Cementing the Union

By Robert E. Wright

Alexander Hamilton and Thomas Jefferson disagreed about many, nay most, policy matters. "The Little Lion," as friends called Hamilton, favored Britain over France, sought to build a relatively robust national government, and opposed slavery. "The Sage of Monticello," as friends called Jefferson, was a Francophile/Anglophobe who wanted to keep the national government relatively weak, at least when he wasn't in charge of it. While he was not pro-slavery in the same way as, say, Thomas R. Dew, he was no abolitionist. Hamilton and Jefferson also butted heads over financial matters, including the constitutionality of the Bank of the United States and the desirability of the national debt. Jefferson thought the debt a monstrous fraud on posterity and urged its speedy repayment. Hamilton also wanted to repay the debt but urged a much slower repayment schedule.

Historians traditionally have been very confused on this point. Most have been content to simply repeat the claim of Jefferson, and his hatchet man James Callendar, that Hamilton wanted nothing more than to enslave Americans by means of a standing army, a national bank, and a large, perpetual national debt. Instead of taking Hamilton's political opponents at their word, historians should have looked at the evidence, which has been hidden in plain sight for two centuries! It currently resides in hundreds of transfer books located in the National Archives and Records Administration's Record Group 53. I did not have the time, money or patience to transcribe the entire set of records, but I did create a database of more than 250,000 transactions that forms the backbone of my book, *One Nation Under Debt.**

Where Jefferson and his followers saw a curse, Hamilton saw a potential blessing, an opportunity to transform the

Three of the eight murals in the Museum's home at 48 Wall Street depicting the country's early economic and commercial development (James Monroe Hewlett, 1929). Pictured left to right: Alexander Hamilton receives the Bank of New York's charter; foreign trade and the development of the American Merchant Marine; and domestic commerce represented by agriculture and mining.

new nation's economic landscape. Hamilton realized that developed economies, ones that get bigger and more efficient most years, all enjoy four major institutions: non-predatory governments, modern financial sectors, open access entrepreneurial systems and effective corporate management. He devoted his life to helping his adopted land obtain each of them and played seminal roles in the development of the first three throughout his military, political, business and administrative careers. When Hamilton arrived in America in 1773, it was ruled by a distant tyrant, possessed only a few relatively insignificant financial institutions, and its business leaders had little expertise running large organizations. When he left in 1804, America was a nation of, for and by the people; enjoyed modern financial institutions and markets; and encouraged a thriving mix of small, medium and large-scale entrepreneurs, including over 100 business corporations.

Hamilton knew that the national debt was an important component of that tremendous transformation because it strengthened both the financial and political systems. Incurred winning independence from the not-so-motherly Mother Country, the debt, at about $65 million, was humungous by the standards of the day, a time when simple laborers were giddy to earn a dollar a week. A lot of debt meant a lot of trading – over $15 million worth by the end of 1792 – which induced a significant number of merchants and others to specialize in brokerage and dealing activities. Their expertise helped to spark the creation of a broader capital market that included corporate equities (stocks) and, a little later, corporate bonds and hybrids (convertibles, preferred shares and the like). Those markets, in turn, made it much easier for financial intermediaries, especially commercial banks and marine and fire insurers, to form and function. Intermediaries used the new capital markets both to raise funds and to safely park their excess cash. Able to obtain cheap credit and insurance, entrepreneurs blossomed by forging iron, growing new types of crops and livestock, and building bridges, turnpikes, canals, wharfs, piers, hotels and even factories.

All of that would have come to naught, however, if the political system had destabilized, as it often threatened to do. Our early politicians liked to take pot shots at each other, farmers were fond of protesting federal taxes, and state legislatures regularly told the national government to stick a sock in it, to put it politely. Tensions over slavery already ran high in some quarters. New Englanders and Carolinians had little in common, and Westerners, those hardy souls who first crossed the Appalachian Mountains, schemed to form a nation of their own.

Not until the Civil War, however, did any of those tensions or episodes prove strong enough to rip the country apart. Many factors were at play but an important one was the national debt, or to be more specific its widespread ownership. "A national debt, if it is not excessive," Hamilton argued, "will be to us a national blessing. It will be powerful cement of our union," he continued, because those who owned federal bonds would naturally support the national government. If there were enough federal bondholders in enough places, stability would be assured because powerful people would have powerful incentives to ensure that radicals didn't get too radical and crazies didn't get too crazy. Hamilton's logic was impeccable, as usual. But wasn't the national debt owned by a few rich bigwigs, mostly in New York and Philadelphia? Weren't they too few and too geographically isolated to have much influence outside a handful of major cities? And weren't they from only the upper socioeconomic strata?

That is what many early Jeffersonians, and their later scholarly followers, claimed. Robert Livingston, for example, asserted that only about one out of every 4,000 Americans owned federal bonds. "This supposed cement will appear to consist of untempered mortar," he mocked. My research shows, however, that about one in every 212 Americans directly owned a piece of the national debt in the mid-1790s. Many more owned federal bonds indirectly, through intermediaries like banks, insurers, non-profit organizations or their state governments. Default on, or repudiation of, the nation's debt would therefore have adversely affected almost all Americans.

The debt was not overly concentrated in a few hands, either. In a sample of 3,601 debt holders on January 1, 1795 only nine entities owned over $100,000 of federal bonds each. Most of the largest holders were states, like Connecticut, which owned over $750,000 of Sixes, Deferred Sixes and Threes, the bonds created by Hamilton's funding program. States used the interest payments to hold taxes down or to extend services, so most if not all residents benefited from their large holdings. Some corporations, including the Bank of the United States, were also large holders, spreading the benefits of the debt to their numerous shareholders. Some wealthy merchants, like Edward Fisher of South Carolina, and foreigners, like John Hogarth of London, owned more than $10,000 worth. The 170 or so in my sample owned almost $4.2 million worth all told. But that left plenty of bonds for smaller investors. Most individual holders, over 92 percent of the entities in the sample, held between $10 and $10,000 worth of the early Treasuries.

Analysis of the occupations of federal bondholders on January 1, 1795 also suggests that the bonds were widely held across the socioeconomic spectrum. Of the 1,878 bondholders in the sample, over 439 identified themselves as merchants, factors or traders. Another 280 called themselves esquires or gentlemen. The other 60 or so percent of bondholders, however, came from a wide variety of occupations. They included attorneys, blacksmiths, doctors, farmers, druggists, hatters, housewrights, innkeepers, mariners, planters, printers, reverends, tanners and weavers. Over 160 were spinsters or widows and almost 200 were estates or guardians. Four were even called "laborers" on the Treasury's books. They did not own much debt in the scheme of things, but federal bonds surely constituted a large percentage of their assets so they would have fought as hard to keep it as any big gentleman investor would have.

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>
> ***— Alexander Hamilton***

The geographical dispersion of early federal bondholders is even more impressive. Table 8 in *One Nation Under Debt*, which shows the residences of federal bondholders on January 1, 1795, runs for 11 printed pages and includes communities from Accomack County, Virginia to York County, Pennsylvania. Table 16 from that work, reproduced here as Table 1, shows the dispersion of federal bondholders in Virginia throughout the life of the first national debt, which was officially paid off in full at the end of 1834. Every major region of the Old Dominion, including NOVA, the Southside, the area that became West Virginia, the Shenandoah Valley and Central Virginia, the stomping grounds of Jefferson, James Madison and James Monroe, are all amply represented.

Of course nobody owned federal bonds because they wanted to have an incentive to support the national government. Instead, they held them because they were great investments. For starters, they paid interest punctually four times a year. Once a year, Sixes also repaid two percent of their principal. That feature, designed by Hamilton to ensure the slow but steady pay down of the debt, complicated matters for investors but appears not to have injured the liquidity of the bonds, which could be quickly sold at a good price in any of America's early cities. In fact, some investors held the bonds as a sort of secondary reserve, as an interest-paying resource that could be sold if personal finances or the macroeconomy soured. Like Treasuries today, early government bonds tended to appreciate in tough times because investors already saw them as a safe haven in a heartless world.

Other investors bought federal bonds only to sell them again soon afterward. Although decried as "speculators" or "stock-jobbers," frequent traders helped to maintain market liquidity and efficiency. Arbitrageurs, people who bought bonds in one state and sold them soon after for a higher price in another state, also bolstered the efficiency of the market. Long-term investors, often widows, orphans, estates and non-profits, played an important stabilizing role, especially during the Panic of 1792, the most severe test of the newborn financial system. By refusing to succumb to temporary fears and holding firm, they helped to stymie a precipitous slide in securities prices that could have had disastrous consequences for the nation's nascent financial system.

One of the most interesting of those long-term investors was Charles Dabney of Hanover County, Virginia. The son of a prominent planter, Dabney was born in 1745. By the late colonial period, he was an important planter, co-partner in a blacksmith shop, a parish vestryman, and a justice of the

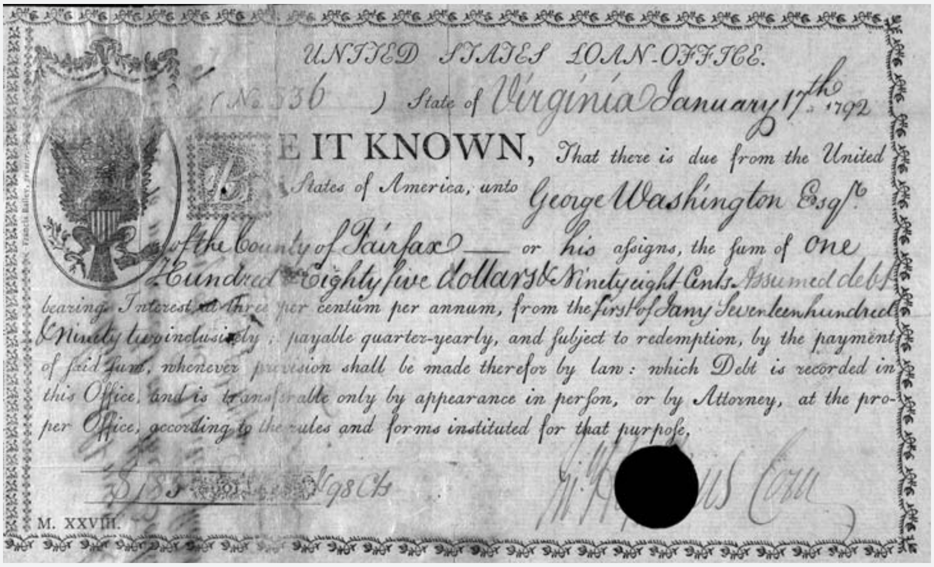
Table 1: Residences of Federal Debt Holders Who Registered Their Bonds in Virginia, 1790-1834

Residence (VA unless otherwise noted)	# of Debt Holders	% of Debt Holders
Accomac County	15	0.95
Albemarle County	22	1.39
Alexandria	24	1.52
Amelia County	9	0.57
Amherst County	10	0.63
Amsterdam, Netherlands	2	0.13
Annapolis, Md.	6	0.38
Augusta County	32	2.02
Baltimore, Md.	30	1.90
Bedford County	5	0.32
Berkley County	11	0.70
Boston, Mass.	3	0.19
Botetort County	7	0.44
Brandon	2	0.13
Brunswick County	6	0.38
Buckingham County	6	0.38
Camden County, S.C.	1	0.06
Campbell County	5	0.32
Caroline County	30	1.90
Charles City County	9	0.57
Charlotte County	6	0.38
Charlottesville	1	0.06
Chesterfield County	18	1.14
Culpeper County	15	0.95
Cumberland County	11	0.70
Dinwiddie County	11	0.70
Dobbs County, N.C.	1	0.06
Dumfries	13	0.82
Dunkirk	1	0.06
Elizabeth City County	5	0.32
Essex County	7	0.44
Fairfax County	11	0.70
Falmouth	4	0.25
Fauquier County	21	1.33
Fayette County	2	0.13
Fluvanna County	1	0.06
Franklin County	3	0.19
Frederick County	11	0.70
Fredericksburg	35	2.21
Georgetown, Md.	2	0.13
Georgia	1	0.06
Glasgow, Scotland	1	0.06
Gloucester County	15	0.95
Goochland County	8	0.51
Greenbrier County	5	0.32
Greensville County	2	0.13
Halifax County	8	0.51
Hampshire County	1	0.06
Hampton County	8	0.51
Hanover County	43	2.72
Hardy County	3	0.19
Harrison County	1	0.06
Henrico County	20	1.27
Henry County	1	0.06
Isle of Wight County	12	0.76
James City County	13	0.82
Jefferson County	5	0.32
Kentucky	5	0.32
King and Queen County	21	1.33
King George County	8	0.51
King William County	18	1.14
Lancaster County	6	0.38
London, England	17	1.08
Loudon County	9	0.57
Louisa County	17	1.08
Lunenburg County	3	0.19
Manchester	26	1.64
Maryland	2	0.13
Mathews County	2	0.13
Mecklenburg County	4	0.25
Middlesex	2	0.13
Monongalia County	1	0.06
Montgomery County	2	0.13
Nansemond County	3	0.19
New Jersey	1	0.06
New Kent County	20	1.27
Newport	1	0.06
New York City	28	1.77
New York State	3	0.19
Norfolk	122	7.72
Norfolk County	4	0.25
North Carolina	2	0.13
Northampton County	10	0.63
Northumberland County	2	0.13
Nottaway County	3	0.19
Ohio County	1	0.06
Orange County	9	0.57
Patrick County	1	0.06
Pennsylvania	5	0.32
Petersburg	70	4.43
Philadelphia, Pa.	37	2.34
Pittsylvania County	2	0.13
Port Royal	1	0.06
Portsmouth	5	0.32
Powhatan County	11	0.70
Prince Edward County	11	0.70
Prince George County	13	0.82
Prince William County	3	0.19
Princess Ann County	2	0.13
Providence, R.I.	1	0.06
Richmond	231	14.61
Richmond County	17	1.08
Rockbridge County	22	1.39
Rocketts	1	0.06
Rockingham County	2	0.13
Shenandoah County	1	0.06
Shirley	1	0.06
Smithfield	2	0.13
Southampton County	13	0.82
Spottsylvania County	7	0.44
St. Petersburg	1	0.06
Stafford County	7	0.44
Staunton	3	0.19
Suffolk	1	0.06
Sullivan County, SW	Terri-	tory
1	0.06	Surry
County	12	0.76
Sussex County	2	0.13
Tappahannock	1	0.06
Virginia	74	4.68
Warwick County	5	0.32
Washington County	3	0.19
Western Territory	1	0.06
Westmoreland County	7	0.44
Wilkes County, Ga.	1	0.06
Wilkes County	1	0.06
Williamsburg	53	3.35
Wilton	1	0.06
Winchester	11	0.70
Woodford County	1	0.06
Wythe County	1	0.06
York County	7	0.44

peace. He considered Virginia, not Britain, his homeland. Unsurprisingly, he joined the rebellion, eventually forming his own eponymous legion. Dabney's legion joined the Continental Army in the Virginia State Regiment just in time to take part in the superheated battle at Monmouth, New Jersey in 1778. The following year, Dabney and his men fought under Anthony Wayne at Stony Point, said to be "one of the most daring and hazardous enterprises undertaken during the war." In a brilliant and bloody bayonet attack, Dabney's legion stormed and quickly seized a well-garrisoned fortress. At Yorktown, Dabney's bravery reconnoitering British breastworks came to the attention of Hamilton himself. In September 1782, the large and athletic Dabney had to put down a small mutiny. Keeping his ragtag little army together grew increasingly difficult, but he somehow succeeded.

After the war, Dabney visited the western lands his military service entitled him to. He sold them for a pittance, likely because he had encountered too many hostile Indians and too few bridged rivers during his trip. In 1791, the state agreed to reimburse him some £1,900 (Virginia currency, which is to say $6,333.33) for his legion's services during the war. Dabney wasted no time converting the debt into federal bonds under the terms of Hamilton's assumption plan. He also made additional purchases in the open market, accumulating between January 1791 and September 1802 some $14,434.01 of Sixes, Threes and Deferred Sixes in 21 transactions.

He stashed his bonds under the books on the left hand side of his bookcase. He kept some gold in the bookcase too, and also in a trunk, but hid his silver in a desk drawer and a shot bag. (Dabney was an avid hunter.) Money for his 1795 federal bond purchases came directly from the proceeds of the sale of some of his western lands. He converted $1,500 of his Threes into Converted 6s in October 1807 but held tightly to the


UNITED STATES LOAN-OFFICE.

No. 336) State of Virginia January 17th 1792

BE IT KNOWN, That there is due from the United States of America, unto George Washington Esqr. of the County of Fairfax — or his assigns, the sum of One Hundred Eighty five dollars & Ninety eight Cents Assumed debt bearing Interest at three per centum per annum, from the first of Jany Seventeen hundred & Ninety two inclusively; payable quarter-yearly, and subject to redemption, by the payment of said Sum, whenever provision shall be made therefor by law: which Debt is recorded in this Office, and is transferable only by appearance in person, or by Attorney, at the proper Office, according to the rules and forms instituted for that purpose.

$185 98 Cts

M. XXVIII.

Museum of American Finance

Certificate from America's first federal bond issue purchased by President George Washington.

rest of his portfolio. In 1812 he began to divest by selling his Converted 6s. In 1818 he sold almost $9,000 of his Sixes and in 1824 the government redeemed the balance of his portfolio.

Unlike most other Federalists, Dabney disliked cities, even Williamsburg and Richmond. So he generally eschewed politics and had one of his young relatives, Billy Dabney, draw his interest for him in Richmond. Although not highly formally educated, Dabney had an excellent "natural understanding" and a "large stock of valuable knowledge," including an effective hemorrhoid treatment. Unsurprisingly, his neighbors frequently consulted him on important issues. Dabney was also said to possess "a thorough knowledge of human nature" that led him to forge an unusual relationship with his slaves. Instead of whipping his slaves, Dabney credited them wages for the year, but made deductions whenever they misbehaved. Each Christmas season, he settled the balance due in cash. Also, he paid his overseer on a salary plus commission basis rather than a salary only, a tactic used by astute planters to induce overseers to work hard and smart. His plantation, which typically included over a dozen horses, two score cattle and sheep, and three score pigs, thrived for decades on Dabney's ingenious incentive system.

Dabney also used a version of the putting out system, supplying raw wool to local ladies for them to process (wash, spin, etc.). He was not averse to experimentation in crops or techniques and heated his home with Virginia soft coal instead of the traditional wood. On many occasions, Dabney financially assisted friends and relatives by slipping a large bank note into a handshake or letter, thereby helping them to stave off the usurer, or, in more extreme cases, the wolf of hunger and want. Despite his munificence, at his death in 1829 Dabney, who never married, possessed assets assessed at $22,730.45, some $9,000 of which were slaves. Rather than emancipate them, which the law constrained him from doing, Dabney ordered that families be kept whole and that they be rented out and allowed one-third of their rental price.

If the national government had come under serious domestic threat, it is easy to see Dabney, and thousands like him, using their influence to stamp out discontent, or even forming new legions to protect it. Perhaps knowledge of that is what made Jefferson and his followers tremble. But they should have realized that Dabney and other federal bondholders would not have suffered the national government to devolve into tyranny because that would have also threatened the continued repayment of the national debt. Hamilton was right; the national debt cemented the union.

It was no coincidence that South Carolina grew so cantankerous in the early 1830s that Andrew Jackson had to threaten to invade it. The lower South especially chafed under the increasingly higher tariffs the federal government had enacted after the War of 1812. (Contrary to myth, the early tariffs Hamilton implemented were relatively low revenue tariffs, not high or protective ones.) Southerners suffered largely silently when the government's large tax receipts went to pay off the national debt. But with the debt rapidly vanishing in the late 1820s and early 1830s, they began to demand reforms. In 1832, South Carolina went so far as to veto or "nullify" the Tariff of 1828, the so-called Tariff of Abominations, and the Tariff of 1832. A political compromise was reached, but it was clear that the debt was no longer a strong force binding the nation together.

The national debt quickly reappeared, but even after the war with Mexico it remained relatively small. The new debt was also more highly concentrated, both geographically and socioeconomically, than the old debt had been. It therefore remained too weak to stop the descent into Civil War. Today's enormous debt renders war, with ourselves or major creditors like China, unlikely. That is about the only good thing that can be said about it, however. Because the country is now run by politicos rather than statesmen, there appears to be little chance that the triumph of 1834 will be repeated anytime soon. FH

Robert E. Wright teaches business, economic, and financial history at New York University's Stern School of Business. He is a curator for the Museum of American Finance and the author of 10 books including, most recently, One Nation Under Debt: Hamilton, Jefferson and the History of What We Owe *(McGraw-Hill, 2008).*