

Case Study #1—Settling the National Debt

Under the Articles of Confederation, Congress decided how much each state should contribute to pay for the army and other national expenses. Congress could borrow money, print paper currency, and issue loan certificates. However, the national government did not have the power to raise revenue directly by taxing property, individuals, or imported goods. Only the states could collect taxes. The state representatives who drew up the Articles of Confederation in 1777 had sought to prevent the growth of a powerful central government.

During the War for Independence, Congress fell deep into debt. Many states failed to pay their share of the common expenses, and disputes among the states were frequent. The little gold and silver coin available was used mostly to pay the interest on loans from France and Holland. Americans who were owed money by Congress for supplies or services were issued loan certificates which promised annual interest and full payment at a future date. Congress, however, failed even to meet the annual interest payments, forcing struggling certificate holders to sell their certificates to speculators for a fraction of their face value. In turn, the speculators hoped that they would eventually be able to redeem the certificates for close to face value.

In early 1781, Congress appointed Robert Morris to serve as secretary of finance and granted him broad powers to deal with the wartime financial crisis. Morris insisted that the Articles of Confederation be amended to allow Congress to impose a 5 percent tax on imports. He proposed that the revenues be earmarked for paying war debts. Twelve state legislatures quickly agreed to the amendment. Rhode Island, however, said no. Even after Morris hired Thomas Paine to write articles condemning Rhode Island's decision, the state's governor and legislature stood firm. They declared that the power to raise revenue would make Congress "independent of their constituents [the states]; and so the proposed impost is repugnant to the liberty of the United States."

A high-ranking Congressional delegation was sent to Rhode Island to argue on behalf of the amendment. During their journey, the delegates received news that the Virginia legislature had unexpectedly overturned its earlier ratification of the amendment. The amendment was clearly sunk. A few months later, the American victory at Yorktown reduced the financial pressure on Congress.

After the Treaty of Paris of 1783 was signed, Congress owed \$34 million to American creditors and \$10 million to foreign creditors. Settling the foreign debt was given top priority, since the young nation needed to maintain a good credit rating among foreign lenders. American creditors were forced to wait.

Former officers in the Continental Army, led by George Washington, demanded prompt payment for their military service. Joined by other prominent creditors, they prodded Congress in April 1783 to propose another import tax to raise revenue. Under the amendment, Congress' power to tax imports would be limited to twenty-five years and the states were given the authority to appoint the tax collectors. After three years, all the states but New York had agreed to the compromise plan, although some had attached conditions. Congressmen fearful of a strong national government suggested an alternative amendment under which the national debt would have been divided up and turned over to the states. They also argued that only the original holders of the loan certificates, not speculators, should be entitled to interest and full payment.

In 1786, the New York legislature approved the amendment to give Congress the power to tax imports. Congress, however, refused to accept the conditions New York imposed. Further attempts at compromise failed. Although much of the national debt was in fact assumed by individual states, many creditors continued to hold seemingly worthless certificates.

Case Study #2—The Pirates of North Africa

During the second half of the eighteenth century, much of the North African coast stretching from the straits of Gibraltar to Egypt was controlled by pirate chieftains. The pirates supported themselves mainly by preying on merchant shipping in the Mediterranean Sea. Ships and cargoes that fell into their hands were sold, while the captured crew members and passengers were either ransomed or forced to work as slaves.

Rather than going to the expense of stationing naval forces in the region, most European countries chose to pay the pirate chieftains a yearly tribute to ensure the safety of the ships flying their national flags. The annual cost of protection ranged from roughly \$100,000 to nearly \$1 million. The "Barbary pirates," as they were called, were clever diplomats. They preyed on only a few European nations at a time, while temporarily maintaining peaceful relations with the others.

Until 1776, Britain's tribute to the Barbary pirates applied to colonial ships. With safe conduct passes issued by British authorities, American sea captains conducted nearly \$4 million worth of trade with Mediterranean ports annually. The colonial rebellion, however, ended Britain's protection. During the war, the Americans failed to persuade the French to extend their protection to American ships.

In March 1785, Congress gave John Adams, Benjamin Franklin, and Thomas Jefferson the authority to conclude treaties with the Barbary pirates and authorized \$80,000 for expenses and tribute. In the meantime, American sea captains used forged British and French passes to escape seizure.

In July 1785, two American ships were captured by pirates operating from Algiers. The ruler of Algiers refused to discuss a peace treaty with an American representative and instead demanded \$59,000 in ransom for the crew members and passengers. The Americans remained in captivity after the negotiations broke down. At the same time, the ruler of Tripoli insisted that the United States provide him an annual tribute of \$100,000. Again, efforts at negotiation failed.

American ship owners sailing in the Mediterranean were forced to pay staggering insurance rates. John Adams favored agreeing to the terms of the pirate chieftains, noting that the increased insurance rates were five times the cost of the tribute being demanded. In contrast, Thomas Jefferson recommended that the United States team up with European nations to defeat the pirates.

Jefferson's proposal won praise in several European capitals. At home, however, Congress informed Jefferson that it would not be able to supply the funding to allow the United States to participate in the plan. Jefferson reluctantly conceded that the United States had neither the might to combat the pirates nor the finances to pay them off. Meanwhile, the Americans captured by the ruler of Algiers remained imprisoned. They were not to be released until 1795, after nearly \$1 million in tribute had been paid.

Case Study #3: Soldiers in Time of Peace

One of the key points of friction between the colonists and Britain revolved around the stationing of British troops in colonial towns. Like their counterparts in Britain, colonial citizens feared that a standing army could become a tool for imposing a tyrannical government on the people.

Suspensions toward the military did not disappear with the outbreak of the War for Independence. George Washington and his generals regularly complained that they were not given adequate supplies to maintain the Continental Army. Food and clothing were often lacking, while the enlistment bonuses and wages that had been promised to soldiers were never fully paid. The state legislatures frequently withheld their shares of the war effort's expenses. On several occasions, entire regiments threatened to mutiny over back pay. Only gifts and foreign loans enabled Washington to keep the army intact.

The officers of the Continental Army were especially vocal in their complaints. Nearly all of them had enlisted for the duration of the war. Many spent large sums of their own money to equip themselves and their troops. In 1780, when colonial prospects appeared bleak, Congress promised to grant them a lifelong pension equalling half their regular pay once the war was over. Within two years, however, the pledge was withdrawn.

After the British surrender at Yorktown in October 1781, resentment within the officer corps grew. The officers felt that they would lose their influence over Congress once the army was disbanded and sent home. In February 1783, many of Washington's own staff officers joined forces with prominent creditors to devise measures to pressure Congress to settle its debts. They secretly discussed a plan to use the power of the army to compel the state legislatures to give Congress the authority to raise revenue. When Washington learned of the plot, he confronted his officers and harshly criticized them. A military coup was averted, but the debts to the Continental Army's soldiers remained.

With Congress's announcement on April 11, 1783 that the war was officially over, Washington agreed that his troops should be sent home immediately. Many of them, however, refused to put down their weapons until the issue of back pay was settled. After fear of a mutiny mounted, Congress paid the troops for three months of service.

Under the Articles of Confederation, Congress lacked the authority to maintain a standing army in peacetime. America's entire military force, stationed mostly on the frontier, consisted of fewer than seven hundred soldiers. The officer corps, however, did not quietly disband. Many of its members believed that they, not the politicians in Congress or the state legislatures, were best equipped to guide the young nation. In May 1783, they formed the Society of Cincinnati, electing Washington as their president. The officers had chosen an appropriate symbol for their organization. Cincinnatus was a Roman aristocrat who agreed to lead Rome against an invading army, performed his patriotic duty, and then returned to his farm.

The formation of the Society of Cincinnati met with opposition in the state legislatures and in the popular newspapers. Critics saw the society as a powerful pressure group working to create a military aristocracy and strengthen the national government at the expense of local control. The Massachusetts legislature denounced the society as "dangerous to the peace, liberty, and safety of the United States." A journalist detected the hand of "the prime, infernal prince of hell."

Case Study #4—The Treaty of Paris of 1783

The Treaty of Paris of 1783 ended the War of Independence and recognized American independence. It was ratified by the Congress of the United States, not by the individual states. In some states, opposition to provisions of the treaty was fierce and continued to simmer over the next five years.

The treatment of the colonists who remained loyal to Britain was the thorniest issue. Perhaps 30 percent of the colonists had supported the mother country to some extent during the war. Many wished to return to their homes after the fighting. They also hoped to be compensated for property that had been seized or destroyed.

During the conflict, every state had passed "test" laws requiring its citizens to renounce their allegiance to King George III. The property of loyalists had either been seized or heavily taxed. Under the Treaty of Paris, loyalists were not to be persecuted further and Congress was to recommend to the states that returning loyalists be allowed to seek recovery of their property in the state courts.

In defiance of the treaty, many state legislatures and even town meetings passed resolutions opposing the return of the loyalists. The confrontation in New York, where nearly half of the population had been loyalist at one time or another, was particular bitter. The New York legislature in 1784 passed a law denying the vote to anyone who had helped the British during the war. The law was so sweeping that two-thirds of the citizens of New York City and the surrounding counties were prohibited from voting.

Another controversial provision of the treaty called on the states to permit British merchants to collect the pre-war debts of the former colonists. These debts had been payable in gold or silver coin. The planters of Maryland and Virginia alone owed nearly \$15 million to British merchants. During the war, both states had passed laws enabling them to pay their debts with paper currency to their state treasuries. In exchange, the states issued certificates stating that the planters were freed from their debts to British creditors.

While state laws in Virginia prevented British creditors from using state courts to sue the planters for several years, Congress opened negotiations with the British creditors. In 1786, a compromise was reached in which the creditors agreed to drop their demand for interest charges and to accept repayment in five annual installments. Congress insisted that the states obey the treaty. Nonetheless, Virginia refused to accept the agreement.

At the same time, Congress lacked the power to force Britain to withdraw its troops from the Great Lakes region. Under the Treaty of Paris, Britain pledged to withdraw from forts that fell within the new boundaries of the United States "with all convenient speed." The outposts allowed Britain to control shipping in the Great Lakes and carry on the fur trade with local Indians. Despite repeated protests from Congress, the British held their ground.

A final dispute centered around an issue not specifically covered in the Treaty of Paris—the right of Americans living west of the Allegheny Mountains to use the Ohio and Mississippi river systems to transport their goods to New Orleans. The issue involved U.S. relations with Spain, since Britain had turned over control of New Orleans and Florida to Spain after the war. The Spanish feared U.S. expansion westward and refused to permit Americans to use the port of New Orleans. Instead, they proposed that Congress surrender claims to navigate the river systems for twenty-five years in exchange for Spain's promise to open trade between its colonies and the United States.

Seven northern states supported the agreement, ensuring its passage in Congress. Southerners and Westerners, however, were outraged. James Madison labeled the agreement "treason," while some Westerners threatened to seize New Orleans themselves or negotiate a separate deal with Spain. A few even suggested rejoining Britain.

Case Study #5—Debtors, Creditors, and Paper Money

In 1783, 90 percent of America's population lived on farms. During the war, farm products were in high demand by both the British and American armies. The British paid in gold or silver, while the Americans typically offered paper money printed by the individual states or by Congress. Money was plentiful.

The money supply, however, quickly dried up as the war ended. The gold and silver soon flowed back to Europe to repay war debts and purchase European imports. Moreover, Congress recommended in 1780 that the nearly worthless paper money in circulation no longer be accepted as legal tender.

The end of the war also meant that the states had to settle the huge debts they had accumulated during the fighting. Pennsylvania, for example, owed \$22 million, while Virginia's debt was \$20 million. Most of the money was owed to American troops or to merchants and farmers who had supplied American armies. In many states, over half of the annual budget went toward paying interest on war debts. During the war, the states had sold the property of loyalists to help offset their debts, but after 1781 they had no alternative but to raise taxes. Tax rates throughout America were much higher after the war than before.

Many farmers found themselves in an especially difficult situation. They were squeezed by higher taxes, demands from creditors, and falling prices for their crops. Moreover, the shrinkage in the money supply meant that fewer farmers were able to find creditors willing to lend them money in exchange for a mortgage on their land. Increasingly, farmers were forced to give up everything they owned to pay their debts.

Farmers banded together to fight against foreclosure. In some areas, they reclaimed livestock, tools, and other property that had been seized by local sheriffs. Officials were frequently threatened with physical harm. Farmers also lobbied their state legislatures to pass "stay laws," which blocked the collection of debts for six months or more.

Throughout the young republic, debtors were pitted against creditors in the political arena. At the center of the contest was the topic of paper money. In seven states, debtors had enough political clout to convince their legislatures to resume printing paper money. They contended that more money had to be put in circulation to enable them to take out new loans. In the other states, creditors won out, arguing that newly issued paper money would quickly lose its value. (In fact, the new paper money proved surprisingly stable, losing less than 10 percent of its face value annually.)

New York's experience with the issuance of paper money was typical. In 1786, New York printed nearly \$1 million in paper money. The state legislature ruled that the new currency was to be considered legal tender for the payment of taxes and debts. The state also set aside some of the money to pay its own debts. Most important, farmers were allowed to borrow the paper money. They put up their land as collateral to secure their loans. While the expansion of the money supply did not eliminate New York's financial crisis, pressure on the state's debtors clearly eased.

The printing of paper money sparked the greatest controversy in Rhode Island. Merchants there refused to accept the new currency and instead closed their shops. Riots followed, with mobs forcing shopowners to sell their goods. Some farmers also refused to accept paper money. As the real value of Rhode Island's currency slipped, Congress refused to recognize it as legal tender. Congress, however, could not prevent the Rhode Island legislature from requiring that paper money be accepted within the state.

Case Study #6—Western Lands

Disagreements over what to do with the lands west of the Appalachian Mountains delayed adoption of the Articles of Confederation. In several cases, two states laid claim to the same land based on their colonial charters. Meanwhile, states that had no claim to the western lands, such as Maryland and Delaware, argued that territories should be shared among all the states. By January 1781, the western lands issue had largely been resolved. States with territorial claims surrendered them to the national government, and Congress pledged that the western lands would “be settled and formed into distinct republican states.”

Questions surrounding settlement policy also proved to be controversial. “Squatters”—settlers without legal title to land—demanded that Congress recognize them as the owners of the land they farmed. At the same time, speculators often claimed that they had purchased thousands of acres from Indian tribes. The conflicting claims occasionally led to violence, forcing government troops to restore the peace. Most Congressmen mistrusted the settlers, who in turn had little respect for the political leaders of the east. Thomas Jefferson, however, championed the cause of the settlers. Jefferson saw them as the backbone of a healthy democracy based on proud, independent small farmers.

In July 1787, Congress approved a measure to settle the western lands bound by the Great Lakes, the Ohio River, and the Mississippi River. The plan, called the Northwest Ordinance, closely followed a proposal made by Thomas Jefferson three years earlier. Below are excerpts from the Northwest Ordinance.

Section 9: So soon as there shall be 5,000 free male inhabitants of full age in the district, they shall receive authority to elect representatives from their counties to represent them in the general assembly....

Section 14: The following articles shall be considered as articles of compact between the original states and the people and states in the said territory, and forever remain unalterable unless by common consent:

Article I. No person [conducting] himself in a peaceful and orderly manner shall ever be molested on account of his mode of worship or religious sentiments.

Article II. The inhabitants of the said territory shall always be entitled to the benefits of the writs of *habeas corpus* and of trial by jury, of a proportionate representation of the people in the legislature...no cruel or unusual punishment shall be inflicted. No man shall be deprived of his liberty or property but by the judgment of his peers....No law shall in any manner whatever interfere with or affect private contracts.

Article III. Religion, morality and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged. The utmost good faith shall always be observed toward the Indians.

Article IV. The inhabitants and settlers in the said territory shall be subject to pay part of the federal debts contracted and a proportional part of the expenses of government to be apportioned on them by Congress.

Article V. Whenever any of the said [territories] shall have 60,000 free inhabitants therein, such state shall be admitted into the Congress of the United States on an equal footing with the original states in all respects whatever; and shall be at liberty to form a permanent constitution and state government provided the constitution and state government so to be formed shall be republican and in conformity to the principles contained in these articles.

Article VI. There shall be neither slavery nor involuntary servitude in the said territory... provided always that any person escaping into the same from whom labor or service is lawfully claimed in any one of the original states, such fugitive may be lawfully reclaimed.