Chapter 4

The Economic Ideas of John Adams

The review of the political principles of John Adams should have established the fact that Adams' primary difference from the other Federalist leaders arose from his distrusting the aristocracy as well as distrusting the people. Consequently, he would be expected to oppose measures benefiting the aristocracy as opposed to the interests of the people as a whole. On this point there is an interesting conversation between Jefferson, Hamilton, and Adams, which aptly sums up the situation:

The . . . conversation . . . by some circumstance, was led to the British Constitution, on which Mr. Adams observed, 'purge that constitution of its corruption and give to its popular branch equality of representation, and it would be the most perfect constitution ever devised by the wit of man.' Hamilton paused and said, 'purge it of its corruption, and give to its popular branch equality, and it would become impracticable government: as it stands at present, with all its supposed defects, it is the most perfect government which ever existed.' And this was assuredly the exact line which separated the political creeds of these two gentlemen. The one was for two hereditary branches and an honest elective one; and the other, for an hereditary King, with a House of Lords and Commons corrupt to his will, and standing between him and the people.²


² The Complete Anas of Thomas Jefferson (Franklin B. Sawvel, ed., New York, 1903), 36-37. Conversation recorded in April, 1791; explanation written on February 4, 1818.
Unlike Hamilton, then, Adams did not favor the wealthy class over the others. This was what was so confusing to the Hamiltonian Federalists. They thought it was an accepted convention that all Federalists talked of protecting the poor. So much had to be stated for public consumption. But in practice, the government naturally should be run by and for the "wise, rich, and good." Could it be possible that Adams was so naive as to mean what he wrote and said? If so, precisely how did he differ from the orthodox Federalists? What effect did this difference have? These are questions that need a more complete answer.

To begin with, the background and the whole outlook of Adams differed materially from that of such spokesmen of the commercial group as Hamilton, Gouverneur Morris and Robert Morris. It is true that Hamilton and Adams had a common background in training for the law. Before the Revolution, moreover, Adams maintained a general practice in the commercial city of Boston. But at the start of the Revolution he abandoned this practice, never thereafter to return to it, nor to be connected with the affairs of commerce. He devoted his time exclusively to farming and to public affairs. In contrast, Hamilton developed a large legal practice and became the spokesman for the trade and commerce of New York.

As a product of New England, Adams was naturally acquainted with the importance of commerce and the fisheries. It was one of his proudest boasts that he had been responsible for the clauses in the Treaty of 1783 protecting the rights of New England in the fisheries. Fundamentally, however, he never moved far from the position of the Physiocrats. In 1778 he wrote to Ralph Izard:

"Your sentiments of the fisheries as a source of wealth, of commerce, and naval power are perfectly just. Nevertheless, agriculture is the most essential interest of America, and even of the Massachusetts..."

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3 Adams, James T., New England in the Republic, 1776-1850 (Boston 1926), 212.

4 Beard, op. cit., 318-19; Parrington, op. cit., I, 326.

Bay: and it is very possible to injure both by diverting too much of the thoughts and labor of the people from the cultivation of the earth to adventures upon the sea.⁶

Not all of his pronouncements expressed such a partiality for agriculture. When he was president, Adams, like Jefferson, spoke of the importance of commerce and specifically recommended its protection to the Congress.⁷

Another factor which caused a difference in viewpoint between Adams and the commercial group was Puritanism.⁸ Although in sectarian outlook Adams, being virtually a Unitarian, had no particular bias from his New England background, on moral questions he was strongly influenced. His strict moral code caused him to condemn anything which smacked of speculation. This reinforced his Physiocratic prejudice against many of the practices of the commercial interests.⁹

The first phase of Adams' economic opinions to be considered here is his position in relation to various schools of economic thought. He was one of the most widely read men in the America of his time. Though best informed in the fields of history, politics and theology, he was also well read in the field of economics. First of all, he was fully familiar with the colonial controversies and pamphlets on the question of paper money. Furthermore, the works of many leading economists are in his library, and an examination of his books shows that in many of them he made marginal comments.¹⁰ In addition, there are references to other economists in his correspondence.

In general Adams followed the older theorists rather than his

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⁶ Sept. 25, 1778, Wharton, Francis, Revolutionary Diplomatic Correspondence of the United States (Washington, 1889), II, 743.
⁹ Beard, op. cit., 318-19; Parrington, op. cit., I, 320.
¹⁰ The library of John Adams in the Boston Public Library was examined. A number of books once in it are now missing. Fortunately a catalogue of the library was published when the books were given to the city of Quincy. See Deeds and other documents relating to the several pieces of land, and to
contemporaries.\textsuperscript{11} This was especially true in the case of money, since he was an admirer of the works of Sir Isaac Newton \textsuperscript{12} and John Locke. Many views expressed in the latter’s \textit{Some Considerations of the Consequence of the lowering of interest and raising the value of Money} (1691) are echoed by Adams.

When more general writers are considered, Adams is disappointing. Differences among schools of thought seem to escape him. In a letter to Jefferson he called François Quesnay, author of the \textit{Tableau économique} (1758), “the grand master” \textsuperscript{13} and expressed admiration of the \textit{Encyclopédie}, the third edition of which (Genève, 1778-1779) was in his library. In general these two works are in agreement, for Quesnay was a contributor to the \textit{Encyclopédie}. On the other hand, in the same letter Adams commented favorably on the writings of two mercantilists, Sir James Steuart \textsuperscript{14} and Isaac de Pinto.\textsuperscript{15} He also approved of Adam Smith,

\begin{quote}
the Library presented to the town of Quincy by President Adams, together with a catalogue of the books (Cambridge, 1823).
\end{quote}

Haraszti, in \textit{John Adams & the Prophets of Progress}, has reproduced these marginal comments to show the opinions of Adams in relation to the authors Adams has read.

\textsuperscript{11} Adams to John Taylor, March 18, 1819, \textit{Works}, X, 375-76.

\textsuperscript{12} He would probably have known the two most widely printed of Newton’s reports as Master and Worker of the Mint, \textit{Report to the Lord High Treasurer on the value of foreign gold and silver coins . . .}, 7th July 1702, and \textit{On the state of gold and silver coins of the kingdom, and on the relative value of gold and silver}, 21st September 1717. Adams at times shows understanding of some features of the quantity theory and did know Gresham’s law. Other refinements and differences of theory escaped him. For the best review of the subject of early monetary theory see Arthur E. Monroe, \textit{Monetary Theory before Adam Smith} (Cambridge, Mass., 1923).

\textsuperscript{13} March 2, 1819, Chinard, \textit{Jefferson et les idéologues}, 270. While no copy of the \textit{Tableau économique} is in the list presented to the town of Quincy, there are Quesnay’s \textit{Essai physique sur L’oeconomie animale} (Paris, 1747, 3 vols.); \textit{Philosophie rurale} (Amsterdam, 1763, 3 vols.); and \textit{L’amî des hommes; ou Traité de la population} (1759, 3 vols. in 5). The last two works are the products of collaboration with others.

\textsuperscript{14} He was the author of \textit{An Inquiry into the Principles of Political Economy} (London, 1767, 2 vols.). His work was soon overshadowed in England by that of Smith, but had considerable influence on the later German historical school. A copy of the 1770 edition is in the Adams library.

\textsuperscript{15} Author of \textit{Essai sur la luxe} (Amsterdam, 1762) and \textit{Traité de la circulation et du crédit} (Amsterdam, 1771).
the founder of classical economics. Two copies of *The Wealth of Nations* are in his library, one of the second English edition (1788) and one of the French translation (1781). Apparently the theoretical differences among these schools of thought are dismissed with the statement that they contain "mysteries, paradoxes, and enigmas." Despite the approbation Adams expressed several times for Adam Smith, specific references to his works are rare, and certainly on most questions, Adams accepted other writers. He reserved his highest praise for the Physiocrats, and undoubtedly rejected Smith's more advanced theories on banking.

Toward the close of his life, after the friendship with Jefferson had been renewed, Adams received from the Virginia statesman a copy of Comte Antoine Louis Claude Destutt de Tracy’s *A Treatise on Political Economy*, which had been translated by Jefferson from the French and printed in the United States. In an unpublished letter to Jefferson, Adams had given permission to publish his letter endorsing the work. Apparently, however, Jefferson never released it to the press. Destutt de Tracy was a follower of Adam Smith, though certainly not one of his clearest expositors. Finally, at the close of his career, Adams ran the gamut of economic theory by endorsing Daniel Raymond. Raymond is distinguished as an early American nationalist, and a strong proponent of protection. He violently attacked the free trade ideas of Adam Smith. He also opposed Adam Smith on the question of banking. By this time Adams was convinced that the growing industry of the United States needed a protective tariff. On that score the strongly nationalist ideas of Raymond probably appealed to him. Consequently he wrote a

16 (Georgetown, 1817). A preface was written by Jefferson.
17 April 2, 1819, in Jefferson Papers (Manuscript Division, Library of Congress).
18 *The Elements of Political Economy* (Baltimore, 1820). The similarity between the ideas of Raymond and Friedrich List's *National System of Political Economy* (1841) is noted in Charles P. Neill’s *Daniel Raymond* (Baltimore, 1897), 46 et seq.
letter of endorsement, which appeared as a preface to later editions of the work.\textsuperscript{21} It is probable that the reason Adams was more friendly to manufacturing than to commerce and banking was that to him, as to others with a Physiocratic background, it appeared more productive, thus being comparable to agriculture. At the same time, it was something which could be developed in the United States, and Adams was ever a strong nationalist.

The chief common conception of virtually all these writers, with which Adams agreed, was the natural law theory of his time. In this way he was prone to justify his beliefs. On specific questions of economic theory many of the treatises which he found praiseworthy lack internal consistency. This probably contributed to Adams' confusion, but he showed little ability to discriminate among the various schools. It must be remembered, however, that many of Adams' pronouncements were put down in the midst of controversy, and that he drew on his own experience rather than on the theorists for his economic ideas. His inconsistent endorsements of theoretical economists probably arose from the fact that he read them for specific points of policy rather than for their general philosophies.

Before proceeding with an analysis of how Adams put his economic ideas into practice, and thus developed many specific points of disagreement with the Federalists, one other phase of his general system of ideas should be noted. His political opinions first coincided with those of the orthodox Federalists during the period of constitution making, just prior to the ratification of the Federal Constitution. But among the Federalist conservatives there was always a lingering suspicion of Adams because of his radical tendencies during the Revolution. As is well known, he was prominent in the early debates in the Continental Congress. He was foremost in pressing for the adoption of drastic measures against England. His political ideas at this time were correspondingly radical.\textsuperscript{22} It was only with the close of the Revolution that he became more conservative, and it was after 1787 that he

\textsuperscript{21} Daniel Raymond, \textit{Political Economy} (Baltimore, 1840).
\textsuperscript{22} Walsh, \textit{op. cit.}, ch. II.
produced such political writings as his *Defense of the Constitutions of Government of the United States* (1787-1788), 23 Three Letters to Roger Sherman, on the Constitution of the United States (1789), 24 and *Discourses on Davila* (1790). 25 These aroused enthusiasm among the conservatives and were largely responsible for alienating him from the Republicans. Among the stanch Federalists, however, the memory of the earlier period must have lingered. 26

Adams' position on those economic issues which fell within the realm of practical politics was at no time acceptable to the commercial group. Instead he was surprisingly in agreement with the agrarians, even when he opposed them on particular points of political theory and outlook. This can best be demonstrated by examining the position which he took on the chief economic issues of his day.

The commercial groups' distrust of Adams was not lulled by the policy which he followed in making peace with England. In 1779 he had urged that the United States prepare to supplant British trade by enlarging that with France and other continental countries, even terming England a natural commercial rival. 27 Despite his recommendations, Adams was empowered by Congress in 1779 to negotiate a treaty of commerce with England when peace negotiations were begun. Subsequently this power was revoked by Act of Congress of July 12, 1781. 28 Adams thereupon

23 The Works of John Adams, IV, V, VI.
24 Works, VI, 427-36.
25 Works, VI, 227-403.
26 It should be remembered that the commercial interests had moved rather slowly to the support of the Revolution, and many in fact had become Tories or remained neutral. After 1783 they were again united. As Arthur M. Schlesinger states: "... Once more united, the mercantile interests became a potent factor that led to the establishment of the United States Constitution." *The Colonial Merchants and the American Revolution, 1763-1776* (New York, 1918), 606. Also see Charles A. Beard, *An Economic Interpretation of the Constitution of the United States*.
27 Adams to President of Congress, Aug. 4, 1779, Wharton, op. cit., III, 281; and Adams to Genêt, May 1, 1780, Ibid., 687.
urged the necessity of continuing such authorization with the result that, upon a motion drawn up and introduced by Hamilton, the authority to negotiate such a treaty was vested in Adams, Franklin, and Jay in instructions adopted May 1, 1783.29

After the treaty of peace with England and his subsequent appointment as the first United States minister to England, Adams devoted considerable attention to the matter of a commercial treaty, but these efforts were not at all fruitful. Disappointed, he began to urge retaliation by Massachusetts and the other states of the Confederation, writing to this effect to the governor of Massachusetts. At the same time Adams urged fulfillment of the obligations assumed by the United States under the Treaty of 1783 in the matter of paying the debts owed to British merchants. This was as far as he was willing to go to conciliate England. Meanwhile, to assure independence from England, he thought that the policy of the United States should be directed to building up American manufacturing.30

In view of the difficulties attendant upon our early relations with England, probably no negotiator could have succeeded; but Adams’ policy displeased those who were advocates of placating England. After he returned to the United States and had been chosen Vice-President, the question once more arose as to the choice of a representative to negotiate such a treaty.

Between 1787 and 1790, Beckwith, the unofficial agent of Britain to the United States, reported in a long series of communications the attitude of the Federalists on the question of a British treaty. He found such representatives of the commercial interests as Hamilton, Jay, and Fisher Ames anxious for a close connection with England.31 He likewise found these leaders critical

31 One estimate of the volume of trade to England and her dependencies puts the total as high as 50 per cent of all U. S. exports in 1790-1791. Johnson, Emory R., and others, History of Domestic and Foreign Commerce of the United States (Washington, 1915), 20-23.
of Adams and determined that the latter should not again be sent to England. On this question their attitudes toward Adams and Jefferson were surprisingly similar. They felt that neither would be willing to yield enough to make the American terms acceptable to England. This information was duly transmitted to Lord Grenville, Secretary of State for the Home Department, who, in 1791, became Secretary of State for Foreign Affairs.

Although unsatisfactory as a possible negotiator, Adams won some support from the Federalists because of other aspects of his commercial policy. During the Napoleonic wars an extensive list of restrictions upon American commerce was introduced by England. In response, the measures proposed by the Republicans in Congress were those of retaliation rather than negotiation. Adams expressed strong disapprobation of one such proposal: that the British debts be sequestered. Two additional retaliatory measures, one suspending all commercial intercourse with England and another laying an embargo on British goods, were killed in the Senate by the deciding vote of Adams. Finally, Adams strongly favored both the opening of negotiations for Jay's Treaty and its ratification.

The essential differences between Adams and the Hamiltonian

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34 Mahan, Alfred T., The Influence of Sea Power upon the French Revolution and Empire (Boston, 1892), I, 241-42. For a list of British restrictions, see Clauder, Anna Cornelia, American Commerce as Affected by the Wars of the French Revolution and Napoleon (Philadelphia, 1932), 30.

35 To Abigail Adams, April 1, 1794, Letters . . . to His Wife, II, 148.

36 Adams to Abigail Adams, April 15, 1794, Ibid., 155; Annals of Congress, IV, 87; Porcupine's Gazette, November 1799, as quoted in William Cobbett's Porcupine's Works (London, 1801), VI, 111. On other occasions, such as the neutrality act concerning France, the vote of the Vice-President was employed for Federalist proposals. Annals of Congress, IV, 66-67; and Adams to Abigail Adams, March 12, 1794, Letters to Wife, II, 146.

Federalists, however, were on fiscal and banking questions. The funding system and the assumption of state debts had met with the hearty approval of Adams. His endorsement of the plans was noted with disapproval by the more extreme Republicans. With Adams the sole objective was the re-establishment of public credit. While never approving the speculation in these securities (especially where it was carried on by members of the government), and refusing, of course, to participate in it himself, he rejoiced in the rise of the price of the securities to par. On the other hand he did not accord Hamilton great personal credit for this or other fiscal proposals, nor did he have a high opinion of Hamilton's knowledge of matters of finance. The Secretary's policies, he thought, achieved success because the new government had strength and adequate sources of revenue. They were formulated, moreover, on the advice of men who had served in the financial department of the government from the outbreak of the Revolution.

38 The Journal of William Maclay, 318 et seq.
39 Adams to Benjamin Rush, Jan. 25, 1806, Old Family Letters, 98.
40 Adams to Benjamin Waterhouse, May 9, 1813, Ford, Worthington C., ed., Statesman and Friend (Boston, 1927), 99.
41 Adams to Rush, Aug. 25, 1811, Old Family Letters, 351. It is amusing to note that, in a particularly misanthropic moment, Adams wrote that a dominating factor in determining the location of the capitol was Washington's desire to dispose of lands at a profit. Same to same, Aug. 14, 1811, Ibid., 345.
42 Same to same, Jan. 25, 1806, Ibid., 98.
43 Same to same, Aug. 23, 1805, Ibid., 75.
44 Ibid. "His knowledge of the great subjects of Coin and commerce and their intimate Connection with all Departments of every Government . . . was very superficial and imperfect." Adams declared that Hamilton got his knowledge from Duer, the brother-in-law of Rose, Departmental Secretary under Pitt. Further, "Duer had been long Secretary to the Board of Treasury." Other men in the department, "Lee, Osgood, and Livingston were all men of abilities. . . ." Moreover Oliver Wolcott had seven years of experience with Connecticut finance. The only change from the old Congress was to make a secretary, "so that I see no extraordinary reason for so much exclusive Glory to Hamilton. . . ." This is, of course, too extreme a statement; but for further discussion of the origins of Hamilton's ideas on central banking, the funding system, and sinking fund, see Wettereau, James O., "Letters from Two Business Men to Alexander Hamilton on Federal Fiscal Policy, November, 1789," Journal of Economic and Business History, III, 667. For origins of his ideas
More to the point than Adams' efforts to show that Hamilton was not responsible for the detail of the Treasury's fiscal operations, is the general parallel between Hamilton's program and that introduced in England a century earlier. My colleague, William G. Carleton, has noted that the program of Hamilton followed closely the plans for a national debt and the Bank of England as introduced by Charles Montague in England between 1692 and 1694. These plans led to Montague's appointment as Chancellor of the Exchequer in 1694 and at the same time established the connection between the Whig party and the commercial classes of England. Subsequently this plan of operations extended to the sinking fund, and the policy of Montague was expanded by Walpole. All of this was a pattern which Hamilton followed closely, both as to economics and as to the political effect of such measures in solidifying the support of commercial groups to the party which followed such a program.

While Adams approved the establishment of a system of taxation to provide the necessary revenue, he expressed alarm at the resulting burden. In this respect he showed far more concern than did Hamilton. Moreover, he was disturbed at the size of the public debt, whereas Hamilton regarded it at this time as a means of increasing the interest of the financial and commercial groups in the government. Adams' views on these matters were expressed to his wife: "While I confess the necessity of it, and see its importance in giving strength to our government at home on manufacturing, see Rezneck, Samuel, "The Rise and Early Development of Industrial Consciousness in the United States, 1760-1830," in Ibid., IV, 790 et seq., with special reference to Benjamin Rush and Tench Coxe. For the view that the claims of Coxe concerning Hamilton's "Report on Manufactures" are not justified in the form advanced by Coxe, see Hutcheson, Harold, Tench Coxe (Baltimore, 1938), 100; and Arthur H. Cole, Industrial and Commercial Correspondence of Alexander Hamilton (New York, 1928). Also on the ideas of the time, see Konkle, B. A., Thomas Willing (Philadelphia 1937); and East, Robert A., Business Enterprise in the American Revolutionary Era (New York, 1938), especially ch. xiii. Jensen, Merrill, in his The New Nation (New York, 1950), has a good survey of American finances during the Confederation, 382-98.

45 "Macauley and the Trimmers," American Scholar, XIX, 73-82.
46 Beard, Economic Origins of Jeffersonian Democracy, passim.
and consideration abroad, I lament the introduction of taxes and expenses which will accumulate a perpetual debt and lead to future revolutions." 47 Again he wrote: "We have very disagreeable business to do in finding ways and means for the expenses we have already incurred. It grieves me to the heart to see an increase of our debt and taxes...." 48 At the same time he was not in sympathy with the Republicans, who were advocating costly measures against England. Even during his own administration in 1798 Adams voiced opposition to many expenditures forced upon him by Congress and expressed the view that the Federalists would create among the taxpayers an overwhelming reaction against the government.49 To Congress, in his annual message in 1797, he expressed concern over the size of the United States debt, and at the same time pointed to abuses in the British funding system.50

During the formative period of fiscal policy, 1790-1792, Adams did, however, support Hamilton on a sufficient number of questions to be viewed as generally favorable to him. At the time of the investigation of the Treasury Department by the House of Representatives in 1793, Adams strongly supported Hamilton and termed him "a faithful servant... [whose] character will shine all the brighter." 51 Likewise, although condemning Adams in other respects for his fiscal views, Hamilton acknowledged in his public pamphlet in 1800: "It is, in particular, a tribute due from me, to acknowledge that Mr. Adams being in quality of Vice-President, ex-officio, one of the Trustees of the Sinking-Fund, I experienced from him the most complete support." 52

Banking was the most important economic subject on which

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47 May 5, 1794, Letters to Wife, II, 158.
48 April 3, 1794, Ibid., II, 150.
51 Adams to Abigail Adams, Jan. 24 and Feb. 27, 1793, Letters to Wife, II, 121, 127.
fundamental differences appeared between Adams and the Hamiltonian group. To understand this fully it is necessary to consider both the political situation of the period and Adams' theories of banking. There were three main currents of thought concerning banking at this time. The Federalists, best represented by the Hamiltonian group, demanded banks to supply credit for their commercial needs. At the same time they insisted that whatever banks were established should be operated on a sound basis, so that a stable system of credit and paper money might result. Finally, realizing that profits would accrue from banking, they desired a political monopoly of banking for their own purposes.

The Republicans, on the other hand, were not unified in their point of view. The most orthodox group, for which John Taylor was spokesman, opposed all banks which might perform the function of discount or issue paper money. This group was composed of "hard money" proponents. The majority of the party, however, were usually favorable toward banks when any practical question of policy was under discussion. Debtors in the cities sympathized with this attitude. Most of the city merchants were Federalists, but some were Republicans. This latter group desired the Republicans to support banks which they (the Republican merchants) might control. Finally as the tide of sentiment for banks rose, certain of the anti-bank Republicans were willing to yield on grounds of political expediency. At one time, when the Bank of the United States threatened to establish a branch at Richmond, Jefferson suggested that the Republicans should charter a state bank.

53 For example, there is the case of the Manhattan Company of New York for which Aaron Burr and other Republicans secured a charter as a water company. A clause in the charter permitted this to become a bank of discount. It was incorporated on April 2, 1799, and began operations in September of that same year. Webster, Noah, Miscellaneous Papers (New York, 1802), 19. Pomerantz, Sidney, in his New York: An American City (New York, 1938), has shown that the Federalists had knowledge of the purposes of Burr at the time the vote was taken on the bill (187-90).

These, then, were the three main political factors in the situation. The Federalists generally supported sound, conservative, commercial banking. Some of the Republicans desired banks of greater or less degree of soundness. Finally the more consistent agrarians (a minority of the Republicans) opposed all banks of discount and all paper money, whether issued by banks or by the government.

In connection with the views of Adams concerning banks, the status of banking theory at this time must be briefly examined. All banks which were chartered issued paper money. Consequently, few writers of the period wrote about banks apart from the question of paper money and inflation. Adams therefore approached the question through a discussion of paper money. During the Revolution the issue of almost unlimited amounts by the Continental Congress had resulted in the virtual repudiation of the Continental currency. It was with banks, after their establishment, that the problem of note issue was more intimately associated.\textsuperscript{55} At the same time the banks created commercial credit simply through discounting paper. This last function, discount, and the creation of deposit credit were but little understood at this time.\textsuperscript{56} Adams believed the effects of both note issue and discount were inflationary, and hence that both were wrong. His failure to distinguish between the two functions, however, makes his presentation confusing.

Approaching this subject, then, through a consideration of Adams' views on paper money, we find that in 1789, in response to a query on the subject, he replied that at that time there was no sound basis for credit. "No man of common sense will trust us. As long as unlimited democracy tyrannized over the
to have been a borrower from the Bank of the United States. The same article established the nature of the business of the bank, which made loans chiefly to manufacturers, master mechanics, wholesalers and wealthy landowners.

\textsuperscript{55} Miller, Harry E., \textit{Banking Theories in the United States before 1860} (Cambridge, Mass., 1927), chaps. IV, V, VI. This work briefly mentions the opposition of Adams to banks. \textit{Ibid.}, 20. The opinion is expressed that only the Republicans opposed the national bank, a view with which the present writer disagrees. \textit{Ibid.}, 24.

\textsuperscript{56} Hamilton, for example, regarded bank credit as capital. \textit{Ibid.}, 82.
rich, no man of property was safe." It is noteworthy that Adams’ correspondent here, James Sullivan of Boston, was the author of a sharp attack on Hamilton’s banking policies in the *Path to Riches* (1792). In this he also follows the argument of Dr. Richard Price, another close friend of Adams.

When the question of the establishment of a national bank arose, these views concerning banks of issue and discount were reflected in Adams’ outline of the type of national bank which should be established. As to its constitutionality, he had no doubts. Furthermore, following the same plan as did Sullivan, he agreed that such a bank should be established. To that extent, he was in accord with orthodox Federalist theory. Adams always was a strong nationalist, never an adherent to the idea of States’ rights. Thus, he was in disagreement with the Republicans. When it came to the purpose for which these national powers should be used, however, he disagreed with the Federalists. In 1794 he wrote, “One Bank of the United States with its branches strictly limited in its operations, would be useful . . .”; and again he wrote:

A national bank of deposit I believe to be wise, just, prudent, economical, and necessary. But every bank of discount, every bank by which interest is to be paid or profit of any kind made by the deponent, is downright corruption. It is taxing the public for the benefit

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60 Jan. 12, 1794, *Letters to Wife*, II, 188.
and profit of individuals; it is worse than old tenor, continental currency, or any other paper money. . . . 61

More information is given in a very important passage of an unpublished letter from Adams to Jefferson:

The Medici rose to the despotism of Europe, ecclesiastical, & political, by the machinery of banks, hundreds of mushrooms or Jonah's gourds have sprung up in one night in America by the strength of the same rotten manure. How has it happened that the bank of Amsterdam has for so many years conducted all most all the commerce of Europe without making any profit to the proprietors, and how has it happened that religious liberty, fiscal science, coin & commerce, & every branch of political economy should have been better understood and more honestly practiced in that Frog land, than any other country in the World. 62

Examination of the plan of the Bank of Amsterdam, or Amsterdam Wisselbank, will likewise clarify Adams' stand on discounting. This bank was founded in 1609. It was designed to be primarily a money-changing institution. So varied were the coins then in circulation that it was a great convenience to be able to deposit specie and receive a standard-value bank money in return. A fee was paid by depositors for keeping money on deposit. The bank had no right to loan deposits. All specie paid in was supposed to be available at any time. The bank was given a monopoly of all money-changing and deposit business, although this was not enforced. It was controlled by a board of depositors and city officials. All profits went to the City of Amsterdam, which from 1609 to 1796 is estimated to have received 12,256,000 guilders. 63

61 Adams to Benjamin Rush, Aug. 28, 1811, Works, IX. 638. Elsewhere Adams wrote that this bank should be "inexorably limited to ten or fifteen millions of dollars." Same to same, Aug. 23, 1805, Old Family Letters, 76.


63 Richard Van der Borgh, "History of Banking in the Netherlands," in Sumner, William Graham, ed., History of Banking in All Nations (New York, 1896), IV, 188-371. A fact, of which Adams apparently was not aware, is that
In contrast to this system the Bank of the United States was formed with a capital of $10,000,000. It had the power to issue paper money equal to this capital, to create deposit credit, and to make loans upon adequate security.\textsuperscript{64} The issue of paper money by the bank was $1,225,000 on January 22, 1792; $3,700,000 a year later; and $6,539,428 on November 26, 1801. Specie held varied from a low of $500,000 in 1795 to over $5,000,000 in 1801 and over $8,000,000 in 1802.\textsuperscript{65} Loans in 1809 were $15,000,000. It did act as a check upon the depreciated currency of some state banks by refusing to accept notes not redeemable in specie. The bank paid dividends of about eight per cent per annum.\textsuperscript{66}

In 1793 Adams wrote, “I consider myself already as taxed one-half of my salary and one-half of all the interest of my money to support bankers and bankrupts.”\textsuperscript{67} Now this argument is apparently virtually an echo of contemporary Republican arguments. Regarding a contemporary pamphlet which he sent Abigail Adams he wrote: “... This production is said to have been written by a Senator from Virginia, Mr. Taylor; I know not how truly. It is like his style, spirit, opinions and sentiments. There is too much foundation for some of his observations. ...”\textsuperscript{68}

The pamphlet in question is probably that one entitled: \textit{An Enquiry into the Principles and Tendency of Certain Public Measures}.\textsuperscript{69} Taylor represented the ideas of the group which in

the bank had secretly been granting loans to the Dutch East India Company since 1657. This was generally suspected by 1789, and resulted in depreciation of the bank money. In 1796, public recognition of the fact was made, and the bank reorganized. It struggled on until 1819, when it was finally liquidated. This, of course, does not affect the theory of the bank so far as Adams' ideas are concerned.

\textsuperscript{64} Hepburn, A. Barton, \textit{History of Currency in the United States}, 84.

\textsuperscript{65} Wettereau, in \textit{Pennsylvania Magazine of History}, LXI, 283.

\textsuperscript{66} Hepburn, \textit{op. cit.}, 84; also see Holdsworth, John T., \textit{The First Bank of the United States} (Washington, 1910). The bank charter is given in Holdsworth, 126-32.

\textsuperscript{67} Jan. 9, 1793, \textit{Letters to Wife}, II, 117.

\textsuperscript{68} Jan. 12, 1794, \textit{Ibid.}, II, 138.

\textsuperscript{69} (Philadelphia, 1794). This pamphlet was published anonymously. Another anonymous pamphlet by Taylor is \textit{An Examination of the Late Proceedings
this chapter have been called orthodox agrarian. Naturally his first argument is that the bank is unconstitutional. As has been shown above, Adams held directly opposite views on this point. Taylor advocated the eradication of banks through legislation in the larger states prohibiting the circulation of any bank paper. These measures were to be directed against the Bank of the United States. On the other hand, Adams' plan was for a federal bank to drive out all state banks and all paper money. A further method advocated by Taylor was for two-thirds of the state legislatures, or as many as possible, to protest the action of Congress. Thus, although agreeing in the economic reasons for opposing banks, the two differ in their political means of solving the problem; Taylor voiced the States' rights and Adams the nationalist point of view.

Adams' contention that banks through certain functions robbed the community followed the argument which in Taylor's writings proceeded as follows: All income is derived from labor, something cannot be created from nothing. Consequently someone has to work to pay the interest on bank credit. How has this credit been created? It is not derived from specie, which would offer some real basis for loans. Instead, three-fourths of the capital is required to be in government bonds. These were probably acquired by persons profiting from speculations in the funding system. Now, on the basis of these bonds paper money is issued, creating additional false capital to be loaned out at interest. Thus, it is contended, an engine is set up, controlled by the rich.

in Congress, respecting the Official Conduct of the Secretary of the Treasury (Richmond, 1793). A third is A Definition of Parties; or The Political Effects of the Paper System Considered (Philadelphia, 1794). There is a possibility that the pamphlet sent by Adams, and to which the letter refers, was the 1793 pamphlet. However, the part of these with which Adams was chiefly concerned, as the context of his letter shows, is the discussion of the banking and paper systems, on which Taylor touched in all three of the pamphlets.

While the later correspondence between Taylor and Adams has attracted comment in Simms, Henry H., The Life of John Taylor (Richmond, 1932), chapter vii, this early endorsement has not been emphasized. Also see Mudge, E. T., The Social Philosophy of John Taylor of Caroline (New York, 1939).

Taylor, An Enquiry into the Principles and Tendency of Certain Public Measures, 80.
and operating to draw into their hands additional funds. This income is a tax on labor, which is alone capable of production.\textsuperscript{71} Taylor does not, however, deny to all capital the right to receive interest; for in the matter of private loans, where specie is the basis of the transaction, there is no speculative value set up, and the transaction is based on a reasonable limit.\textsuperscript{72} But in regard to the bank, he insists that the bill should have been called, "An act for taxing the community by the establishment of a bank, and dividing the money so raised among sundry members of Congress and certain other individuals therein named. . . ." \textsuperscript{73}

While the ideas of both Taylor and Adams are marked by a failure to comprehend the principle of credit, they are founded on a real grievance; namely, that the great increase in the volume of money in circulation between the years 1790 and 1795 had a definite inflationary effect. During these years the per capita circulation rose from $3.00 to $7.77, over two and a half times, while the number of banks increased from four to twenty-four, with a corresponding increase in credit facilities (cf. Table 6).\textsuperscript{74} Bank loans and discounts were probably in excess of $20,000,000 by 1800.\textsuperscript{75}

\textsuperscript{71} Ibid., 12-19. This conception of a labor theory of value follows Locke and other English mercantilists. In a later period apologies to Marx would be in order.

\textsuperscript{72} Ibid., 16.

\textsuperscript{73} Ibid., 33.

\textsuperscript{74} Hepburn, \textit{op. cit.}, 87. A general description of early state banks is found in Dewey, Davis R., \textit{State Banking before the Civil War} (Washington, 1910).

An interesting list of the banks chartered through 1801 is given by Webster, Noah, \textit{Miscellaneous Papers}, 31-33. He estimates the total number of banks, counting the Bank of the United States as one bank, at 30; and total capitalization of all at $23,612,000. This is in general agreement with Table 6.

Also Adams to F. A. Vandercamp, Feb. 16, 1809, \textit{Works}, IX, 610. "Our medium is depreciated by the multitude of swindling banks, which have emitted bank bills to an immense amount beyond the deposits of gold and silver in their vaults, by which means the price of labor and land and merchandise and produce is doubled, tripled, and quadrupled in many instances. Every dollar of a bank bill that is issued beyond the quantity of gold and silver in the vaults, represents nothing, and is therefore a cheat upon somebody."

Of course, not all of the changes in prices could be attributed solely to banks. But banks of this period did not follow sound practices. Absence of experience led to many mistakes. The range of business fluctuations was therefore made greater by the practices followed by banks.\textsuperscript{76}

The rise in prices was affected by the following items, among others: (1) high prices abroad for American products and heavy export of these products, (2) the inflow of specie, and (3) the expanding issue of bank notes and expansion of bank credit. Therefore, it is wrong to attribute changes in prices solely to the banks, as did Adams.\textsuperscript{77}

It was the belief of Adams that in a correct monetary system, gold and silver are but commodities; and that these would be attracted in sufficient quantities to provide an adequate circulating medium, just as a supply of any goods would be attracted by the demand for it. No suitable replacement which would maintain a constant value could be found.\textsuperscript{78}

His statements contain at least two fallacies. In the first place, it is not correct to say that when gold or silver is coined there is no change in the value as a result. Adams confuses the price of specie with its value, a common error. In the second place, the idea that through some natural law a sufficient volume of gold and silver would flow into the country has no substantial basis. While sale of products abroad would, of course, bring specie into the country when exports exceed imports, there would be no

\textsuperscript{76} Smith and Cole, \textit{op. cit.}, 32-33.

\textsuperscript{77} For detail on price fluctuations see Chapter III of Smith and Cole, and especially Chart 4. In general there were three periods of prosperity in 1790-1801. The first was accompanied by the speculation in bank securities, and closed in 1792. At that time Weighted Index A (Wholesale Domestic Commodity Prices in Boston) reached a low of 82. A rise then occurred to a high point of 138 in 1796. The next low point was 106 in 1798. A new high of 141 was reached in 1801. \textit{Ibid.}, 146. For Index B (Wholesale Imported Commodity Prices in Boston) see \textit{Ibid.}, 147. Schultz and Caine estimate specie in circulation increased from $10,000,000 in 1790 to as much as $20,000,000 in 1800, \textit{op. cit.}, 128.

\textsuperscript{78} Adams to John Taylor, March 18, 1818, \textit{Works}, X, 375-77. Again he wrote, "... A circulating medium of gold and silver only ought to be established..." to Benjamin Rush, Aug. 28, 1811, \textit{Ibid.}, IX, 638.
guarantee that the amount would suffice for business purposes, assuming a price level as expressed in contracts and other term obligations. Adams seems almost to imply that gold and silver have an intrinsic value. If this be true he does not show an understanding of money as a medium of exchange, nor does he show a consistent adoption of the quantity theory of money. If some aspects of the quantity theory appear at times, on other occasions Adams seems to hold to a commodity theory, a supply theory, or even more primitive ideas. Neither he nor Taylor shows, moreover, any understanding of credit. Throughout, they have a valid point as to the unfair advantage over other citizens which a charter for a bank of discount gives to the stockholders of the bank in enabling them to profit for themselves. But this is an argument for governmental ownership of credit facilities or for the mutualization of credit, not that such transactions should be abolished as serving no useful purpose.

To return to the pamphlet by Taylor, he concludes that the result of the banking and funding systems would be to corrupt the members of Congress. Instead of senators and representatives speaking the voice of their constituents, they would speak the voice of the bank. Further he holds that this would tend to make them representatives of an aristocracy which may be expected to result finally in the establishment of a monarchy. He then proceeds to launch an attack upon the philosophy of Adams in regard to a natural aristocracy.79 At that point, of course, Taylor and Adams would part company.

Illustrative of Adams' attitude toward the state banking systems, is an instructive incident of 1792. At that time there was already one bank in Boston, the Massachusetts Bank which served the commercial interests. In the move to establish another bank, the Union Bank, it was considered desirable to draw upon the support of Governor Hancock and his party, many of whom were agrarian Republicans. Accordingly the charter of the bank specified that one-fifth of the bank funds should be appropriated to loans outside of Boston for the benefit of agriculture.

79 An Enquiry into the Principles and Tendency of Certain Public Measures, 24-25, 28-29, 36-37.
in sums not less than $100 nor more than $1,000 secured by mortgages on real estate, and having not less than one year to run.\textsuperscript{50}

This happened in the year that Quincy was separated from Braintree, Adams wrote. As its representative Quincy chose Peter Boylston Adams, brother of John Adams.

He also was a Man of Sense, Spirit and Honour. Upon the Question of the Union Bank he saw its corrupt Tendency and gave his Nay against it. The Gallery was full of Speculators, and upon his Nay being pronounced the Cry in the Gallery, loud enough to be heard by many, was “God damn the Nays, who would have expected a Nay from that Quarter?” \textsuperscript{81}

Quite evidently, the speculators, in the light of orthodox Federalist finance, had not expected such a development. On the same vote a Dr. Tufts of Weymouth voted with P. B. Adams. Both lost their Elections in 1793 by a single vote of each against our Union Bank. Two honnester Men, or more disinterested, or independent, can no where be found; no, nor more popular Men. Yet both fell sacrifices to a single vote against a Bank. These two cases were so remarkable, such decisive demonstrations of Banking Corruption that they ought to be detailed and held up as Beacons. But they would have no effect.\textsuperscript{82}

In this matter, however, the “Democrats cannot complain of superior virtue, [John] Hancock and [Moses] Gill, [Charles] Jarvis, [Benjamin] Austin and all the Democrats were engaged [in] the Union Bank.” \textsuperscript{83} While this bank had Republican support, most state banks were established by Federalists. To his wife, Adams wrote: “I have the same aversion to the multiplication of banks, and the same apprehension of their pernicious tendency, as you express.” \textsuperscript{84}

\textsuperscript{50} Winsor, Justin, \textit{Memorial History of Boston} (Boston, 1881), IV, 153.
\textsuperscript{82} Same to same, Dec. 27, 1810, \textit{Ibid.}, 273.
\textsuperscript{83} \textit{Ibid.} All of those named are prominent Massachusetts Republicans. Gill became a Federalist after 1793.
\textsuperscript{84} Jan. 9, 1793, \textit{Letters to Wife}, II, 117.
These views upon finance, as Adams wrote to Jefferson, were not kept to himself, but were expressed.\textsuperscript{85} The result was that, although in 1792 he had the united support of the Federalist party, a reconciliation having taken place after the attempt to undermine him in 1789, in 1796 there was considerable opposition to him within the Federalist party.

Bearing all these factors in mind, it is well to attempt some conclusion as to where Adams stood in relation to these economic questions, and to summarize the political implications which may be drawn therefrom. There are certain peculiarities in his position. In general, he stood midway between the Hamiltonians and the Jeffersonians. From the standpoint of political theory, this was probably the reason that in his political writings he called attention to the necessity for a "balance"\textsuperscript{86} between the conflicting groups, which should be supplied by the independent executive. He wrote of this in his formal works as the attempt to maintain a balance between aristocracy and the general mass of the people. In reality, however, this was but a part of the conflict. There was also taking place a conflict between agrarians and the commercial interests. Spokesmen for the first group were Jefferson and Taylor; for the second, Hamilton and his cohorts. The first group broadened the basis of its support by identifying its cause with that of popular government, and thus won the political conflict.\textsuperscript{87}

\textsuperscript{85} March 2, 1819, Chinard, \textit{Jefferson et les idéologues}, 270.
\textsuperscript{87} The general understanding between Adams and Jefferson is well brought out in the second volume of Dumas Malone's excellent and definitive biography of Jefferson, \textit{Jefferson and the Rights of Man} (Boston, 1951).