1983), 4-9, 11, 13.
[2] Howard Blume, "Charles Rappleye, Resolute Investigative Journalist, Dies at 62," *Los Angeles Times* (Los Angeles, CA), September 20, 2018, par. 1, 12, https://www.latimes.com/local/education/la-me-obit-charles-rappleye-20180920-story.html; Charles Rappleye, Robert Morris: Financier of the American Revolution (New York: Simon & Schuster, 2010), 231.
[3] Charles Rappleye, *Robert Morris: Financier of the American Revolution* (New York: Simon & Schuster, 2010), 231.
[4] Anderson, *The Price of Liberty*, 13-16.
[5] Anderson, *The Price of Liberty*, 15; Rappleye, *Robert Morris*, 236-237; Robert E. Wright, *One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (New York: McGraw-Hill Education, 2008), 60-62; Richard H. K. Vietor, "Reviewed Work: One Nation under Debt: Hamilton, Jefferson, and the History of What We Owe by Robert E. Wright," *The Journal of American History* 95, no. 3 (2008): 827, accessed September 1, 2020, https://www.jstor.org/stable/27694409.
[6] Rappleye, *Robert Morris*, 239-240, 310; Wright, *One Nation Under Debt*, 60, 62-63.
[7] Wright, *Robert Morris*, 62-63.

Philadelphian merchant, Morris had the means to temporarily supplement the finances of the Revolutionary government during these crucial years.[8] Robert Wright explains, while Robert Morris pushed tax collection and tax reform, he issued notes signed under his own name and credit to supplement the national government's funding deficiency.[9] In sum, these historians characterize Robert Morris as the leading financial figure who used his skills and mercantile ties to prevent the United States' financial ruin between 1781 and 1784.

Historians also recognize that Alexander Hamilton created a financial system that increased confidence in the early American Republic after the formation of the Constitution. At the beginning of the twenty-first century, economists gained a new appreciation for financial institutions' role in economic development. This appreciation was then applied to U.S. history by economic historians led informally by Richard Sylla.[10] These economic historians asserted that Hamilton's tenure as the U.S. Treasury Secretary led to establishing an enduring financial system and U.S. public credit. In *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (2012), economic historian and biographer Thomas K. McCraw shows how U.S. immigrants, including Robert Morris, Alexander Hamilton, and Albert Gallatin, confronted the potential financial ruin of the early Republic and created a stable financial system.[11] McCraw presents the strength and weaknesses of the U.S.-born founding

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8 Anderson, *Price of Liberty*, 13; Rappleye, *Robert Morris*, 233; Wright, *One Nation Under Debt*, 51, 60, 65.
9 Wright, *One Nation Under Debt*, 65-67.
10 Ronald W. Michener, "Robert E. Wright and David J. Cowen. Financial Founding Fathers: The Men Who Made America Rich," *Enterprise & Society* 8, no. 1 (2007): 200-203. Accessed September 1, 2020. https://www.jstor.org/stable/23701128.
11 Thomas K. McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (Cambridge: Harvard University Press, 2012), 2, 4; Bruce Weber, "Thomas K. McCraw, Historian Who Enlivened Economics, Dies at 72," *New York Times* (New York, NY), November

fathers and explains how they were dependent on immigrants to design the countries financial policies.[12] He also shows how Hamilton's overseas origins influenced him.[13] For instance, Hamilton lacked strong ties to a state due to being an immigrant and thus advocated for a federal assumption of state debts as part of his national financial plan in the 1790s.[14]

While McCraw addressed the influence of several foreign-born financial figures, economic and finance historian Richard Sylla focused primarily on Alexander Hamilton. According to Scott Alan Carson from the University of Texas, Richard Sylla has been one of the most qualified scholars to address "Hamilton's role as chief architect of the U.S. economy" and has advocated in academic journals the six pillars of a strong financial system.[15] Within his condensed work *Alexander Hamilton: The Illustrated Biography* (2016), Sylla identifies these six pillars and asserts the United States lacked them before Hamilton's tenure as the U.S. treasury secretary.[16] The six pillars of a strong financial system are, one, establishing the worthiness of U.S. credit; two, establishing a stable currency; three, establishing a central bank; four, establishing a legal environment for issuing bank money and loans; five, creating securities markets with government and business bonds and stocks; and six, having corporations that allowed individuals to pool

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6, 2012, par. 1, 8, https://www.nytimes.com/2012/11/07/business/thomas-k-mccraw-historian-who-enlivened-economics-dies-at-72.html.
[12] McCraw, *The Founders and Finance*, 2.
[13] McCraw, *The Founders and Finance*, 2.
[14] McCraw, *The Founders and Finance*, 106-107.
[15] Scott Alan Carson, "Richard Sylla, Hamilton: The Illustrated Biography Starling Publish, 2016, 260pp. $15 Hardcover," *Journal of Economics and Political Economy* 4. no. 4 (2017): 420-421, accessed September 1, 2020, doi:http://dx.doi.org/10.1453/jepe.v4i4.1539.
[16] Richard Sylla, *Alexander Hamilton: The Illustrated Biography* (New York: Sterling Publishing Co., 2016), 113.

resources for creating other institutions.[17] Richard Sylla argued that the development of America's early financial institutions led to America's prosperity.[18]

Scholars Robert E. Wright and David J. Cowen applied Sylla's interpretation in *Financial Founding Fathers: The Men Who Made America Rich* (2006). They show how Hamilton transformed the United States financial system and they reinforce the claim that American prosperity would have been impossible without Hamilton's financial system.[19] Robert E. Wright continued to reiterate these assertions in *One Nation Under Debt* (2008).[20] While Robert Morris is credited with allowing the U.S. to temporarily endure its financial crisis, modern scholars credit Hamilton with setting up the institutional foundations that allowed the country to resolve this crisis. He had financial expertise that the founding fathers and even Robert Morris lacked for salvaging America's public credit and stabilizing the American Revolutionary War debt in the early 1790s.

In conclusion, modern scholars continuously reinforce that the financial leadership of Robert Morris and Alexander Hamilton was indispensable for the early American Republic to evade financial ruin from a crippling war debt and to establish a financial system that led to the country's future prosperity. However, their tenures in office are distinguished by their successes in managing the American Revolutionary War debt. Morris tenure was marked by an inability to obtain the necessary government funds to stabilize the national debt and leaving office in 1784 with it still unfunded.[21] Hamilton also faced opposition for his financial system but was more successful in executing his

[17] Carson, "Richard Sylla, Hamilton," 421; Sylla, *Alexander Hamilton*, 116-120, 122-123, 128-133, 138, 142.
[18] Michener, "Robert E. Wright and David J. Cowen," 202.
[19] Michener, "Robert E. Wright and David J. Cowen," 202-203.
[20] Vietor, "Reviewed Work," 827.
[21] Rappleye, *Robert Morris*, 324-326; Sylla, *Alexander Hamilton*, 113; Anderson, *The Price of Liberty*, 17-20, 22.

funding scheme.[22] When understanding why Hamilton was more successful than Morris, we must remember that they operated under two fundamentally different ruling charters: the Articles of Confederation and the U.S. Constitution.

"Centralizing the Purse: Why A More Centralized National Government was Crucial for Managing America's Revolutionary War Debt" will analyze how these founding American documents shaped, supported or obstructed Morris's and Hamilton's financial policies. They will be directly compared to one another to demonstrate how provisions in the Constitution strengthened the national government. The Articles of Confederation will be analyzed for its provisions on the unicameral legislature, the requisition system, the amendment process and monetary power. The U.S. Constitution will be analyzed for provisions that include bicameralism, the constitutional amendment process, the separation of powers, the General Welfare Clause, borrowing power, the Commerce Clause, monetary power, and the Necessary and Proper Clause. Other sources consulted include the papers of founding figures such as Robert Morris, Alexander Hamilton, and James Madison, who present the burdens and blessings of these institutional conditions. For instance, Alexander Hamilton reports to Robert Morris, as a Continental Receiver in New York, how the County Treasurers were making no effort to meet congressional tax quotas with him.[23] There are numerous more correspondences, essays, and other government documents that will assist in clarifying the impact of institutional conditions on American financial policy in the late eighteenth century.

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[22] This funding scheme included a federal assumption of state debts, chartering a national bank, a sinking fund for paying the American Revolutionary debt, and excise taxes for government revenue, see: Wright, *One Nation Under Debt*, 132-134, 143-150.

[23] Alexander Hamilton, "To Robert Morris: Albany, June 17, 1782," in *The Papers of Alexander Hamilton Digital* Edition, ed. Harold C. Syrett. Charlottesville: University of Virginia Press, Rotunda, 2011, https://rotunda.upress.virginia.edu/founders/ARHN-01-03-02-0027.

It is important to remember that Morris and Hamilton are not only affected by the centralizing of political power but driving forces for it. This fact is a part of the central theme to E. James Ferguson's historical classic *The Power of the Purse: A History of American Public Finance, 1776-1790* (1961). Ferguson claimed the American Revolutionary War debt was used as a political tool for strengthening and maintaining the unity of the Union.[24] "Centralizing the Purse" will also address this relationship between the Revolutionary War debt and the centralizing of political power but in a reverse manner. It will show how centralizing political power in the national government served as a financial tool for strengthening and maintaining the United States' national debt.

The United States decentralized political system contributed to the large national debt in the early years of the Revolutionary War. In the early 1780s, government reforms that sought to strengthen the national government, helped the Superintendent of Finance Robert Morris to temporarily salvage public credit. Morris ultimately failed to stabilize the national debt due to the Articles of Confederation preserving the decentralized arrangements between the states and national government. The Secretary of the U.S. Treasury Alexander Hamilton was more successful in stabilizing the national debt by the mid-1790s due to the new ruling charter he operated under: the U.S. Constitution. Without centralizing political authority in the national government during the 1780s and early 1790s—specifically, without key economic powers granted to the national government by Article I, Section 8 of the U.S. Constitution, which included the power to borrow money on the credit of the U.S., to lay and collect taxes, to regulate interstate and

[24] "The Power of the Purse: A History of American Public Finance, 1776-1790 by E James Ferguson," The University of North Carolina Press, *The University of North Carolina Press*, n.d, accessed August 21, 2020, https://uncpress.org/book/9780807840283/the-power-of-the-purse/; Hoffman, "Reviewed Work: The Power of the Purse," 201; Ferguson, *The Power of the Purse*, 292, 307, 325.

international commerce, unilateral control over minting currency, and the power to establish government institutions necessary and proper to fulfill these forgoing powers—the United States of America would have lacked the apparatus and decisive leadership necessary to install proper management of its Revolutionary War debt. The nation's financial ruin, which would have caused its political disbandment, was averted by embracing a strong national government.

SECTION ONE: THE INTIAL ACCUMULATION OF DEBT AND POLITCAL UNREST

The United States first national government was a legislative body, the Continental Congress and later the Confederation Congress, which lacked an executive branch, a well-established bureaucracy, and coercive powers over the thirteen states. Political scientist James Sterling Young asserts the national government was a legislative body with no head executive. [25] This made its efforts to finance the war and maintain the new republic difficult. In 1774, the First Continental Congress had no treasury, custom officers, taxes, and tax collectors.[26] Until Feb. 1781, Congress relied on a decentralized committee system rather than civil departments controlled by executive heads.[27]

When the American Revolutionary War began, the Second Continental Congress began to develop a financial apparatus, but it was not well organized and well financed. Congress appointed George Clymer and Micheal Hillegas as joint treasurers of the United Colonies; Clymer quit in August 1776, leaving Hillegas as the sole Continental Treasurer until the late 1780s.[28] In 1779, Congress established the Board of Treasury, consisting of

[25] The United States lacked a clear national executive between 1775 and 1789, see: Roger H. Davidson, Walter J. Oleszek, Frances E. Lee, and Eric Schickler, "Evolution of the Modern Congress," in *Congress and Its Members* 17th Edition (Thousand Oaks, CA: CQ Press, 2020), 16.
[26] William G. Anderson, *The Price of Liberty: The Public Debt of the American Revolution* (Charlottesville: University Press of Virginia, 1983), 3.
[27] Charles Rappleye, *Robert Morris: Financier of the American Revolution* (New York: Simon & Schuster, 2010), 226; Anderson, *The Price of Liberty*, 13.
[28] Robert E. Wright, *One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (New York: McGraw-Hill Education, 2008), 50.

two congressmen and 3 non-congressmen, to oversee Hillegas and the Treasury, but the Continental Treasury lacked an adequate enough pay to keep an efficient staff.[29]

The oversight of the Board of Treasury was also ineffective. The Board shuffled positions but this did nothing to improve the Treasury's efficiency. In addition, the Board's financial dispute with the Treasurer of Loans Francis Hopkinson also contributed to the public's lack of confidence in the U.S. Treasury.[30] Congress had created a financial bureaucracy but with no adequate means to fund its maintenance. This kept the Treasury from properly managing the finances of the national government and funding the war effort.

The Continental Congress's inability to provide adequate pay to the Treasury staff is rooted in a larger functionary problem with the original national government: its inability to effectively gather government revenue. At the start of the Revolutionary War, taxes were an impractical source of funding for Congress. The British and state governments were already exercising tax powers and issues over taxation without representation were a driving force for the American Revolution.[31] In order to remain politically legitimate, Congress had to give in to revolutionary spirits and deny itself this traditional source of government revenue. Taxation was left to the state governments. Even as the war continued and a formal system of government developed, Congress was unable to directly access tax revenue. Ratified on March 1, 1781, the Articles of Confederation affirmed the taxation powers of the states but formalized a requisition system for Congress. Under the requisition system, Congress issued the states quotas that

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[29] Wright, *One Nation Under Debt*, 50, 59.
[30] Wright, *One Nation Under Debt,* 50, 59.
[31] Anderson, *The Price of Liberty*, 3; Wright, *One Nation Under Debt*, 42.

were "in proportion to the value of all land within each State" and the states would fulfill these quotas with their own taxes.[32] The national government lost a significant amount of control in gathering government revenue to the state governments.

The framers of the Articles of Confederation assumed an unrealistic expectation of the states: that they would not prioritize state interests over national interests when deciding what portion of tax revenue to allocate towards the requisitions of Congress. Writing in August, 1781, Hamilton asserted "the great defect of the confederation is that it gives the United States no property, or in other words, no revenue, nor the means of acquiring it," leaving Congress "dependent on the occasional grants of the several states" for fulfilling government expenses; under this financial arrangement, Hamilton asserted the national government could "neither have dignity, vigour nor credit."[33] Virginian Congressman James Madison vainly tried to amend the Articles of Confederation so Congress could exercise coercive force, particularly with sanctions on interstate commerce, to get the states to fulfill Congress's requisitions.[34] The Continental Congress was financially constrained first by revolutionary spirits and then by a ruling charter. Congress could not patiently wait for nor effectively coerce the states to give grants of money. In dire need of funds, it resorted to print currency and then loans for government revenue. These initially satisfied war needs but the early American Republic's politically decentralized nature and the lack of consistent national funding nearly exhausted these

[32] Articles of Confederation, art. 8, cl. 1-2.
[33] Alexander Hamilton, "The Continentalist No. IV: Fishkill, New York, August 30, 1781," in *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 9, https://rotunda.upress.virginia.edu/founders/ARHN-01-02-02-1191.
[34] James Madison, "Proposed Amendment of Articles of Confederation, [12 March] 1781," in *The Papers of James Madison, vol. 3, 3 March 1781–31 December 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1963), par. 2, https://founders.archives.gov/documents/Madison/01-03-02-0007.

revenue sources by the early 1780s. In the process, the United States accumulated a substantial debt that threatened its political stability.

At the start of the American Revolutionary War, with no substantive taxation powers, Congress chose to use paper currency over loans to meet their war supply needs. Loans were seen as a risky investment and most people would not put their wealth into the war.[35] The United States would need major military victories to gain loans from foreign states and investors. For instance, the victory at Saratoga led to a treaty of alliance between France and U.S., which made the French government more comfortable with providing direct loans to the new country.[36] In another instance, Holland was reluctant at first to give loans to the U.S. until Britain declared war on it in 1780 and the U.S. won the Battle of Yorktown in 1781.[37]

Print currency was relevant to the history of the Revolutionary War debt, because if national monetary policy had been executed properly, the United States would have been less reliant on conventional domestic and foreign loans to purchase war supplies and run the government. The U.S. borrowed a significant amount of money on zero interest by issuing bills of credit known as Continentals, which were redeemable for Spanish milled dollars or gold and silver specie.[38] Continental currency was authorized by Congress in May 1775 and was initially used to buy war supplies domestically and satisfy other governmental needs.[39]

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[35] Anderson, *The Price of Liberty*, 3.
[36] During the early stages of the war, France did not want a public transaction with the U.S. and thus directed them to the privately owned Farmer's General for a loan of 2 million livres tournois, see: Anderson, *The Price of Liberty*, 4-5.
[37] Anderson, *The Price of Liberty, 5-6.*
[38] Wright, *One Nation Under Debt*, 43; "United States Continental Paper Currency: 1775-1779 Guide to the Collection," Massachusetts Historical Society, accessed October 16, 2020, http://www.masshist.org/collection-guides/view/fao0005.
[39] Wright, *One Nation Under Debt*, 48; Anderson, *The Price of Liberty*, 3-4.

The value of Continentals depreciated overtime though. The United States had an uncoordinated monetary policy where states also printed their own currencies.[40] The United States had several competing mediums of exchange that hindered the long-term use of a national currency to satisfy the nation's war time needs. This could have been prevented if the national government had the sole authority to issue currency as a medium of exchange for the country. Inflation was also facilitated by British economic warfare in the form of blockades and pillaging, as well by their limited means to withdraw circulated bills.[41] Continental Congress recognized that the U.S. went into the war before a civil government was established with the ability to collect taxes and "provide funds for the redemption of such bills of credit;" lacking funds to redeem them, the continentals depreciated in value.[42] In March 1780, Congress tried to salvage national currency by collecting $200,000,000 bills from circulation through quotas to the states and then replace them with a new supply of $12 million with limited circulation.[43] The new scheme failed to work because Congress entrusted the execution of its monetary policy to the states, who failed to fulfill their new quotas. [44] Congressman James Madison was

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[40] Wright, *One Nation Under Debt*, 50-52.
[41] Wright, *One Nation Under Debt*, 50-52.
[42] *Journals of the Continental Congress, 1774-1789 Volume XVI 1780: January 1-May 5* (Washington, D.C.: Washington Government Printing Office, 1910), 262-263, https://memory.loc.gov/ammem/amlaw/lwjclink.html.
[43] The new money scheme was proposed on February 26, 1780 and then passed by Congress on March 18, 1780, see: *Journals of the Continental Congress, 1774-1789 Volume XVI 1780: January 1-May 5* (Washington, D.C.: Washington Government Printing Office, 1910), 205-206, 267, https://memory.loc.gov/ammem/amlaw/lwjclink.html; James Madison, "From James Madison to James Madison, Sr. 20 March 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 1, https://founders.archives.gov/documents/Madison/01-02-02-0001.
[44] In late March, 1780, James Madison informed Virginia Governor Thomas Jefferson, "If the States do not vigorously proceed in collecting the old money and establishing funds for the credit of the new, that we are undone," see: James Madison, "From James Madison to Thomas Jefferson, 27-28 March 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par 1, https://founders.archives.gov/documents/Madison/01-02-02-0004; James Madison, "From James Madison to Thomas Jefferson, 6 May 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February*

informed by Virginian Politician Joseph Jones that "the Collectors … readily exchange[d] the money in the Country for Certificates whereby the Treasury [was] almost totally deprived of money collections."[45] The failure to salvage the Continentals illustrates how the national government was too dependent on state governments to execute its financial policies.

The United States could not rely on a depreciating currency to meet its long-term financial needs. Once the war had commenced, the Continental Congress soon sought foreign and domestic loans. The U.S. negotiated foreign loans on an individual basis while they took a more systematic issuing of public securities for domestic loans. William G. Anderson's *The Price of Liberty: The Public of the American Revolution* (1983) provides a comprehensive history of the American Revolutionary War debt. In 1777, the American Commissioners to France (Benjamin Franklin and Silas Deane) made a deal with the Farmer's General: the wealthy elites who collected French taxes. The Farmers General would provide 2 million livres tournois ($339,826) in exchange for tobacco from Congress.[46] Between 1778 and 1782, U.S. obtained 21 separate loans worth 18 million livres tournois ($2,681,717) from France. [47] Again in 1783, Congress obtained another 6 million livres tournois loan ($877,314) from France.[48] France also opened the

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1781, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 1, https://founders.archives.gov/documents/Madison/01-02-02-0017.

[45] Joseph Jones, "To James Madison from Joseph Jones, 5 November 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 1, https://founders.archives.gov/documents/Madison/01-02-02-0097.

[46]Historical Currency Converter (test version 1.0) was used to give a rough estimate of the U.S. dollar equivalent in 1791 for foreign loans only given in foreign currency. Economic History Professor Rodney Edvinsson of Stockholm University created the converter. Edvinsson used purchasing power of consumer goods and services in Sweden to convert the currency and I rounded the value to the nearest dollar, see: Edvinsson, Rodney, "Historical Currency Converter (test version 1.0)," Historicalstatics.org, January 10, 2016, https://www.historicalstatistics.org/Currencyconverter.html; Anderson, *The Price of Liberty*, 4.

[47] Anderson, *The Price of Liberty*, 5.

[48] Anderson, *The Price of Liberty*, 5.

door to other foreign investors for the war. In 1781, the French King obtained a loan of 10 million livres tournois ($1,523,310) from Holland for the U.S.[49] The U.S. also personally sought loans from Spain and Holland; 1781, Spain provided a loan of $174,011.12.; 1782, John Adams obtained 5 million guilders ($1,291,807) from the banking firms in Holland and then another loan worth $800,000.[50]

In addition, the Continental Congress also sought domestic loans during the war. June 3, 1775, they purchased gunpowder with a loan of £6 million ($24,380,359).[51] On October 3, 1776, Congress authorized a loan program. They establish loan offices, managed by paid administrators, throughout the states that issued loan office certificates (bonds).[52] Initial responses to these loan office certificates were bad due to a low interest of 4%. In response, Congress authorized the accepting of state paper money for loan office certificates and then, in 1777, raised the interest to 6%.[53] Between 1776 and 1781, Congress obtained approximately $67 million in domestic loans.[54] By the end of the war, loans, which were initially financially unfeasible, became a key financial means for the U.S. to finance its war for independence.

Nevertheless, loans put a heavy burden on the new country's finances. The Farmer's General only provided 1 million of the 2 million promised livres tournois and the U.S. made 3 tobacco shipments worth 150,000 livres tournois between 1778 and 1779. The U.S. still owed 850,000 livres tournois.[55] The U.S. agreed in 1782 to owe 5%

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[49] Anderson, *The Price of Liberty*, 4-5.
[50] Anderson, *The Price of Liberty*, 5-6.
[51] Anderson, *The Price of Liberty*, 6.
[52] Anderson, *The Price of Liberty*, 6.
[53] Anderson, *The Price of Liberty*, 7-8
[54] Anderson, *The Price of Liberty*, 9.
[55] Anderson, *The Price of Liberty*, 4.

interest on the 21 separate loans worth 18 million livres tournois to France.[56] Congress also agreed to 5% interest payments starting 1785 for its 6 million livres tournois loan to France.[57] The loan from Holland that was negotiated by the French King had interest payments of 4% starting 1787. The direct loans that John Adams obtain on behalf of the U.S. from Holland in 1782 had different terms. The Dutch bank firms were promised 5% interest payments starting 1793 and the later loan worth $800,000 had an interest payment of 4% starting 1801.[58]

Finally, the United States' domestic loan program started with an interest payment of 4% in 1776, but in 1777 it was 6%.[59] Loan office certificates were held by citizens across several states including Virginia, New York, and New Jersey.[60] While waiting for payments, investors saw their certificates decline in real value due to inflation.[61] During the 1780s, many original holders of public securities sold their depreciating certificates out of financial desperation and this would result in a serious political debate about how the national government would fulfill these domestic debts in the early 1790s.[62] The new Republic had financial commitments to a vast array of investors, with different interest payment agreements and deadlines. This accumulated to a complex and substantial debt that continued to grow since the national government could not rely on a stable national currency and tax revenue for funding.

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[56] Anderson, *The Price of Liberty,* 4-5.
[57] Anderson, *The Price of* Liberty, 5.
[58] Anderson, *The Price of Liberty*, 5-6.
[59] Anderson, *The Price of Liberty*, 6-9.
[60] Anderson, *The Price of Liberty*, 11.
[61] Anderson, *The Price of Liberty*, 11-12.
[62] Richard Sylla, *Alexander Hamilton: The Illustrated Biography* (New York: Sterling Publishing Co., 2016), 117;
Ron Chernow, Alexander Hamilton (New York: Penguin Press, 2004), 305.

The ever-accumulating American Revolutionary War debt threatened the political stability of the country. The implications of this financial crisis were most apparent in the unrest it caused in the army. The Continental Army could not be nourished with just patriotic spirit. The soldiers were promised provisions and pay for their service but Congress neglected these promises.[63] In 1779, soldiers started to be paid with IOUs: promises of future payment for their military service.[64] The struggle to provide provisions was even worse and threatened the Continental Army's ability to be a fighting force, especially in the early 1780s. James Madison once remarked to Joseph Jones in an October 1780 correspondence, "our army is living from hand to mouth."[65] Earlier that year, in March, George Washington had reported a shortage of bread and limited access to meat. James Madison felt compelled to purchase supplies with loan office certificates.[66] On June 2, 1780, Madison wrote to Virginian Governor Thomas Jefferson that the army was living "on short allowance, at times without any at all."[67] He also mentioned how George Washington struggled "to repress the mutinous spirit [of continental soldiers] endangered by hunger and want of pay."[68] In his October 1780 correspondence to Joseph Jones, Madison pointed out how the states were failing to meet the requisitions of Congress and ensure adequate supplies reached the army before the

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[63] Charles Rappleye, *Robert Morris: Financier of the American Revolution* (New York: Simon & Schuster, 2010), 226.
[64] Wright, *One Nation Under Debt*, 57.
[65] James Madison, "From James Madison to Joseph Jones, [24] October 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 4, https://founders.archives.gov/documents/Madison/01-02-02-0087.
[66] James Madison, "From James Madison to Thomas Jefferson, 27-28 March 1780," par. 1.
[67] James Madison, "From James Madison to Thomas Jefferson, 2 June 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 5, https://founders.archives.gov/documents/Madison/01-02-02-0029.
[68] James Madison, "From James Madison to Thomas Jefferson, 2 June 1780," par. 5.

onset of winter.[69] If the central government had control over its government revenue rather than the states, then Congress would have not been as neglectful to the promises it made to the soldiers. This neglect threatened to upend the national government.[70]

Although neglectful management fostered political instability, efforts to install proper management could have a similar effect. The 1780s and the early 1790s show that gaining control over public debt could provoke tax rebellions.[71] Management of the national debt after the formation of the U.S. Constitution also resulted in heated political debates and brought the political unity of the country into question.[72]A weak central government with no substantive taxation powers, lacking unilateral control over monetary policy, and assuming debt with no means to fund it, was directing the United States towards financial ruin and thus political disbandment. But a stronger central government, although a necessary condition for securing the Union, did not guarantee the

[69] James Madison, "From James Madison to Joseph Jones, [24] October 1780," par. 4.

[70] On June 2, 1780, Madison informed Jefferson that "George Washington… could not prevent an actual eruption of [mutinous spirit] in two Connecticut Regts." who approached him armed and threatened to go home "or satisfy their hunger by the force of the Bayonet." In June 1783, parts of the Continental Army from Lancaster, Pennsylvania marched onto Congress's statehouse demanding payment. Unable to secure protection from Pennsylvania authorities, Congress was forced to reconvene in Princeton, New Jersey, see: James Madison, "From James Madison to Thomas Jefferson, 2 June 1780," par. 5; Sylla, *Alexander Hamilton*, 78; Rappleye, *Robert Morris*, 261-264.

[71] Taxpayers could not always pay their taxes in the states; when punished for this, they rebelled. In Western Massachusetts, soldier Daniel Shays, still waiting for his military service payment, led such rebels to shutdown courts, threaten sheriffs executing foreclosures, and attack the government armory in Springfield. Boston merchants, not the central government nor the states, had funded a three-thousand men militia to crush the rebellion. In 1794, small distillers in Western Pennsylvania organized an armed protest against Treasury Secretary Alexander Hamilton's 'whisky tax:' a tax on distill spirits that was part of the national debt funding scheme. The rebels attacked federal agents collecting the whisky tax and threatened to kill those who upheld the tax; this time the national government had an executive head, President George Washington, to order twelve-thousand men to end the rebellion, see: Wright, *One Nation Under Debt*, 71; Sylla, *Alexander Hamilton*, 95-98, 138; Chernow, *Alexander Hamilton*, 468

[72] According to Ron Chernow, "the funding debate shattered the short-lived political consensus that had ushered in the new government" and Alexander Hamilton became the "flashpoint" for political parties. In the biographical work *Life of Washington*, Chief Justice John Marshall argues that American political parties emerged particularly from the dispute over charting the Bank of the U.S. It was an initially toxic two party system where the Democratic-Republicans and the Federalists saw each other as a threat and even traitors to the American Republic, see: Chernow, *Alexander Hamilton*, 305-306, 351, 391; Steven Levitsky, and Daniel Ziblatt. *How Democracies Die* (New York: Penguin Randon House LLC, 2018), 103, 120.

opposite fate for the early American Republic. Exercising federal power in order to stabilize the national debt still contributed to political divisions in the country. The nation's leaders, particularly Alexander Hamilton, were able to exercise federal power so that the political divisions that resulted were more containable compared to the political divisions occurring in the 1780s when the national government lacked dignity, vigor and credit.

SECTION TWO: ROBERT MORRIS'S TENURE AS THE SUPERINTENDENT OF FINANCE AND THE DECENTRALIZING INSTITUTIONAL BARRIERS PREVENTING HIS SUCCESS

Government reform occurred in a period of distress for the new nation. During 1780, the British could move mostly freely in the South.[73] The Patriots appeared close to surrender.[74] Meanwhile, the nation's finances were in growing disarray. Continental currency was significantly devaluing in March 1780.[75] By February 1781, a congressional committee determined that the U.S. national debt had accumulated up to 26,617,812 specie dollars.[76] Up to this period of distress, the Continental Congress and the Confederation Congress were under the control of the radicals: a political faction who promoted decentralized committee rule, over used paper money as government revenue, and failed to solve inflation with price control that involved replacing the old bills with

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[73] William G. Anderson, *The Price of Liberty: The Public Debt of the American Revolution* (Charlottesville: University Press of Virginia, 1983), 13.

[74] On May 12, 1780, General Benjamin Lincoln surrender an army of more than 3,000 Continental soldiers at Charleston, South Carolina. On August 16, 1780, the U.S suffered its worst defeat at the Battle of Camden where more than 1,000 Continental soldiers were killed or wounded. Another significant blow to the U.S. was General Benedict Arnold committing treason and joining the British, see: E. Wayne Carp, "The Origins of the Nationalist Movement of 1780-1783: Congressional Administration and the Continental Army," The Pennsylvania Magazine of History and Biography 107, no. 3 (1983): 370-371, https://www.jstor.org/stable/20091783; Anderson, *The Price of Liberty*, 13.

[75] Charles Rappleye, *Robert Morris: Financier of the American Revolution* (New York: Simon & Schuster, 2010), 228.

[76] *Journals of the Continental Congress, 1774-1789 Volume XIX 1781: January 1 – April 23* (Washington, D.C.: Washington Government Printing Office, 1912), 160, 166, https://memory.loc.gov/ammem/amlaw/lwjclink.html.

new bills.[77] The increasing problems the United States faced, particularly the collapse of the Continental currency, caused a transition of political power within Congress.[78]

A political faction called the Nationalists gained control. They envisioned the United States as a great commercial power, wanted to create a stronger national government to better coordinate America's resources, and wanted to amend the Articles of Confederation so Congress could directly tax the people for government revenue.[79] Under Nationalist control, Congress authorized the creation of civil departments led by executive heads which included a secretary of marine, a secretary of war, and, most importantly, a superintendent of finance.[80] On February 18, 1781, wealthy Philadelphian merchant Robert Morris became the superintendent of finance.[81] The Nationalists had created these centralized political offices so that administrative positions were more appealing to qualified individuals like Robert Morris. Robert Morris's financial leadership changed the country's fortunes and started to salvage public credit. Morris also made administrative reforms intended to give the national government more autonomy in

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[77] According to William Anderson, the radicals were the leading political faction in the Continental Congress from 1776 to 1780, see: Anderson, *The Price of* Liberty, 13; *Journals of the Continental Congress, 1774-1789 Volume XVI 1780: January 1-May 5* (Washington, D.C.: Washington Government Printing Office, 1910), 205-206, 267, https://memory.loc.gov/ammem/amlaw/lwjclink.html; James Madison, "From James Madison to James Madison, Sr. 20 March 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 1, https://founders.archives.gov/documents/Madison/01-02-02-0001; James Madison, "From James Madison to Thomas Jefferson, 27-28 March 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par 1, https://founders.archives.gov/documents/Madison/01-02-02-0004; James Madison, "From James Madison to Thomas Jefferson, 6 May 1780," in *The Papers of James Madison, vol. 2, 20 March 1780–23 February 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1962), par. 1, https://founders.archives.gov/documents/Madison/01-02-02-0017.

[78] Rappleye, *Robert Morris*, 228.

[79] Anderson, *The Price of* Liberty, 14; Rappleye, *Robert Morris*, 227.

[80] *Journals of the Continental Congress, 1774-1789 Volume XIX 1781: January 1 – April 23* (Washington, D.C.: Washington Government Printing Office, 1912), 126, https://memory.loc.gov/ammem/amlaw/lwjclink.html.

[81] Anderson, *The Price of* Liberty, 13; Rappleye, *Robert Morris*, 233.

collecting government revenue. Morris's initial success was dependent on his private resources, which could not fully substitute taxes. In the end, Morris only temporarily improved the nation's financial situation due to his inability to adequately fund government expenditures and the public debt. He faced decentralizing institutional barriers, primarily the requisition system and the amendment process, that made it difficult to implement the financial policies required for his funding scheme to ultimately work.

The Nationalists needed to reform the United States' financial apparatus if they wanted to obtain administrative leadership from an individual of Robert Morris's stature and reputation. Beforehand, America's finances were managed by multiple people, particularly Continental Treasurer Michael Hillegas and a five-member Board of Treasury.[82] In "The Continentalist IV," Hamilton claimed that "it was impossible, that the business of finance could be ably conducted by a body of men, however well composed or well intentioned."[83] This collective leadership had already shown to be poorly financed, ineffective, and lacking public confidence.[84]

The Nationalists' reforms in the early 1780s tried to account for these mistakes. In general, the Nationalists wanted single administrators for civil departments over "congressional executive boards" in order to attract more qualified individuals to Congress. The Nationalists believed that highly qualified individuals were reluctant to

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[82] The Continental Congress did not intend for the Treasury to be run by one continental treasurer. As mentioned in the previous section, Congress originally appointed two joint treasurers of the United Colonies until the second one quit in August 1776, see: Robert E. Wright, *One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (New York: McGraw-Hill Education, 2008), 50, 59.
[83] Alexander Hamilton, "The Continentalist No. IV: Fishkill, New York, August 30, 1781," in *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par 20, https://rotunda.upress.virginia.edu/founders/ARHN-01-02-02-1191.
[84] Wright, *One Nation Under Debt*, 50, 59.

serve on boards because they offered less opportunities to take charge and distinguish oneself.[85] Alexander Hamilton advocated for this government reform.[86] According to Hamilton, by allowing individual leadership and granting 'real trust and importance' to government offices, "gifted and enterprising" individuals would be attracted to Congress.[87] Writing to New York delegate James Duane on September 3, 1781, he argued that Congress should appoint 'great officers of state-A secretary for foreign affairs- A President of War- A President of Marine- [and] A Financier' to replace congressional executive boards.[88]

The Office of the Superintendent of Finance had the appealing qualities for an individual like Robert Morris: "a man of acknowledged abilities and integrity, as well as of great personal credit and pecuniary influence."[89] Whoever was appointed to this office would "direct the execution of all plans" adopted by Congress for "revenue and expenditure" as well as "superintend and control all persons employed in procuring supplies for the public service, and in the expenditure of public money."[90] Robert Morris was offered a distinguished political office where his decision-making for America's finances would not be disrupted by co-administrators. Morris was also granted his request to appoint and remove people at his pleasure relevant to his office and duties.[91] He was

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[85] Carp, "The Origins of the Nationalist Movement of 1780-1783," 373.
[86] Carp, "The Origins of the Nationalist Movement of 1780-1783," 374.
[87] Carp, "The Origins of the Nationalist Movement of 1780-1783," 373.
[88] Carp, "The Origins of the Nationalist Movement of 1780-1783," 374.
[89] Hamilton, "The Continentalist No. IV: Fishkill, New York, August 30, 1781," par 20.
[90] *Journals of the Continental Congress, 1774-1789 Volume XIX 1781: January 1 – April 23* (Washington, D.C.: Washington Government Printing Office, 1912), 126, https://memory.loc.gov/ammem/amlaw/lwjclink.html.
[91] *Journals of the Continental Congress, 1774-1789 Volume XIX 1781: January 1 – April 23* (Washington, D.C.: Washington Government Printing Office, 1912), 290-291, https://memory.loc.gov/ammem/amlaw/lwjclink.html.

thus not required to inherit the inefficient staff of the previous financial administration and could appoint individuals he trusted in executing his financial policies.

The United States' financial situation started to improve during Robert Morris's tenure. Morris convinced a congressional committee of 4 delegates to reject James Madison's and John Mathews's motion on currency and argued to Congress that paper currency was not viable for carrying on the war. It was in the nation's best interest if both old and new bills were collected and destroyed. The priority was "to establish credit and restore the state of the finances."[92] Although he did not have a specific blueprint for preventing national bankruptcy, Morris developed clear objectives for salvaging public credit.[93] Morris's debt program involved funding the debt properly with directly collected tax revenue, thus revitalizing securities. He would also have revitalized securities go into productive hands (favoring affluent people) and be deposited in a government chartered bank. If properly executed, public debt would become a genuine medium of commerce.[94]

Morris issued new paper notes for the credit of his administration. The first one he introduced after the Battle of Yorktown were notes drafted in his name or the name of John Swanwick, the unofficial cashier to the Office of Finance, (Morris Notes). He used his signature on these public notes to make them more valuable.[95] He had them in $20,

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[92] James Madison and John Mathews wrote in their motion on currency that the April 30, 1781 deadline for cancelling old bills had long passed and called for new actions by loan offices to ensure the old bills were collected and destroyed, see: John Mathews, and James Madison, "Motion on Currency, [30 May] 1781," in *The Papers of James Madison, vol. 3, 3 March 1781–31 December 1781*, ed. William T. Hutchinson and William M. E. Rachal (Chicago: The University of Chicago Press, 1963), par 1, footnote 1, https://founders.archives.gov/documents/Madison/01-03-02-0070.
Journals of the Continental Congress, 1774-1789 Volume XX 1781: April 22 – July 22 (Washington, D.C.: Washington Government Printing Office, 1912), 588, https://memory.loc.gov/ammem/amlaw/lwjclink.html.
[93] Carp, "The Origins of the Nationalist Movement of 1780-1783," 385; Anderson, *The Price of Liberty*, 15.
[94] Anderson, *The Price of Liberty*, 15.
[95] Anderson, *The Price of Liberty*, 16; Wright, *One Nation Under Debt*, 65.

$50, and $80 so that they ended up in the hand of "wealthy educated people first." He believed that this would increase their value for the general public and prevent counterfeiting of his notes.[96] A second new form of credit Morris introduce were notes from the Bank of North America: a government chartered bank he proposed to Congress three days into office.[97] The Bank of North America would provide emergency loans and receive deposits from Congress. Its commercial loans, payable in 30 to 60 days, were its lifeblood. The Bank's checkable deposits and bank notes would supply the economy a form of currency.[98] For the first few months of 1782, Morris could rely on bank loans for revenue.[99] From 1781 to 1782, the Superintendent worked towards accomplishing many of his objectives including revitalizing securities, getting his securities, such as Morris notes, into the hands of affluent people, and establishing a national bank to hold revitalized securities. He was attempting to stabilize the manner that the United States accumulated debt and improve confidence in public credit.

Robert Morris was also an active participant in the Nationalists' efforts to centralize power in the national government. The Superintendent of Finance made centralizing administrative reforms that helped improve the management of the national debt. Morris wanted his own tax collectors for the Office of Finance. He thus established

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[96] Morris's logic for preventing counterfeiting of his notes was that large notes would be in the hands of intelligent people rather than "illiterate men" who could be fooled by counterfeits, see: Robert Morris, "From Robert Morris, Office of Finance [Philadelphia], April 15th, 1782," in *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 2, https://rotunda.upress.virginia.edu/founders/ARHN-01-03-02-0013-0001; Robert Morris, "From Robert Morris, Office of Finance [Philadelphia], October 5th, 1782," in *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 3, https://rotunda.upress.virginia.edu/founders/ARHN-01-03-02-0087.
[97] Anderson, *The Price of Liberty*, 16; Rappleye, *Robert Morris*, 236-237; Wright, *One Nation Under Debt*, 61-62.
[98] Rappleye, *Robert Morris,* 236-237; Wright, *One Nation Under Debt*, 61-62.
[99] Rappleye, *Robert Morris*, 309.

the posts of Continental receivers who worked under the authority of Congress. They collected taxes for the national government and sued local collectors who did not fulfil their duties. They pressed state legislatures to fulfil the requisitions of Congress. Morris also had the Continental receivers provide reports to him about the price of goods, the value of bills of exchange, and political developments.[100]

Morris was making the national government less reliant on the state governments to execute its financial policies. Congress had relied on the states to impose taxes and provide a certain share of their tax revenue to Congress. Tax collectors were usually locally elected though. As a result, most of the tax revenue was going to the state legislatures and very little went to Congress.[101] Alexander Hamilton explained in "The Continentalist VI" that Congress needed to be able to appoint its "own officers of the customs [and] collectors of taxes" so it could "create in the interior of each state a mass of influence in favour of the foederal government."[102] Continental receivers were meant to create these masses of influence within the states. Morris created these posts to ensure that state legislatures would prioritize national interests over state interests when deciding what portion of tax revenue to allocate towards the requisitions of Congress. He also was preparing his Office of Finance with the personnel to directly collect taxes.

The Nationalists and Robert Morris saw directly collected taxes as essential to strengthening the national government. Their efforts to obtain this and Morris's management of the national debt illustrate the central argument of E. James Ferguson's

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[100] Rappleye, *Robert Morris*, 298.
[101] Rappleye, *Robert Morris*, 298.
[102] Alexander Hamilton, "The Continentalist No. VI: Fishkill, New York, July 4, 1782," in *The Papers of Alexander Hamilton* Digital Edition, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 26, https://rotunda.upress.virginia.edu/founders/ARHN-01-03-02-0031.

historical classic *The Power of the Purse*. Robert Morris and the Nationalist were using the American Revolutionary debt as a political tool for strengthening and maintaining the unity of the Union.[103] During his tenure, Robert Morris consolidated domestic debts to make them obligations of Congress. By doing this, he expanded the federal domestic debt from 11 million specie dollars to 27 million specie dollars. He wanted the United States to have a substantial debt so that large government revenue was needed during peace time.[104] Debt was a source of taxation power and allegiance by citizens. Thus, the federal government and the states struggled for control over it.[105] For example, in order to prevent the states from paying the Continental soldiers instead of congressional requisitions, Congress issued federal indents or certificates of interest.[106]

The national government's financial policies served in part as political power moves. In 1782, Morris used his leverage over loan office certificate payments to pressure the states to ratify an impost amendment granting Congress directly collected taxes.[107] He stopped paying the interest on the loan office certificates. He hoped this would convince public creditors that their financial losses resulted from the state legislatures not ratifying the impost amendment and thus the public creditors would successfully pressure them to ratify it.[108]

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[103] "The Power of the Purse: A History of American Public Finance, 1776-1790 by E James Ferguson," The University of North Carolina Press, *The University of North Carolina Press*, n.d, accessed August 21, 2020, https://uncpress.org/book/9780807840283/the-power-of-the-purse/; Charles Hoffman, "Reviewed Work: The Power of the Purse: A History of American Public Finance, 1776-1790 by E. James Ferguson," *The Annals of the American Academy of Political and Social Science* 337 (1961): 201, accessed August 21, 2020, https://www-jstor-org.libsrv.wku.edu/stable/1033932.

[104] Anderson, *The Price of* Liberty, 17.

[105] Anderson, *The Price of* Liberty, 21.

[106] Anderson, *The Price of* Liberty, 19-20.

[107] This impost amendment was a 5% tariff on imports. According to Richard Sylla, this would have been the nation's first tax and the government's first direct source of tax revenue, see: Richard Sylla, *Alexander Hamilton: The Illustrated Biography* (New York: Sterling Publishing Co., 2016), 77; Anderson, *The Price of Liberty*, 18.

[108] Anderson, *The Price of* Liberty, 18.

The Nationalists goal to strengthen the Union's government was not only justified by ideological views. It served practical purposes for the financial and political well-being of the states. Alexander Hamilton's writings in the 1780s explained these purposes. In *The Federalist* No. 21, Hamilton argues that regulating the states' contributions to "the common treasury" via quotas was a "fundamental error in the confederation."[109] The requisition system could never be an effective means of funding the national government because there was no proper standard for determining "natural wealth" among the states.[110] The Articles of Confederation dictated that the "common treasury" be "supplied by the several states in proportion to the value of all land within each state, granted or surveyed for any person."[111] Hamilton argued that this standard could not be accurately measured since it accounted for too many factors, including "soil, climate, the nature of the productions, the nature of the government…state of commerce, of arts, of industry" etc.[112] Quotas would unequally distribute financial burden among the states. This was an arrangement that states with heavy quotas would not tolerate long term because their citizens would be impoverished and oppressed while the citizens of other states "would scarcely be conscious of the small proportion of the weight they were required to sustain."[113] Therefore, the inequality of the requisition system would "be sufficient in America to work the eventual destruction of the Union."[114]

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[109] Alexander Hamilton, "The Federalist No. 21, New York, December 12, 1787," in *The Papers of Alexander Hamilton* Digital Edition, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par 6, https://rotunda.upress.virginia.edu/founders/ARHN-01-04-02-0178.
[110] Hamilton, "The Federalist No. 21, New York, December 12, 1787," par. 6
[111] Articles of Confederation, Art. 8, Cl. 1.
[112] Hamilton, "The Federalist No. 21, New York, December 12, 1787," par. 7.
[113] Hamilton, "The Federalist No. 21, New York, December 12, 1787," par. 8.
[114] Hamilton, "The Federalist No. 21, New York, December 12, 1787," par. 8.

The Superintendent's efforts for directly collected taxes were meant to preserve the Union as well as strengthen the national government. The Continental receivers' enforcement of quotas was meant to provide short term financial stability. If enforced long term, the requisition system would alienate states valued much higher in natural wealth compared to others and hurt relations among the states and the relationship between the states and the national government. The requisition system's inconsistent standard for measuring natural wealth could not only overburden states but under burden states as well, thus costing the national government revenue to fund its policies and the public debt. Morris saw taxation by the national government as the solution to the debt.[115] This was critical to revitalizing securities. He proposed imposts, a property tax, a poll tax, and an excise tax on whisky to accomplish this objective.[116]

While government and administrative reform helped Morris's financial policies to initially work, it was his private resources as a merchant that were indispensable to his temporary success. Robert Morris was the most successful and best-connected merchant in North America. He may have been the only person able to save the United States' national government and Continental Army.[117] Had Congress not resolved on March 20, 1781 to "not require Mr. Morris to dissolve the commercial connections referred" to in his letter, then Morris's tenure, if he even assumed office, would have played out much differently.[118] Morris backed his actions as Superintendent of Finance with his own personal credit and reputation.[119]

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115 Rappleye, *Robert Morris*, 238.
116 Anderson, *The Price of* Liberty, 15.
117 Rappleye, *Robert Morris*, 233.
118 *Journals of the Continental Congress, 1774-1789 Volume XIX 1781: January 1 – April 23* (Washington, D.C.: Washington Government Printing Office, 1912), 288, https://memory.loc.gov/ammem/amlaw/lwjclink.html.
119 Anderson, *The Price of* Liberty, 16.

His financial and material contributions to the Continental Army that allowed it to win the Revolutionary War were tied primarily to his private resources rather than institutional resources. The private contractor system he organized only functioned in the early 1780s due to his wealth and profession. Morris committed his own credit to supply the Continental Army, getting resources on his own name.[120] During the Yorktown operation, Morris promised to personally pay provisions provided by important suppliers.[121] The credit for Morris's administration was also tied to his personal finances. Morris guaranteed notes written off his name and John Swanwick's name with his public and private resources.[122] He met Morris notes in part by engaging in sundry commercial operations.[123] His tossing around of money to maintain his financial obligations was not stabilized by government revenue but rather private revenue.

This form of stabilization was fragile since a downturn in Morris's personal commercial exploits was enough to overextend the credit of his administration. While the Battle of Yorktown ended land campaigns, the Revolutionary War continued as naval warfare.[124] The British blockade eventually resulted in Morris losing his personal shipping and privateering operations. He also could not obtain convoys from France and Spain.[125] In spring 1782, Morris system began to fall apart as he struggled to meet loans. His relationship with contractors declined also. By August 1782, contractors supplying the army wanted hard currency on time and Morris was unable to do this.[126]

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[120] Rappleye, *Robert Morris*, 239-240.
[121] Wright, *One Nation Under Debt*, 62-63.
[122] Anderson, *The Price of Liberty*, 16.
[123] Wright, *One Nation Under Debt*, 65.
[124] Wright, *One Nation Under Debt*, 62-63.
[125] Rappleye, *Robert Morris*, 300.
[126] At the end of August 1782, Morris informed Washington in a letter that he could no longer support the provisioning of the army, see: Rappleye, *Robert Morris*, 310, 322.

Government and administrative reform had allowed a highly qualified individual to unilaterally run the day-to-day operations of the United States finances and direct us towards an efficient financial bureaucracy. On the other hand, this reform still did not provide a consistent stream of revenue to maintain this more centralized financial apparatus. Instead, the highly qualified individual that led it resorted to his own personal revenue for maintenance. Morris was not oblivious that this financial arrangement could not work long term and thus vainly pushed for directly collected taxes during his tenure.[127] A consequence of directly collected tax revenue not coming to fruition was that Morris had to use other loans to satisfy existing ones originally backed by his personal finances. For instance, Robert Morris had to rely on a 1782 foreign loan that John Adams secured for 5 million florins ($ 2 million) to barely fulfill his Morris notes.[128]

Within the Articles of Confederation were two provisions that obstructed the full implementation of the Superintendent's financial policies. These institutional barriers kept political power overwhelmingly in the hands of the states. The first of these provisions was the requisition system, which kept the power of the purse only in the state governments and not in Congress.[129] In *The Federalist* No. 15, Alexander Hamilton explains that, under the requisition system, the national government merely offered "recommendations for states to provide men and money, and the states [could] choose, which they [had], to ignore those recommendations."[130]

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[127] Wright, *One Nation Under Debt*, 65-66; Anderson, *The Price of Liberty*, 18; Rappleye, *Robert Morris*, 300.

[128] Rappleye, *Robert Morris*, 375-376.

[129] "The taxes for paying that proportion shall be laid and levied by the authority and direction of the legislatures of the several states within, the time agreed upon by the United States in Congress assembled," see: Articles of Confederation, Art. 8, Cl. 2.

[130] Alexander Hamilton, "The Federalist No. 15, New York, December 1, 1787," in *The Papers of Alexander Hamilton* Digital Edition, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 6, https://rotunda.upress.virginia.edu/founders/ARHN-01-04-02-0168.

Even with Continental Receivers, Robert Morris could not rely on coercive powers of the national government to get state legislatures to comply. Alexander Hamilton experienced this firsthand when he was a Continental receiver for the state of New York in 1782.[131] Two months in his position, Hamilton wrote to Robert Morris that "there seem[ed] to be little for a Continental Receiver to do." He explained that most work was in "the hands of the county treasurers" and that he did not find "any appropriation made of any part of the taxes collected to Continental purposes." Hamilton thought the only way he could be useful to Morris was in "seconding [his] applications to the states."[132] In practice, Robert Morris's Continental receivers could only request the states to fulfill the financial recommendations of Congress. They had no sanctioning powers to give these requests significant legal weight. Despite all the administrative reforms Morris made, the states still controlled the national government's revenue and were neglecting it. The solution to this revenue problem was not additional administrative reforms by Morris, or regular legislation by Congress. It was the passage of an amendment.

However, the amendment process was the second provision in the Articles of Confederation that obstructed Morris's financial policies. It was designed to make increasing the power of the national government near impossible. It required an amendment to "be agreed to in a Congress of the United States, and be afterwards

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[131] Robert Morris, "Warrant to Alexander Hamilton to Receive Money as Continental Receiver for the State of New York, Philadelphia, April 15, 1782," in *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 1, https://rotunda.upress.virginia.edu/founders/ARHN-01-03-02-0013-0002.
[132] Alexander Hamilton, "To Robert Morris: Albany, June 17, 1782," in *The Papers of Alexander Hamilton Digital* Edition, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 1, https://rotunda.upress.virginia.edu/founders/ARHN-01-03-02-0027.

confirmed by the legislatures of every state."[133] The key policy changes of directly collected taxes and coercive powers over the states that the Nationalist wanted for the national government had to be somehow ratified by all thirteen states. In 1781, Congress proposed its amendment for a 5% tariff on imports to raise money to pay the army and loan interest.[134] By 1782, twelve of the states had ratified the amendment.[135] Robert Morris's and the Nationalists' effort to secure direct revenue for the national government and properly fund the debt was almost achieved. The Articles of Confederations' requirement for unanimous ratification allowed a minority to prevent this centralization of political power though. Rhode Island was the only state that had not ratified the impost amendment, then Virginia withdrew its ratification.[136] Congress tried again to secure a tariff in 1783 but it also failed to ratify.[137]

The amendment process made the distribution of power between the states and the national government overly stagnant. Even with the Nationalists taking over Congress, Robert Morris applying political leverage as the Superintendent of Finance, and a majority of state legislatures supporting an impost amendment, this was not enough for the national government to gain the substantive taxation powers essential for the Superintendent of Finance's funding scheme. Unanimous ratification kept the Articles of Confederation from being the living document Morris and the Nationalists needed to resolve the financial problems of the nation.

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[133] Articles of Confederation, art. 8, cl. 2.
[134] Sylla, *Alexander Hamilton*, 77.
[135] Sylla, *Alexander Hamilton*, 77.
[136] Sylla, *Alexander Hamilton*, 77.
[137] Sylla, *Alexander Hamilton*, 78.

The Nationalist Movement of 1780-1783 illustrates the close relationship between centralizing political power in the national government and stabilizing the Revolutionary War debt. The period of 1780 to 1781 shows how the American Revolutionary War was straining the finances of the early American Republic. The national debt continued to accumulate, funding was lacking to control this debt accumulation, other means to fund the war, such as paper currency, were also becoming obsolete, and the Continental Army was not being properly supplied. With the fate of the new nation at stake, new members of Congress known as the Nationalists recognized they needed quick effective decision making, especially for management of America's finances. They believed that the congressional executive boards, which prevented single administrative leadership, were depriving Congress of the qualified individuals who could save the Union. The Nationalists' created the single administrative office of the superintendent of finance to attract the wealthy Philadelphian merchant Robert Morris.

The new financial apparatus was more centralized and autonomous. Morris could fill bureaucratic positions with men he trusted and create new positions, like the Continental receivers, to increase the influence of the national government within the states. As the single head administrator of this new financial apparatus, Robert Morris could quickly develop a funding scheme with policy deliberation limited within Congress. With the Nationalists in control, Morris could start implementing his financial policies including establishing a national bank and introducing new forms of credit.

On the other hand, the Superintendent's ultimate success was conditioned on him being "furnished with materials upon which to operate."[138] He was never furnished these

[138] Hamilton, "The Continentalist No. IV: Fishkill, New York, August 30, 1781," par 20.

materials though and the requisition system and the amendment process in the Articles of Confederation hindered his efforts to obtain them. Morris's private revenue temporarily kept his administration afloat but he needed directly collected taxes, like the impost amendment, for public credit to be fully salvaged. After the impost amendment did not ratify, Robert Morris believed the Nationalist movement had failed.[139] He decided to resign as Superintendent in 1783. He could not leave office until he fulfilled his obligations. The three months' pay to the army kept him in office for another year.[140] Morris used a Dutch loan to honor his debts and leave a small sum in the treasury before formally resigning in November 1784. [141] Calls for centralizing political power in the national government did not end with the Nationalist Movement. In the next two years, civil unrest would provoke the states to reconsider the Articles of Confederation.

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[139] Anderson, *The Price of Liberty*, 20.
[140] Rappleye, *Robert Morris*, 374.
[141] Wright, *One Nation Under Debt*, 68; Rappleye, *Robert Morris*, 380.

SECTION THREE: THE FORMATION OF THE U.S. CONSTITUTION AND ITS IMPACT ON ALEXANDER HAMILTON'S TENURE AS THE SECRETARY OF THE U.S. TREASURY

The couple years after Robert Morris's tenure as the Superintendent of Finance were not calm and stable for Americans. Orators and writers in the mid-1780s were discussing a growing crisis for the early American Republic.[142] Description of this crisis had ideological and political overtones. They asserted Americans were increasingly living unstable, affluent lifestyles. Sermons described people being corrupt and sinful instead of morally reformed as a result of the American Revolution. Capitalist tendencies among the American populace were undermining the republican ideals of a virtuous people.[143]

The economic situation in the mid-1780s was mixed but had serious implications for American politics. Although there was a scarcity of money and a brief depression, there was also significant economic growth. The states were working to stabilize the finances and economy of the U.S. and were assuming responsibility for paying the public debt.[144] But, in order to finance themselves, states with ports like Massachusetts, New York, and South Carolina enacted import taxes that even covered interstate commerce.

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[142] Gordon S. Wood, *The Creation of the American Republic 1776-1787* (Chapel Hill: University of North Carolina Press, 1969), 393.
[143] Wood, *The Creation of the American Republic 1776-1787,* 416-418.
[144] Wood, *The Creation of the American Republic 1776-1787,* 394-395

This led to resentment between the states.[145] In addition, the states imposed taxes that their tax payers could not always fulfill. Punishment for tax evasion led to them rebelling.[146] The most notable of these was Shay's Rebellion in Western Massachusetts.[147] According to historian Gordon S. Wood, Americans reacted with anxiety, distress, and even relief "because it was an anticipated and understandable abuse of republican liberty" where rebels tried to violently impose majoritarian rule.[148] Shay's Rebellion convinced many that the Articles of Confederation was "bootless" and the Confederation Congress decided to call the states to Philadelphia in May 1787.[149]

The Constitutional Convention, which ran from May 17th to September 17th, 1787 ended with an entirely new founding document to replace the Articles of the Confederation: the U.S. Constitution.[150] The national debt played a small role at the Constitution Convention and the ratification of the new ruling charter.[151] However, several constitutional provisions would significantly impact its management. The formation of the U.S. Constitution was the pinnacle of centralizing political authority in the national government. It created new institutional barriers on the national government that paradoxically strengthened it. Furthermore, the national government assumed new powers that it lacked under the Articles of Confederation which were indispensable to Alexander Hamilton's success as the first Secretary of the U.S. Treasury.

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[145] Richard Sylla, *Alexander Hamilton: The Illustrated Biography* (New York: Sterling Publishing Co., 2016), 93.
[146] Robert E. Wright, *One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (New York: McGraw-Hill Education, 2008), 71.
[147] Sylla, *Alexander Hamilton*, 95-98.
[148] Wood, *The Creation of the American Republic 1776-1787,* 412.
[149] Sylla, *Alexander Hamilton*, 98.
[150] Adrienne Koch, introduction to *Notes of Debates in the Federal Convention of 1787 Reported by James Madison* (Oxford University Press, New York, 1920), viii.
[151] Wright, *One Nation Under Debt*, 117.

Despite four months of deliberation, the ratification of the U.S. Constitution was not guaranteed. Two factions emerged over the U.S. Constitution: the Federalists and the Anti-Federalists. The Federalists supported the new constitution. They wanted a new central government that would save the American Revolution but also restrain its excesses, which included unprecedented social mobility of "insignificant" individuals and threats of democratic despotism.[152] The Anti-Federalists opposed the U.S. Constitution. They were concerned about an elite class seeking to maintain power over the many. They also feared the intrusion of state rights.[153] Six delegates had refused to sign the Constitution fearing it would take away their liberties.[154] Their objections also addressed America's finances. For instance, Antifederalist "Brutus" warned that the new government would "create a national debt so large as to exceed the ability of the country ever to sink (pay back)."[155]

The Federalists had an uphill battle ahead of them to ratify the U.S. Constitution. Most Americans between 1787 and 1788 sided with the Anti-federalists because they feared a strong domestic national government.[156] They recognized that the weak Confederation had to change but they did not expect the dramatic transformation of American politics that weakened the power of the states.[157] Compared to the Nationalist Movement's effort to increase the power of the national government, the Federalists had a more difficult objective. While they only needed nine states instead of all thirteen states

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[152] Wright, *One Nation Under Debt*, 75; Wood, *The Creation of the American Republic 1776-1787*, 413, 475-476, 481, 504.
[153] Wright, *One Nation Under Debt*, 75; Wood, *The Creation of the American Republic 1776-1787*, 488-490; Ron Chernow, *Alexander Hamilton* (New York: Penguin Press, 2004), 243.
[154] Wright, *One Nation Under Debt*, 85.
[155] Wright, *One Nation Under Debt*, 103.
[156] Wright, *One Nation Under Debt*, 78.
[157] Wood, *The Creation of the American Republic 1776-1787*, 471.

for ratification, the Federalists were persuading the states to accept an entirely new government, with general taxation powers, and multiple other regulatory powers, not simply a 5% tariff on imports.[158] The Federalists' success in getting the U.S. Constitution ratified is due in part to distinguishing the U.S. Constitution from the Articles of Confederation to show that the new powers that the federal government would exercise could not be easily abused. They pointed towards the bicameralism of the U.S. Congress, the constitutional amendment process, and the separation of powers.[159]

Furthermore, the U.S. Constitution giving a single executive, the president of the United States, the power to nominate federal officials facilitated the appointment of a qualified individual to be secretary of the U.S. Treasury.[160] The first President of the United States George Washington offered the post of treasury secretary to Robert Morris

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[158] U.S. Constitution, art. 1, sect. 8, cl. 1-3, 5; U.S. Constitution, art. 7, cl. 1; Articles of Confederation, art. 8, cl. 2; Sylla, *Alexander Hamilton*, 18.

[159] Having a two chamber legislature instead of a unicameral one made it difficult for Congress to pass laws. It forced deliberation so that the people's interests were not easily disregarded. The constitutional amendment process was a carefully crafted institutional barrier that both limited and protected the federal government's political authority by lowering the ratification process to three-fourths of the states instead of unanimous ratification. Unlike the Articles of Confederation, the U.S. Constitution divided out legislative, executive, and judicial powers among three branches of government. The Confederation Congress was dangerous because a unicameral body had all government powers concentrated in it and could become tyrannical. The national government gained new powers needed to run the country, which included managing the national debt, under the condition that it would be difficult for it to exercise these powers and gain new ones. But it also allowed the national government to gain new powers that dramatically improved its handling of national issues such as the public debt, see: U.S. Constitution, art. 1, sect. 2, cl. 1; U.S. Constitution, art. 1, sect. 3, cl. 1; Articles of Confederation, art. 2, cl. 1; Articles of Confederation, art. 5, cl. 1; Wood, *The Creation of the American Republic 1776-1787,* 549-550, 559; U.S. Constitution, art. 5, cl. 1; Sylla, *Alexander Hamilton*, 77; Articles of Confederation, art. 8, cl. 2; U.S. Constitution, art. 1, sect. 1, cl. 1; U.S. Constitution, art. 2, sect. 1, cl. 1; U.S. Constitution, art. 3, sect. 1, cl. 1; Articles of Confederation, art. 2, cl. 1.

[160] Since the President is indirectly elected by the American people, he has an incentive to think about national interests when deciding who to appoint to administrative positions. The President is less inclined to appoint individuals who will blatantly administer federal policy in favor of localized interests. The American Revolutionary war debt needed to be managed by a qualified individual who could consider the future of the nation as a whole when devising a coherent plan that would stabilize it. This is a point that was considered by Pierce Butler at the Federal Convention and Alexander Hamilton in "Federalist No. 76;" see: James Madison, Notes of Debates in the Federal Convention of 1787 Reported by James Madison (Oxford University Press, New York, 1920), 58; Hamilton, "The Federalist No. 76, New York, April 1, 1787," par. 5.

but Morris declined and recommended Alexander Hamilton instead.[161] Alexander Hamilton had clear ideas about how to salvage America's public credit. Hamilton wanted to create a central bank, a funded debt, a mint, a customs service, manufacturing subsidies and so on in order to transform the U.S. into a powerful modern nation state that imitated the British model. President Washington also approved Hamilton's agenda due to their political ideas and goals aligning.[162] Alexander Hamilton's nomination by the President rather than being merely selected and appointed by the legislative branch, like under the Confederacy, benefited the first Treasury Secretary because it provided him the political flexibility to shape American financial policy in the early 1790s.

Beyond these three provisions in the U.S. Constitution, there are several enumerated powers given to Congress in Article I, Section 8 that have a more direct impact on the future management of the national debt. Numerous scholars assert and demonstrate that the first U.S. Treasury Secretary Alexander Hamilton was indispensable to stabilizing the national debt. But it is important to remember that Hamilton inherited institutional tools from the U.S. Constitution that his predecessor Robert Morris did not have. Therefore, while I look at these constitutional provisions that centralized political authority, I will place them in the context of Hamilton's financial policies.

Upon assuming office, Alexander Hamilton quickly began working to salvage America's public credit. In his *First Report on the Public Credit*, submitted to Congress on January 9, 1790, Hamilton calculated the national debt at $54 million and state debts at $25 million. He asserted that the foreign portion of the debt could not be repaid in its

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[161] Thomas K. McCraw, *The Founders and Finance: How Hamilton, Gallatin, and Other Immigrants Forged a New Economy* (Cambridge: Harvard University Press, 2012), 85.
[162] Chernow, *Alexander Hamilton*, 287, 290.

current terms and needed to be refinanced with new foreign loans. He accomplished this by borrowing millions of dollars from Holland to pay off the French, Spanish and Dutch loans from the Revolutionary War.[163] Hamilton also proposed that the federal government assume the states' debts from the American Revolutionary War. Assumption would allow a uniform funding scheme, the federal government would gain allegiance from bondholders, and it would reinforce the federal government's exclusive right to collect import taxes by discouraging skimming.[164] He also proposed new loans that would reduce the government's overall interest payments to 4%.[165] Hamilton's ability to assume new debt for the federal government relied on Congress's power "To borrow money on the credit of the United States."[166] While refinancing the national debt was in the prerogatives of the federal government, the practicality of doing this involved other enumerated powers.

Without a steady stream of government revenue, it would have been impractical to refinance foreign loans, consolidate state debts in the federal government, and reduce interest payments. As discussed in previous sections, creditors became weary to continue investing in the United States as its unfunded debt accumulated during the American Revolution. Refunding the foreign loans would not be possible if new creditors were not confident the United States could fulfill them. Acquiring state debts would also lack technical feasibility if the federal government continued to receive its revenue from the states. Robert Morris was unable to successfully propose taxes during his tenure as the superintendent of finance because the Articles of Confederation lacked the substantive

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[163] Chernow, *Alexander Hamilton*, 297; Wright, *One Nation Under Debt*, 130-131.
[164] Chernow, *Alexander Hamilton*, 299; Wright, *One Nation Under Debt*, 132-133.
[165] Wright, *One Nation Under Debt*, 133.
[166] U.S. Constitution, art. 1, sect. 8, cl. 2.

taxation powers in the U.S. Constitution. Instead of a requisition system, the U.S. Congress had "the Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States."[167] The U.S. Treasury Secretary Alexander Hamilton could obtain directly collected taxes through congressional legislation rather than go through a long amendment process.

Following Hamilton's advice, Congress enacted 5 to 10% duties for incoming goods and 10% duty for merchandize on foreign ships. Import duties gradually rose in the 1790s to around 20%.[168] He also proposed in his *First Report on the Public Credit* taxes on wine, distilled spirits, tea, and coffee.[169] What all of these taxes had in common was they were indirect taxes. In *The Federalist* No. 12, Hamilton argued that federal revenue should come from these types of taxes because a prosperous commerce was "the most productive source of national wealth" and the means to supply the U.S. Treasury. He discouraged exercising direct taxation due to its political unpopularity, the poor state of trade, and the lack of money in circulation.[170] It was the means to gain needed funding while minimizing the political and economic backlash for raising it.

The taxes could be quickly implemented to take advantage of the economic growth at the time. In fall 1789, trade was prosperous as Americans transported wheat to Europe at an unprecedented scale. According to historian E. James Ferguson, Congress now could regularly pay the interest with hard cash which was "superior to anything

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[167] U.S. Constitution, art. 1, sect. 8, cl. 1.
[168] McCraw, *The Founders and Finance*, 89.
[169] Chernow, *Alexander Hamilton*, 299.
[170] Alexander Hamilton, "The Federalist No. 12, New York, November 27, 1787," in *The Papers of Alexander Hamilton Digital Edition*, ed. Harold C. Syrett (Charlottesville: University of Virginia Press, Rotunda, 2011), par. 2-3-6, 11, https://rotunda.upress.virginia.edu/founders/ARHN-01-04-02-0165.

which creditors could have expected of the Confederation government."[171] Import duties would be 90% of government revenue.[172]

The Treasury Secretary's funding scheme required more than substantive taxation powers. It also involved the establishment of new federal institutions. At the start of his tenure, he created a customs service to collect this important source of government revenue, give detailed records on the collection of custom duties in each state, determine quantity and goods arriving on ships, and influence over the monetary system.[173] In April 1790, he successfully proposed what would become the Coast Guard: the Revenue Cutter Service; it would crack down on smuggling.[174] On December 14, 1790, he submitted his *Report on a National Bank* to Congress. This government-chartered bank would provide a safe place for the Treasury's money, lend large sums of money with short terms when the government's finances were imbalanced, and issue a form of paper currency in greater quantity than its reserves of gold, silver and federal bonds because bank deposits would most likely not be all withdrawn at once.[175]

The establishment of these institutions drew upon multiple enumerated powers. The U.S. Customs Service and the Revenue Cutter Service were enforcement agencies for the taxing and spending clause. They ensured that the federal government's duties and excise taxes held legal weight rather than being recommendations that U.S. citizens and foreign importers could disregard. These institutions also enforced Congress's power "To regulate Commerce with foreign Nations, and among the several States."[176] The U.S.

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[171] E. James Ferguson, *The Power of the Purse: A History of American Public Finance, 1776-1790* (Chapel Hill: The University of North Carolina Press, 1961), 256-257.
[172] Chernow, *Alexander Hamilton*, 339, 341.
[173] Chernow, *Alexander Hamilton*, 292.
[174] Chernow, *Alexander Hamilton*, 340.
[175] Wright, *One Nation Under Debt*, 147-148; McCraw, *Founders and Finance*, 112.
[176] U.S. Constitution, art. 1, sect. 8, cl. 3.

Customs Service and Revenue Cutter Service made sure that imports were better accounted for so indirect taxes were properly administered in international and interstate commerce.

Hamilton asserted that the National Bank would fulfill four Constitutional powers: the right to collect taxes, borrow money, regulate trade among the states, and support fleets and armies.[177] The National Bank was an efficient means to pay interest payments for the national debt four times a year.[178] It would provide the U.S. Treasury assistance in collection, storage, transfer, and disbursement of government currencies.[179] It also contributed to the federal government's new prerogative over the states in controlling U.S. currency.[180] Hamilton needed to address the scarcity of money in the economy. In his *Report on the Mint*, submitted to Congress January 28, 1791, he proposed that the U.S. dollar be defined in terms of gold and silver. On April 2, 1792, the law was enacted.[181] During this time, the National Bank's notes reinforced currency being based on gold and silver since bank notes were based on the Bank's gold and silver reserves. In general, U.S. banks stockpiled gold and silver reserves to support their deposits and notes. Bank notes became convertible to gold and silver coins.[182] The National Bank was an integral part of creating his monetary system and thus provide a stable alternative means to fund government activities besides loans.

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[177] Chernow, *Alexander Hamilton*, 354.
[178] Wright, *One Nation Under Debt*, 147-148.
[179] Wright, *One Nation Under Debt*, 149-150.
[180] The U.S. Constitution gives Congress the power "To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures." Article 1, Section 10 also prohibited the states from coining money and issuing bills of credit like they did before the U.S. Constitution. Hamilton did not have to worry that the states would inflate new national currency like they did during the American Revolutionary War, see: U.S. Constitution, art. 1, sect. 8, cl. 5; U.S. Constitution, art. 1, sect. 10, cl. 1.
[181] Wright, *One Nation Under Debt*, 148.
[182] Sylla, *Alexander Hamilton*, 131-132.

Although these institutions served to advance constitutional powers, Article I, Section 8 did not explicitly approve their establishment by Congress for those purposes. The National Bank was an important case in point. Secretary of State Thomas Jefferson, Attorney General Edmund Randolph, and Congressman James Madison asserted the Constitution did not give the federal government the power to charter a national bank and they wanted President Washington to veto the Bank bill.[183] Jefferson further argued that a central bank disagreed with republicanism and that British kings established chartered companies.[184] Hamilton had to convince President Washington that all three were wrong and that the National Bank was needed and could be enacted into law. On February 23, 1791, he gave his written defense to Washington.[185] He provided Washington a hypothetical situation that explained the need for a central bank. When a nation faces a war, it quickly requires large amounts of money but taxes take too long. A bank could compensate for the urgency for war funds.[186] To assert that the federal government could establish this bank, he referred to the last clause of Article I, Section 8 of the U.S. Constitution: Congress has the power "To make all Laws which shall be necessary and proper for carrying into Execution the forgoing Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof."[187]

It is this constitutional provision that was critical to not only the establishment of the U.S. National Bank but to other federal institutions not explicitly permitted under the U.S. Constitution. In his written defense to Washington, Hamilton relied on the doctrine

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[183] McCraw, *The Founders and Finance*, 115-116; Chernow, *Alexander Hamilton*, 350-351.
[184] Chernow, *Alexander Hamilton*, 351.
[185] Chernow, *Alexander Hamilton*, 353.
[186] Hamilton's hypothetical would prove to be valid during the war of 1812. The United States had no national bank and barely avoided financial and military ruin, see: McCraw, *The Founders and Finance*, 117
[187] U.S. Constitution, art. 1, sect. 8, cl. 18.

of implied powers: the idea that the government had the right to employ all means necessary to carry out powers explicitly given in the Constitution. The federal government had the right to establish a national bank because it fulfilled several constitutional powers.[188] The logic of this doctrine could be applied to the U.S. Customs Service and Revenue Cutter Service. The Constitution did not explicitly permit them but they served to advance important enumerated powers that Hamilton relied on to salvage public credit. George Washington was convinced and signed the Bank bill into law on February 24, 1791.[189]

The National Bank's constitutionality under the Necessary and Proper Clause was validated in the landmark Supreme Court case *McCulloch v. Maryland* (1819). In order to support the constitutionality of the Second Bank of the United States, Daniel Webster quoted Hamilton's written defense to Washington about the Necessary and Proper Clause in his oral arguments.[190] In the majority opinion, Chief Justice John Marshall concludes that that the Necessary and Proper Clause does not restrict but expands the means for the federal government to fulfill its given powers. Although the powers of the federal government are limited, Marshall explains "the Constitution must allow to the national legislature that discretion with respect to the means by which the powers it confers are to be carried into execution."[191] A government-chartered bank had already been shown, specifically under the Confederation, to be necessary for fulfilling the national government's fiscal operations.[192] The Necessary and Proper Clause allowed a

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[188] Chernow, *Alexander Hamilton*, 353.
[189] Chernow, *Alexander Hamilton*, 354.
[190] Chernow, *Alexander Hamilton*, 355.
[191] *McCulloch v. Maryland*, 17 U.S. 316, (1819), 9, http://landmarkcases.c-span.org/pdf/McCulloch%20v.%20Maryland%20-%20Marshall%20Opinion.pdf.
[192] *McCulloch v. Maryland*, 17 U.S. 316, (1819), 10, http://landmarkcases.c-span.org/pdf/McCulloch%20v.%20Maryland%20-%20Marshall%20Opinion.pdf.

government of limited delegated powers to be an energetic government capable of addressing the economic, fiscal, and political problems that caused an accumulating, unfunded national debt.

Exercising these constitutional powers, Alexander Hamilton was able to stabilize the Revolutionary War debt and the early American Republic's finances. The Federal government was more efficient than the states at collecting taxes, making it possible for it to fund the national and state debts at a lower interest rate and for a longer period of time. This reduced the annual debt service. With the assistance of the National Bank, the U.S. Treasury made payments on time each quarter.[193] When Hamilton resigned his post as the U.S. treasury secretary in early 1795, the U.S had the highest credit rating of any country in the world in the European financial markets.[194] In his *Report on a Plan for the Further Support of Public Credit*, submitted to Congress January 16, 1795, Hamilton offered a thirty-year plan for extinguishing public debt. He wanted new taxes and the older ones to remain permanent. More than a month later, Congress adopted his proposals.[195]

His success as the U.S. treasury secretary was not only due to his financial genius but the new ruling charter he operated under. Bicameralism, a more lenient amendment process, and the separation of powers helped convince Americans that the national government could have more political authority centralized in it. A separate Executive Branch provided him the opportunity to be appointed as the federal head of American finance. He also had political flexibility in crafting financial policy because he answered his appointment to the president of the United States rather than numerous conflicting

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[193] Wright, *One Nation Under Debt*, 119-120, 167.
[194] McCraw, *The Founders and Finance*, 131.
[195] Chernow, *Alexander Hamilton*, 480.

localized interests represented in U.S. Congress. President George Washington also shared in his vision for reshaping American finances. A steady stream of government revenue was quickly obtained because the Constitution allowed directly collected federal taxes. Hamilton had to only deal with congressional legislation to get these taxes enacted. Morris, on the other hand, had to vainly push for only one of these taxes through an impractical amendment process. The U.S. Customs Service, Revenue Cutter Service, and the National Bank of the United States advanced the federal government's economic powers to borrow money, regulate interstate and international commerce, regulate currency, and collect taxes. Without the Necessary and Proper Clause, the National Bank, at the least, would have been regarded unconstitutional. Hamilton relied on these institutions to make the federal government efficient at collecting taxes and funding the debt. Under the Articles of Confederation, Hamilton would have found himself in a similar situation as Robert Morris; he would have lacked the institutional tools to stabilize the American Revolutionary War debt and salvage the United States' public credit

CONCLUSION: RECOGNIZING THE CLOSE RELATIONSHIP BETWEEN THE CENTRALIZATION OF POLITICAL POWER AND THE STABILIZATION OF THE AMERICAN REVOLUTIONARY WAR DEBT

After analyzing the closely tied financial and political histories of the early American Republic, there are important ideas that emerge. The first is that the future of the nation was at stake with the stabilization of the American Revolutionary War debt. Another is that institutional barriers are both obstacles and benefits for installing proper management of the national debt. Executive heads as well have several advantages compared to collective leadership at managing government operations. Finally, the institutional conditions set in the U.S.'s ruling charters determined the successes of Robert Morris and Alexander Hamilton in stabilizing the American Revolutionary War debt.

Since loans could not be consistently funded with a steady stream of tax revenue, public credit could not always pay for the war and government operations. It contributed to mutinous behavior by Continental soldiers and taxpayers that threatened the political unity of the states. Continental soldiers, angry about lack of payment for their service, threatened to oust the Confederation Congress. Tax rebellions, most notably Shay's Rebellion, were reacting to the harsh financial policies that the states adopted when they assumed responsibility for paying off war debts. If the national debt was to become a political benefit rather than a political liability, the decentralized arrangement between the national government and the states had to end. Instead of being overly reliant on the states to implement its financial policies, the national government needed substantive taxation powers, unilateral control over monetary policy, and assume debt with a means to fund it.

Not only did political authority need to be more centralized in the national government, this new centralized power had to be carefully exercised. Even after the formation of the U.S. Constitution, management of the national debt resulted in political unrest. Political debates over Alexander Hamilton's policies, particularly the establishment of the National Bank of the U.S., facilitated the two-party political system. In its infant years, this system lacked political tolerance and could be seen as a threat to the American Republic. Although Hamilton's policies contributed to this political factionalism, he did consider the political and economic backlash that could result from managing the national debt. This is why he pushed for indirect taxes because they were not as burdensome for taxpayers and allowed the national government to take advantage of the economic growth at the turn of the decade in the 1790s. His whiskey tax did provoke a rebellion in Western Pennsylvania but the national government now had the resources to contain it unlike Shay's Rebellion. Hamilton carefully used the institutional tools he was provided by the U.S. Constitution so that management of the national debt would not cause the political disbandment of the Union.

Throughout the 1770s to early 1790s, we see that institutional barriers both benefited and obstructed attempts to stabilize the national debt. Robert Morris experienced them more as obstacles while Alexander Hamilton was able to benefit from them. The Articles of Confederation's requisition system and the unanimous ratification process for amendments deprived Morris of the government revenue he needed to support the credit of his administration. The requisition system limited the effectiveness of his Continental Receivers. He was forced to resort to private revenue to support his private contractor system for the army and to introduce new credit: Morris Notes. In order to get directly collected tax revenue, Morris required an amendment which was more time consuming than congressional legislation. Additionally, it was almost impossible for Morris to get thirteen states to unanimously ratify an amendment, even with the political leverage he placed on the state governments. These institutional barriers kept the national debt unfunded during Morris's tenure.

The institutional barriers that Alexander Hamilton inherited from the U.S. Constitution benefited his tenure. Bicameralism, a constitutional amendment process, and separation of powers helped the Federalists convince Americans that the national government could gain new powers, including those that Morris lacked to properly manage the national debt. While it was dangerous to give a unicameral assembly more power under the Article of Confederation, Americans did not have to be as concerned about the federal government being tyrannical. Legislative, executive, and judicial power was divided between three branches of government. The legislative branch was made into two chambers to promote deliberation and prevent legislative abuse of power. The amendment process made it difficult for the federal government to gain constitutional powers since three-fourths of the states needed to ratify a constitutional amendment.

The constitutional amendment process and separation of powers served additional purposes for the federal government. The ratification threshold was lowered so the U.S. political system could change if circumstances warranted it. By keeping the ratification threshold high, it also prevented localized interests from easily stripping the federal government of the new powers it obtained. The separation of powers vesting executive power in a single executive, the President of the United States improved the appointment of qualified individuals, such as Alexander Hamilton, to important government posts. It also provided Alexander Hamilton political flexibility in crafting financial policy because he answered his appointment to an individual who shared his national vision. In sum, institutional barriers prevented the national government from controlling its finances in the 1770s and 1780s, but they also were used to make Americans more accepting of the national government gaining essential economic powers by the early 1790s.

The close ties between political power and finances is present in the United States' financial leadership structure. During the late 1770s and early 1780s, the United States had collective leadership in the form of a Continental Treasurer and Board of Treasury. Under their tenure, we see an unfunded disorganized national debt and unstable monetary policy. Several individuals controlling the nation's financial apparatus made it difficult for decisive leadership to emerge. The Nationalists in the early 1780s also recognized that this collective leadership discouraged qualified individuals because they could not assume distinguished posts. The Nationalists thus transitioned towards civil departments run by executive heads. The hierarchical leadership we see under Robert Morris and Alexander Hamilton led to a more coherent management of American finances. Both had clear objectives for salvaging public credit by revitalizing public securities, introducing new institutions such as government-chartered banks, and improving the stream of government revenue. The United States financial apparatus became more efficient, public credit was more viable, and the national government became less dependent on the states for executing its financial policies. Creating a more hierarchical financial apparatus was critical to the stabilization of the national debt.

Although both Morris and Hamilton operated under hierarchical leadership, the institutional conditions set in the U.S. ruling charters made Alexander Hamilton undisputedly more successful at stabilizing the American Revolutionary War debt than Robert Morris. Despite obtaining a distinguished office, having full control over the staff of his financial administration, and introducing several administrative reforms, the Articles of Confederation prevented his success. It kept the power of the purse in the hands of states rather than the national government. The constitutional amendment process was also designed to make it nearly impossible to centralize the power of the purse. Under the U.S. Constitution, the purse was now centralized in the U.S. Congress. Article I, Section 8 provided the economic powers of laying and collecting taxes, borrowing money on the credit of the United States, regulating international and interstate commerce, and unilateral control over minting currency. Hamilton was able to exercise these powers to fulfill his funding scheme. He also had the Necessary and Proper Clause to back his liberal applications of constitutional powers, thus keeping the U.S. Constitution from being an overly constraining ruling charter like the Articles of Confederation. Within a few years of the U.S. Constitution ratification, the national debt was under proper management and the national government was moving in the direction of extinguishing the debt it first assumed during the American Revolution.

In E. James Ferguson's historical classic, *The Power of the Purse*, he wanted us to recognize how the American Revolutionary War debt was used as a political tool for strengthening and maintaining the unity of the Union.[196] Actions by Robert Morris and Alexander Hamilton demonstrate this. Morris consolidated domestic debts to create justification for substantive taxation powers, and gain the allegiance of citizens. Hamilton proposed assumption of state war debts to gain the allegiance of creditors and enforce Congress's right to lay and collect taxes. National debt was a means for these men to strengthen the Union.

Their actions also served practical financial considerations. The requisition system was not properly funding the national government. If properly enforced long-term though, it risked resentment among the states and the national government. The solution was that the national government directly collecting taxes. The assumption of state war debts also promoted uniformity in the nation's funding scheme. A reverse relationship exists between the national debt and strengthening and maintaining the unity of the Union. Centralizing political power in the national government, which included establishing executive heads, new federal institutions, and the formation of a new ruling charter, served as a financial tool for strengthening and maintaining the United States' national debt. If left unstable, the national debt would have led to the political disbandment of the Union, since the national government would be incapable of operating and checking the power of the states. The U.S. Constitution, especially, gave the federal government dignity, vigor and most importantly credit.

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[196] "The Power of the Purse: A History of American Public Finance, 1776-1790 by E James Ferguson," The University of North Carolina Press, *The University of North Carolina Press*, n.d, accessed August 21, 2020, https://uncpress.org/book/9780807840283/the-power-of-the-purse/; Hoffman, "Reviewed Work: The Power of the Purse," 201; Ferguson, *The Power of the Purse*, 292, 307, 325.

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