

CHAPTER 15: VILLAINOUS BUSINESS (Chernow, this title rules. Just saying.) / CABINET BATTLE #1

As the very first Treasury Secretary, Hamilton had to set up the basic systems of bookkeeping, checking, and auditing.

When he would walk the streets, he often seemed aloof and cerebral.

- Page 291: “One New York newspaper joked that anyone hoping to be the treasury secretary should ‘appear in the streets but seldom and then let him care to look down on the pavement, as if lost in thought profound.’” - TOTALLY thought of “It’s Quiet Uptown”

Ham and Eliza joined George and Martha for a night out at the John Street Theatre to see “The Critic”(not the Jon Lovitz cartoon, duh).

- John Street is known as “The birthplace of theatre” and was the first prominent theatre in New York, opening on December 7th (Gillian and Mike’s anniversary!), 1767. It closed in 1798.
- The orchestra played the “President’s March” as they walked in and everyone gave them a standing ovation. It must be nice... it must be niiiiiice...

PROTEAN CREATOR OF THE COAST GUARD

- Ham’s first order of business was setting up a customs service, since customs duties were the main source of government revenue.
- He demanded exact figures of what was being collected in each state, and when they came back the numbers were low. Suspiciously low, one might say. And that’s exactly what Chernow DOES say.
- Ham was like, “um yeah no, I know all about this from dealing with smugglers in St. Croix. Not happening under my watch.”
- Since this was happening all along the eastern seaboard, he established a bunch of guard boats along, you guessed it, the coast. Hence, the Coast Guard. KA-BOOM.

Guess how much fun it was to be in the Coast Guard and have Ham breathing down your neck? Answer: none at all (not unlike being his clerk or working for him in any capacity).

- He needed to know EVERYTHING and he totally micromanaged. He asked tons of questions about lighthouses, beacons, buoys, and he asked for manifests so he could analyze the numbers himself.

This is also when he started to move the country toward using paper money, because he allowed payments to be made with notes from the Bank of New York instead of only with gold and silver.

HAMILTON’S (BUSINESS) SQUAD

- Ham wasted approximately zero minutes putting his crew together.
- He confirmed five assistants on the day he was nominated. Including...
 - Auditor Oliver Wolcott, Jr.
 - Treasurer Samuel Meredith and Pennsylvania
 - Assistant secretary William Duer
 - He turned into a BIT of a problem. Chernow says he had “grievous consequences” and his scandals “besmirched Ham’s reputation.”
 - He couldn’t separate being a public servant from his personal gains.

- He ran his mouth about Hamilton's plans. Most notably the plan about funding government debt.
- All of this yammering led to "unjust scuttlebutt" that the new Treasury Department was super corrupt. And so it begins.
- Of course, the complete opposite was true. Chernow says Ham set high ethical standards on day one (actually day one).
- Ham stayed away from any business dealings that might be a conflict of interest.
- Chernow references the upcoming "speculation" drama but doesn't mention anything else.
- The fact that Ham was so aware of shadiness in general made it really weird that he seemed to not notice how terrible Duer was being. Plus he was a good judge of character so what the hell.
 - The friendship didn't make a lot of sense to people around Ham, but the two did agree politically and Duer's resume suggested he'd be great for the gig.
- Fun fact: Hamilton asked him to contribute to the Federalist Papers and then rejected both of his submissions. Womp womp.

YOU SIMPLY MUST MEET THOMAS! THOMAS...

...Jefferson hasn't come hoooo-oooo-ooooome yet, but Ham didn't mind; he was totally cool with acting as his surrogate like he did with GWash. He said he spoke for Washington and the "great majority of the Senate."

- Ham secretly met with a British diplomat named Major George Beckwith. Beckwith went through Schuyler to set up the unofficial meeting. Secret because:
 - 1) Everyone was still suspecting Ham of being pro-British
 - 2) The British didn't hold any official roles in America
- Secrecy backfired and everyone thought Ham was a British secret agent, even though Washington knew all about this.
 - Not to mention Ham's alliance was "laced with subtle threats and enticements."
 - Like saying if they messed with us, he'd ditch them and make an alliance with France.
- Ham did like that the Brits wouldn't hand over slaves who had defected during the war because OBVIOUSLY
- Gouverneur Morris went to England to keep the conversation going
- Ham became the administration's most influential figure on foreign policy

HEY, REMEMBER THE CREDIT REPORT CONGRESS WANTED?

- Hamilton knocked out 40,000 words in a little over three months.
- He did all the math himself
- Hamilton imitated everything Britain did. Not because he wanted to be subservient but because it worked. Plus, he wanted to use Britain's own formula to beat them economically.
- Angelica would send him financial treatises from London bookshops. "There is someone in your corner all the way across the sea."

©THEHAMILCAST

HAMILTON AND MADISON

- They were still pretty civil at this point... but not for long
- One lady said she saw them “turn and laugh and play with a monkey that was climbing in a neighbor’s yard.” (page 296) OKAY WHAT???
- Ham asked him for advice on what taxes would be the least unpopular
- Madison didn’t want long-term government debt because he thought it would end up in foreign hands.

Our debt was MASSIVE. \$54 million in national debt + \$25 million in state debt = \$79 million

Hamilton’s plan would let America borrow at affordable interest rates and would act as a tonic to the economy. Cue Cabinet Battles!

- If investors knew that government bonds would be paid off, the prices wouldn’t be all over the place.
 - It was all about making sure people trusted the government to do the right thing
 - Hamilton thought public relations and confidence building were responsibilities all future treasury secretaries needed to take on.

Yeah, okay. But... how?

- During the Revolution, rich peeps invested in bonds and war vets were paid in IOUs. YES IOUs!
- These of course went wayyyyy down in price and people were scared they wouldn’t see their money again, so they sold them to speculators for fifteen cents on the dollar

*Real quick: A speculator is someone who buys low and sells high. Everything they do is with the intention of making a ton of money on a small investment.

- Under Hamilton’s funding plan, all of these bonds would go back to their original value
 - This was a major problem because of all the selling that went on before the prices went back up.
 - Should the original holders get the money? Since a lot of them were soldiers in the Revolution?
 - Should the speculators get the cash because they were the ones who actually had the bonds?
 - Hamilton ruled in favor of whoever owned the bonds now, which in a lot of cases = speculators.
 - He argued that tracking down the original holders and figuring out the prices and calculations would be a near impossible nightmare
 - By doing this, Ham said the government couldn’t retroactively interfere with any financial transaction. What’s done was done, for better or for worse.
 - He had to sign with “mercenary scoundrels” (andsoitseemsareyou!) aka the speculators in order to get this important step done.

HIS PLAN WOULD HAVE THE GOVERNMENT ASSUME STATE'S DEBTS

- YUP. Hamilton combined debts from the thirteen states and the government to make the federal debt. This was a BIG DEAL. Here's why:
 - 1) It was very efficient. Why deal with a bunch of little debts when you can tackle one big one?
 - 2) Bondholders wouldn't want to destroy a government that owed them money.
 - 3) If the federal government was the one owing money instead of the states, creditors would support the idea of a central government.
 - 4) States wouldn't want to compete with the government for major revenue sources.

Okay great, but again... how?

- Pay the foreign debt in full with interest rates of 4 or 5%
- Domestic rate, with 6% interest, was another story. He offered these creditors some options.
 - 1) They could get part of their payment back at the original 6% and part in Western land
 - 2) Or take payment at a lower interest stretched over a longer period.
- This meant he had to - GASP! - raise taxes. Enter the "sin tax" on things like wine, spirits, tea, and coffee. Yes, tea and coffee. Sin tax. Tea and coffee. Okay, moving on, the point was that all of those things were luxuries. Hamilton actually thought those taxes would make people want those things LESS. Ha, okay, Ham.
- Hamilton said that a well-funded debt would be a "blessing" that would protect American prosperity. Unfortunately, that was completely taken the wrong way and people assumed he meant a perpetual debt. People actually thought HE thought having a debt forever would be a good thing. Come on, you guys. Stop this.
 - He had to constantly defend what he meant and the more he had to explain it, the more annoyed he got.
 - Five years later he wrote, that progressive accumulation of debt "is perhaps the NATURAL DISEASE of all Governments." (page 300)

A "SEPARATE ACCOUNT"

- Hamilton created a sinking fund, which was essentially a safety net to make sure everything was paid off
- It was separate from the general budget and also served to to pay off the debt. This way politicians couldn't dip into the cash whenever they wanted to
- It would pay off 5% of the debt every year until it was paid in full
- Ham thought it was the government's job to get the stock values back up as fast as possible
- Chernow says, "Little did he know how quickly he was to succeed or how much trouble this success would bring in his wake" (page 301)
 - UMMMMMM LIKE THE CHECK STUBS IN SEPARATE ACCOUNTS I DON'T KNOW LET'S FIND OUT TOGETHER!

©THEHAMILCAST

Speaking of not knowing, Ham's plan was kept a secret. He wasn't allowed to have it printed for everyone to read so he read it to everyone. Did I mention it was FIFTY ONE PAGES?! (Also, again with FIFTY ONE!). But yeah, dude read the entire thing to the House of Representatives. Forget "listless" - Chernow says by the end of it, everyone sat there in "stupefied silence."

- When they pulled themselves together, some people were not psyched on this plan. Aside from how much it reminded them of Britain (WE GET IT! Seriously, we get it.), they were worried because they were like, "and so the balance shifts... from the people's branch to the executive branch."
- NOT TRUE! This was the start of Hamilton being painted as "the American Memphistopheles" but nothing shady was happening... at least not at this time.
- People were crying "speculation!" all over the place. Including Senator William Maclay who described it as "villainous business" and gave Chernow this awesome chapter title.
 - PS: Maclay didn't know a thing about finance and probably should've kept his trap shut.

Another issue was that people thought the North benefited from this a lot more than the South. Not so much. More people just ended up in the North because that's where most of the war was fought and more people ended up there.

- Although... it wasn't really a good look that a lot of super rich northerners were getting a lot of money because of this. Like Phil Schuyler and his \$67,000 stake.
 - But that wasn't the point. This was about the bigger picture.

February 8th, 1780: House of Representatives starts to debate Hamilton's Report on Public Credit.

- Ham was anxious about it and looked to Madison for support
 - Madison was the most influential Congressman at the time. Washington consulted him on things ranging from etiquette to ambassador selection. Ummm not to mention The Federalist Papers, his role in the #ConCon (Constitutional Convention), and the Bill of Rights (WHICH HE WROTE).
 - Madison did not at all support Hamilton. He wanted the money to go to the original bondholders no matter what. He thought it wasn't fair that people who cashed in out of desperation were being victimized by the very government they trusted.
 - Madison said he only disagreed with "parts" of Ham's plan, but he told people in private that he hated all of it. Cool story, bro.
- Once again, Hamilton was flabbergasted at someone disagreeing with him.
 - The main difference is that Madison's view was more personal and Hamilton's was all business.
- The debate was so intense that it drew a ton of spectators. Abigail Adams went to the House of Reps for the first time just to see the "goings on," as my mom would say.
- Madison lost by a 36-13 vote. But 9 of those 13 supporters were from Virginians... who clearly really are birds of a feather.

This rift was more than the personal betrayal Hamilton felt. According to Chernow, it was this falling out that started the two-party system. For the next five years, it was all about whose side you were on.

MEANWHILE, IN CONGRESS...

- The slavery issue was still alive and well and Ben Franklin was being super aggressive about abolishing it. And he was 84 years old! Good on ya, Ben!
- James Jackson in Georgia was using the Bible for his cause, saying it approved slavery. EYEROLL.
- The more slavery faded away in the North, the more ingrained it became in the South.
- Thanks to the 20 year grace period that came out of the ConCon, Congress couldn't do a thing and abolition was dead on the table until 1808. Awesome. Way to go. ANOTHER EYEROLL.
- Unfortunately, Ham had to keep quiet on slavery. It sucks, but people were so scared of the South that only arguments and bad blood would come from keeping the issue open.
 - Okay, maybe not TOTALLY quiet. Hellooooo, we're talking about Alexander Hamilton here, people. Historian Philip Marsh says that Ham a scathing newspaper piece under the name Civis and attacked Madison and Jefferson (badass excerpt on page 307.)
- Also, Jefferson and Madison did something equally brilliant and terrible:
 - Instead of talking about slavery and how awful it was, they made the focus about how peeps in the North were these terrible people for making money off bonds and the southerns were salt of the Earth people who were victims. "People plant seeds in the South, we create! You just wanna move our money around!" I'll show you where my shoe fits, TJeff...

Hey remember when Hamilton was supposed to give a nice July 4th speech but then decided to skewer Nathanael Greene about his role in the war and his views on slavery? Yeah, so does a dude named Aedonus Burke.

- On March 31st, 1790, he went to the House and ranted and raved about the speech. Particularly the part when Hamilton called militias "the mimicry of soldiership." He FREAKED OUT and went on and on about how so many good men had died for the "holy altar of liberty" and how dare Hamilton, etc. He was screaming and carrying on so much that congressman had to stop him and tell him to calm the f down.
- Everyone knew how Hamilton felt about his honor being attacked and were worried that this would end... on the dueling ground! Dun dun dunnnnnn.
 - It didn't. Ham was super furious but wrote a letter explaining what he meant. Burke replied accepting his statement and apologizing.

The lesson in that? Hamilton realized the power of public opinion. He ran his mouth and caused all this drama. It wasn't the first time and it wouldn't be his last. Chernow says that under his "invincible facade, Hamilton was still the hypersensitive boy from the West Indies."