

The Nation's Finances

KEY QUESTION What financial problems faced the new nation?

Washington assigned his secretary of the treasury, Alexander Hamilton, the task of straightening out the nation's finances. The most urgent money issue was the U.S. government's war debts.

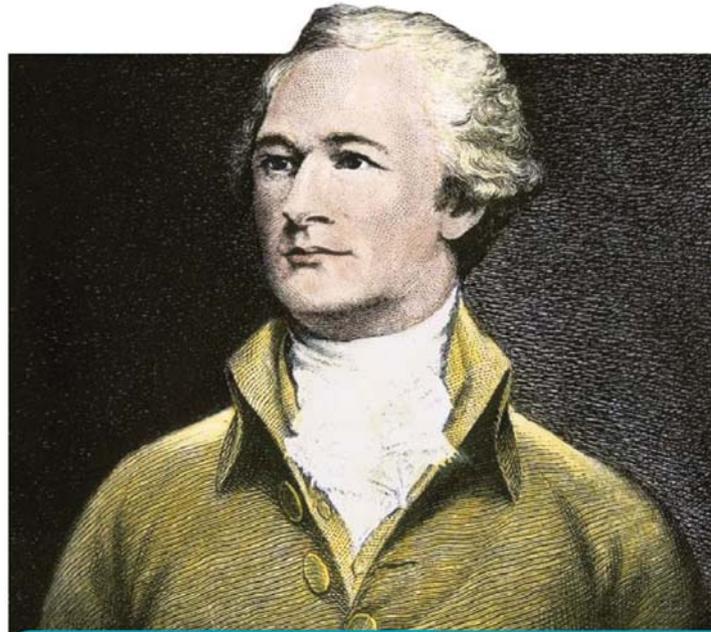
War Debts During the Revolution, the United States had borrowed millions of dollars from France, Spain, and the Netherlands. The new nation was also in debt to private citizens, including soldiers who had received bonds—certificates that promised payment plus interest—as compensation for their services during the war. State governments also had wartime debts. By 1789, the national debt—foreign and domestic—totaled more than \$52 million.

Most government leaders agreed that the nation must pay its debts to win the respect of both foreign nations and its own citizens. Hamilton saw that the new nation must assure other countries that it was responsible about money. These nations would do business with the United States if they saw that the country would pay its debts.

Hamilton's Political Views Hamilton believed in a strong central government. He thought the power of the national government should be stronger than that of the state governments. Hamilton also believed that government should encourage business and industry and that the nation's prosperity depended on the support of the nation's wealthy merchants and manufacturers. The government owed money to many of these rich men. By paying them back, Hamilton hoped to win their support for the new government.

Hamilton's Proposals In 1790, Hamilton presented his plan to Congress. He proposed three steps to improve the nation's finances and to strengthen the national government: 1) paying off all war debts, 2) raising government revenues, and 3) creating a national bank.

Hamilton also wanted the federal government to pay off the war debts of the states. However, sectional differences arose over repayment of state debts. Many Southern states resisted because they had already gone further



History Makers

Alexander Hamilton 1755–1804

Hamilton was one of the giants of American history. In his early twenties, he was a personal aide to General George Washington during the American Revolution. In the 1780s, he was a signer of the U.S. Constitution. He was one of the authors of a set of essays called *The Federalist* papers that persuaded Americans to ratify the Constitution.

As the first secretary of the treasury, Hamilton helped ensure the economic health of the new republic. His actions helped support his belief in a strong government and helped establish the executive branch as the most powerful branch of the government.

COMPARING Leaders

Compare Hamilton's leadership qualities to those of other American leaders mentioned in the chapter.



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