Fall 2010

Tea Parties, Whigs, and Compromise: The Historical Roots of U.S. Government-Business Relations

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INTERNATIONAL JOURNAL OF ORGANIZATION THEORY AND BEHAVIOR, 13 (3), 342-353 FALL 2010

TEA PARTIES, WHIGS AND COMPROMISE: THE HISTORICAL ROOTS OF U.S. GOVERNMENT-BUSINESS RELATIONS

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ABSTRACT. This article reviews the politics of government-business relations in the US from 1776 to the present. It argues that two major political interests, the agrarian democrats and the nationalist Whigs, created the context for discussion of economic policy that continues today. At times, pragmatic compromises have resolved the differences between these interests. The lessons from this history are instructive for today, and suggest potentially viable policies and coalitions to address business issues.

INTRODUCTION

The catalyst of the "Great Recession" that began in 2007 disrupted the economy and brought to the center of the debate the role of government in the economy. During 2009-10, as Congress debated, and ultimately passed, health care coverage and the President and his administration worked with Wall Street and financial experts to made decisions about which corporations to "bail out" of impending bankruptcy, "Tea Party Patriot" protestors wearing colonial outfits and carrying historic flags (including the Gadsden's "Don't Tread on Me" flag) protested against big government, high taxes and growing government debt. These images capture the historical context of the debate over government-business relations in the US. The multi-billion dollar decisions about how to spend government funds and how far to intervene in the economy are matters of politics as much as they are matters of economics. The

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ideologies of today are strikingly similar to those of the late 18th and early 19th century, and so understanding this debate requires an understanding of the historical context of American government-business relations.

It is tempting to look to economic theory for the answer to current economic problems. And indeed, theory does provide a framework for understanding *whether* and *how* government should intervene in the economy. Fiscal and monetary policies can address problems of unemployment, inflation, and growth. The concept of market failure from microeconomic theory guides more specific decisions about government intervention in the economy. These theories serve the goals of economic efficiency, growth and stability. While theoretically compelling in a variety of ways, this approach has not had wide acceptance in public debates over the appropriate role of government in the economy. These approaches may present technical solutions, however there is no particular reason to believe they will be politically acceptable or institutionally feasible.

This article attempts to provide a framework for understanding these events and the government response. Briefly, I argue that the roots of this debate go back to the debate over the Constitution and the Bill of Rights, and the ideological struggle between agrarian democrats and the commercial class. There are distinct echoes of this debate today. Now, as then, the resolution of the dispute will be a compromise that will meet the pragmatic imperative to solve the problem.

THE EARLY DEBATE

The nation won its independence in 1776, but it was not until 1789 that the Constitution was approved. Until then, the nation was a loose confederation, with a weak federal government that did not have the power of taxation, much less broad powers to intervene in markets. The American Revolution was in part a rebellion against what was seen as intrusive British regulation and unjust taxation. Having won the war, the imposition of a new form of potentially oppressive administration was strongly opposed by many citizens. At the same time, stark economic problems faced the new nation. The Continental Congress and the states had incurred a substantial amount of debt to finance the revolution, and inflation caused by the issuance of large amounts of paper money ravaged commerce

(Fisher, 1996). Unless these problems could be addressed, economic calamity would doom the young republic and the Boston Tea Party would have been fought in vain.

There was consensus by commercial interests that the Articles of Confederation did not provide sufficient central power for the nation's welfare and there needed to be a federal government with powers of taxation and to regulate commerce. In the debate over the Constitution two viewpoints developed, which have come to be known as the Federalists and the Anti-Federalists. The Federalists favored a stronger federal government with taxation powers and more professionalized administration. The Anti-Federalists opposed them on each of these points. Anti-Federalists were willing to sacrifice wealth for liberty. Storing (Storing, 1981, p. 30) writes that "the stress placed by Federalists on national defense and a vigorous commercial policy often seemed to mask a radical shift in the direction from the promotion of individual liberty to the pursuit of national riches and glory." A leading Anti-Federalist, Patrick Henry, declared: "You are not to inquire how your trade may be increased nor how you are to become a great and powerful people, but how your liberties can be secured; for liberty ought to be the direct end of your Government" (Quoted in Storing, 1981, p. 31). The result of this debate was a historic compromise, with certain powers granted to the federal government (such as to fight wars, provide for a monetary system, and establish a judicial system, post office, and regulate commerce) and others reserved by the Ninth and Tenth Amendments to the states and the people.

As many have written, the Federalists and Anti-Federalists became a pair of ideologies that framed American politics. Many Americans then were suspicious of a strong central government and the Bill of Rights clearly reflects this. The Anti-Federalists, Jeffersonian Democrats[1] and Jacksonian Democrats generally followed this philosophy that in part emphasized a weak central government, laissez-faire economics, and limited intervention. The election of 1800 put Thomas Jefferson in office, and began a period of dominance by the Democrats. Andrew Jackson, elected in 1828, extended these democratic ideologies. Leonard White (1933, p. 143) wrote that the frontier democracy in the early 19th century fostered an administrative structure consistent with "a rural rather than an urban community, of an individualistic rather than a cooperative society, of a democratic rather than a bureaucratic state." Or, in the words of Sellers (1991, pp. 32-33), "to preserve the independence and equality of a self-sufficient, self-governing citizenry, they wanted government weak, cheap, and close to home."

The philosophies of Jeffersonian and Jacksonian Democrats influenced the writing of many state constitutions during this period. While many of these states have re-written these constitutions, many still retain a weak executive and a strong legislature, with more power in the hands of local governments than state governments. This suspicion of federal power, and indeed all governmental power, is a long-standing point of view in this country that more recently has driven tax and spending limits, as well as limits and restrictions on market intervention. To this point, Nobel Laureate James M. Buchanan stated, "Americans have a sense that constitutions are needed to constrain politicians… we distrust politicians" (Buchanan & Musgrave, 1999, p. 88).

While political cleavages during this period were messy, generally in opposition to the Jefferson-Jackson ideas were the Federalists, followed by the Whigs and then the Republicans. These groups generally favored the Bank of the United States, economic protectionism through tariffs and import quotas, stable currency, and internal transportation improvements (Remini, 1963, pp. 15-16). Indeed, during this period Abraham Lincoln was active in Illinois politics as a Whig, and an attorney; his clients often included railroads. While this coalition did not often hold power during the first half of the decade, they did articulate a coherent set of ideas that has come to be known as the "American System." This position held that government should actively promote the development of a national market less reliant on imports. The government should take necessary steps to do so, including tariffs, sound money, and internal transportation improvements. It was originally articulated by Alexander Hamilton in his *Report on Manufactures* and then further elaborated by Henry Clay. The basic thrust of this approach is that government's role is to stimulate sales and commercial development which brings profits to capital, jobs to workers, and national expansion (Baxter, 1995, p. 21).

The debate over tariffs in the early part of the 19th century brought these two ideologies into sharp focus. The proponents of high tariffs, the Whigs lead by Henry Clay, argued that domestic markets were insufficiently developed due to dependence on British imports. "The American System rested on the idea of harmonizing all segments of the economy for their mutual benefit and of doing so by active support from an intervening national government" (Baxter, 1995, p. 27). This effort to manage the economy for the benefit of commercial and labor interests is the hallmark of the Whig approach. The agrarian opponents argued that high tariffs were unfair taxes that provided unjust subsidies to industry. This debate presented three major questions:

1. How democratic would government be?
2. Would government power be concentrated at the federal level or diffused among the states? and
3. To what extent would government promote economic growth? (Sellers, 1991).

REGULAR RECAPITULATION

These questions are ones that democratic federal governments will always face. They certainly have regularly reoccurred in American history. After the Civil War, the dominant Republican party followed the idea of the American System by extending the network of railroads, incubating industry; and using land grants to develop the West and to create America's land grant universities for the purpose of teaching agriculture and mechanical arts. They were opposed by Populists and Democrats who harkened back to their Jeffersonian roots. The debate over monetary policy intensified, with Populists calling for the free coinage of silver to loosen the money supply.

The "money issue" dogged American politics from the end of the Civil War until World War I. The economy had been racked by boom and bust cycles. Populists called for an expanded money supply to loosen credit and increase prices for agricultural output. Conservative monied interests and their allies insisted on "sound money" and believed that recessions were the appropriate remedy for speculative bubbles. The establishment of the Federal Reserve System was "a great compromise," and "more profoundly, an important prototype for the modern liberal state... It was exactly the mixture of purposes – protecting private profit and the public interest at the same time – that was the hallmark of modern liberal institutions" (Greider, 1987, pp. 277-280). It was a Whig-inspired institution that accommodated enough of the Populists' calls for democratizing the monetary system and shifting power away from eastern financers to be acceptable to sufficient numbers of both sides. It was also an important step towards professionalizing government organizations, as it employed well-trained economic analysts to advise monetary policy-making rather than leaving this to private bankers as the conservatives would have it, or direct democratic control as the Populists urged.

In the early 20th century, Progressives extended this emphasis on professionalism in government much like their Hamiltonian ancestors, although they also adopted a reform streak that put them in opposition to conservatives. During the New Deal era, a coalition of Progressives, urban immigrants, and the South was established. As a response to the Great Depression, government intervened into markets in unprecedented ways and shifted power to the federal level. Thus, the compromise that created the Federal Reserve also served as a model for the progressive reform movement.

The Reagan Era re-scrambled politics with latter-day Jeffersonian and Jacksonian advocates of limited government spending and taxation and reduced federal power aligning with the Republican party (Greider, 1987, p. 258). Business interests also were part of the Republican coalition, although they no longer advocated a large federal presence on most issues. Progressives and urban interests found a home with the Democrats, as did other groups such as Blacks who were largely disenfranchised in the early years of the republic.

While this is a simplistic and brief overview of American government-business development, the point is that the original dividing lines between advocates of limited government intervention in the economy and advocates of government support of commercial development remain. Some compromises have been forged between these groups. Other issues and new interest groups have developed and have affected business issues, but many national and local issues still turn on this axis. Chambers of Commerce generally advocate positions consistent with Henry Clay's American System. Tea Party protesters of today use both the symbols and words of their Jeffersonian ancestors. They tout three core values: fiscal responsibility, constitutionally limited government, and free markets, and emphasize individual liberty and state's rights. Their statement of philosophy says in part, "we hold, as did the founders, that there exists an inherent benefit to our country when private property and prosperity are secured by natural law and the rights of the individual" (Tea Party Patriots, 2010).

RESOLUTION THROUGH COMPROMISE

The durability of this division makes one wonder how the nation has been able to balance these interests. However as the creation of the Federal Reserve shows, transcendent compromise is possible. While the division has not always been resolved, in looking at the development of US government-business relations over time, it largely reflects the pragmatic imperative. In the words of historian Shelby Foote, Americans have a "genius for compromise" (as cited in Ward, Burns, & Burns, 1990, p. 264). The most important compromise in the history of the nation was the establishment of the Constitution which shared power broadly both among and within governments. Article I, Section 8 resolved the need for federal funding by explicitly giving Congress powers of taxation, debt and monetary issuance, and the ability to regulate commerce, among others. Then Article I, Section 9 specified limits on Congressional powers in these areas, providing the balance needed to gain the assent of agrarian democrats.

Despite the limits on the involvement of government in the economy, when the economy has failed to serve the needs of most citizens they have called for government intervention. Various examples throughout our history readily come to mind: addressing economic decline, providing credit to farmers and veterans, regulating monopoly, providing public schools, providing for fair labor practices, food safety, and pollution control. Generally most Americans have accepted these interventions for practical rather than ideological reasons. The result is a pragmatic series of compromises that balance these values rather than an ideologically consistent system. As a result, government-business relations are not driven by a consistent ideology and policies are not necessarily coherent and tidy.

The theory of classical pragmatism helps us understand this resolution as more than just a way to end a fight. Classical pragmatism is a philosophy that emphasizes learning through action and building a knowledge base from experience and reflection (Shields, 2003). Through this learning, new ideas can be generated and questions can be posed that, if answered, make it possible for not only a resolution of the problem but a more durable solution that harmonizes the previously conflicting interests. Pragmatism approaches each problematic situation using an experimental approach to inquiry. One might reflect on personal experiences or those of others facing a similar situation, for example of a person in a similar position in another government. The actor needs to determine if the action taken resulted in the expected outcome. Action guided by this experimental logic may then be used to resolve the problematic situation. The action is evaluated in light of the consequences. As long as any approach is useful to the actor, it serves to order the information an actor receives and guide the resolution of a problematic situation. Put very simply, a good approach is one that works.

Pragmatism has been identified by some as the only distinctly American philosophy (Menand, 2001). It is seen as a philosophy rather than a theory, because it informs epistemology and ontology as well as theoretical inquiry. Various theories can fit under the philosophy of pragmatism; in fact that is one of its strengths in this context because a pragmatic decision maker can draw from whatever theory best suits the situation. Theoretical coherence is not required. This fits with the various compromises that have resolved disputes with Hamiltonians and Jeffersonians (and others) in various eras in our history. A political actor able to craft a resolution of the problem may have learned how various other differences between these groups can be resolved, ultimately offering the possible development of a coalition among previously opposing interests. This is the genius of compromise.

Appointed officials also face these challenges. For appointed officials to keep their jobs, they must be ready to adjust to new elected officials. They also have to respond to the very practical demands of citizens to have the garbage picked up, fires suppressed, and schools appropriately staffed. Elected officials often care not only about the quality of service provision, but the process also. Staffing levels for sanitation crews and fire trucks, and qualifications for teachers are common and legitimate points of contention in government. These decisions affect organizational structure as well as taxes and service levels. As a result, appointed officials often have to resolve ideological differences that affect not only policy issues, but staffing and organizational issues as well. The pragmatic philosophy offers the potential to discover an approach that successfully balances differing interests in government administration as well as policy-making.

TODAY'S DEBATE

In the current debate over the degree of government intervention into the economy and government-business relations more generally, there are obvious parallels to previous debates in our history. Certainly today's Tea Party Patriots are descendants of Jefferson-Jackson Democrats. Many business interests from Wall Street to Main Street are latter-day Whigs or conservatives, although their support for a permanently large federal presence is not strong. Many US citizens today, like their ancestors, seem to want economic problems solved without major increases in taxes or other disruptive changes. While there are some Progressives calling for professionalized government as part of the solution, they do not seem to be a politically potent group at this time.

The housing bubble that peaked in 2006 and burst in 2007 had all the characteristics of other financial panics. Similar crises in the past led to deeper recessions because there was not an organization such as the Federal Reserve to manage the money supply. The Federal Reserve has most of the necessary powers to counter the panic and stabilize the economy, and acted to do so by making massive infusions of cash to provide sufficient liquidity to banks and other financial institutions. Differences of opinion about the effectiveness of the Federal Reserve and other federal agencies are a hotly debated question. The federal government gave loans to major banks, financial firms and automobile corporations, bought their stock and other assets, and spent directly on building and improving public infrastructure assets, many of which are built by private contractors. This is a manifestation of the duties of the modern liberal state and shapes government-business relations. To some degree, the current debate is about whether a modern liberal state is still the appropriate form of government. Distrust of government and professionals in public agencies; opposition to regulation and taxes; and calls for major retrenchment in public programs are radical reforms. They are roughly consistent with the heritage of the Anti-Federalists. Whether current Tea Party Patriots would be willing to give up active management of the economy and the money supply for a diminished federal role remains to be seen.

Many of the government measures to address the financial crisis were temporary. Under pressure, latter-day Whigs and Progressives in the center of the political spectrum supported the Emergency Economic Stabilization Act (commonly known as the "bailout" bill), while free-market Republicans on the right and some liberal Democrats on the left opposed it. The House of Representatives defeated the bill on the first vote, however later relented. Support for continuance of these measures has begun to erode with active opposition from Tea Party Patriots. Some commercial interests benefit from these policies, but others see spending policies in particular as wasteful and an unwarranted intrusion of government in the economy. Using the history reviewed here as a guide, it is unlikely that there will be long-term support for a large federal presence. Just as Andrew Jackson was willing to dismantle the Bank of the United States to protect the "real people – planters, farmers, mechanics [and] laborers" (Greider, 1987, p. 256), Tea Party Patriots are not supportive of an activist government. The Whig viewpoint favors economic stabilization and promotion of trade, but not increases in taxes and spending. There will ultimately be a call for a retreat from these market interventions when the sense of emergency passes.

As Woodrow Wilson and John Rohr remind us, "it is getting to be harder to *run* a Constitution than to frame one (Rohr 1986, p. vi, emphasis original). Establishing the Federal Reserve, or any similar agency, is one thing; adjusting its duties to appropriately respond to economic and democratic pressures is another. Resolving current economic problems using the methods of the liberal state will require granting new powers to the Federal Reserve, the Securities and Exchange Commission, and other federal agencies in order to regulate new financial instruments. The reversal of the loans to businesses and buy-outs of private equities is also a delicate matter. All of these are complicated by the recession and the federal deficit. While it is not apparent that the federal government will return to a minimalist role, the dominant ideologies do not support a statist solution. The lessons of this article show that an "ingenious compromise" that would provide for limited expansion of regulation in the housing and financial sectors with an orderly retreat of the federal presence will appeal to both Whigs and Jefferson-Jackson Democrats as well. It could leave the economy stronger and government powers appropriate to the task. Such a compromise should not just mollify the major interests involved; it should seek to develop a durable coalition that will support measures that appeal not only to the ideological interests involved, but to the broader group of citizens who want restored economic prosperity without major expansions of federal powers.

CONCLUSION

The historical outline presented in this article traces the ideological roots of policy towards business. The two major lines of political thought are still present. Overarching them is the pragmatic imperative that from time to time has reconciled these ideologies, and in other times provided a stage for the conflict to play out. The structure of American government reflects these compromises and often leaves public agencies with partially conflicting missions. At times, these tensions are disabling; other times they facilitate administrative action that finesses the controversy. For example, the Federal Reserve is able to play the executive branch and Congress off against each other, as well as liberals and conservatives because of their ambiguous mission (Greider, 1987, p. 279).

Therefore, government-business policy in the US is not necessarily consistent or ordered because of the pragmatic nature of Americans. Those expecting a sorting out of policies to fit a more rational approach will be disappointed. Policies favored by business need to appeal to a wider public, especially if they involve increased public spending. Economic crises usually create jarring political battles, and this one is no exception. It may not be resolved soon. When it is, it may usher in new political coalitions and present new possibilities.

NOTES

1. Jefferson's party, known in that day as the Republicans, evolved into today's Democratic party. It has been termed the Democratic-Republican party by many historians to avoid confusion with today's Republican party. In this article, I use the term "Democrats" to refer to followers of Jefferson and Jackson.

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