

## “HEADS I WIN, TAILS YOU LOSE”: THE PUBLIC CREDITORS AND THE ASSUMPTION ISSUE IN PENNSYLVANIA, 1790–1802

HISTORIANS OF the Federalist Era have traditionally concluded their detailed discussions of the Washington administration's funding program with an account of the famous “dinner bargain” compromise of 1790.<sup>1</sup> This agreement, supposedly arranged by Alexander Hamilton, James Madison, and Thomas Jefferson over the latter's dinner table on or around 20 June, is credited with having settled two controversial issues then before the First Congress: the location of the national capital and the assumption of state debts.<sup>2</sup> Recent studies by Julian P. Boyd, Kenneth R. Bowling, and Jacob E. Cooke have done much to revise some important particulars of the traditional account of the well-known sectional bargain.<sup>3</sup> These scholars, however, have not provided any detailed examination of the twelve years of complex maneuvering that followed the so-called residence-assumption compromise.

1. The traditional account of the bargain is presented in John C. Miller, *The Federalist Era, 1789–1801* (New York, 1960), pp. 48–54.

2. For the historiography relating to these two questions, including the roles of the participants and their respective claims, see Jacob E. Cooke, “The Compromise of 1790,” *The William & Mary Quarterly (WMQ)*, 3d Ser., 27 (October 1970): 523n–524n, 525.

3. Julian P. Boyd, ed., *The Papers of Thomas Jefferson* (Princeton, 1950– ), 17: 163–172. Kenneth R. Bowling, “Politics in the First Congress, 1789–1791” (Ph.D. diss., University of Wisconsin, 1968), pp. 184, 324–325. Professor Cooke offers the most provocative corrective to the traditional story. He correctly asserts that the bargain was “not consummated.” The “bargain over the residence,” he writes, was arranged by Pennsylvania and Virginia congressmen before the famous dinner meeting; “the crucial bargain over assumption,” Cooke concludes, “did not involve the residence but a reallocation of the amount of state debts to be assumed and a compromise on the interest to be paid on the funded debt.” Thus, Cooke contends the

In questioning the traditional account of the residence-assumption bargain, Professor Cooke has suggested that legislative compromise ended the debate on funding in 1790.<sup>4</sup> Typical of the conventional view, E. James Ferguson writes, "Under the grand compromise by which the state debts were assumed, the capital located on the Potomac and the settlement of accounts brought to completion, the material interests of all states were in some degree propitiated."<sup>5</sup> Yet, reading contemporary letters, congressional debates, and state records provides ample documentation that the interests of public creditors in many of the states had not been fully propitiated by the provisions of the Funding Act of 1790.<sup>6</sup> Even the economic compromises, which Professor Cooke describes as the "critical" and "successful" compromises in the Senate, were later subjected to further debate and revision. The politically troublesome post-compromise period has thus far been largely overlooked by historians.<sup>7</sup>

The response of Pennsylvania's public creditors, both public and private, to the issues of funding, assumption, the settlement of accounts, and additional assumption was far more complicated than has generally been supposed by historians. The leadership of the Antifederalist party supported funding of the federal debt, and many of them opposed James Madison's plan to discriminate in favor of original holders. Although they approved the settlement of Revolutionary War accounts between the states and the federal

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residence bargain was merely a figment of Jefferson's imagination, and that contemporaries generally have "confused rumor and fact. . ." Cooke, "Compromise of 1790," pp. 523-545. The quotation is on page 525. The debate is continued in Kenneth R. Bowling's "Dinner at Jefferson's: A Note on Jacob E. Cooke's 'The Compromise of 1790'" (With a Rebuttal by Jacob E. Cooke), *WMO*, 3d Ser., 28 (October 1971): 626-648. Although Norman K. Risjord's, "The Compromise of 1790: New Evidence on the Dinner Table Bargain," *ibid.*, 3d Ser., 33 (April 1976): 309-314 appeared too late for inclusion, this most recent analysis does not alter my own interpretation of events.

4. Cooke, "Compromise of 1790," p. 525.

5. E. James Ferguson, *The Power of the Purse: A History of American Finance, 1776-1790* (Chapel Hill, 1961), p. 325. Although this study primarily focuses on public finance during the Confederation Era, it shows that the settlement of state accounts was an important part of the "compromise of 1790." *Ibid.*, pp. 322-325.

6. The best study of assumption was completed more than two decades ago. Whitney Bates, "The Assumption of State Debts, 1783-1793" (Ph.D. diss., University of Wisconsin, 1951), especially chapters 4-7.

7. On the need to do research on funding beyond the year 1790, see Jacob E. Cooke, "The Federalist Age: A Reappraisal," in George A. Billias and Gerald N. Grob., eds., *American History: Retrospect and Prospect* (New York, 1971), p. 131.

government, the Antifederalists opposed the assumption of state debts. On the other hand, many Federalists opposed both the settlement of accounts and the assumption of state debts. In the period after the 1790 compromise Pennsylvania public creditors extracted supplemental financial concessions from Alexander Hamilton and the federal government. In addition the state government of Pennsylvania compensated her certificate holders for financial losses suffered under the federal funding program. These developments shed light both on the nature of state-federal relations and the length of time needed to complete the famous compromise. These forgotten episodes involving Pennsylvania are important, and they were conditioned by a series of complex financial arrangements which antedated the Funding Act of 1790.<sup>8</sup>

Alexander Hamilton early in George Washington's first administration seized the leadership of domestic policy from Congress and the state and vested it in the Department of Treasury. The primary objective of Hamilton's fiscal policy was to carry forward the process of national unification begun by the Revolution and advanced by the adoption of the Federal Constitution.<sup>9</sup> In the Report on Public Credit which he presented to Congress in January 1790, Hamilton proposed to convert the national debt into "cement of union" by funding the debt at face value of both principal and interest to be paid over a long period of time.<sup>10</sup> Hamilton expected that the self-interest of affluent citizens could be used to solidify the Union, since it could not be built upon the sentiment of nationalism alone. The secretary thus hoped to break the inveterate loyalty the people had for their states and in the process enlist public creditors and men of property on the side of the new federal government.

Pennsylvanians did not fully embrace the federal objectives of national funding and assumption as outlined by Hamilton. In fact, the state posed as a special problem for the national government because she had already taken the initiative to settle Revolutionary

8. In an earlier study I accepted the traditional account with Bowling's modifications, but additional research has changed my interpretation. Roland M. Baumann, "The Democratic Republicans of Philadelphia: The Origins, 1776-1797" (Ph.D. diss., Pennsylvania State University, 1970), ch. 6.

9. Perhaps this theme is best expressed by Richard Buel Jr., *Securing the American Revolution: Ideology in American Politics, 1789-1815* (Ithaca, 1972), ch. 1.

10. Harold C. Syrett, ed., *The Papers of Alexander Hamilton* (New York, 1961- ), 6: 65-110. The report was dated 9 January 1790, but communicated to the House on 14 January. Edgar S. Maclay, ed., *The Journal of William Maclay* (New York, 1890), p. 177.

War debts during the Confederation period. In 1783, even though special concessions had been granted by the Continental Congress in the preceding year, Pennsylvania executed her own program of finance to benefit her public creditors who held more than a third of the loan office debt. She issued to her citizens certificates of interest which were receivable in taxes. Adopting currency finance methods, the legislature levied a tax of £225,000, payable half in interest and half in hard money. (The certificates were a kind of paper money). In 1785 Pennsylvania augmented the state-oriented finance program by assuming nearly eighty per cent of her debt. Charles Pettit was the chief architect of the Constitutionalist fiscal policy in the General Assembly. Pettit's compromise package to administer the public finance included a provision for an emission of £100,000 currency to pay the interest on all public securities held by citizens of the state. The legislation, which also created a £50,000 land bank and pledged the resources of the state to secure debt redemption, represented a deal between creditors, paper money advocates, and land speculators. The system used to calculate credits for wartime expenditures was generous. Of particular note was the implementation by the state of a system of discrimination between original holders and speculators.<sup>11</sup> The above acts, which according to E. James Ferguson contributed to "the economics of disunion," did not end there.<sup>12</sup>

In 1786 Pennsylvania also undertook obligations properly belonging to Congress when she assumed the Continental (federal) securities held by her citizens. The amount of money acquired stood at about \$6,000,000, upon which Pennsylvania drew six percent interest. Early in 1789, in the anticipation of federal funding, the State of Pennsylvania reversed herself. She divested herself of part of this valuable capital by asking her creditors to surrender their "new Loan" certificates (state notes) and to take back their federal securities. Under this plan, state certificates valued at \$4,800,000

11. James T. Mitchell and Henry Flanders, eds., *The Statutes at Large of Pennsylvania from 1682 to 1801* (Harrisburg, 1896-1911), 11: 454-486, 560-572; Robert L. Brunhouse, *The Counter-Revolution in Pennsylvania, 1776-1790* (Harrisburg, 1942), pp.169-172, 185.

12. The quoted words form the title for chapt. 11 in Ferguson's *Power of the Purse*. Also see "State Assumption of the Federal Debt During the Confederation," *Mississippi Valley Historical Review*. 38 (December 1951): 403-424. For a valuable corrective on the controversial view of the role of the public debt as the "cement of union," see H. James Henderson, *Party Politics in the Continental Congress* (New York, 1974), chs, 9, 11.

were exchanged.<sup>13</sup> Thus, by the time Hamilton took charge of the nation's finances, Pennsylvania had not only undermined the premise of federal control of the public debt but had also successfully paid off much of her debt.

The existence in the country of a so-called "opulent minority" as well as the incidence of speculation in the public debt tended to inflame the public question. In Pennsylvania, for example, the distribution of security holdings differed little from the pattern found in the other large states. Next to New York City, Philadelphia was a center for speculators. Between 1786 and 1790 over sixty percent of the securities held in the state had changed hands.<sup>14</sup> Professor Ferguson has collected data covering approximately three-quarters of the debt in Pennsylvania which suggests that nine percent of the holders held sixty-one percent of the total amount of the debt, and that seventy-eight of these individuals had holdings of over \$25,000, accounting for over forty percent.<sup>15</sup> In the expectation that the assumption would be carried, some Philadelphians had also sent their agents southward to engross a share of southern state debts.<sup>16</sup> This later speculative development further divided public creditors.

The first major issue Congress faced was whether to add a provision of discrimination to the funding program. Hamilton opposed such a compromise because it violated assurances made by the Continental Congress to foreign investors. In Congress, James Madison advanced a policy of discrimination to bring about a more equitable division of profit between the original holders and speculators. As a southerner, he had no desire to reward, as Hamilton's plan would have done, northern speculators and investors. Madison thus sought to curb speculation.<sup>17</sup> In addition Madison's proposal called upon the government to pay the contracted rate of six per-

13. *Pa. Statutes at Large*, 12: 158-164; 13: 263-267. Ferguson, *Power of the Purse*, p. 331.

14. Rush to Madison 25 March 1790, Madison Papers, Manuscript Division, Library of Congress (DLC). Ferguson, *Power of the Purse*, pp. 277-280.

15. *Ibid.*

16. These observations are based on my analysis of the uncatalogued petitions to exchange new loan certificates, Public Records Division (PRD), Pennsylvania Historical and Museum Commission (PHMC), Harrisburg, Pa. Whitney Bates, "Northern Speculators and Southern State Debts: 1790," *WMQ*, 3d Ser., 19 (January 1962): 30-34; *Maclay's Journal*, pp. 174-175.

17. United States Congress, *Debates and Proceedings in the Congress of the United States, 1789-1824* [*Annals of Congress*] (Washington, 1834-1856), 2 (1st Cong., 2nd Sess.): 1191-1195, 1222-1227, 1233-1237.

cent on the interest and principal of the domestic debt. This plan would have increased the revenue requirements for servicing the debt by more than one-third (based on debts as they had stood in 1783), could have made the assumption of state debts impossible, and might have excluded indents from the funding system.<sup>18</sup>

Opposition to the exclusion of indents from the funding system came largely from Pennsylvania where the most complete issue of indents had been made. Public creditors who held large amounts of these congressional certificates were not prepared to be abandoned by either Hamilton or Madison without a fight. After the state undertook to make payments to holders of continental securities, Congress adopted a system to nationalize state interest payments by issuing certificates, or indents in lieu of interest. The indents, which served a number of valuable short-run financial purposes, represented a substantial amount of indebtedness as Congress received the script to satisfy state requisitions. Speculation in indents was also considerable.<sup>19</sup> The Pennsylvanians being drawn together to oppose funding on Madison's terms were federal creditors (the largest class), non-resident creditors (the smallest class), and wealthy state creditors, (headed by Antifederalist leader, Charles Pettit).

Support for discrimination existed in Pennsylvania, but it came from unexpected sources. Pelatiah Webster and Benjamin Rush, two leading Federalists, vintage 1788, stoutly supported discrimination out of principle.<sup>20</sup> Yet they were the exception rather than the rule. Rush asserted that a person who expected to receive twenty

18. Clement Biddle echoed the sentiments of some Antifederalists when he wrote: We are hopeful that "There will be a large minority for funding without discrimination tho' perhaps not more favorable than the Secretary proposes. . . ." To Luther Martin, February [?], 1790, Biddle Letter Book, Historical Society of Pennsylvania (HSP). Also, see Biddle to John Groves, 16 February 1790, *ibid.* For an excellent analysis of the above differences see Buel, *Securing the Revolution*, pp. 8-17; Ferguson, *Power of the Purse*, pp. 297-299; Irving Brant, *James Madison*, 6 vols. (Indianapolis, 1948-1961), 3: ch. 23.

19. For an explanation of the system of indents, see Worthington C. Ford, ed., *Journals of the Continental Congress, 1774-1789* (Washington, D.C., 1904-1937), 26: 191, 194-195, 306; 19: 768-769. Also, see Ferguson, *Power of the Purse*, pp. 270, 277, 290-297.

20. Pelatiah Webster, *A Plea for the Poor Soldiers and other Public Creditors, Who Really and Actually Supported the Burden of the Late War, Have Not Been Paid! Ought to be Paid! Can be Paid! And Must Be Paid!* (Philadelphia, 1790). Rush to Madison, 18, 27 February, 4 May 1790, Madison Papers, (DLC); Rush to FitzSimons, 19 February, Rush Papers, Bancroft Transcripts, New York Public Library (NYPL); Rush to Madison, 27 February, 10 April 1790, Lyman H. Butterfield, ed., *Letters of Benjamin Rush* (Princeton, 1951), 1: 539, 543.

shillings on the pound for securities purchased for a tenth of that amount was a highway robber.<sup>21</sup> One Antifederalist wing, headed by Comptroller-General John Nicholson, Senator William Maclay, and Representative Thomas Scott, espoused the policy of discrimination because it would have at the same time discouraged assumption and thereby broadened the benefits of funding.<sup>22</sup> Collectively they viewed discrimination as one way to revalue the debt downward. Others hoped to maintain local advantages of state funding which permitted citizens to redeem their certificates not only in cash but to use them as well to purchase frontier lands. Still others merely worked to delay funding in order to enhance their own speculation in paper securities.<sup>23</sup>

The Antifederalists, many of whom were state officials in Pennsylvania, were instrumental in the above question. They tried desperately to get Madison to inject other issues into the battle to broaden the base of the opposition.<sup>24</sup> John Nicholson, chief spokesman for this group, informed the Virginian during the debates over his "composition" plan that he was fully aware of the "practicability of effecting a Separate provision for original holders. . . . I have carried into effect a similar plan in Penn[sylvani]a, adopted by the Legislature with respect to the depreciation debt and with a few alterations it might be done with great exactness and very little difficulty. . . ." <sup>25</sup> He not only sent Madison a copy of his plan and had it printed for distribution but also had members of the Pennsylvania delegation lobby for it and write tracts in his behalf for the

21. Rush to Madison, 27 February 1790, Butterfield, *Rush Letters*, 2: 538-539.

22. *Maclay's Journal*, pp. 188, 197-202; on Scott, see *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1188-1189, 1198-1200, 1204-1208; Robert D. Arbuckle, *Pennsylvania Speculator and Patriot: The Entrepreneurial John Nicholson, 1757-1800* (University Park, Pa., 1975), pp. 16-17, 42, 46-48, 61-67, ch. 3.

23. *Ibid.* Norman B. Wilkinson, "Land Policy and Speculation in Pennsylvania, 1779-1800" (Ph.D. diss., University of Pennsylvania, 1958), pp. 51-52, 84-85, ch. 7.

24. Senator Maclay proposed to cut the interest to three percent and to redeem the principal only by the sale of public lands. These measures could have reduced the size of the debt and would have made it payable in something other than specie. Maclay's plan was never tested. *Maclay's Journal*, pp. 197-201, 202; Brant, *Madison*, 3: 297-298.

25. Nicholson to Madison, 17 February, Madison Papers, DLC. According to Benjamin Rush, Philadelphia's representatives were initially disposed "to adopt a scale of discrimination for the national debt. . . ." Rush to Madison, 10 April 1790, Butterfield, *Rush Letters*, 1: 543. *Maclay's Journal*, pp. 193-194. William Bradford claimed that assumption was being supported by some individuals who "wished for a discrimination, in order to gain that point by a side wind." To Elias Boudinot, 21 March 1790, Wallace Coll., 2: 18, HSP.

newspapers.<sup>26</sup> In spite of the efforts of the Nicholson crowd, Madison refused to line up with the debt repudiationists and the land-jobbers.<sup>27</sup> If the Virginian was inclined toward establishing public credit in some republican mode, the Pennsylvanians seemed more interested in the administration of public finances than in the philosophy behind it. Their concerns centered on state quotas and adjustments, on how credits were to be calculated for wartime expenditures, and on the establishment of a federal depreciation tract.<sup>28</sup> Because a Pennsylvania-Virginia coalition never materialized, Hamilton's proposal of indiscriminate funding was easily carried by a margin of 36 to 13.<sup>29</sup>

During the debate over funding, it was generally understood that the success of assumption depended upon the votes of the Pennsylvania delegation.<sup>30</sup> Writing from New York in late February Congressman FitzSimons revealed that Pennsylvania held the balance and that she may be inclined to tip either scale at pleasure. It is highly important to her that the debts of the U[nited] / S[tates] should be funded and not very prejudicial if the state debts sh[oul]d be assumed. We are trying," he added, "to make some Advantage of our Situation." Being that Pennsylvania was a swing state in regard to assumption, and interested in the location of the capital, it is easy to understand why in some circles two important questions were sometimes linked as part of a compromise.

26. The opposition was fairly active. *Maclay's Journal*, pp. 199, 212, passim. Nicholson himself wrote some pieces in support of his position. *Freeman's Journal*, 28, 29, January, 8 February 1790. All newspapers cited in this study were published in Philadelphia. Nicholson to Thomas Hartley, 7 February, Nicholson Letter Book, 1773-1793; Daniel Hiester to Nicholson, 25 February, and Nicholson to Maclay, 29 January 1790; both in Nicholson General Correspondence, 1772-1800, PRD, PHMC. George Logan, Dr. James Hutchinson, and Jonathan D. Sergeant were also active in the anti-Hamiltonian finance campaign. Rush's claim that nineteen out of every twenty citizens in Pennsylvania would follow Madison's lead cannot be supported. Rush to Madison, 18 February 1790, Madison Papers, DLC; Rush to Madison, 27 February 1790, Butterfield, *Rush Letters*, 1: 539.

27. Clement Biddle to William Campbell, 28 February 1790, Biddle Letter Book, HSP.

28. *Ibid.*, Hamilton failed to pacify the land speculators by arguing that an increase in the supply of money in circulation would also lead to an increase in land value. *Gazette of the United States*, 27 January 1790; Martha Biles to Nicholson, 13 February 1790, Nicholson General Correspondence, 1772-1800, PRD, PHMC.

29. *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1298; Brant, *Madison*, 3: 298-299. Only Scott of Pennsylvania joined twelve southern representatives in support of discrimination. The proposal was never advocated in the Senate.

30. Theodore Sedgwick to Pamela Sedgwick, 22 March 1790, Sedgwick Papers, Massachusetts Historical Society (MHS); Fisher Ames to George R. Minot, 23



Sides taken on the assumption question were clearly related to the extent to which an individual state stood to benefit by the measure. Pennsylvanians generally opposed assumption because they regarded it as neither essential to the new federal government to support the credit of the United States nor financially beneficial to the state.<sup>31</sup> Pennsylvania owed its creditors about \$2,200,000, an amount about half as great as the debts of Massachusetts and South Carolina, the strong supporters of assumption, and eleven times that of the two smaller debtor states, Rhode Island and Delaware. Pennsylvania's figure, moreover, was only about twenty percent of what it had been in 1787, a debt of \$11,600,000.<sup>32</sup> As long as Pennsylvanians viewed themselves as a debtor state there existed little reason for her to support assumption unless she received something in return.

In comparison to the other states, Pennsylvania was on a sounder economic footing and compensated her creditors more generously than the federal government would with its proposed plan. Pennsylvania commanded the resources necessary to discharge her small debt. Since 1781 the state used the depreciation lands, land sales, city lots, confiscated estate sales, and the like to pay state debts. Through the collection of import duties at the port of Philadelphia, the state alone contributed one-fourth of the revenue collected by the United States. With the state having to pay only its own obligations instead of sharing the whole, there would be lower federal taxes for the citizens of the Commonwealth.<sup>33</sup> Comptroller-General John Nicholson claimed that the state debt was only a little more than a million dollars (a figure often quoted by William Maclay), but that the state would pay more than three million dollars in federal taxes if assumption were adopted.<sup>34</sup>

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March, 20 May 1790, Seth Ames, ed., *Works of Fisher Ames*. . . (Boston, 1854), 1: 75, 78; Louis-Guillaume Otto to Armond Marc, Comte de Montmorin Saint Herem, 1 March, 12 July, Margaret M. O'Dwyer, "A French Diplomat's View of Congress, 1790," *WMQ*, 3d Ser., 21 (July 1964): 426, 439.

31. FitzSimons to Tench Coxe, 28 February 1790, Tench Coxe Papers, HSP. Also, see George Clymer to Coxe, 18 January, 3 March 1790, in *ibid*.

32. *Annals of Congress*, 2: Appendix, 1076, "Statement of Subscriptions to the Loan Payable in Certificates or Notes Issued by the Respective States. . .", Arbuckle, *John Nicholson*, pp. 16-17.

33. *Pennsylvania Gazette*, 21 February 1787; "Abstract of the Public Debt of the States. . . [as of] Sept. 21, 1789," in Walter Lowrie and Matthew St. Clair Clarke, eds., *American State Papers (ASP), Documents, Legislative and Executive, of the Congress of the United States* [Class III, *Finance*] (Washington, D.C., 1832-1861), 1: 29.

34. *Maclay's Journal*, pp. 227-228, 233, 255, 326, 335; Ferguson, *Power of the Purse*, p. 331n.

More important, assumption was opposed because it would affect the vital economic interests of the public creditors in Pennsylvania. Assumption, as William Bradford phrased it, was a "millstone about the neck of the whole question which must finally sink" funding.<sup>35</sup> The federal creditors (Coxe referred to them as "federalists" and "country gentlemen") opposed assumption because it jeopardized funding and because it would lead to a reduction of interest payments. Others feared that the federal government lacked the taxing resources to meet the demands of both funding and assumption. Pennsylvanians were greatly concerned about the rate of interest to be assigned to the principal and to the accumulated, unpaid interest. They defended almost to a man the contracted rate of six percent, arguing that to pay the lower rate (as Hamilton proposed) represented partial repudiation.<sup>36</sup> And when some of the Secretary's erstwhile supporters began to unload their state securities, Pennsylvania's public creditors held on to the securities of their state. Thus, they were prepared to delay assumption since they were reasonably certain that Pennsylvania would support her state debts.<sup>37</sup>

Wealthy state bondholders led the opposition to assumption for three primary reasons: (1) they were largely original holders; (2) they expected a better return on their investment from Pennsylvania than from the Union (state debts even sold higher than Continentals); (3) they feared, in the words of Tench Coxe, the "old demon, *consolidation*."<sup>38</sup> Regarding the latter, Pennsylvanians were suspicious of too much national authority in state affairs. Public officials in Pennsylvania, moreover, believed assumption would lead to a "direct continental Land Tax." "We shall have nothing else," wrote Richard Peters, "to carry on our State Government for it seems all our Sources in another Way are or will be seized on by federal Financiers."<sup>39</sup> Being content with their situation and proud

35. Bradford to Boudinot, 21 March 1790, Wallace Coll., 2: 18, HSP. Coxe to Hamilton, 5 March 1790, Syrett, *Papers of Hamilton*, 6: 291. Also, see FitzSimons' remarks during the debates. *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1350-1351.

36. For more information on the six percent, four percent interest controversy, see the *Pennsylvania Packet*, 8, 9 February 1790; Nicholson to Thomas Hartley, 15 February 1790, Nicholson Letter Book, 1779-1793, PRD., PHMC.

37. *Maclay's Journal*, p. 209. Coxe to Hamilton, 5 March 1790, Syrett, *Papers of Hamilton*, 6: 291.

38. *Ibid.*, Bradford to Boudinot, 17 January, 21 March 1790, Wallace Coll., 2: 11, 18, HSP; Biddle to Robert Gilchrist, 31 January 1790, Biddle Letter Book, HSP.

39. Richard Peters to FitzSimons, 9 March 1790, in *Pennsylvania Magazine of History and Biography*, (PMHB), 7 (1883): 109.

of their non-delinquency, in Pennsylvania the opponents to assumption were a formidable group because they drew support from larger classes of public creditors and public officials.<sup>40</sup>

Given a situation where the disadvantages of assumption clearly outweighed the advantages, Pennsylvania's congressional delegation nonetheless failed to achieve a single strategy that would have enabled them to exploit their advantage. One group, headed by Maclay, opposed assumption under any circumstances and demanded that a settlement of accounts precede it. A second group, head by Morris, was prepared to support assumption for national reasons and regarded time spent debating the settlement-of-accounts as "misspent time."<sup>41</sup> These differences stemmed from two sources: (1) the possibility of variation in interpretation of the state's fundamental position until the completion of a settlement of accounts and (2) the existence of competing interest groups who expected greater political gains, perhaps economic as well, from favoring one funding system over another. These differences in Pennsylvania's congressional delegation had to be reconciled.

Congressman FitzSimons, heretofore overshadowed by Morris, eventually became the "key negotiator" for the state of Pennsylvania. Working hard behind the scenes, he tried to arrange a deal whereby Pennsylvania would supply votes for assumption in exchange for the temporary residence.<sup>42</sup> Earlier, in March 1790, he successfully directed the drive that blocked a bill in the Assembly instructing the Pennsylvania delegation to oppose assumption. FitzSimons, it seems, spent the whole session trying to overcome the opposition to assumption, to justify his support for it, and, finally, to rescue his political career.<sup>43</sup> The Germans and Quakers of Philadelphia, according to Benjamin Rush, were adamantly opposed to Hamilton's funding program, to say nothing of the numerous widows, orphans,

40. John Dawson to Madison, 22 March 1790, Madison Papers, DLC. Support for assumption was largely confined to a small group of strong nationalists and a set of security holders who held southern states debts. Bowling, "Politics in the First Congress," pp. 212, 217, 219.

41. Ibid., p. 208. Maclay to Rush, 12 April 1790, Rush Papers, DLC. Hiester to Nicholson, 22 February, 7, 10, 18 June 1790, Nicholson General Correspondence, 1772-1800, PRD, PHMC. Ferguson, *Power of the Purse*, pp. 310-11.

42. *Maclay's Journal*, p. 220. Cooke, "Compromise of 1790," p. 532.

43. *Maclay's Journal*, p. 224-225, 230-231; Maclay to Rush, 27 March 1789, Rush Papers, DLC. For another view, see William Irvine to Thomas Mifflin, 18 March 1790, Irvine Letters, File, 1790, Historical Society of Wisconsin.

and soldiers residing there who felt cheated.<sup>44</sup> As political antagonist Rush interpreted events, FitzSimons had become the “midwife of a [funding] system every principle of which he reprobated when established [in 1785–86] in our state.”<sup>45</sup>

To the dismay of Hamilton’s supporters in Congress, the assumption bill was defeated in the Committee of the Whole on 12 April 1790, by a vote of 32 to 29.<sup>46</sup> FitzSimons afterward explained that he considered “the opposition to the assumption as a measure of the holders of Contl Securitys who supposed their security would be lessened by the Measure. The Correspondence of some of that class with the Members of our house I am sure,” he concluded, “influenced their votes.” Furthermore, he remarked how the outcome angered some members of the Pennsylvania delegation on seeing “a combination between S. Ca. & Mass<sup>ts</sup> with New York to disappoint any expectation of the Removal of Congress. If my apprehension shall be realized we shall not be long together for the Irritation is so great that it would be vain to hope for any union of sentiment on any other question.”<sup>47</sup> According to Congressman William Smith, the reason for the defect of assumption lay elsewhere. After admitting that one colleague deserted him on the vote, he wrote that “The Members from Pen[n]sylv[ani]a have been in great measure accessory to this calamity.”<sup>48</sup>

Now that assumption had failed, Congressman FitzSimons reconsidered the strategy of the Pennsylvania delegation in Congress on the questions of assumption and residence. In the following weeks he took the initiative to kill the controversial question in the House by adopting the position of the proto-Republicans. FitzSimons demanded that a settlement of accounts precede assumption and that funding and assumption be judged separately. On April 26, with the full support of the Pennsylvania delegation, the Committee of the Whole was discharged from further consideration of assump-

44. Rush to Madison, 25 March 1790, Madison Papers, DLC.

45. Ibid.

46. The vote, which was not by roll call, is in the *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1576. A reconstruction of the vote can be found in Bowling, “Dinner at Jefferson’s,” pp. 635–636. *Maclay’s Journal*, pp. 236–237, Maclay to Rush, 12 April 1790, Rush Papers, DLC.

47. To Tench Coxe, 13 April 1790, Coxe Papers, HSP. Also, see the *Gazette of the United States*, 14 April 1790.

48. Wm. Smith to Coxe, 14 April 1790, Coxe Papers, HSP; see also Smith to Coxe, 2 May 1790, *ibid*.

tion.<sup>49</sup> Hereafter its fate rested with the Senate. At the same time FitzSimons and Morris worked hard to effect the removal of the capital to Philadelphia, either on a temporary or a permanent basis.<sup>50</sup> After much ado, a proposal made by FitzSimons that the third session of the First Congress be held in Philadelphia was carried by a decisive vote of 38 to 22.<sup>51</sup> This political development, combined with rumors of an impending deal between the Pennsylvanians and the Virginians on the location of the federal capital, angered the ardent assumptionists. "You have seen that we are sold by the Pennsylvanians, and the assumption with it," wrote Fisher Ames. He believed that Pennsylvania opposed assumption in order to win the temporary capital and that the Pennsylvanians considered assumption "as dividing their loaf with others, and they wish to have it all."<sup>52</sup> Pennsylvania's large holders of federal certificates still held out for interest at a rate of six percent - an economic prospect jeopardized by assumption.

The complex maneuvering over the "seat of government" issue that raged in the halls of Congress during June and July 1790 has often been recounted.<sup>53</sup> The chief participants in the residence battle were the New Yorkers, the Virginians, and the Pennsylvanians. Historians have argued that the hopes of the Pennsylvanians rested upon the non-interference of the Massachusetts delegation with the pre-arranged residence agreement between the Pennsylvanians and the southerners. It called for the capital to be placed on the Potomac after a temporary stop at Philadelphia, the duration of which was still to be determined. It is claimed that these arrangements were made by Hamilton.<sup>54</sup> While the above arguments are

49. *Annals of Congress*, 2 (1st Cong., 2nd Sess.), especially the debates on 12, 22, 26 April, 24, 25 May, 1 June 1790. The 26 April item is found in *ibid.*, 2 (1st Cong., 2nd. Sess.): 1597. The changes in strategy are revealed in FitzSimons to Coxé, 22, 27 April 1790, and F. A. Muhlenberg to Coxé, 2 May 1790, Coxé Papers, HSP.

50. *Ibid.* Bowling, "Politics in the First Congress," pp. 179-181; Cooke, "Compromise of 1790," pp. 528ff.

51. *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1682. FitzSimons to Coxé, 27 April 1790, Coxé Papers, HSP. A similar resolution made by Morris on 24 May 1790 was defeated in the Senate. *Ibid.*, 1 (1st Cong., 2nd Sess.): 978-979; *Maclay's Journal*, pp. 271-272, 277-280.

52. Ames to George R. Minot, 20 May, and Ames to Thomas Dwight, 11 June 1790, Ames, *Works*, 1: 78, 78-79.

53. The most complete account is Bowling, "Politics in the First Congress," pp. 179-192, 222-223. The prospect of an early recess for late May was lost. Maclay to Coxé, 30 April 1790, Coxé Papers, HCP.

54. Contrary to this view, the Pennsylvanians had long played a "vibrating part"

plausible, they are not convincing because the Philadelphia-Potomac residence bargain (agree to before the famous dinner meeting) was carried in spite of the continued opposition of the representatives from Massachusetts. In the Senate where the "crucial vote" occurred, it passed on 1 July by a margin of 14 to 12; in the House it passed on 9 July by a vote of 32 to 29.<sup>55</sup> That all ten members of the Pennsylvania delegation supported the measure came as no surprise. If the residence bill won approval on its own merits, it is clear that the lateness of the hour convinced many members of Congress to settle this business in order to get on with funding and assumption. The fate of assumption was still in doubt in early July because no residence-assumption deal had ever been consummated.<sup>56</sup>

While the Senate approved the residence bill, the disheartened public creditors of Philadelphia agreed to assemble at the State House to reexamine the funding issue. Selecting Chief Justice Thomas McKean as their chairman, they also appointed a committee of correspondence authorized to influence Congress and to work in concert with public creditors elsewhere in order to obtain a better funding system.<sup>57</sup> "It [the meeting] is suspected to have our elections as much as public credit for its object," Tench Coxe informed Hamilton. Although other subjects came up at the meeting, the assembled federal creditors primarily wanted to inform the Congress that they would not subscribe to the federal loan "unless the debt is funded agreeably to the original contract at six per cent."<sup>58</sup> As the badgered Tench Coxe earlier predicted "concessions of particular advantage would be necessary to enable us [the administration] to surmount" the opposition.<sup>59</sup>

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over the residence issue. John Fenno to Joseph Ward, Ward Papers (typescript), Chicago Historical Society.

55. *Annals of Congress* 1 (1st Cong., 2nd Sess.): 1002; 2 (1st Cong., 2nd Sess.): 1736-1737. Also, see *Maclay's Journal*, pp. 312-314; Robert Morris to Mrs. Morris, 2 July 1790, *PMHB*, 60 (April, 1936): 184.

56. Wynkoop to Reading Beatty, 2, 9 July 1790, Joseph M. Beatty, Jr., ed., "The Letters of Judge Henry Wynkoop. . . ." *PMHB*, 38, (1914): 200-201, 201-202; Oliver Wolcott, Jr. to Oliver Wolcott, Sr., 4 July 1790, George Gibbs, ed., *Memoirs of the Administration of Washington and John Adams* (New York, 1846), 1: 48; Clement Biddle to Robert Gilchrist, 20 June 2, 21 July 1790, and Biddle to William Roberts, 7 July 1790, Biddle Letter Book, HSP.

57. *Pennsylvania Packet*, 9, 12 July; *Pennsylvania Gazette*, 14 July 1790.

58. Coxe to Hamilton, 9, 10 July 1790, Syrett, *Papers of Hamilton*, 6: 486-487, 490-491. Peter Wikoff to Coxe, 26 May, 15 July 1790, Coxe Papers, HSP.

59. Coxe to Hamilton, 5 March 1790, *ibid.*, 6: 291.

The Philadelphia creditors' meeting was a prelude to new movements in Congress. Debate on the proposal to provide for the public debt, incorporating assumption, began three days later. (On 12 July a special committee in the Senate recommended that the funding bill as passed by the House on 2 June be amended to include the assumption of state debts).<sup>60</sup> Senator Robert Morris immediately threw matters into confusion. Realizing the importance the public creditors of Philadelphia attached to the question of the rate of interest the debt should carry, on 13 July he informed Senate colleagues: "I am for six per cent fund on the whole, and if gentlemen will not vote for that, I will vote against assumption."<sup>61</sup> Morris had been disappointed that the temporary residence was for ten years instead of fifteen or twenty; the above remarks, which threatened the cornerstone of Hamilton's fiscal policy, reflected his concern that there would be "great disturbances" in Pennsylvania if the promise to pay six percent was not honored.<sup>62</sup> Fortunately, at the behest of Morris and others, a new set of economic concessions was agreed upon in Congress and was incorporated into the Report on Public Credit.<sup>63</sup> From the post-residence congressional compromise sanctioned by Hamilton, Pennsylvania benefited in two major ways: (1) she was granted an extra allowance of \$200,000 which she could add to the amount of her state accounts to be assumed and (2) Hamilton agreed to pay six percent on the principal of the public debt and three percent on the arrears of interest on that debt.<sup>64</sup>

These economic concessions were worked out in the Senate before the vote on assumption. The measure on state debts passed the Senate by a vote of 14 to 12 on 21 July.<sup>65</sup> Morris supported the bill, and Maclay opposed it. Morris' remark, "Half a loaf is better than no bread," suggests that he had been a reluctant supporter of assumption.<sup>66</sup> Five days later, on 26 July, the House agreed to

60. *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1269; Cooke, "Compromise of 1790," p. 540.

61. Dated 13 July 1790, *Maclay's Journal*, p. 323. "I thought him [Morris] only in sport," wrote Maclay. *Ibid.*

62. *Ibid.*, pp. 323-324, 326-327.

63. Theodore Sedgwick to Pamela Sedgwick, 13 July 1790, Sedgwick Papers, MHS; George C. Rogers, *Evolution of a Federalist: William Loughton Smith of Charleston . . .* (Columbia, S.C., 1962), pp. 197-198.

64. Cooke, "Compromise of 1790," pp. 541-542; Ferguson, *Power of the Purse*, 321.

65. *Annals of Congress*, 1 (1st Cong., 2nd Sess.): 1016; Cooke, "Compromise of 1790," p. 543.

66. *Maclay's Journal*, pp. 335-36.

assumption by a vote of 34 to 28. Only three members of the Pennsylvania delegation—FitzSimons, Clymer, and Henry Wynkoop—voted with the majority.<sup>67</sup> Assumption had passed only because it had friends in other states of the Union. Finally, as Cooke concludes, “different coalitions assured the success of the two bills” (assumption and residence).<sup>68</sup>

Although the Pennsylvanians diligently sought to achieve optimum objectives during the stormy First Congress, they were forced more than once to accept compromise. The Philadelphians, who wanted to place the permanent national capital city on the Delaware, succeeded only in getting a ten-year temporary residence. They were confident, however, that something would happen during the decade to prevent removal from Philadelphia to the Potomac site.<sup>69</sup> To the Philadelphians the capital was a mixed blessing because, while it augured future prosperity and provided social advantages for the “aristocracy,” its presence also raised rents and inflated prices.<sup>70</sup> Consequently, neither the Federalists nor the Antifederalists were inclined publicly to make much out of winning the capital.

The assumption of state debts posed different problems. It was a proposition that could not be easily or positively argued in Pennsylvania because she had liquidated the greater part of her debts. Although it was argued that a national debt would be the “cement of union,” the public creditors of a forward state stood to gain less from Hamilton’s plan than did delinquent states. Morris and FitzSimons had been instrumental in making funding-assumption much more palatable for the diverse creditor interests, but they were still not satisfied with the final settlement. Federal assumption, no matter how the creditors looked at it, was a breach of faith (viz., being forced to accept less payment for debts than had been contracted for.) Even the creditors who received a heavy profit on their

67. *Annals of Congress*, 2 (1st Cong., 2nd Sess.): 1754–55.

68. Cooke, “Compromise of 1790,” pp. 525, 544. Jefferson believed that “local principles” were important. To Randolph, 14 August 1790, Jefferson Papers. DLC.

69. Peter Muhlenberg to Rush, 17 June 1790, Gratz Coll., HSP; Wynkoop to Reading Beatty, 2 July 1790, *PMHB*, 38: 200–201; *Maclay’s Journal*, p. 340; Kenneth R. Bowling, “The Bank Bill, The Capital City and President Washington,” *Capital Studies*, 1 (Spring, 1972): 60–61.

70. Rush to FitzSimons, 5 August 1790, Butterfield, *Rush Letters*, 1: 569; John Chaloner to [Jeremiah] Wadsworth, 20 August 1790, Wadsworth Papers, Connecticut Historical Society; Oliver Wolcott Jr. to Mrs. Wolcott, 7 September 1790, Gibbs, *Memoirs*, 1: 57.



speculative investments felt that they were being asked to accept half-a-loaf.

The Funding Act, which President George Washington signed into law on 4 August 1790, provided that public creditors might exchange their certificates representing the principal of the domestic debt for two kinds of new government stocks or bonds. For two-thirds of his or her claim the creditor was to be given securities bearing six percent interest from the date of issue; for the other third, securities bearing four percent interest. The funding act also authorized the government to borrow money at three percent for paying the arrears of interest on the domestic debt. Even more complicated was the method of refinancing the debts of the state. Holders of such claims were to receive three kinds of securities: one—for four-ninths of the debt—bore interest at six percent; the second—for three-ninths of the debt—bore interest at three percent; the third—for two-ninths of the debt—did not bear interest until 1801. The measure also made provision for payments to state governments which were creditors in their accounts with the federal government.<sup>71</sup>

The public creditors believed that these arrangements violated pledges made by the Confederation Congress in several important ways. First, the “differential methods of funding” which Hamilton proposed as a way of paring down the debt meant he was only prepared to pay interest at an overall rate of four percent instead of the contracted six percent. Second, Hamilton was prepared only to fund accumulated interest (indents) at three percent rather than on equal terms with the principal. At the same time old Continental currency was rated at 100 rather than at forty-to-one of specie and state securities were funded at a slightly lower rate of interest than federal securities.<sup>72</sup> Pennsylvanians held large amounts of indents, state securities, and loan office certificates.<sup>73</sup> Finally, Hamilton, under sections 17 and 18 of the Funding Act, was unprepared to incorporate into the system certain debt obligations that had been

71. Hamilton's financial program was carried out in “An Act Making Provision for the (payment of) the Debt of the United States” 4 August 1790) and by “An Act Making Provision for the Reduction of the Public Debt” 12 August 1790), which established the sinking fund. Richard Peters, ed., *The Public Statutes at Large of the United States*. . . (2nd edition, Boston, 1854), 1: 138–144, 185–186.

72. Ibid. Ferguson, *Power of the Purse*, pp. 292–297.

73. See above pages 4–5. Hamilton to Thomas Smith, 30 September 1790, Syrett, *Papers of Hamilton*, 7: 82; Thomas Smith to Hamilton, 14 February 1791, *ibid.*, 7: 32–33n.

granted special consideration by the Continental Congress.<sup>74</sup> Pennsylvania's public creditors realized that much more was to be gained if the promises of the Confederation government could be transformed into reality.

By the third session of the First Congress, which opened in Philadelphia in December 1790, Pennsylvania's disaffected public creditors brought their opposition out into the open.<sup>75</sup> They reactivated the bipartisan public creditors' committee which had earlier served as a rather effective pressure group. It was greatly responsible for the concessions made by Hamilton toward the end of the second session.<sup>76</sup> Now, as before, the object of the group was to obtain a more favorable, albeit more expensive, funding system. The membership of the public creditors' committee remained largely the same: Charles Pettit, chairman; Thomas McKean; John Ewing; Matthew Clarkson; Peter Wikoff; Thomas H. Moore; Joseph Ball; William Bradford, Jr.; Jonathan Dickinson Sergeant; Blair McCleanachan; and Walter Stewart.<sup>77</sup> The group, which held around three-hundred thousand dollars worth of public securities, represented an influential and powerful segment of Philadelphia's political community.<sup>78</sup>

Pettit's role as chairman warrants further comment for a number of reasons.<sup>79</sup> First, he was recognized as an authority on financial matters, being the author of Pennsylvania's funding system of 1785.<sup>80</sup> As a delegate to Congress (1785 to 1787) and as a political organizer in Philadelphia, Pettit did much to keep the public debt

74. *Journals of the Continental Congress*, 8: 730-731.

75. The third session of the First Congress opened on 6 December 1790.

76. See above page 12.

77. This list of names appeared on the Public Creditors memorial, dated 15 December 1790, submitted to the Congress. *ASP, Finance*, 1: 81. Bingham absented himself because he was elected Speaker of the General Assembly. Robert C. Alberts, *The Golden Voyage: The Life and Times of William Bingham, 1752-1803* (Boston, 1969), pp. 201-203, 209.

78. Department of Treasury, Records of the Bureau of Public Debt, Pennsylvania Loan Office Records Relating to the Loan of 1790, "Old Loans" Ledger A, vol. 636 (6 percent Funded Stock, 1790-93), Roll 1, and "Old Loans" Ledger B, vol. 640 (6 percent Deferred Stock, 1790-93), Roll 3, National Archives (microfilm).

79. James H. Peeling, "Charles Pettit," Allen Johnson and Dumas Malone, eds., *Dictionary of American Biography (DAB)* (New York, 1928-58), 14: 517-519.

80. Charles Pettit, "View of Funding in Pennsylvania. . .," *American Museum*, 3 (January and March 1788): 180-182, 245-246. Pettit to Dr. James Hutchinson, 11, 15, 16, 17, 18, 23 December 1785, 9, 14 August 1786, Hutchinson Papers, American Philosophical Society. Forrest McDonald, *E Pluribus Unum: The Formation of the American Republic 1776-1790* (Boston, 1965), pp. 48-52, 57.

question alive.<sup>81</sup> Second, in 1789 Pettit eagerly sought the position of Secretary of the Treasury in the Washington administration. Although he had the support of the inveterate speculators, he had "little chance" to get it.<sup>82</sup> Finally, Pettit, a Constitutionalist opponent of Robert Morris while the latter served as Superintendent of Finance, was also regarded as the principal opponent of Hamiltonian funding in Philadelphia. Tench Coxe concluded during the height of the debate over assumption that the opposition could be weakened only "if he [Pettit] could be convinced that it [assumption] is the *sine qua non* of funding, or that the terms of the new loan might by its means be meliorated."<sup>83</sup> Earlier, the influence of Pettit had been augmented when, on 24 June 1790, he was appointed Commissioner of Accounts by the Supreme Executive Council of Pennsylvania.<sup>84</sup>

Pettit's enemies claimed that he accepted and used his new post to further his political ambitions. If he was a disappointed office-seeker, he was also a dedicated "eastern" nationalist who, at the time there was talk about a collapse of the Confederation government, worked hard to get the Congress to face its responsibilities and for the states to become more accountable. As a result of the changing political realities in Pennsylvania, Pettit narrowly missed being selected to attend the "Grand Convention" and was later defeated as a delegate to attend the state ratification convention. And when the elections for members to the First Congress were held in 1788, Pettit, along with Blair McClenachan, ran on the Antifederalist ticket but lost to FitzSimons and Clymer.<sup>85</sup> Indeed, for eight long years he had been a tireless campaigner for this cause.

81. Samuel Hazard, *et al.*, editors, *The Pennsylvania Archives*, (Colonial Records) and Nine Series (138 vols., Harrisburg and Philadelphia, 1852-1935), (*Colonial Records*), 14: 549; James Monroe to Madison, 31 May 1786, Edmund C. Burnett, ed., *Letters of Members of the Continental Congress* (Washington, D.C., 1921-36), 8: 377. Charles Pettit *et al.*, Philad<sup>a</sup>, 29 June 1789, to Pres. Mifflin and Council, PRD, PHMC. This memorial of the public creditors is in Pettit's hand.

82. Biddle to Gilchrist, 15 July 1789, Biddle Letter Book, HSP; Pettit to John Jay, 5 July 1789, Jay Papers, Columbia Univ.; Jay to Pettit, 14 July 1789, Henry P. Johnson, ed., *The Correspondence and Public Papers of John Jay* (New York, 1891), 3: 373.

83. Coxe to Hamilton, 10 July 1790, Syrett, *Papers of Hamilton*, 6: 491. Regarding the chief economic authorities in Philadelphia, see Coxe to Williams Irvine, 15 August 1790, Irvine Papers, 10: 61, HSP.

84. *Pennsylvania Archives* (*Colonial Records*), 16: 387, 441; Council Instructions to Pettit, dated 6 July 1790, in *ibid.*, (1st Ser.), 11: 708; Charles Pettit to Thomas Mifflin, 15 December 1790, *ibid.*, (1st Ser.), 12: 6-7.

85. Brunhouse, *Pennsylvania Politics*, pp. 195, 206, 217-218, 290n.

With the approach of the fall elections of 1790, it was widely rumored that the emerging urban "republican interest" planned to run the well connected Pettit against Thomas FitzSimons, the incumbent.<sup>86</sup> The First Congress was not a popular body. Considering Pettit's support among public creditors and newer mercantile elements, as well as his position as the "titular head" of the "Reed faction," the failure of the state legislature to pass an election law probably saved arch-Federalist FitzSimons.<sup>87</sup> Senator Maclay, who like Pettit was an opponent of Hamilton's funding program, regarded the latter as his old political enemy. Calling Pettit "the curse of Pennsylvania," Maclay feared that Pettit's objective was to supplant him in the United States Senate.<sup>88</sup> Pettit's position permitted him to carry out electioneering goals, yet his appointment perhaps fulfilled more basic motives.

As Commissioner of Accounts, Pettit was in charge of the presentation of claims against the federal government to the United States Congress. He was in a unique position to observe the operation and completion of these accounts as it affected the large number of public creditors in Pennsylvania. The personal reputation of the commissioner was also involved since Hamilton's funding program upset the Confederation paper-money settlements that Pettit had so assiduously worked out. Pettit was not anxious to revive the paper money issue; however, he was concerned that the seriously affected state creditors, those who complied with the requisitions to receive paper money, be extended public justice.<sup>89</sup> Under Hamilton's funding program, of course, preferential treatment was given to specie certificates of the Continental Congress.<sup>90</sup> The "new emissions," although underwritten by the Continental Congress as redeemable in specie equal to their face value, were rejected.<sup>91</sup> Pettit, unlike so many of Hamilton's critics, was not afraid of a large consolidated debt and was willing to accept "settlement as a very distant object,"

86. Rush to Cox, 24 June 1790, Cox Papers, HSP; Dr. James Hutchinson to Gallatin, 11 June 1790, Gallatin Papers, NYHS.

87. Pettit was married to Sarah Reed whose half-brother was Joseph Reed, late President of the Supreme Executive Council of Pennsylvania. *DAB*, 14: 517.

88. *Maclay's Journal*, pp. 326-327, 346.

89. Pettit to Franklin, 7 May 1786, *Pennsylvania Archives (Colonial Records)*, 1st Ser., 11: 106.

90. Ferguson, *Power of the Purse*, pp. 296-297.

91. For an explanation, see editorial note (Pettit to Hamilton, 30 April 1791), Syrett, *Papers of Hamilton*, 8: 319-320.

if it would bring about reconciliation between Pennsylvania and the Union. Serving as the spokesman for the speculators, he still believed, as he had during the "critical period," that the economy could benefit by the inflation. "I do not always consider the sparing of Money, either public or private as Good Oeconomy. My ideal of Oeconomy is rather the Expending of Money properly than the saving it improperly."<sup>92</sup> In this respect Pettit was closer to Hamilton than Madison.

The role of the public creditor committee took on added significance because the 1791 congressional elections had been postponed.<sup>93</sup> Unable to send the Washington administration a message via the ballot box, the public creditors decided to petition Congress.<sup>94</sup> On 20 December 1790, Robert Morris presented to the United States Senate, the memorial of remonstrance wherein the petitioners asked for a revision of the Funding Act.<sup>95</sup> Believing in their constitutional right to remonstrate, the domestic creditors outlined their "insurmountable objections" to the present system of "public injustice," one which discriminated in favor of foreign creditors. The memorialists contended that "the foundation for credit abroad, should be laid at home." They complained that the value of their state securities was superior to the value of the securities the Department of Treasury offered in exchange, and that they were entitled to special adjusted compensation. Stupefied by the new government's failure to carry out the debt provisions guaranteed by the Confederation Congress, they demanded the full payment by the United States of certain bills of credit, issued between September 1777 and March 1778, which had been only partially provided for in the funding system.<sup>96</sup>

This group of certificates were singled out for several reasons. First, Pennsylvania held one-third of the loan office certificates—the original concentration increased after 1783 by constant transfer into

92. *Maclay's Journal*, pp. 327, 335. To John Nicholson, 27 December 1785, Burnett *Letters of Cont. Congress*, 8: 280.

93. Upon the adoption of the new State Constitution of 1790, the Assembly dissolved without making any provisions for an election. Harry M. Tinkcom, *Republicans and Federalists in Pennsylvania, 1790-1801* (Harrisburg, 1949), pp. 45, 47.

94. Clement Biddle to William Rodgers, 12 December 1790, Biddle Letter Book, HSP. Alexander James Dallas (?), *The Memorial and Remonstrance of the Public Creditors . . . of the Commonwealth* (Philadelphia, 1790).

95. *Annals of Congress*, 2 (1st Cong., 3rd Sess.): 1778-79.

96. Public Creditors [of Philadelphia] to the United States Senate, 15 December 1790, in *ASP, Finance*, 1: 77-79, 80. John C. Hamilton, *Life of Alexander Hamilton: A History of the Republic of the United States of America . . .* (Boston, 1879), 4:371-372.

the state.<sup>97</sup> Second, under the Continental Congress these securities had received preferential treatment. In the wake of the virtual repudiation of Continental Currency (extensively counterfeited), the Congress in 1780 strengthened the loan office certificates by reducing them to their specie value and continued to draw bills of exchange for the interest on loan certificates taken out before 1 March 1778. Although currency depreciation had begun 10 February 1777, the interest was paid on the face value of securities issued up to that date. While the Congress tried to reserve the preferred debt for the federal government, Pennsylvania permitted the loan office certificates to be exchanged under the state-oriented public finance plan of 1786.<sup>98</sup> Thus, the certificates were seen not only as a valuable asset but the precedent to honor them on a most favorable basis had already been established.

Congress found it extremely difficult to deal with the petition of the public creditors from Philadelphia. For Congress to permit one revision of the funding system would leave the door open for further changes. Senator Philip Schuyler of New York expressed this when he informed his colleagues that any innovation in funding at this time would be both dangerous and not expedient.<sup>99</sup> At first, the senators tried to scuttle the controversial issue by adjourning. Nevertheless, Senate leaders were aware that they had to pacify the politically powerful Robert Morris, who represented the public creditors. "Every mode was tried to let them down easy, as the phrase is," wrote Senator William Maclay.<sup>100</sup> After rejecting several resolutions that circulated for approval on 23 December, the Senate

Resolved, That it would be inexpedient to alter the system of funding the public debt established during the last session of Congress, and that the petition of Thomas McKean and others, styling themselves a Committee of the public creditors of the Commonwealth of Pennsylvania, cannot be granted.<sup>101</sup>

The resolution was passed by a vote of 20 to 1, with Morris the

97. *ASP, Finance*, 1: 239; *Journals of the Continental Congress*, 25: 915n.

98. *Ibid.*, 17: 566-69; 8: 724-725, 730-731; 11: 513-514. Blair McClenachan et. al. to Hamilton, 16 March 1791, Syrett, *Papers of Hamilton*, 8: 195 and n. Also, see Ferguson, *Power of the Purse*, pp. 35-40, 68-69; Henderson, *Party Politics of Congress*, pp. 220-221, 255, 286-289.

99. *Annals of Congress*, 2 (1st Cong., 3rd Sess.): 1780-1781; *Maclay's Journal*, p. 352.

100. *Ibid.*, p. 353.

101. *Annals of Congress*, 2 (1st Cong., 3rd Sess.): 1781.

lone dissenter.<sup>102</sup> Maclay, one of the chief critics of Hamilton's fiscal program, with his vote against a larger public debt, remained consistent. He was fully aware that the war he waged with the public creditors would ultimately cost him his seat in the United States Senate.<sup>103</sup>

Although the record is incomplete, a similar resolve was debated and voted on in the House of Representatives. According to the *Journal of the House*, only Thomas Scott of the Pennsylvania delegation voted in favor of the public creditors' petition. Elbridge Gerry of Massachusetts was the only other supporter.<sup>104</sup> Members of the House apparently resented the conspicuous manner in which the public creditors acted. Connecticut's Jonathan Trumbull, Jr. viewed the request for revision as just another "hazing trick" that he came to expect from the Philadelphians.<sup>105</sup> "I wonder how the petitioners could overcome their Philadelphia modesty," observed Fisher Ames, "so far as to present such a . . . memorial. You may fill the blank for yourself."<sup>106</sup> More important are James Tillary's remarks to Hamilton: "From a mean sacrifice of sentiment & judgement made at the Shrine of party to serve personal purpose I have serious fears, that this State [Pennsylvania] will soon appear Conspicuous for its opposition to the Federal Government." Hamilton realized this salient fact better than anyone.<sup>107</sup>

After the effort to persuade Congress failed, Philadelphia's public creditors adopted a two-fold strategy that was more likely to lead to success. First, the Philadelphians decided to place pressure on the state legislature to compensate them for their personal financial losses and, second, they agreed to petition the Secretary of the Treasury to make it more beneficial for non-subscribers to subscribe to the Loan of 1790. Regarding the first of these two moves, the idea of getting Pennsylvania to adopt a separate plan of finance, if the national government failed to provide fully for all contracted debts, had long been considered. As early as

102. Ibid. After the vote, a "peevisish" Morris abruptly left the Senate chamber. *Maclay's Journal*, p. 354.

103. Ibid., pp. 353-354.

104. *Annals of Congress*, 3 (2nd Cong., 1st Sess.): 192. Sedgwick to Ephraim Williams, 26 December 1790, Sedgwick Papers, vol. 3, MHS.

105. Jonathan Trumbull, Jr. to William Williams, 18 December 1790, Trumbull Papers, 1: 29, Connecticut Historical Society.

106. Fisher Ames to Thomas Dwight, 23 December 1790, Ames, *Works*, 1: 90.

107. James Tillary to Hamilton, January [?], 1791, Syrett, *Papers of Hamilton*, 7: 615.

8 March 1790, at a meeting of the Pennsylvania delegation held at Simons Tavern in New York City, Senator Robert Morris held out the prospect that the state could compensate state creditors by subscribing for the amount of the securities up to two percent.<sup>108</sup> Following the defeat of the public creditors' request for revision of the funding scheme in the Congress, this plan not only gained additional popularity but appears to have been broached to officials in the Washington administration. Philadelphia's Tench Coxe, Assistant Secretary of the Treasury, acted as the intermediary between Morris and Hamilton to coordinate such plans between the federal government and the state of Pennsylvania.<sup>109</sup>

The bargaining position of the Pennsylvanians was neither weak nor illegal. The public creditors were in no way obligated to subscribe to the loan because subscribing was voluntary. Many public creditors, especially certificate holders of the state of Pennsylvania and holders of special debt obligations possessing a greater value, protested by refusing to subscribe to the Loan of 1790.<sup>110</sup> Although the "non-subscribers" received during the year 1791 "a rate per centum" on the amounts of their respective demands, including interest to the last day of December next, they nonetheless preferred to keep their certificates.<sup>111</sup> When the time prescribed by the Act for subscribing to the loan expired in October 1791, only \$675,101.33 had been subscribed for the authorized amount of \$2,200,000. Pennsylvania's remaining state debt was estimated at only \$500,000.<sup>112</sup>

Yet, Pennsylvania's accounts were in disarray for other reasons. Until there was a settlement of state accounts with the United States, John Nicholson refused to return to the state legislature the unused certificates issued by that body to compensate the troops of the Pennsylvania Line of the Continental Army for their losses in pay suffered in consequence of the depreciation of Continental currency.<sup>113</sup> Nicholson's political enemies in the Assembly convinced the

108. *Maclay's Journal*, p. 209.

109. Hamilton to Morris, 9 November 1790, Syrett, *Papers of Hamilton*, 7: 146; Tench Coxe to Hamilton, 21 December 1790, *ibid.*, 7: 316.

110. Albert S. Bolles, *The Financial History of the United States From 1789 to 1860* (2nd edition, New York, 1885), pp. 30, 34.

111. *Ibid.*, p. 31. Also, see the explanatory note (Andrew Porter to Hamilton, 23 April 1791), in Syrett, *Papers of Hamilton*, 8: 305-306.

112. "Statement of Subscriptions to the (federal) loan Funded from the 1st of October to the 30th of September, 1791," *ASP, Finance*, 1: 150.

113. "Treasury Department Circular to the Governors of the States, Jan. 14, 1791,"



Supreme Executive Council of Pennsylvania to make a full investigation of the accounts of the Comptroller-General. Although Nicholson was able to escape conviction of the charges of malfeasance in office, these attacks, designed to remove him from office, ultimately delayed the auditing process for the settlement of accounts. Meanwhile, the functions of his office were transferred to the Register-General.<sup>114</sup>

Politically speaking, the public creditors were still a potent force in Pennsylvania. In the gubernatorial campaign under the new state Constitution of 1790, their candidate, Thomas Mifflin, defeated Arthur St. Clair.<sup>115</sup> In his first address to the state legislature, Governor Mifflin recommended the "total extinguishment of the public debt." In addition to current government expenses, he asserted, the "faith of Pennsylvania was pledged to redeem" nearly all of her principal revolutionary war debt engagements.<sup>116</sup> During the next four months members of the state legislature gave patient and sympathetic consideration to the governor's multi-faceted financial proposals, designed to resolve the financial difficulties of the state. Both houses of the legislature, headed by William Bingham in the state Senate and Blair McClenachan and Francis Gurney in the state Assembly, worked together in an effort to achieve justice for every public creditor in Pennsylvania.<sup>117</sup> The unusual amount of good will, cooperation, and bipartisanship which prevailed among party leaders suggests that the issue of Hamilton's funding program cut across party lines because it affected the state's vital interests.

Syrett, *Papers of Hamilton*, 7: 426-427; Thomas Mifflin to Hamilton, *ibid.*, 7: 440; Alexander Dallas to Hamilton, Feb. 24, 1791, *ibid.*, 8: 135-136; Nicholson to Governor Thomas Mifflin, *Pennsylvania Archives*, 9th Ser., 1: 39.

114. Arbuckle, *John Nicholson*, pp. 45-47, 52-54.

115. The Morris clique, commonly referred to as the "Philadelphia Junto," supported St. Clair. "Circular," *Pennsylvania Gazette*, 15 September 1790; *Maclay's Journal*, pp. 192, 200, 211-212; Hutchinson to Gallatin, 11 June 1790, Gallatin Papers, NYHS; St. Clair to FitzSimons, 12 October 1790, Gratz Collection, HSP.

116. Thomas Mifflin to the Assembly on the State of the Commonwealth, 28 December 1790, *Pennsylvania Archives*, 4th Ser., 4: 141-157. Quoted material is on page 142; *General Advertiser*, 30 December 1790.

117. *Journal of the First Session of the First House of Representatives of the Commonwealth of Pennsylvania* (PHJ) (1790-1791) [Philadelphia, 1790], *passim*. William Bingham and Francis Gurney had been identified with the Anti-Constitutionalist party and in 1790 were considered moderate Federalists. Tinkcom, *Republicans and Federalists*, p. 38. Blair McClenachan (sometimes spelled McClenaghan), a wealthy Irish merchant and among the largest security holders in Pennsylvania, was a firebrand Antifederalist. Ferguson, *Power of the Purse*, pp. 278, 280, 340.

Albert Gallatin, who later became Secretary of the Treasury in the Jefferson and Madison administrations, has generally been credited with having played a large role in the development of the state's financial program.<sup>118</sup> Although his support for any plan was necessary to neutralize the opposition of western Pennsylvanians in the Assembly, the program that was eventually adopted was by no means his "brainchild." Under the direction of Gallatin, the House Ways and Means Committee recommended a comprehensive financial program that contained a number of proposals designed to correct the flaws or weaknesses of Hamiltonian funding. After the state of Pennsylvania agreed on 30 March 1791 to subscribe to the Loan of 1790 herself, she encouraged her remaining state creditors to do likewise by pledging her credit on 9 April 1791 to compensate her creditors for financial losses incurred under Hamilton's debt assumption plan.<sup>119</sup> In other words, Pennsylvania was prepared to make up the difference, up to six percent, between the amount the federal government agreed to pay and the actual book value of the Revolutionary and Confederation debts. As subsequently worked out, Pennsylvania issued new certificates (with an endorsement on the back of each document deducting the specie value of the bills, calculated at a rate of forty to one) agreeing to pay six percent on the deferred loan and an additional three percent on the three percent loan.<sup>120</sup> This plan led to the issuance of £135,000 of certificates, with annual interest charges of about £5,675.<sup>121</sup> The state also provided for the redemption or liquidation of nearly all of the outstanding paper money or bills of credit issued in 1785, and forbade the state treasurer to reissue any paper money in the future. This law repealed all previous acts relating to paper currency and state funding.<sup>122</sup> Finally, in a show of charity the legislature agreed to provide for a full payment of the Proprietor's debt, together with the arrears of interest.<sup>123</sup>

118. *PHJ* (1st House, 1st Sess.), pp. 162–173; Albert Gallatin, "Memo of His Years in the Pennsylvania Legislature," in Henry Adams, *The Life of Albert Gallatin* (New York, 1943), p. 85. Raymond Walters, Jr., *Albert Gallatin: Jeffersonian Financier and Diplomat* (New York, 1957), pp. 40–43.

119. *Pa. Statutes at Large*, 14: 39–41, 76–79, 173–176.

120. *Ibid.*, 14: 76–79; *PHJ* (1st House, 1st Sess.), p. 159.

121. *Ibid.* Walters, *Gallatin*, p. 41.

122. *PHJ* (1st House, 1st Sess.), p. 226; *Pennsylvania Journal*, 17 February 1791. The paper money was not returned until 4 April 1805. B. M. Nead, *A Brief Review of the Financial History of Pennsylvania*. . . (Harrisburg, 1881), p. 18.

123. *Pa. Statutes at Large*, 14: 81–85; Clement Biddle to George Lewis, 7 April 1791, Biddle Letter Book, HSP.

To discharge the above debt obligations and to support her credit, the state of Pennsylvania utilized three major sources of revenue: (1) it floated a domestic loan, authorized up to £60,000, which was based largely on funds borrowed from the Bank of North America; (2) it made available monies drawn from the immediate sale of unsettled lands and a sum of arrears on lands already sold; and (3) it applied the interest accruing from the £450,000 of United States certificates which it had received from the federal government under Hamilton's debt assumption scheme as well as revenue from other, lesser sources of income.<sup>124</sup> The above legislative accomplishments represented merely the first step in the development of a concrete financial program for the state.

At the request of Governor Mifflin, the state assembly enacted a second installment of "public justice" during the Second House.<sup>125</sup> There is reason to believe that the public generally supported the financial legislation.<sup>126</sup> In less than a year, as a direct result of the legislation passed in April 1791, the state treasury showed its first surplus since the Revolution.<sup>127</sup> The House Ways and Means Committee Report of February 1792, which was prepared by Albert Gallatin, recommended that the Commonwealth retire all of her state debts completely and thus place the state on a "balanced budget."<sup>128</sup>

The Pennsylvania redemption law of 10 April 1792, stipulated that the state would sell part of its three percent United States stock (\$800,000), the market value of which rose daily, in order to liquidate its debt obligations.<sup>129</sup> To be retired were the £135,000 of special certificates Pennsylvania had issued in 1791 to compensate her creditors against the operation of the federal assumption law and the remainder of the paper money known either as "dollar money" or "new emissions" certificates, which had been authorized by the Continental Congress in 1780.<sup>130</sup> It was argued that the payment

124. *Pa. Statutes at Large*, 14: 62-66, 67-69, 75; Walters, *Gallatin*, pp. 41-42.

125. Thomas Mifflin to the Assembly, 24 August, 9 December 1791, *Pennsylvania Archives*, 4th Ser., 4: 173, 192.

126. "Candor," *American Museum*, 2 (March 1792): 3; "Political Murmurings," *ibid.*, 2 (June 1792): 303-304. My reading of the Philadelphia newspapers has not turned up any articles critical of state funding.

127. *PHJ* (2nd House, 1st Sess.), p. 157.

128. *Ibid.*, (2nd House, 1st Sess.), pp. 157-162.

129. *Pa. Statutes at Large*, 14: 305-312.

130. Extract from the Report of the Treasurer delivered to the Register General,

of these debts, which exceeded £150,000, would save the state more than £5,750 in interest annually and lead to the repeal of the unpopular direct taxes.<sup>131</sup> In anticipation of federal action, the law provided that state creditors would be reimbursed at the state treasury for the "nominal value" of state debts subscribed to the reopened federal loan if the federal certificates were transferred to the state treasurer by July 1793.<sup>132</sup>

The redemption of "New Loan" certificates was not provided for under the act. After 1789 they were considered neither a part of the debt of the United States nor a part of the assumable state debt because the states had already been given credit for them when they were issued. If the "New Loan" certificates had been assumed by the federal government, the United States would have been charged twice for the same debt.<sup>133</sup> Yet, under the reopened federal loan John Nicholson presented them as federal securities. In fact, he turned in over \$60,000.00 in these certificates, which meant that through his speculative efforts Nicholson had come to own more than ninety percent of them.<sup>134</sup> This later became the major point in the attempt to impeach Nicholson during 1793 and 1794.<sup>135</sup> The legal position of both the state and national governments was that the state legislature never intended to incorporate the "New Loan" certificates within redemption because they were not regarded as state debts.<sup>136</sup>

The financial program developed by the state legislature during these years is significant. First, the various acts of 1791 and 1792 helped to place the finances of the state of Pennsylvania on a cash basis for the next forty years.<sup>137</sup> Second, they eliminated certain

3rd Feb. 1792, State of the different Balances on hand the first, inst., signed by Christian Febiger, PRD, PHMC.

131. *PHJ* (2nd House, 1st Sess.), pp. 157-162.

132. Thomas Mifflin to Hamilton, 23 June 1792, Syrett, *Papers of Hamilton*, 11: 551-552 and n. *Pennsylvania Archives*, 9th Ser., 1: 394.

133. For an explanation, see editorial note (Charles Pettit to Hamilton, 30 April 1791), Syrett, *Papers of Hamilton*, 8: 319-320.

134. Edmund Hogan, *The Pennsylvania State Trials: Containing the Impeachment, Trial, and Acquittal of Francis Hopkinson and John Nicholson*. . . (Philadelphia, 1794), p. 45.

135. *Ibid.*, pp. 67-76; Arbuckle, *John Nicholson*, pp. 47-48, 55-60.

136. A. J. Dallas to Hamilton, 15 January 1793 (encl. Gallatin to Dallas, 14 January 1793), Syrett, *Papers of Hamilton*, 13: 482; Hamilton to Dallas, 8 February, *ibid.*, 14: 14-16; Hamilton to Edmund Randolph, 20 March 1793, *ibid.*, 14: 224-225; Randolph to Hamilton, 30 March 1793, *ibid.*, 14: 261; Nicholson to Hamilton, 26 March, 5 April, 1 June 1793, *ibid.*, 14: 252-253, 290-291, 550-551.

137. On the successful operation of the finances in Pennsylvania, see Gallatin, *Autobiographical Sketch*, NYHS.

defects of Hamilton's funding program, especially as it related to the rate of interest and method of payment, in that the state pledged its credit to compensate federal and state creditors for losses suffered under federal funding.<sup>138</sup> The response of the Pennsylvania legislature to the appeals of her public creditors was not without precedent. When the Confederation Congress failed to provide for war debts, Pennsylvania's creditors more than once turned to the state for relief.<sup>139</sup> Third, public officials in Pennsylvania had clearly accepted the principles of strictest economy over the prevailing Hamiltonian philosophy that a "public debt is a public blessing" and that public debts could be reduced by means of a sinking fund.<sup>140</sup> Finally, the financial program bestowed benefits on public creditors and produced beneficial effects for the entire state of Pennsylvania. The interests of land speculators were enhanced, direct taxes were eventually repealed, and with her resources consolidated, Pennsylvania became a positive, dynamic force in the economy in promoting mixed corporate enterprises.<sup>141</sup> For example, Pennsylvania applied \$89,000 in old securities to purchase Presque Isle, sold securities to finance internal improvements, and chartered the State Bank of Pennsylvania.<sup>142</sup> The state bank became the official deposit agency for state funds in the same way the First Bank of the United States served the national government. When Governor Mifflin announced in December 1792 that all the state's war debts had been paid,<sup>143</sup> it was evident that the funding controversy had inadvertently done much to aid the establishment of public credit and prosperity in Pennsylvania.

Meanwhile, other classes of public creditors in Pennsylvania were still waiting for more positive federal actions or for Hamilton to apply the funding law more liberally. One group of "nonsubscribers," headed by Thomas Forrest and John Nicholson, demanded

138. Walters, *Gallatin*, p. 44; Alexander Balinky, *Albert Gallatin: Fiscal Theories and Policies* (New Brunswick, N.J., 1958), pp. 40-48.

139. See above pages 3-4.

140. Raymond Walters, Jr., "The Making of a Financier: Albert Gallatin in the Pennsylvania Assembly," *PMHB*, 70 (July 1946): 268-269.

141. Louis Hartz, "Laissez-Faire Thought in Pennsylvania, 1776-1860," *Journal of Economic History*, 3 (December 1943): 66-77.

142. *Pennsylvania Archives*, 4th Ser., 4: 191-192, 195-196, 225. Roland M. Baumann, "John Swanwick: Spokesman for 'Merchant Republicanism' in Philadelphia, 1790-1798," *PMHB*, 97 (April 1973): 150-54.

143. Mifflin to the Assembly, 9 December 1791, 7 December 1792, *Pennsylvania Archives*, 4th Ser., 4: 193, 195, 229.

contracts calling for a specified *specie value* on the "nominal" amount. Hamilton refused to grant the request.<sup>144</sup> A second group, consisting of those creditors who had loaned money to the confederation government between September 1777 and March 1778, organized a committee to seek redress of their grievances. The committee included: Blair McClenachan, Catherine Keppeler, Edward Bartholomew, Issac Snowden, Paul Coxe, Walter Stewart, Andrew Caldwell, William Bell, John Nixon, and John Nicholson. In a petition dated 16 March 1791, this group of informed, influential public creditors requested the payment by the federal government of their Loan Office Certificates which they believed had not been properly provided for under the present funding system.<sup>145</sup> This group of creditors stood to lose \$920,428.00, a quarter interest reduction of the whole.<sup>146</sup> The petition went unanswered for more than eight months.

After the political campaign in the fall of 1791 and before Pennsylvania completed enactment of its financial program, interest in resolving the financial problems between Pennsylvania and the Union gained a new urgency.<sup>147</sup> In his annual address to the House of Representatives on 14 October 1791, President Washington, although confident that the Funding Act had been substantially a success, asked Congress to investigate the possibility of reopening the federal loan and to deliberate on the unsubscribed debt.<sup>148</sup> Early in the first session of the Second Congress, the United States Senate at last took up "The Memorial of John Nixon and others." These non-subscribers requested that "an appropriation may be made for the payment of the arrears of their interest and the annual interest accruing."<sup>149</sup> Twenty days later, on 16 November 1791, Congressman Thomas FitzSimons of Philadelphia called up the petition in the House of Representatives and at the same time moved that "it should be referred to the Secretary of the Treasury for his opin-

144. Thomas Forrest, John Nicholson, *et al.*, (Public Creditors) to Hamilton, 6 May 1791, Syrett, *Papers of Hamilton*, 8: 327; Hamilton to Thomas Forrest, John Nicholson, *et al.*, (Public Creditors), 27 May 1791, *ibid.*, 8: 392-393.

145. Blair McClenachan *et al.* to Hamilton, 16 March 1791, *ibid.*, 8: 193-197.

146. John Nixon to Hamilton, 15 February 1792, *ibid.*, 11: 35.

147. *American Daily Advertiser*, 11 October 1791.

148. James D. Richardson, ed., *A Compilation of the Messages and Papers of the Presidents . . .* (Washington, 1897-1917), 1: 4-5.

149. *Annals of Congress*, 3 (2nd Cong., 1st Sess.): 16.

ion. . . .”<sup>150</sup> Congress seemed prepared for the moment to “pass the buck” to the executive branch of government.

Alexander Hamilton was troubled by the situation in Pennsylvania where many public creditors had refused to subscribe to the federal loan. While preparing his reply to the lower house on the subscribed and unsubscribed amounts of public debt, Hamilton wrote to Governor Mifflin about these problems. He claimed that “the attention of the Legislature of Penns[y]lvan[i]a may be necessary to the removal of an inconvenience under which the Subscribers of the debt of that State now lie.”<sup>151</sup> In turn Governor Mifflin directed Comptroller-General John Nicholson to furnish him with a report on the “New Loan” certificates, an abstract of which was to be forwarded to Hamilton.<sup>152</sup> The report revealed that £1,937,885.15.3 “New-Loan” certificates had been issued by Pennsylvania, but that £1,819,415.8.9. of certificates remained unexchanged.<sup>153</sup>

Mifflin also instructed Nicholson to confer with the Secretary of the Treasury about settling the balance, and thereby avert calling upon the interposition of the state legislature.<sup>154</sup> The proposed conference between Nicholson and Hamilton took place on the morning of 17 January 1792.<sup>155</sup> Although the details of this important private meeting are not fully known, Nicholson assured Hamilton that the new loan certificates had not been subscribed to the federal loan. At last, in February 1792, Nicholson reported to Mifflin that “all obstacles were removed respecting the transfer & payment of interest quarterly to the State of the residuum unsubscribed of this States quota, and orders having gone out to the Loan Office of the District of Penn[s]ylvan[i]a. . . .”<sup>156</sup> Nicholson explained that Hamilton, under the provisions of the Funding Act of 1790, could pay

150. *Ibid.*, 3: 191. Sedgwick to Williams, 13, 27 November 1791, Sedgwick Papers, MHS; Sedgwick to Peter Van Schaack, 20 November 1791, Henry C. Van Schaack, ed., *The Life of Peter Van Schaack*. . . (New York, 1842), p. 435.

151. Hamilton to Governor Mifflin, 21 December 1791, Mifflin Papers, PRD, PHMC.

152. Mifflin to Hamilton, 27 December 1791, Syrett, *Papers of Hamilton*, 10: 468–469; Nicholson to Mifflin, 24 December 1791 and A. J. Dallas to Nicholson, 27 December 1791, both in *ibid.*, 10: 469–470n. Hogan, *Pennsylvania State Trial of Nicholson*, p. 227.

153. Nicholson to Mifflin, 24 December 1791, Syrett, *Papers of Hamilton*, 10: 469–470n.

154. Nicholson to Hamilton, 29 December 1791, *ibid.*, 10: 483.

155. Hamilton to Nicholson, 16 January, Nicholson to Hamilton, 16 January 1792, both in *ibid.*, 10: 517. Also see Nicholson to Hamilton, 26 July 1792, *ibid.*, 12: 114 and n.

156. Nicholson to Mifflin, 29 February 1792, *ibid.*, 10: 524n.

temporary interest, but only until a settlement of accounts was effected. Thereafter, it was up to Pennsylvania to discharge these debts.<sup>157</sup>

Meanwhile, Hamilton had issued his "Report on the Public Debt and Loans" as was requested by the House of Representatives.<sup>158</sup> In this carefully prepared document, communicated on 7 February 1792, Hamilton reported that of the authorized amount of \$21,500,000 the sum of \$18,328,186.21 had been subscribed by the deadline. Of the amount remaining unsubscribed, Pennsylvanians held one-third. Believing it would be wise to assume the remaining debts of the states, the Secretary of the Treasury recommended the Congress enact the following measures: (1) extend the time for subscriptions to assumption under the Act of 1790 and (2) pass a law assuming the remaining portions of the state debts not provided for by previous legislation. These proposals, according to Hamilton, had in their favor "all the leading inducements to what has been already done."<sup>159</sup> A second assumption would also help to eliminate "conflicting systems of finance." The loan-office certificates issued between 1 September 1777, and 1 March 1778, were emphasized since they made up the chief part of the remaining indebtedness.<sup>160</sup> With the exception of the foreign holders, the Pennsylvanians held the largest amount of these certificates.<sup>161</sup> Hoping to meet these demands, Hamilton recommended more than a slight modification in the funding law to get the creditors to subscribe. Yet his solution of placing the subscribers and the non-subscribers on the same level by paying each group their interest proved not wholly satisfactory.<sup>162</sup>

In the halls of Congress, Hamilton's financial proposals led to a renewal of the confrontation that had occurred there during the second session of the First Congress.<sup>163</sup> Members of Congress saw

157. Ibid.

158. The report was dated 23 January 1792 but was not communicated to the House until 7 February 1792, *ibid.*, 10: 537-550. Also, see "Circular of Information," 7 February 1792, cited in Henry Wagstaff, ed., *The Papers of John Steele* (Raleigh, 1924), 1: 83.

159. "Report on the Public Debt and Loans," Syrett, *Papers of Hamilton*, 10: 543.

160. *Ibid.*, p. 539.

161. "Report on the Public Debt and Loans," Syrett, *Papers of Hamilton*, 10: 538; Bolles, *Financial History of U.S.*, pp. 34-35.

162. *Ibid.*; Nixon to Hamilton, 15 February 1792, Syrett, *Papers of Hamilton*, 11:35-36.

163. "Assumption of State Debts," pp. 214-225. Also, see Hamilton, *A History of*



much justice in the secretary's plan to extend the time limit for subscriptions. Without much debate, both the House and the Senate passed a supplementary act on 8 May 1792, which provided that subscriptions could be continued until 1 March 1793.<sup>164</sup> Congress, however, proved to be less receptive to the proposed second assumption. The opponents, headed by southern agrarian Republicans William Branch Giles, John Francis Mercer, and Abraham Baldwin, repeated the time-worn arguments about the constitutionality and the equity of the measure. It was argued that the proposal would increase the burden of the national government, which was already too great for its resources, while it would penalize the forward states.<sup>165</sup> The second assumption proposal was placed before the lower house by Philadelphia's Thomas FitzSimons.<sup>166</sup> Although he did not personally speak in behalf of the measure, one member of the Pennsylvania delegation did make a major speech in support of additional assumption. Arguing that the resources of the United States were equal to the burden, Thomas Hartley maintained that the sums demanded were reasonable and intended to provide relief to the people of the states.<sup>167</sup>

The vote on the second assumption, it seems, got entangled with election-year politics. On 31 March 1792, in a preliminary vote, the House first agreed to a second assumption, by the vote of 33 to 25, and then reversed itself.<sup>168</sup> A few days later the proposal was resubmitted to the House as a part of a series of resolutions on the public debt. But on 3 April the plan for a second assumption was defeated by a vote of 29 to 26, with Congressmen Thomas FitzSimons and Frederick A. Muhlenberg of Philadelphia voting for it.<sup>169</sup> In the last days of the session, a motion to include assumption in a pending bill failed by a vote of 35 to 24.<sup>170</sup> The obstreperous and intransigent be-

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*the Republic*, 4: 378-382; Winfred E. A. Bernhard, *Fisher Ames: Federalist and Statesman, 1758-1808* (Chapel Hill, 1965), pp. 198-199.

164. *U.S. Statutes at Large*, 1: 281-283.

165. *Annals of Congress*, 3 (2nd Cong., 1st Sess.): 595.

166. *Ibid.*

167. *Ibid.*, 3 (2nd Cong., 1st Sess.): 528-529. Pennsylvania's William Findley opposed a second assumption on the grounds that the federal government was still unprepared to discharge fully the original debt obligations. In short, the Funding system did not possess the "irredeemable quality" as claimed by Hamilton. *Ibid.*, 3 (2nd Cong., 1st Sess.): 521-527, 529-531.

168. *Ibid.*, 3 (2nd Cong., 1st Sess.): 532.

169. *Ibid.*, 3 (2nd Cong., 1st Sess.): 535.

170. *Ibid.*, 3 (2nd Cong., 1st Sess.): 597.

havior of the opposition caught the eye of Theodore Foster. As he saw it, Jefferson and the "Republicans" were making "a stalking Horse of the Funding System" to oust John Adams and Alexander Hamilton.<sup>171</sup> Jefferson admitted in fact that the Republicans planned to use the funding issue (viz., to foster the view that the Washington administration was supported by a "corrupt squadron of paper dealers") in order to change the political complexion of the next Congress.<sup>172</sup> Yet in Pennsylvania the leaders of both parties were influenced more by local and state pressures than by national. Regarding Pennsylvania's representation in the First and Second Congresses, Tench Coxe perceptively wrote that there were "more talents on the side of the State of governments, and much more Energy" than for the federal government.<sup>173</sup>

During the second session of the Second Congress (November 1792 to March 1793), one last serious effort was made to complete assumption and to alter the arrangements of the Funding Act of 1790.<sup>174</sup> The Washington administration seemed desirous, at least in instances where an adjustment of accounts showed a balance owed a state by the federal government for the expenses of war, of permitting the holders of state obligations to exchange them for federal interest-bearing certificates. Such an arrangement would have eliminated the state as the middle man, so to speak. It was also provided that second assumption could not be carried out without the assent of each legislature.<sup>175</sup> Pennsylvania's Thomas Hartley, a supporter of the proposal, contended that the arrangement would prove very convenient to the creditors and would lead to a savings for both the federal and state governments.<sup>176</sup> After considerable debate, the bill passed in the House 33 to 32, with Speaker Jonathan Trumbull casting the tie-breaking vote; but in the Senate, on its second

171. Theodore Foster to Dwight Foster, 26 April 1792, Dwight Foster Papers, MHS (photocopy).

172. Jefferson to Martha (Jefferson) Randolph, 22 March; Jefferson to George Washington, 23 May; Jefferson to Marquis de LaFayette, 16 June 1792, all in Paul L. Ford, ed., *The Writings of Thomas Jefferson* (New York, 1892-99), 5: 487-488; 6:3-4, 78.

173. Tench Coxe to John Adams, 10 June, 5 September 1792, Adams Microfilm, MHS, Reel 375. "It's extraordinary," wrote Samuel Otis, "that this state [Pennsylvania] deriving peculiarly, nay almost monopolizing the advantages of the federal government, should say and do so many things against it, yet so it is." Otis to John Adams, 29 September [?] 1792, *ibid.*

174. Bernhard, *Ames*, pp. 213-215.

175. *Annals of Congress*, 3 (2nd Cong., 2nd Sess.): 809-810; Bates, "Assumption of State Debts," pp. 223-224.

176. *Annals of Congress*, 3 (2nd Cong., 2nd Sess.): 844-845.

reading, the measure was rejected 17 to 11.<sup>177</sup> Representatives FitzSimons and Muhlenberg and Senator Morris supported additional assumption. Fisher Ames summed up the feelings of the assumptionists: "There is no hope of doing anything for the State debts this season nor will the faction from the South ever agree to provide for the balances."<sup>178</sup> Since Congress adjourned without passing an assumption bill, Ames' prediction proved correct.

Three months later, on 27 June 1793, the Board of Commissioners, assigned the task of calculating the settlement of accounts, revealed that the states had been credited with advances to the United States, which when reduced to specie value and combined with interest to the end of 1789, amounted to \$114,409,303.10.<sup>179</sup> Advances to the states by the United States totaled \$36,742,625.10. This left a net credit to the states of \$77,666,678.<sup>180</sup> It was this figure, referred to as the "Aggregate of the Balances," that was later used to determine which states had contributed more and which had contributed less than a proportionate share to the support of the federal government.<sup>181</sup> The final settlement for Pennsylvania showed a deficit of \$76,709. She owed the least of the six debtor states, a total of \$3,517,584.<sup>182</sup> Obviously, assumption of state debts was not nearly so prejudicial to Pennsylvania's interests as some persons at first feared. Finally, under the federal program Pennsylvania funded \$3,672,402 in securities (about one-ninth of the national total of \$31,797,481), an amount exceeded only by Massachusetts and New York. Still, this figure meant around \$1,200,000, one-third of the debt, went unsubscribed.<sup>183</sup>

Although the United States proceeded to settle with the creditor states, and on very favorable terms, the debtor states failed to

177. The vote was taken in the House on 28 January and in the Senate on 4 February 1793. *Ibid.*, 3 (2nd Cong., 2nd Sess.): 851, 635, 638-639.

178. Ames to Dwight, 6 February 1793, Ames, *Works*, 1:127-128.

179. "Balances Due to and From the Several States," *ASP, Miscellany*, 1:69. The final report was issued when Congress was in recess. On 5 December 1793, at the request of President Washington, the Senate received an abbreviated version and the House a complete copy of the Commissioner's report. *Annals of Congress*, 4 (3rd Cong., 1st Sess.): 16-17, 137.

180. No total figures are given in the Commissioner's report. The computations used here are those worked out by Professor Bates. Bates, "Assumption of State Debts," p. 226 and n.

181. *Ibid.*, pp. 227-229.

182. "Debts Due From States," *ASP, Finance*, 1:479. Also, see Albert Gallatin's "Statement relative to the Assumption of the State Debt," in *Annals of Congress*, 6 (4th Cong., 2nd Sess.): 1814.

settle their accounts. By January 1797 the debtor states owed an additional \$984,924.00 in interest on the principal. The amount owed by Pennsylvania stood at \$21,478.52.<sup>184</sup> Several resolutions were introduced in Congress between 1796 and 1802 calling for collection of these debts by various means, but none passed.<sup>185</sup> The difficulty was that none of the debtor states would commit itself to pay the unpaid balance unless all of them agreed to do so. For example, the Pennsylvania state legislature appropriated the money to pay the amount of the balance reported against the state, but would not release it until the other states paid their balances.<sup>186</sup> Since coercion seemed to be out of the question, Congress eventually recommended in March 1802 that the balances should be wiped off the books.<sup>187</sup> While it failed to take the formal step of wiping out these balances, no further action in this matter is recorded.<sup>188</sup> Thus, this chapter in the nation's early financial history ended with assumption never becoming financially equitable on paper.

The implications of this study are three-fold. First, it accepts Jacob Cooke's interpretation that the famous dinner bargain was "not consummated" and that the success of assumption and the residence bills were owing "to separate and unrelated congressional coalitions."<sup>189</sup> The "compromise of 1790" involved only economic issues, yet it has also been demonstrated here that it failed to squelch completely the controversy over "the funding system"—a term contemporaries applied to funding and assumption. The controversy preoccupied Hamilton during his entire tenure as Secretary of the Treasury.<sup>190</sup> Regarding the assumption of state debts, the Pennsyl-

183. Nicholson to Gov. Mifflin, 24 December 1791; State of the Continental certificates of the property of this State, n. d., PRD, PHMC.

184. "Debts Due From States," *ASP, Finance*, 1:479.

185. *Annals of Congress*, 6 (4th Cong., 2nd Sess.): 1691–1693, 1696, 1747–1762, 1767ff., 1790ff., 1806ff., 2166–2167, 2183, 2326–2327, 2335. In 1799 Congress provided for the extinguishment of balances if the debtor states appropriated monies for fortifications to an amount equal to the balances due "or to the sum assumed by the United States in the debt of such state." *Ibid.*, 9 (5th Cong., 3rd Sess.): 3798–3799. The reports of the House Ways and Means Committee for these years can be found in *ASP, Finance*, 1:697, 698, 734, 735.

186. *Ibid.*, 1:735.

187. "Balances Due From States," *ASP, Finance*, 1:734, 735.

188. This check has been made by Professor Bates. Bates, "Assumption of State Debts," p. 231.

189. Cooke, "Compromise of 1790," pp. 525–526.

190. Hamilton resigned from the cabinet on 31 January 1795. His successor, Oliver Wolcott, Jr., also had to contend with the demands of public creditors.

vanians from the beginning played the pleasing, although at times troublesome, game of "heads I win, tails you lose." The public creditors of Pennsylvania could not lose. If Pennsylvania funded her own small debt, the public creditors would have been fully compensated and the landed interest expected to benefit from the funding system's local advantages. Yet, if the federal government assumed the state debts, the creditors expected to lose financially. However, the Pennsylvanians believed that assumption could not be passed without their votes and they seemed certain that they would probably be compensated by the state government for losses suffered under federal funding. This set of circumstances led the Philadelphians to try to arrange a deal in which they would supply votes for assumption in exchange for the temporary residence, and to pressure the Washington Administration to increase the rate of interest the debt would carry. The Pennsylvanians suffered a setback here and there, yet they eventually succeeded in achieving both of their objectives.

Second, this study has added to our understanding of how national funding divided the public creditors. The usual interpretation offered to explain the opposition to Hamilton's funding program has been the traditional one of agrarian and economy arguments.<sup>191</sup> This version persists largely unmodified because the financial history of the Federalist Era has been obscured by the fact that historians have too often approached the subject from a pro-Jeffersonian bias. For decades these scholars have used for their primary support such evidence as the Virginia House of Delegates "Protest and Remonstrance" resolution of November, 1790, Senator William Maclay's *Journal*, and George Logan's *Letters Addressed to the Yeomanry of the United States* to explain the nature of the negative (Republican) response to Federalist fiscal policies.<sup>192</sup> These political pieces proclaimed the unconstitutionality of assumption and accused Hamilton of trying to create a "moneyed aristocracy" that would promote commerce at the expense of agriculture. These arguments were not the staple ingredients of the case made by the public creditors of Philadelphia. They instead spoke in terms of "justice" and "national honor," which could often be translated as self-enriching, since many

191. The classic statement is made by Charles A. Beard, *Economic Origins of Jeffersonian Democracy* (New York, 1915), especially chapters 5-7.

192. *Ibid.*, passim. Richard R. Beeman, *The Old Dominion and the New Nation, 1788-1801* (Lexington, Ky., 1972), pp. 78-82; Frederick B. Tolles, "George Logan, Agrarian Democrat," *PMHB*, 75 (July 1951): 250-78.

creditors stood for a larger national debt fund than even Hamilton proposed.<sup>193</sup>

Finally, this study corrects, if only indirectly, conventional views on the role of economic issues in the development of the "first party system" in Pennsylvania.<sup>194</sup> Critical comment on Hamilton's funding program in the Keystone State was far more widespread than most revisionist scholars have assumed. Benjamin Rush's claim that "all good men" considered the effects of Hamilton's fiscal system on the Union as containing the "seeds of all the discontents and commotions" existing in the United States and as epitomizing all that "is wicked in morals and government" cannot be supported.<sup>195</sup> Yet, precisely how the issues of funding, assumption and the settlement of accounts affected Pennsylvania's public creditors has escaped students of the period in part because the divisions over these issues took so many forms, some more negative and complicated than others. Strictly speaking, pitted against one another were neither "agrarians" and "capitalists" nor Antifederalists and Federalists *per se*, though these divisions were part of the battle. Rather, this study tries to account for Federalist defection over Hamiltonian funding, and it shows that the divided Antifederalists were at first unable to make funding an issue of major proportions. With the exception of Antifederalists Charles Petit, Blair McClenachan, and John Nicholson, after August 1790, the movement for a more equitable funding program was led by capitalist-minded Federalists. This alone might explain why both Alexander Hamilton and the State Legislature of Pennsylvania were so extremely mindful of the need to take care of fretful public creditors.

193. For an analysis of the increased costs of funding, see Balinky, *Gallatin*, pp. 42-45.

194. Tinkcom, *Republicans and Federalists*, did not include funding-assumption as "stimuli" to party development. Richard G. Miller's, *Philadelphia, The Federalist City: A Study of Urban Politics, 1789-1801* (Port Washington, N.Y., 1976), pp. 37-42 also underestimates the significance of this economic issue.

195. Rush to Horatio Gates, 26 December 1795, Butterfield, *Rush Letters*, 2:768. Also, see Rush to John Adams, 2 October, 21 December 1810, 8 August 1812, *ibid.*, 2:1067, 1073, 1158.