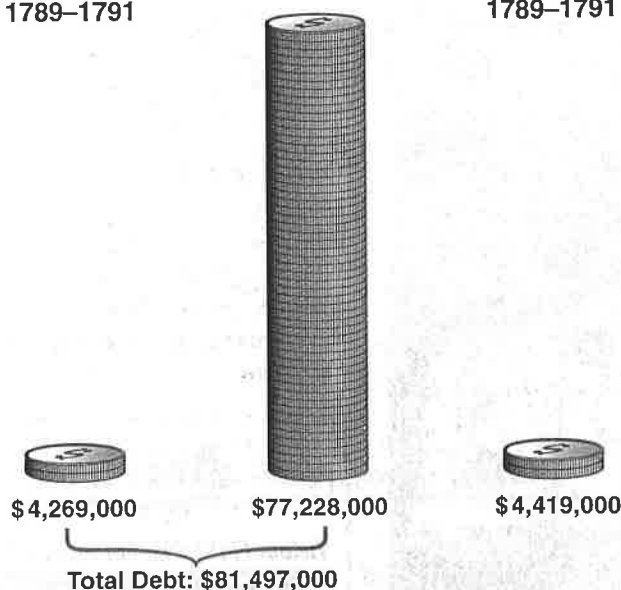


Money Problems of the New Nation, 1789–1791

Amount of Money
It Cost to Run
the Government,
1789–1791

Amount of Money
the United States
Owed

Total Income
United States
Received,
1789–1791



Source: *Historical Statistics of the United States*

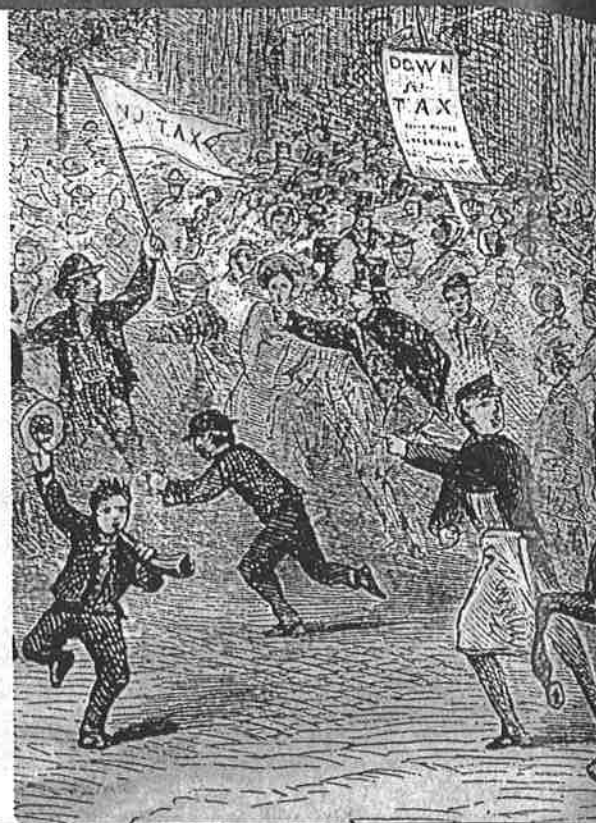


CHART Skills

The U.S. government had far greater expenses than income and desperately needed money. The solution: Congress raised taxes, which led to a rebellion on the frontier (right).

1. Comprehension

- What was the government's total income between 1789 and 1791?
- What were its total expenses during that period?

2. Critical Thinking

Applying Information

Does the chart provide information suggesting the government should raise or lower taxes? Explain.

Economics

Reducing the Nation's Debt

As Secretary of the Treasury, Alexander Hamilton faced many problems. Among the most pressing was the large national debt. The **national debt** is the total amount of money that a government owes to others.

During the Revolution, both the national government and individual states had desperately needed money. They had borrowed heavily from foreign countries and ordinary citizens to pay soldiers and buy supplies. Then, as now, governments borrowed money by issuing bonds. A **bond** is a certificate that promises to repay the money loaned, plus interest, on a certain date. For example, if a person pays \$100 for a bond, the government agrees to pay back \$100 plus interest by a certain time.

Hamilton's Plan Hamilton called for the government to repay both federal and state debts. He wanted the government to buy up all the bonds issued by both the national and state governments before 1789. He then planned to issue new bonds to pay off the old debts. As the economy improved, the government would then be able to pay off the new bonds. Many people, including bankers and investors, welcomed Hamilton's plan. Others attacked it.

Debating Hamilton's Plan James Madison led the opposition. Madison argued that Hamilton's plan would reward speculators. A **speculator** is someone who invests in a risky venture in the hope of making a large profit.

During the Revolution, the government had issued bonds to soldiers and citizens who supplied goods. Many of these bondholders needed cash to survive. So, they sold their bonds to speculators. Speculators bought bonds worth one dollar for only 10 or 15 cents. If the government paid off the old bonds in full, speculators stood to make fortunes. Madison thought that speculators did not deserve to make such profits.

Hamilton replied that the United States must repay its debts in full. Otherwise, he said, it risked losing the trust of investors in the future. The support of investors, he argued, was crucial to building the new nation's economy. After much debate, Congress approved full repayment of the national debt.

As a southerner, James Madison also led the fight against the other part of Hamilton's plan, the repaying of state debts. By 1789, most southern states had paid off their debts from the Revolution. They thought that other states should do the same. As a result, they bitterly opposed Hamilton's plan.

Hamilton's Compromise In the end, Hamilton proposed a compromise. Many southerners wanted the nation's capital to be located in the South. Hamilton offered to support that goal if southerners agreed to his plan to repay state debts.

Madison and others accepted the compromise. In July 1790, Congress voted to repay state debts and to build a new capital city. The new capital would not be part of any state. Instead, it would be built on land along the Potomac River between Virginia and Maryland. Congress called the area the District of Columbia. Today, it is known as Washington, D.C. Plans called for the new capital to be ready by 1800. Meanwhile, the nation's capital was moved from New York to Philadelphia.

Plans to Build the Economy

Hamilton's next challenge was to strengthen the faltering national economy. His economic plan was designed to help both agriculture and industry.

Hamilton called on Congress to set up a national bank. In 1791, Congress created the Bank of the United States. The government deposited money from taxes in the Bank. In turn, the Bank issued paper money to pay the government's bills and to make loans to farmers and businesses. Through these loans, the Bank encouraged economic growth.

To help American manufacturers, Hamilton asked Congress to pass a tariff, or tax, on foreign goods brought into the country. He wanted a high tariff, to make imported goods more expensive than American-made goods. A tariff meant to protect local industry from foreign competition is called a protective tariff.

In the North, where there were more and more factories, many people supported Hamilton's plan. Southern farmers, however, bought many imported goods. They opposed a protective tariff that would make imports more expensive.

In the end, Congress did pass a tariff, but it was much lower than the protective tariff Hamilton wanted.



Identify Supporting Details

Which details in the first two paragraphs on this page describe the debate over Hamilton's plan to reduce the national debt? Add these details to your outline.

Geography and History

Building the Nation's New Capital

The location of the nation's new capital was at a crossroads between the North and the South. Pierre L'Enfant, the city's first designer, drew up ambitious plans for the new capital. L'Enfant's assistant, Benjamin Banneker, then helped lay out the wide streets and the mile-long avenue—today's Pennsylvania Avenue. The city was built on tobacco fields, marshes, woodlands, and pastures. For years, residents faced severe problems from mud, insects, and malaria. Even after John Adams moved into the White House in 1800, a nearby creek often flooded Pennsylvania Avenue, and pigs roamed among the half-finished buildings and tree stumps.



What geographic challenges did planners face in building Washington, D.C.?

The Whiskey Rebellion

To raise money for the Treasury, Congress approved a tax on all liquor made and sold in the United States. Hamilton wanted this tax to raise money for the Treasury. Instead, the new tax sparked a rebellion that tested the strength of the new government.

A Hated Tax Like many Americans, backcountry farmers grew corn. However, corn was bulky and hard to haul over rough roads. Instead, farmers converted their corn into whiskey. Barrels of whiskey could be shipped more easily to markets in the East.

Backcountry farmers hated the tax on whiskey. Many refused to pay it. They compared it to the taxes Britain had forced on the colonies.

In 1794, when officials in western Pennsylvania tried to collect the tax, farmers rebelled. Thousands marched in protest through the streets of Pittsburgh. They sang Revolutionary songs and tarred and feathered the tax collectors.

A Show of Strength Washington responded quickly. He called up the militia and dispatched them to Pennsylvania. When the rebels heard that thousands of troops were marching against them, they fled back to their farms. Hamilton wanted the leaders of the rebellion executed, but Washington disagreed and pardoned them. He believed that the government had shown its strength to all. Now, it was time to show mercy.

The **Whiskey Rebellion** tested the will of the new government. Washington's quick response proved to Americans that their new government would act firmly in times of crisis. The President also showed those who disagreed with the government that violence would not be tolerated.



Section 1 Assessment



Recall

1. **Identify** Explain the significance of (a) Judiciary Act, (b) Bank of the United States, (c) Whiskey Rebellion.
2. **Define** (a) inauguration, (b) precedent, (c) Cabinet, (d) national debt, (e) bond, (f) speculator, (g) tariff.

Comprehension

3. Describe two steps that George Washington took as President to organize the new government.
4. What were three features of Alexander Hamilton's plan to lower the national debt and strengthen the economy?

5. How did the Whiskey Rebellion reveal George Washington's concern with national security?

Critical Thinking and Writing

6. **Exploring the Main Idea** Review the Main Idea statement at the beginning of this section. Then, write five statements of fact that support the main idea.
7. **Supporting a Point of View** Hamilton and Madison disagreed about paying off bonds issued during the Revolution. Suppose that you had to defend one side. Write a statement explaining which side you support in that debate and why.

ACTIVITY

Go online
PHSchool.com

Connecting to Today

Use the Internet to find the names of the current Cabinet departments and the person who runs each today. Make a chart listing each department and its head. Then, summarize its main functions. For help in completing the activity, visit PHSchool.com, **Web Code mfd-0902**.

2 Creating a Foreign Policy

Prepare to Read

Objectives

- In this section, you will
- Describe American opinions of the French Revolution.
 - Explain why Washington wanted the nation to remain neutral in foreign affairs.
 - Describe why it was difficult for the United States to remain neutral.

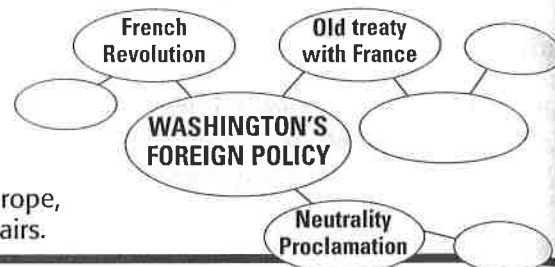
Key Terms

French Revolution
foreign policy
neutral
Neutrality Proclamation
Jay's Treaty
Farewell Address

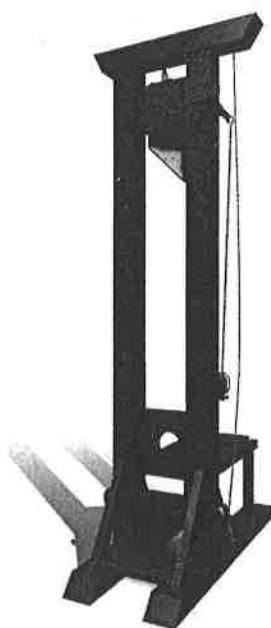


Target Reading Skill

Clarifying Meaning Copy the concept web below. As you read, fill in each blank oval with events and developments that affected President Washington's foreign policy. Add as many ovals as you need.



Main Idea As the French Revolution and wars raged in Europe, President Washington steered a neutral course in foreign affairs.



The guillotine: death machine of the French Revolution

Setting the Scene

Late in 1789, French ships arrived in American ports with startling news. On July 14, an angry mob in Paris, France, had destroyed the Bastille (bahs TEEL), an ancient fort that was used as a prison. The attack on the Bastille was an early event in the **French Revolution**. Before long, the revolution would topple the monarch and lead to the execution of thousands of ordinary French citizens.

The French Revolution broke out a few years after Americans had won their independence. Like Americans, the French fought for liberty and equality. As the French Revolution grew more violent, however, it deepened political divisions within the United States.

Responses to the French Revolution

The French had many reasons to rebel against their king, Louis XVI. The peasants and the middle class paid heavy taxes, while nobles paid none. Reformers wanted a constitution to limit the king's power and protect basic rights, as the American Constitution did.

American Support At first, most Americans supported the French Revolution. They knew what it meant to struggle for liberty. Then, too, France had been their first ally. Also, many Americans admired the Marquis de Lafayette, a leading French reformer, who had fought with them in the American Revolution.

In 1793, however, the French Revolution turned more and more violent. Radical reformers gained power. They beheaded the king and later the queen. During the Reign of Terror, tens of thousands of ordinary French citizens were executed.

Violence Stirs Division The violence in France divided Americans. Some, like Thomas Jefferson, continued to support the French. He condemned the executions of the king and queen. Still, he felt that the French had the right to use violence to win freedom.

Alexander Hamilton, John Adams, and others strongly disagreed. One could no more create democracy through widespread violence, claimed Adams, "than a snowball can exist in the streets of Philadelphia under a burning sun."

The United States Remains Neutral

The French Revolution frightened most European rulers and nobles. They wanted to prevent revolutionary ideas from spreading to their lands. Europe was soon plunged into a string of wars that lasted on and off for more than 20 years.

A Difficult Decision Faced with war in Europe, President Washington had to decide on a foreign policy. Foreign policy refers to the actions that a nation takes in relation to other nations. During the American Revolution, the United States and France had signed a treaty that made the two countries allies. Now, France wanted to use American ports to supply its ships and launch attacks on British ships. Washington worried that the United States could not honor its treaty with France and still remain neutral in the European conflict. **Neutral** means not taking sides in a conflict.

Divisions in the Cabinet The issue of the treaty deepened the divisions within Washington's Cabinet. Hamilton pointed out that the United States had signed the treaty with Louis XVI. With the king dead, he argued, the treaty was no longer valid. Jefferson, a supporter of France, urged strict acceptance of the treaty.

After much debate, Washington issued the **Neutrality Proclamation** in April 1793. It stated that the United States would not support either side in the war. Further, it forbade Americans from aiding either Britain or France.

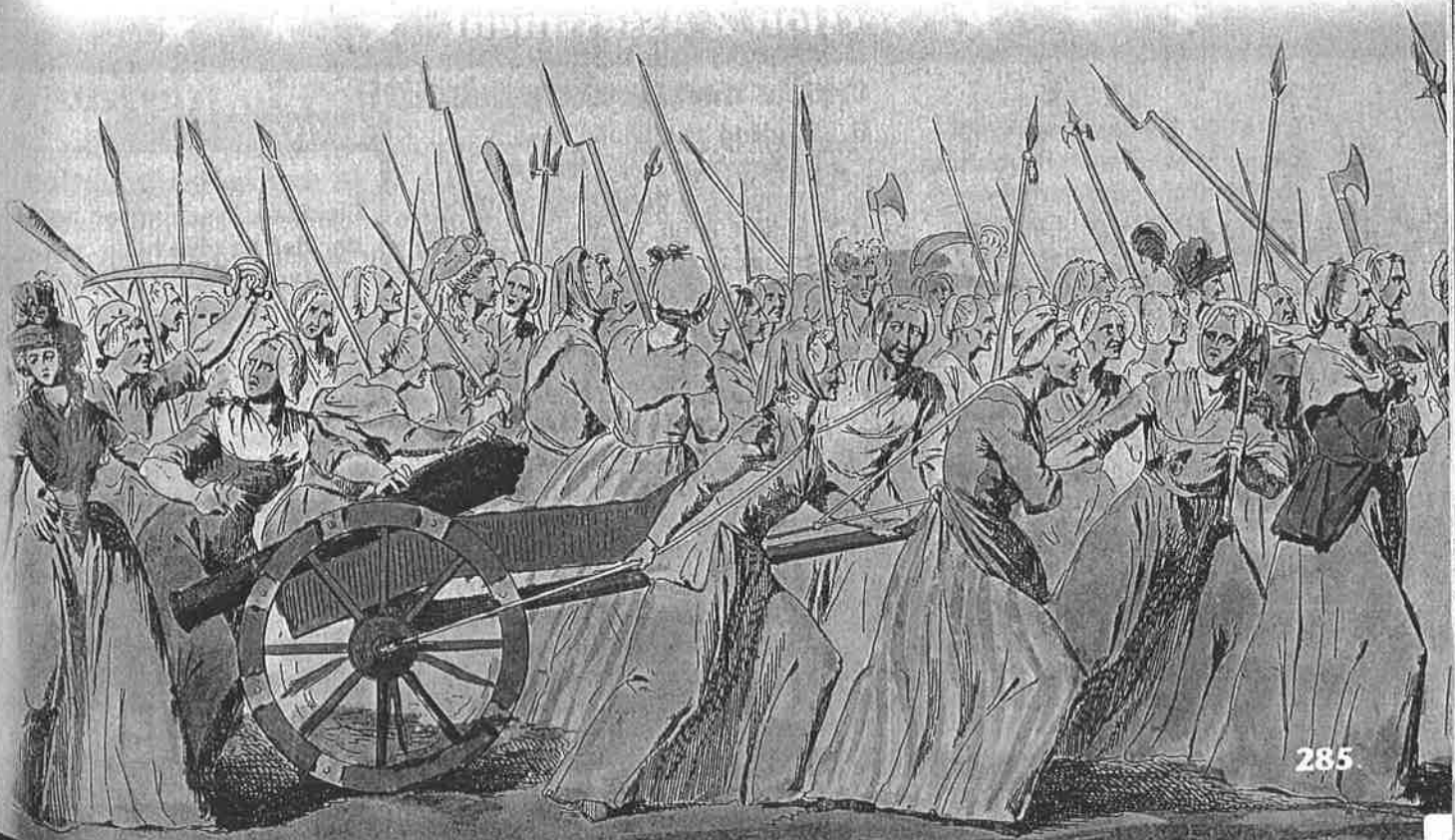
The Neutrality Proclamation was a defeat for Jefferson. This and other defeats eventually led Jefferson to leave the Cabinet.

Viewing History

On the March

At the start of the French Revolution, famine gripped Paris. Thousands of angry women marched on the palace of the king shouting "Bread, Bread."

Drawing Conclusions *Why might women such as these expect Americans to support their revolution?*





Paraphrase

Paraphrase the information about Jay's Treaty. Add this information to your concept web.

Struggling to Remain Neutral

Declaring neutrality was easier than enforcing it. Americans wanted to trade with both Britain and France. However, those warring nations seized American cargoes headed for each other's ports.

Jay's Treaty In 1793, the British captured more than 250 American ships trading in the French West Indies. Some Americans called for war. Washington, however, knew that the United States was too weak to fight. He sent Chief Justice John Jay to Britain for talks.

Jay negotiated an agreement that called for Britain to pay damages for the seized American ships. Britain also agreed to give up the forts it still held in the West. Meanwhile, Americans had to pay debts long owed to British merchants.

Jay's Treaty sparked loud protests because it did nothing to protect the rights of neutral American ships. After furious debate, the Senate finally approved the treaty in 1795.

Washington Retires Before retiring in 1796, George Washington published his Farewell Address. In it, he advised Americans against becoming involved in European affairs:

“Tis our true policy to steer clear of permanent Alliances, with any portion of the foreign World. . . . The great rule of conduct for us, in regard to foreign nations is . . . to have with them as little political connection as possible.”

—George Washington, Farewell Address, 1796

Washington did not oppose foreign trade, but he did reject alliances that could drag the country into war. His advice guided American foreign policy for many years.



Section 2 Assessment



Recall

- Identify** Explain the significance of (a) French Revolution, (b) Neutrality Proclamation, (c) Jay's Treaty, (d) Farewell Address.
- Define** (a) foreign policy, (b) neutral.

Comprehension

- Why did the French Revolution divide Americans?
- Describe two actions that Washington took to avoid war.
- What problems did the United States have remaining neutral when France and Britain went to war?

Critical Thinking and Writing

6. Finding the Main Idea

Review the Main Idea statement at the beginning of this section. Then, list two threats to American neutrality during the 1790s. Explain how Washington responded to each.

7. Identifying Points of View

Writing about the French Revolution, Thomas Jefferson said that he was willing to see “half the earth devastated” in order to win the “liberty of the whole.” (a) Restate Jefferson's main idea in your own words. (b) What does this idea tell you about Jefferson's values?

ACTIVITY

Giving an Introduction President Washington has decided to give his Farewell Address in your school auditorium. You have been asked to introduce him. Prepare a two-minute introduction, mentioning what you consider to be Washington's greatest achievements.

3 Political Parties Emerge

Prepare to Read

Objectives

- In this section, you will
- Explain why many Americans distrusted the idea of political parties.
 - Contrast the views of Hamilton and Jefferson.
 - Explain why political parties developed.
 - Describe how the election of 1796 increased political tensions.

Key Terms

faction
unconstitutional
Democratic
Republican
Federalist



Target Reading Skill

Comparison and Contrast Copy the table below. As you read, fill in each column with the views of Hamilton and Jefferson. Add as many rows as you need.

| HAMILTON'S VIEWS | JEFFERSON'S VIEWS |
|---|---|
| <ul style="list-style-type: none">• Admired British economy; favored manufacturing, trade, cities•• | <ul style="list-style-type: none">•• Wanted to keep federal government small• |

Main Idea During the 1790s, two political parties were formed: the Federalists and the Republicans.

Setting the Scene When George Washington took office in 1789, the United States had no political parties. In fact, most American leaders disliked even the idea of parties. "If I could not go to heaven but with a party," said Thomas Jefferson, "I would not go at all."

Early on, though, political disagreements divided Americans. "Men who have been [friends] all their lives," noted Jefferson, "cross streets to avoid meeting, and turn their heads another way, lest they should be obliged to touch their hats." Before Washington left office in 1797, two rival political parties had emerged to compete for power.



E pluribus unum

A Distrust of Political Parties

Americans had reason to distrust political parties. They had seen how **factions**, or opposing groups within parties, worked in Britain. There, members of factions often plotted to win government favors and bribes. Many were more interested in personal gain than in the public good.

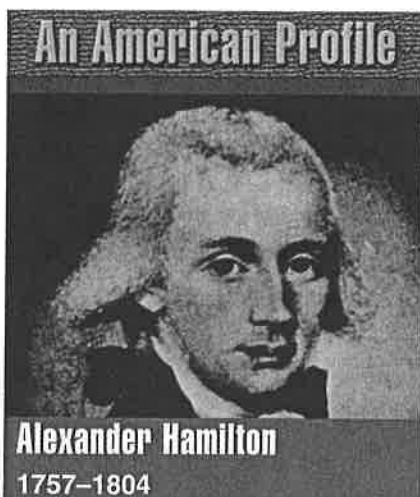
Americans also saw political parties as a threat to national unity. They agreed with George Washington, who warned Americans that parties would lead to "jealousies and false alarms."

Despite the President's warning, factions grew up around two members of his Cabinet, Alexander Hamilton and Thomas Jefferson. The two men differed in background, looks, and personality as well as in politics. Born in the West Indies, Hamilton had worked his way up from poverty. He dressed in fine clothes and spoke forcefully. Energetic, brilliant, and restless, Hamilton enjoyed political debate.

Jefferson was tall and lanky. Although he was a wealthy Virginia planter, he dressed and spoke informally. One senator recalled:

“His clothes seem too small for him. He sits in a lounging manner, on one hip commonly, and with one of his shoulders elevated much above the other. His face has a sunny aspect. His whole figure has a loose, shackling air. . . . [His conversation] was loose and rambling; and yet he scattered information wherever he went.”

—*The Diary of William Maclay and Other Notes on Senate Debates*



When Alexander Hamilton was about eight years old, his father abandoned his family. A few years later, Alexander's mother died. Despite these early losses, the boy worked hard to succeed. He studied his mother's books. At the age of 11, Alexander became an apprentice to a local merchant. He quickly rose to become manager. Impressed by his talents, his employer paid for Alexander to be educated in New York. There the 19-year-old college student wrote three pamphlets supporting the Patriot cause. Readers were startled to learn that the author was such a young man.

How might Hamilton's early life have helped prepare him for government service?

Differing Views

Hamilton and Jefferson disagreed on many issues. Their quarrels were rooted in their different views about what was best for the new nation.

Manufacturing or Farming The two leaders differed on economic policy. Hamilton wanted the United States to model itself on Britain. The government, he thought, should encourage manufacturing and trade. He also favored the growth of cities and the merchant class.

Jefferson thought that farmers, rather than merchants, were the backbone of the new nation. "Cultivators of the earth," he wrote "are the most valuable citizens." He feared that a manufacturing economy would corrupt the United States by concentrating power in the hands of a small group of wealthy Americans.

Federal or State Power Hamilton and Jefferson also disagreed about the power of the federal government. Hamilton wanted the federal government to have greater power than state governments. A strong federal government, he argued, was needed to increase commerce. It would also be able to restrain mob violence like that of the Whiskey Rebellion.

In contrast, Jefferson wanted as small a federal government as possible, in order to protect individual freedom. He feared that a strong federal government might take over powers that the Constitution gave to the states.

Strict or Loose Interpretation of the Constitution Jefferson and Hamilton also clashed over the Bank of the United States. Jefferson worried that a national bank would give too much power to wealthy investors who would help run it and to the government.

Jefferson opposed the law setting up the bank. He claimed that it was unconstitutional, or not permitted by the Constitution. Nowhere did the Constitution give Congress the power to create a Bank, he argued. For Jefferson, any power not specifically given to the federal government belonged to the states.

Hamilton did not agree with Jefferson's strict interpretation of the Constitution. He preferred a looser interpretation. The Constitution gave Congress the power to make all laws "necessary and proper" to carry out its duties. Hamilton argued that the Bank was necessary for the government to collect taxes and pay its bills.

Federalists vs. Republicans

FEDERALISTS

- 1 Were led by Alexander Hamilton
- 2 Believed wealthy and well educated should lead nation
- 3 Favored strong central government
- 4 Emphasized manufacturing, shipping, and trade
- 5 Favored loose interpretation of Constitution
- 6 Were pro-British
- 7 Favored national bank
- 8 Favored protective tariff

VS.

REPUBLICANS

- 1 Were led by Thomas Jefferson
- 2 Believed people should have political power
- 3 Favored strong state governments
- 4 Emphasized agriculture
- 5 Favored strict interpretation of Constitution
- 6 Were pro-French
- 7 Opposed national bank
- 8 Opposed protective tariff

Britain or France Finally, the two leaders disagreed over foreign policy. Hamilton wanted close ties with Britain, a major trading partner. Jefferson favored France, the first ally of the United States.

Development of Political Parties

At first, Hamilton and Jefferson clashed in private. Then, as Congress began to pass many of Hamilton's programs, Jefferson and James Madison decided to organize supporters of their views.

The two men moved cautiously at first. In 1791, they went to New York, telling people that they wanted to study its wildlife. In fact, Jefferson was interested in nature. Their main goal, though, was to meet with leading New York politicians like Governor George Clinton and Aaron Burr, a fierce critic of Hamilton. Jefferson asked them to help defeat Hamilton's program by convincing New Yorkers to vote for Jefferson's supporters.

Republicans and Federalists Soon, leaders in other states were organizing to support either Hamilton or Jefferson. Jefferson's supporters called themselves **Democratic Republicans**, often shortened to **Republicans**.^{*} This group included small farmers, artisans, and some wealthy planters.

Hamilton and his supporters were called **Federalists** because they wanted a strong federal government. Federalists drew support mainly from merchants and manufacturers in such cities as Boston and New York. They also had the backing of some southern planters.

Newspapers Take Sides In the late 1700s, the number of American newspapers more than doubled. This growth met a

GRAPHIC ORGANIZER

Skills

By the late 1790s, there were two political parties in the United States: the Federalist party and the Republican party.

1. Comprehension

Describe two ways in which the Republicans and the Federalists differed on economic issues.

2. Critical Thinking Analyzing Primary

Sources "The average person is far too ignorant to make wise political decisions." Do you think a Republican or a Federalist would be more likely to agree with this statement? Explain your answer.

Civics



Identify Contrasts

As you read, check to see if you understand the major differences between the Republicans and the Federalists.

^{*}Jefferson's Republican party was not the same as today's Republican party. In fact, his party later grew into the Democratic party.

Primary Source

A Newspaper Attack

Philip Freneau's Republican newspaper, the National Gazette, launched bitter attacks on Hamilton's economic policies—such as this anonymous letter:

"It is a Fact that money set aside to the sinking of the debt has been laid out, not so as most to sink the debt, but so as to help gamblers in the funds.

It is a Fact that a Bank law has given a reward of from four to five million dollars to men in great part of the same description.

It is a Fact that a share of this bounty went immediately into the pockets of the very men most active and forward in granting it."

—Letter to Philip Freneau, Editor,
National Gazette, October 20, 1792

Analyzing Primary Sources
In your own words, describe the "facts" that the writer cites. Based on your reading of the chapter, are the "facts" true, false, or exaggerated?

demand for information. A European visitor was surprised that many Americans could read. "The common people . . . all read a write, and understand arithmetic," he reported, and "almost every little town now furnishes a circulating library."

As party rivalry grew, newspapers took sides. In the *Gazette of United States*, publisher John Fenno backed Hamilton and the Federalists. Jefferson's friend Philip Freneau (frie NOH) started a rival paper, the *National Gazette*, which supported Republicans.

Newspapers had great influence on public opinion. In stinging language, they raged against political opponents. Often, articles mixed rumor and opinion with facts. Emotional attacks and counterattacks fanned the flames of party rivalry.

Election of 1796

Political parties played a large role in the election of George Washington's successor. In 1796, Republicans backed Thomas Jefferson for President and Aaron Burr for Vice President. Federalists supported John Adams for President and Thomas Pinckney for Vice President.

The election had an unexpected outcome. Under the Constitution, the person with the most electoral votes became President. The candidate with the next highest total was made Vice President. John Adams, a Federalist, won office as President. The leader of the Republicans, Thomas Jefferson, came in second and became Vice President.

Having the President and Vice President from opposing parties further increased political tensions. John Adams took office in March 1797 as the nation's second President. Events soon deepened the distrust between him and Jefferson.



Section 3 Assessment



Recall

1. **Identify** Explain the significance of (a) Democratic Republican, (b) Federalist.
2. **Define** (a) faction, (b) unconstitutional.

Comprehension

3. What reasons did Americans have to distrust political parties?
4. List two issues on which Thomas Jefferson and Alexander Hamilton disagreed and describe their points of view.
5. Explain why political parties emerged in the 1790s.
6. What role did political parties play in the election of 1796?

Critical Thinking and Writing

7. **Exploring the Main Idea**
Review the Main Idea statement at the beginning of this section. Then, write a letter to the editor supporting either the Republicans or the Federalists in the election of 1796.
8. **Supporting a Point of View**
Whose political ideas do you favor, Jefferson's or Hamilton's? Explain your answer.

ACTIVITY

Writing Newspaper Headlines You are the publisher of either the *Gazette of the United States* or the *National Gazette*. Write three headlines about the election of 1796. Be sure that your headlines express the point of view of your newspaper.