

Early Presidents and Precedents

Background: Early presidents like Washington, Adams, and Jefferson shaped the U.S. government by setting precedents and policies that impacted the U.S. and its relationship with its people and other countries. In this enrichment activity, you will learn about Washington's warnings to the nation, the battle of wits between Jefferson and Hamilton in the debate about the national bank, and the passage of the Alien and Sedition Acts that restricted civil rights and liberties. You will explore why it is important to evaluate and understand the policies and politics of the leaders in the early American Republic.

What supporting questions should I keep in mind?

- Why is it important to evaluate and understand the policies and politics of leaders?
- What precedents emerged in the first three presidencies that would shape the US government moving forward?

Topic 1: Washington's Precedents and His Farewell Address

Suggested Tasks: Read about Washington's presidency, and analyze his Farewell Address. Think about how his precedents and policies influenced the United States government moving forward, and how he guided the nation towards unity during his presidential terms.

Questions to Consider:

- What precedents did Washington set in his presidency and Farewell Address?
- How did he handle conflicting ideas between members of his presidential cabinet, particularly between Jefferson and Hamilton?
- What were his ideas about regional differences between the states, and what are his ideas about the balance of federal and state powers?
- What can we learn from these policies and politics, and how might this impact today's government?

Topic 2: Hamilton vs. Jefferson: The Bank

Suggested Tasks: Listen or read the lyrics to the Cabinet Battle #1 from the musical, Hamilton. Then, explore articles about the first national bank and the enduring visions of two founding fathers of the United States.

Song Analysis: <http://teachers.d11.org/teachers/knoppsa/Documents/Cabinet%20Battle%201%20Lyrics.pdf>

- What ideas does Hamilton have to reform the new U.S. economy?
- What does Jefferson oppose these ideas?

Questions to Consider:

T-Chart: Create a t-chart to compare Hamilton and Jefferson's views on the Bank of the United States and the role of the federal government in regulating the economy. Label one side "Hamilton's views" and the other side "Jefferson's views" and use examples from the song and articles to complete the chart.

Topic 3: Adams and the Alien and Sedition Acts

Suggested Tasks: Explore the restrictions to free speech and immigration during the presidency of John Adams. Evaluate whether Adams' decisions to prevent war were justified, focusing on the response to the XYZ Affair and the passage of the Alien and Sedition Acts.

Questions to Consider:

- Was the violation of civil rights in the way that Adams handled immigration and protests during his presidency justified?
- How did Adams' response to the XYZ Affair and the passage of the Alien and Sedition Acts impact American society and politics?
- What precedents did Adams set during his presidency? How did these changes impact future American government and politics?

Presidential Profile: John Adams

By White House Historical Association, adapted by Newsela staff on 07.04.13

Word Count **805**

Level **1230L**



Portrait of John Adams John Trumbull/White House Historical Association

Educated and thoughtful, John Adams was probably more remarkable as a political philosopher than as an actual politician. “People and nations are forged in the fires of adversity,” he said, doubtless thinking of his own as well as the American experience.

Early Diplomatic Years

Adams was born in the Massachusetts Bay Colony in 1735. A Harvard-educated lawyer — he was admitted at age 16 — he identified himself early on with the patriot cause. He was a delegate to the First and Second Continental Congresses and played a major role in the writing of the Declaration of Independence.

During the Revolutionary War, Adams served in France and Holland in diplomatic roles, and negotiated a treaty of peace with the new United States. From 1785 to 1788 he was America's representative to the Court of St. James's in England. He returned to be elected vice president under George Washington. Adams' two terms as vice president were frustrating for a man of his energy, brains and ego who wanted a more active role in government.

He complained to his wife, Abigail, "My country has in its wisdom contrived for me the most insignificant office that ever the invention of man contrived or his imagination conceived."

The Adams Administration's Challenges

When Adams became president, the war between the French and British was causing great difficulties for the United States and intense partisanship among disputing groups within the nation. Adams' administration focused on France, where the Directory, a selection of five people from groups then ruling France, had refused to receive the American envoy and had suspended commercial relations with America.

Adams sent three commissioners to France, but word came back that the French Foreign Minister Talleyrand and the Directory had refused to discuss dealing with them. Instead, they were met by three agents of the foreign minister, who they referred to in reports not by name, but as X, Y and Z. The agents said that France would not discuss dealing with them unless they would first pay a large bribe. Adams reported the insult to Congress, and the Senate printed the correspondence, in which the Frenchmen were referred to only as "X, Y, and Z."

The nation broke out into what Jefferson called "the XYZ fever," increased in energy by Adams' urging. The people cheered themselves hoarse wherever the president appeared. Never had the Federalists, Adams' political party, been so popular.

Second President Strengthens The Military

Congress appropriated money to complete three new ships and build others, and it authorized the raising of a provisional army. It also passed the Alien and Sedition Acts. The Act was comprised of four bills that limited the rights of immigrants and made it legal to deport them during times of war. Congress made getting citizenship a lengthier and more difficult process, and banned the publishing of negative or malicious writings against the government. The Acts were meant to frighten foreign agents out of the country and to stifle the attacks of editors opposed to Adams' government.

President Adams did not call for a declaration of war, but hostilities began at sea. At first, American shipping was almost defenseless against the French, but by 1800 armed merchantmen and U.S. warships were clearing the sea lanes. Word came to Adams that France had no stomach for war and would receive an envoy with respect. Long negotiations ended the conflict. The talks ended what came to be called the quasi-war, a war that was never declared.

Sending a peace mission to France brought the full fury against Adams of some strongly opinionated members of his own party, the Federalists. As a result, in the presidential election of 1800, the Federalists were badly divided, while the other party, the Republicans were united and effective. Nevertheless, Adams polled only a few electoral votes less than Jefferson, who became president.

First Tenant In The White House

On Nov. 1, 1800, just before the election, Adams arrived in the new capital city to take up residence in the White House. On his second evening in its damp, unfinished rooms, he wrote his wife. "Before I end my letter, I pray Heaven to bestow the best of blessings on this House and all

that shall hereafter inhabit it," he said. "May none but honest and wise Men ever rule under this roof."

After his four-year presidency ended, Adams retired to his farm in Massachusetts where he penned his famous letters to his old foe, Thomas Jefferson. It was there on July 4, 1826, the 50th anniversary of the signing of the Declaration of Independence, John Adams whispered his last words: "Thomas Jefferson survives."

Jefferson had actually died at Monticello a few hours earlier.

Adapted from the Presidents of the United States of America, 18th edition, published by the White House Historical Association, 2009.

Presidential Profile: George Washington

By White House Historical Association, adapted by Newsela staff on 07.04.13

Word Count 741

Level 1130L



Official White House portrait of George Washington Gilbert Stuart/White House Historical Association

On April 30, 1789, standing on the balcony of Federal Hall on Wall Street in New York City, George Washington took his oath of office as the first president of the United States.

Washington was concerned that, as the very first president, what he did might become a model for future presidents. He understood that they would likely follow the example he set. He wrote to James Madison and said, “it is devoutly wished on my part, that these precedents may be fixed on true principles.”

Washington The Farmer, Surveyor

Washington was born in 1732 into a prosperous Virginia planter family. As a youth he learned the morals, manners and body of knowledge required for an 18th-century Virginia gentleman. He pursued two intertwined interests, military arts and western expansion, the move to settle more territory in North America. At age 16, he was introduced to Lord Fairfax, head of one of the most powerful families in the region, and was given the job of helping to survey Shenandoah lands, in what is now Virginia.

Commissioned a lieutenant colonel in 1754, he fought the first small battles of what grew into the French and Indian War for the Ohio River Valley. He escaped injury although four bullets ripped his coat and two horses were shot from under him.

Revolutionary War Inevitability

From 1759 to the outbreak of the American Revolution, Washington managed his lands around Mount Vernon, Virginia. He served in the Virginia House of Burgesses, the first legislative group in the American colonies. Married to a widow, Martha Dandridge Custis, he devoted himself to a busy and happy life. Still, like his fellow planters, Washington felt himself exploited by British merchants and hampered by British regulations. As the quarrel with their mother country grew acute, he moderately but firmly voiced his resistance to the restrictions.

In May 1775, the Second Continental Congress assembled in Philadelphia, Pennsylvania. Washington, one of the Virginia delegates, was elected commander in chief of the Continental Army. On July 3, 1775, at Cambridge, Massachusetts, he took command of his ill-trained troops and embarked upon a war that was to last six grueling years.

He realized early that given the lack of training of his men, the best strategy was to avoid major battles. "We should on all Occasions avoid a general Action," he reported to the Congress, "unless compelled by a necessity, into which we ought never to be drawn." Ensuing battles saw him fall back slowly, then strike unexpectedly. Finally in 1781, with the aid of French allies, he forced the surrender by British commander Lord Cornwallis of 8,000 soldiers at Yorktown, New York. The Revolutionary War was over.

First President's Precedents

Washington longed to retire to his fields at Mount Vernon. However, he soon realized that the nation was not functioning well. Washington soon aligned himself with the movement leading to the Constitutional Convention at Philadelphia in 1787. When the new Constitution was affirmed, the electoral college, a group of state representatives who vote on behalf of their states, unanimously elected Washington as president.

Washington did not interfere with the policy-making powers that he felt the Constitution gave Congress. Matters of foreign policy, however, became mostly a presidential concern. When the French Revolution led to a major war between France and England, Washington refused to accept entirely the recommendations of either his Secretary of State Thomas Jefferson, who was pro-French, or his Secretary of the Treasury Alexander Hamilton, who was pro-British. Rather, he insisted upon a neutral course. He did not want the United States engaging in war until it had time to grow stronger.

Farewell Address

To Washington's disappointment, two parties were developing by the end of his first term. Worn out of politics, he retired to his "vine and fig tree," as he referred to his home in Mount Vernon, at the end of his second term. In his farewell address, he urged his countrymen to remain united, to avoid excessive party spirit and geographical distinctions. In foreign affairs, he warned against long-term alliances.

Washington enjoyed less than three years of retirement at Mount Vernon. On Dec. 14, 1799, he died of a throat infection. For months the American people mourned the leader who had helped them win their independence, then ensured that their fledgling new government would survive.

Adapted from the Presidents of the United States of America, 18th edition, published by the White House Historical Association, 2009.

Primary Sources: George Washington's Farewell Address

By Original document from the public domain, adapted by Newsela staff on 01.20.17

Word Count **1,238**

Level **1150L**



General George Washington resigning his commission as commander in chief of the Continental Army before Congress, which was then meeting at the Maryland State House in Annapolis, Maryland, December 23, 1783. This action was of great significance in establishing civilian, rather than military rule, leading to a republic, rather than a dictatorship. Painting by John Trumbull, 1824. Located in the United States Capitol rotunda in Washington, D.C.

Editor's Note: In early 1796, President George Washington decided not to seek re-election for a third term and began drafting this farewell address to the American people. Some people thought the country needed his leadership or it would be torn apart. But Washington worried that he would be like a king if he was president again. Washington wanted his address to reassure Americans and help with a peaceful transition of power. The address went through many drafts, as Washington added in suggestions made by Alexander Hamilton and James Madison.

In the 32-page handwritten address, Washington wrote about the forces he feared could destroy our democratic republic. The French Revolution had just turned to tyranny. Washington worried that the U.S. could become a dictatorship as well. The U.S. was then erupting into opposing factions, and riots were breaking out. Civil war seemed to be a real possibility. Washington

urged Americans to avoid political party spirit and geographical distinctions. In foreign affairs, he warned against long-term alliances with other nations because he worried about the danger of foreign influence in U.S. politics.

The address was printed in Philadelphia's American Daily Advertiser on September 19, 1796. Below is an excerpt from Washington's address.

"My Decision To Decline Being Considered"

"The Address of General Washington To The People of The United States on his declining of the Presidency of the United States,"

Friends and Citizens:

The period for a new election of the President of the United States is not far distant. The time has arrived when your thoughts must be employed in designating the person who is to be given this important trust. It appears to me proper that I should now inform you of my decision to decline being considered among the number of those who wish to be President.

The strength of my feeling to do this had even led to the preparation of such a letter four years ago, after my first term. But thinking about the critical situations with foreign nations and the unanimous advice of persons I trusted, I decided to abandon the idea.

In looking forward to the moment which will end my career of public life, my feelings are filled with the gratitude owed to my beloved country and for the many honors it has conferred upon me. I shall carry these deep feelings with me to my grave. I also pray for the promise that heaven may protect this nation; that your union and brotherly affection may be never-ending; that the free Constitution, which is the work of your hands, may be sacredly maintained; that its administration in every department may be stamped with wisdom and virtue.

"Sentiments Which Are The Result Of Much Reflection"

Here, perhaps, I ought to stop. For I feel I must offer, for your careful consideration, some sentiments and feelings which are the result of much reflection.

The unity of government which makes you one people is also now dear to you. It is justly so, for it is a main pillar in building your real independence and liberty, your peace and safety at home and abroad, and your prosperity. But, it is easy to foresee that internal and external enemies could use tricks and deception to weaken your beliefs in these truths.

But see that every portion of our country carefully guards and preserves the union of the whole. The North finds its shipping, business and manufacturing companies benefiting the South, with its precious materials, agriculture and their own seaports. The East and the West already find progressive improvement in transportation by land and water which brings valuable materials and products that promote both growth and comfort to the communities in our one nation. All are protected by the equal laws of a common government.

Every part of our country thus feels an immediate and particular interest in union, all the parts combined cannot fail to find that each part works to preserve the other.

"This Government Contains Principles Of Freedom"

The one truth has been supported by the adoption of the Constitution. This government contains principles of freedom, distribution of its powers that uniting security with power and containing within itself a provision for its own amendment. This Constitution, till changed by the act of the whole people, governs us all. Respect for its authority and obeying its laws are duties so important to true liberty.

It is also important that the habits of thinking in a free country should inspire caution in those entrusted with our government. Do not try to force the power of one department upon another, for this tends to combine departments into one which can lead to abuse. The necessity of checks and balances, that divide political power into different departments, must be protected, but if this does not work to benefit the union, let it be corrected by an amendment in the way which the Constitution designates.

However, often there can be small groups of cunning, ambitious and unprincipled men working to benefit their small number and not all in our union.

This spirit, unfortunately, is in our nature, having its root in the strongest passions of the human mind. It exists under different shapes in all governments and is truly our worst enemy.

"It Is Essential That Public Should Be Educated"

This can lead to a sharpened spirit of revenge, which has in the past led to an individual claiming absolute power that stands upon the ruins of public liberty.

Promote then, as an object of primary importance, educational institutions for the general diffusion of knowledge. Just as the structure of a government gives force to public opinion, it is essential that public should be educated.

As a very important source of strength and security, cherish public credit and avoid the accumulation of debt. Do not thrust upon posterity and our children the responsibility and burden which we ourselves ought to bear.

Observe good faith and justice toward all nations; cultivate peace and harmony with all. The great rule of conduct for us in regard to foreign nations is in extending our commercial relations, to have with them as little political connection as possible. Those agreements that are now in place should be completed in good faith. Here let us stop. Our commercial policy should be fair and equal and should not grant favors to one nation above another. Europe has a set of primary interests which are very different from our own. It would be unwise for us to involve ourselves in their politics.

"I May Have Committed Many Errors"

It is our true policy to steer clear of permanent alliances with any portion of the foreign world, however, we may safely trust to temporary alliances for extraordinary emergencies.

In offering to you, my countrymen, this advice from an old and loving friend, it is my hope it may produce some partial benefit and some occasional good.

Through these eight years of my administration I suspect that I may have committed many errors. Whatever they may be, I hope they can be forgiven. I shall also carry with me the hope that my country will, after 45 years of my life dedicated to its service, forgive these faults as I leave and come yet closer to mansions of rest.

I now seek that retreat knowing my fellow citizens to be under the influence of good laws and under a free government.

Geo. Washington

The Alien and Sedition Acts

By UShistory.org, adapted by Newsela staff on 02.23.17

Word Count **632**

Level **1080L**



A fight on the floor of Congress between Vermont Representative Matthew Lyon and Roger Griswold of Connecticut. Lyon was imprisoned under the Sedition Act for criticizing President John Adams. Photo from Library of Congress

No protesting the government? No immigrants allowed in? No freedom of the press? Lawmakers jailed? Is this the story of the Soviet Union during the Cold War?

No. It describes the United States in 1798 after the passage of the Alien and Sedition Acts.

President John Adams was facing an international crisis. The French were outraged by what they viewed as an Anglo-American alliance in Jay's Treaty. The treaty was signed between the United States and Britain. France suspended diplomatic relations with the U.S. at the end of 1796 and seized more than 300 American ships over two years.

The strong steps that Adams took in response to the French foreign threat also included severe repression of domestic protest. A series of laws known collectively as the Alien and Sedition Acts were passed by the Federalist Congress in 1798. They were signed into law by Adams.

Foreigners viewed as a threat to safety

These laws included new powers to force out foreigners as well as making it harder for new immigrants to vote. Previously a new immigrant would have to reside in the United States for five years before becoming eligible to vote. A new law raised this to 14 years.

Clearly, the Federalists saw foreigners as a deep threat to American safety. The Federalist party was an early American political party in support of a strong central government. As one Federalist in Congress declared, there was no need to "invite hordes of Wild Irishmen, nor the turbulent and disorderly of all the world, to come here with a basic view to distract our tranquility." Not coincidentally, non-English ethnic groups had been among the core supporters of the Democratic-Republicans in 1796.

The most controversial of the new laws permitting strong government control over individual actions was the Sedition Act. In effect, this act prohibited public opposition to the government. Fines and imprisonment could be used against those who "write, print, utter or publish ... any false, scandalous and malicious writing" against the government.

U.S. lawmaker among those imprisoned

Under the terms of this law over 20 Republican newspaper editors were arrested, and some were imprisoned. The most dramatic victim of the law was Representative Matthew Lyon of Vermont. He wrote a letter that criticized Adams' "unbounded thirst for ridiculous pomp, foolish adulation and self avarice." In today's terms, Lyon called him attention-seeking and greedy. He was imprisoned for the letter. While Federalists sent Lyon to prison for his opinions, his supporters re-elected him to Congress even from his jail cell.

The Sedition Act clearly violated individual protections under the First Amendment of the Constitution; however, the practice of "judicial review," in which the Supreme Court considers the constitutionality of laws, was not yet well developed. Furthermore, the justices were all strong Federalists. As a result, James Madison and Thomas Jefferson, then vice president, directed their opposition to the new laws to state lawmakers.

Two states reject federal laws

The Virginia and Kentucky legislatures passed resolutions declaring the federal laws invalid within their states. The bold challenge to the federal government offered by this strong states' rights position seemed to point toward approaching armed conflict within the United States.

Enormous changes had occurred in the explosive years of the 1790s. Federalists in government now viewed the continuation of their party as necessary for the republic to survive, and this led them to make and enforce harsh laws.

Madison, who had been the chief architect of a strong central government in the Constitution, now was wary of national authority. He helped the Kentucky legislature to reject federal law. By placing states' rights above those of the federal government, Kentucky and Virginia had performed an act that would be used as grounds for the secession of Southern states in the Civil War.

The U.S. banking system: origin, development and regulation

By The Gilder Lehrman Institute of American History, adapted by Newsela staff on 08.04.19

Word Count 2,742

Level 1110L



Image 1. The First Bank of the United States, which was Alexander Hamilton's brainchild and the forerunner of the current Federal Reserve Bank System, as it looked in 1799. In 1791, President George Washington signed a bill creating the first Bank of the United States to be built on Third Street in Philadelphia, Pennsylvania. Original Artwork: Engraving by William Russell Birch; Photo from MPI/Getty Images

Banks are among the oldest businesses in American history — the Bank of New York, for example, was founded in 1784. The banking system is one of the largest and most important industries in the United States. Most adult Americans deal with banks, often on a fairly regular basis. Nonetheless, banks and banking seem rather mysterious. What do banks do? Why have they for so long been integral to our economy? Why do banks every so often get into trouble and create serious problems for the country?

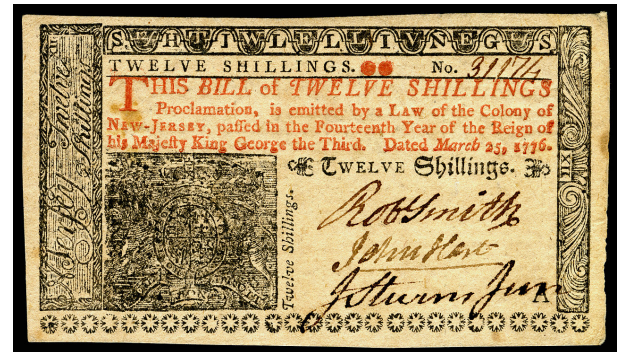
Banks have two important economic functions. First, they operate a payments system, and a modern economy cannot function well without one. We make most of our payments by writing checks, swiping credit cards issued by banks, and by paying bills via online banking. Most of the money stock of the country is, in fact, bank money; the rest of the currency is "legal tender" issued by the government, namely Federal Reserve Notes and coins. We have confidence in bank money

because we can exchange it at the bank or an ATM for legal tender. Banks are obligated to hold reserves of legal tender to make these exchanges when we request them.

The second key function of banks is lending or investing the money we deposit with them to businesses, households and governments. This is the business side of banking. Banks make their profits and cover expenses by charging borrowers more for loans than they pay depositors for keeping money in the bank. This second function of banks is extremely important because it helped to finance the businesses that grow and sustain our economy. But it is an inherently risky business. Will the borrower pay back the loan with interest? What if the borrower doesn't repay the loan? What happens to the banking system and the economy if a large number of borrowers cannot or will not repay their loans?

A History Of Banks In The United States

There were no modern banks in colonial America. Colonial Americans gave credit to each other or relied on credit from merchants and banks in Great Britain. Money consisted of foreign coins and paper money issued by the governments of each colony.



Alexander Hamilton, who would become the most financially astute of the Founding

Fathers, recommended that an American bank be founded. A few months later Congress chartered the new nation's first bank, the Bank of North America located in Philadelphia. Three years later, Boston merchants founded the Massachusetts Bank. Hamilton himself became a founder of the Bank of New York. When George Washington became our first president under the Constitution in 1789, these were the only three banks in the United States. They were local institutions, not part of a wider banking system.

Washington tapped Hamilton to be the first secretary of the treasury. In his first two years in office, Hamilton moved quickly to give the United States a modern financial system. He set up the federal revenue system so that the government could take in funds through tariffs and taxes, and he defined the U.S. dollar in terms of gold and silver coins; these would serve as reserves backing bank money as more banks opened. And Hamilton founded a national bank, the Bank of the United States (BUS). It was owned by the federal government and had the power to open branch banks in U.S. cities.

Hamilton's policies triggered the growth of a modern American financial system. The BUS prompted state legislatures to charter more banks. There were about 30 of these by 1800 and 1,500 to 1,600 on the eve of the Civil War. Active investing markets emerged in the early 1790s when some \$63 million of new U.S. bonds and \$10 million of BUS stock stimulated the development of trading markets in a number of cities. Stock exchanges were also established in Philadelphia and New York. A distinctly modern U.S. financial system was firmly in place by the mid-1790s and it expanded rapidly to serve the rapid growth of the U.S. economy.

National Banks Were Questioned As Unconstitutional

Since most banks were enterprises chartered by state legislatures, banking became highly politicized. A party in control of the legislature would grant bank charters to its backers and not

those of the other parties. Banks also became sources of revenue: state governments invested in banks and earned dividends from them, and they charged banks fees for granting charters of incorporation. They also taxed them. Individual legislators accepted bribes to help some banks get charters over others. By the 1830s, to get away from the corruption involved in legislative chartering, a few states began to enact "free banking" laws. These laws made the granting of bank charters an administrative rather than a legislative function of government. This increased banking access for more Americans.

The BUS also proved to be politically controversial. Some thought a national bank was unconstitutional and a threat to states' rights. Many state bankers resented its ability to compete with them, to regulate their ability to make loans, and to branch across state lines. BUS also had the federal government's banking business to itself. When the BUS's charter came up for renewal in 1811, it was defeated. That weakened the ability of the government to finance the War of 1812. In 1816 Congress, therefore, chartered a second BUS, an even larger corporation than the first.

History repeated itself in the early 1830s when both houses of Congress voted to re-charter the BUS. However, President Andrew Jackson vetoed the bill and his veto could not be overridden. The second BUS, like the first, did a good job of regulating American banking and promoting financial stability, but Jackson thought it had too many privileges and was too friendly to his opponents. The BUS federal charter expired in 1836. The United States would not again have a central bank until 1914.

Without a central bank to provide oversight of banking and finance, the expanding banking system of the 1830s, 1840s and 1850s suffered from some major problems. Even so, it supplied the country with ample loans to finance economic growth. However, financial instability was a recurring issue. Banking crises occurred in 1837, 1839–1842, and 1857. Many banks had to suspend convertibility of their bank notes and deposits into coin because they didn't have enough reserves. A good number of these banks failed when borrowers defaulted on their loan payments. The banking crises led to business depressions with high unemployment.

The Problem With Banknotes

Another problem was a chaotic currency. In those days, the government provided only coins. Paper money — banknotes — was issued by just about every individual bank. By 1860 there were 1,500 to 1,600 such banks, most of which issued several denominations of notes. Hence, throughout the United States there circulated about 8,000 to 9,000 different-looking pieces of paper serving as money. Each had the name of a bank on it and a number of dollars that the named bank promised to pay in coin if the note were presented to it. It was costly, of course, to return a note of, say, a Georgia bank received in New York to the bank in Georgia. As a result, such notes circulated at discounts the farther they were from the issuing bank. Note brokers earned a living by buying banknotes at a discount and returning them en masse to the issuing banks for payment in coin. This was not an efficient payments system for an expanding economy. Moreover, it was one in which counterfeiting of banknotes thrived because, with so many different-looking notes in circulation, it was hard to spot fakes.

Abraham Lincoln's Union government during the Civil War solved the problem of a chaotic currency and the problem of how to finance the war. The solution, introduced in 1863, was to get the federal government back into the business of chartering banks. The new national banks would

issue a uniform national currency printed by the government and backed by U.S. bonds. National banks had to purchase the bonds to back banknotes they issued. This system made it easier for the Lincoln administration to sell bonds and finance the war against the Southern Confederacy. National bank currency would be safer than state banknotes: if a bank defaulted or failed, the U.S. bonds backing them could be sold to pay off holders of the failed bank's notes. In effect, national banknotes were a liability of the federal government, not the bank. Discounts on banknotes disappeared, improving the national payments system.

Shortly after the Civil War most U.S. banks were national banks. But by the end of the 19th century, state banking had recovered sufficiently to rival national banking. The United States had what came to be called a "dual banking system" of national and state banks. This system persisted into the 21st century. National banknotes, however, disappeared in the 1930s, replaced by today's national currency, Federal Reserve Notes.

Creation Of The Federal Reserve System

During the half century from 1863 to 1913, the country continued to be without a central bank. It had a uniform national currency and a better banking system than the one before 1863, but it was still prone to financial instability. Banking panics occurred in 1873, 1884, 1893 and 1907. The last was especially embarrassing because by 1907 the U.S. economy was the largest in the world. There were about 20,000 banks in 1907, and there would be 30,000 by the all-time peak in the early 1920s. U.S. bank deposits were more than one-third of the total world deposits. They were approximately equal to the combined deposits of German, British and French banks, the next three largest systems. The European countries had central banks that could lend to banks under stress, and as a result, they had fewer banking crises than did the United States.

So in 1913, after three-quarters of a century without a central bank and a period punctuated by a number of banking crises, Congress created a new central bank. This was, and is, the Federal Reserve System (the Fed). The Fed was organized in 1914, and by the end of the year, the 12 regional Reserve Banks were open for business. The new system was a decentralized central bank. It was in keeping with the long American tradition of not wishing to have concentrated financial power in either Wall Street or Washington, D.C.

The Fed further improved the payments system by operating a national check-clearing system. It also introduced Federal Reserve Notes, which gradually replaced national banknotes and Treasury-issued currency. The change made the national currency still more uniform. The Fed also had the authority to expand and contract its currency and credit. This power served to reduce seasonal fluctuations in interest rates, enhancing economic stability.

The Fed did not eliminate banking crises, but crises were far less frequent than when there was no central bank. Indeed, there have been only two major banking crises in 96 years: 1930–1933 and 2007–2009. Earlier in U.S. history, in the 40 years when the two Banks of the United States existed, there was only one banking crisis, in 1819. Compared with the 78-year period from 1836 to 1914, which witnessed seven banking crises, the two eras of central banking look pretty good.

Heading Toward The New Deal

The Fed, however, rather infamously did little to prevent the failure of thousands of U.S. banks in the period 1930 to 1933. This lapse contributed to making the Great Depression. The reasons for

the lapse are still not clear. Some historians contend that decisive action to prevent the contagious failure of so many banks was impossible because the leadership of the Fed was weak and divided. The Board in Washington disagreed with some of the regional Reserve Banks on what actions to take, and the regional banks disagreed with one another. Others say that the Fed thought it had to defend the convertibility of the dollar to gold. This policy led it to give less credit during critical periods of the slide into the Great Depression when giving more would have helped.

In the wake of the Depression, President Franklin Roosevelt's administration sponsored a number of important banking reforms. Roosevelt's first action in March 1933 was to close all of the nation's banks, the so-called Bank Holiday. He then assured the nation that when banks re-opened the public would not have to worry about the ability to cover their debts. The Banking Act of June 1933, nicknamed the Glass-Steagall Act, introduced federal deposit insurance, federal regulation of interest rates on deposits, and the separation of commercial banking from investment banking. The Banking Act of 1935 essentially created the Fed as we know it today. It strengthened the central bank's powers and made them less decentralized than they had been during the Fed's first two decades.

Roosevelt's New Deal banking reforms ushered in a long period of banking stability that lasted from the 1930s to the 1980s. That stability, however, was purchased at the cost of making American banking less competitive than it had been before the 1930s. It became increasingly clear by the 1960s and 1970s that heavily regulated commercial banking was losing money-making opportunities to the less regulated and more innovative institutions and markets of Wall Street. An example of this was the money market mutual fund. It provided depositors with the option of earning the high, unregulated interest rates of Wall Street's money market instruments instead of the lower regulated rates that could be paid by commercial banks and Savings & Loans. That led bank depositors to withdraw funds from the banking system and place them in money market funds. The markets of Wall Street gained, and the banking system became a smaller part of the financial system.

Banks and their political supporters responded by calling for deregulation. The New Deal's limits on deposit interest rates were repealed in the 1980s. Congress removed long-standing restrictions on interstate banking in 1994. Bank mergers, once suspect for reducing competition, were increasingly allowed. Today the country has far fewer independent banks than in the past, about 8,000, but many of the remaining banks have a large number of branches and even more ATMs. Americans now are never very far from a banking facility.

The Cost Of Deregulation

In 1999, Congress repealed the Glass-Steagall Act that had effectively separated commercial and investment banking. The business of banking, long stifled by regulation, suddenly became more exciting. Increasingly, banks were not limited in lending by the size of their deposit bases. They could obtain more funding to make more loans and could also purchase new forms of investments from Wall Street and international money markets.

In retrospect, deregulation might have led banking to become too exciting. In the early 2000s, low interest rates led to a housing and commercial real estate boom, which swelled into a bubble. Assuming that home prices could not go down, banks and other lenders made numerous mortgage loans on liberal and increasingly risky terms. They also bought more investment products from

Wall Street banks that were tied to mortgages. Then, in the middle of the decade, the bubble popped when housing prices stopped rising and began to fall. Increasing numbers of borrowers defaulted on their mortgage loans. This crisis triggered steep drops in the values of investments tied to mortgages.

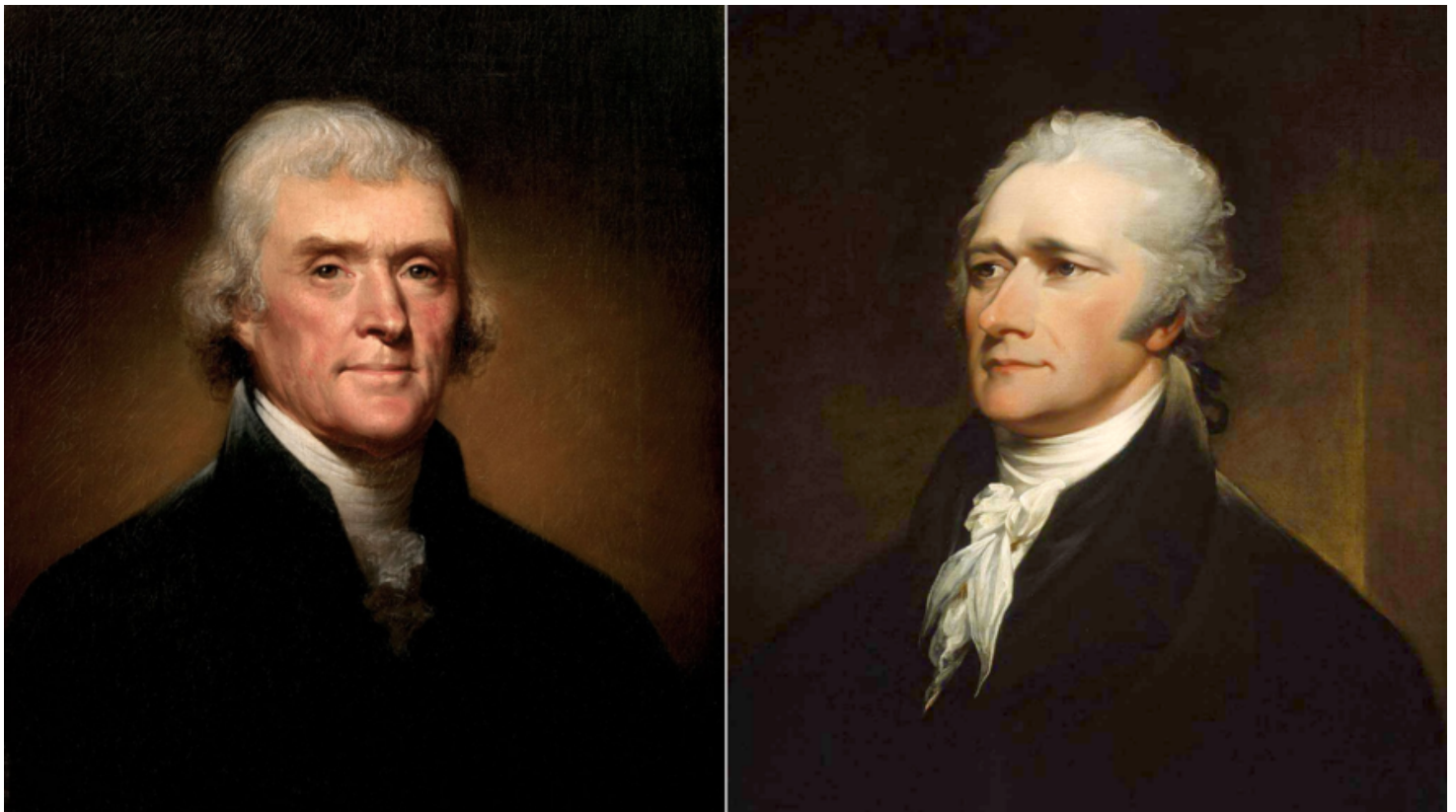
Banks holding mortgage loans and mortgage-related investments were in trouble. The decline in the value of the assets — the loans and securities on the balance sheets — threatened to wipe out their capital and leave banks unable to cover their debts. Unlike the 1930s, depositors did not panic and rush to withdraw their funds from banks because now they were protected by federal deposit insurance. But money market lenders had no such insurance, and they began to refuse to lend to the banks. In 2007, and even more in 2008, market funding for banks dried up. Only massive interventions by the Fed and the U.S. Treasury prevented a catastrophic banking and financial crisis similar to the early 1930s. The crisis was a bad one. But it could have been a lot worse if the Fed and other financial authorities had acted as they did in the Great Depression.

Whose vision of America won out — Hamilton's or Jefferson's?

By History.com, adapted by Newsela staff on 08.05.19

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A portrait of Thomas Jefferson by Rembrandt Peale in 1800 (left) and a portrait of Alexander Hamilton by John Trumbull in 1806. Photos via Wikimedia Commons

To Stephen F. Knott, professor of national security affairs at the United States Naval War College, the identity of the United States today can be boiled down to one person's vision.

"We live, without question, in Hamilton's America," says Knott, also co-author of "Washington and Hamilton: The Alliance That Forged America."

"Hamilton had the foresight to see the United States emerging as an economic and military power that would surpass Great Britain and the other European powers. All of Hamilton's policies as treasury secretary and as President Washington's closest adviser were designed to convince his fellow Americans to, as Hamilton put it, 'think continentally.' He wanted the citizenry to think of themselves first and foremost as Americans — not New Yorkers or Virginians."

Alexander Hamilton became the nation's first treasury secretary at a time when the citizens of South Carolina and New Hampshire had little in common, Knott says. "Hamilton succeeded in creating an American sense of identity in part by creating institutions that would bind the people

to the national government, not their respective states, such as the national bank and the assumption by the national government of the state debts from the Revolutionary War."

Hamilton's Superpower Foresight

Knott believes that without Hamilton's contributions, it would have been next to impossible for the United States to have emerged as a superpower during the 20th century. "Hamilton's economic vision was contrary to that of Jefferson's, and as such the United States might not have moved — or at least not moved as quickly — in the direction of becoming a manufacturing nation and the world's largest economy by late in the 19th century," he says.

"Hamilton was the father of American capitalism, which arguably produced one of the highest standards of living in the world," Knott says. "His policies at the Treasury Department were designed to enhance the development of manufacturing. His economic policies such as a national bank, tariffs to protect American manufacturing, and the stabilization of the nation's finances, which enabled the country to establish a good credit rating, all contributed to the overall rise of the United States as an economic superpower."

Knott also notes that Hamilton was the driving force behind the publication of the "Federalist Papers." Hamilton wrote 51 of the 85 essays while working in concert with James Madison and John Jay. These laid the blueprint for an "energetic executive," a model followed closely by George Washington.

"From the beginning to the end of this most important first presidency, Washington followed Hamilton's advice, much to Thomas Jefferson's distress," he says. "Remove Hamilton from Washington's Cabinet and you would have a number of very different precedents."

Hamilton was determined to infuse many "elements of energy and permanence" into a new national government under the Constitution, he says. This, hopefully, would allow the nation to defend itself from foreign attacks and domestic uprisings. It could also provide an environment healthy for economic development.

Knott points out that Hamilton's vision of a United States in which its citizens thought "continentally" actually led, long after his death, to a great crisis: the Civil War. "The concept of union, of American nationhood, was embedded deeply enough in parts of the North that Union soldiers were prepared to die for that principle."

Jefferson's Republican Spirit Influence

Kevin R.C. Gutzman opens his new book, "Thomas Jefferson — Revolutionary: A Radical's Struggle to Remake America," with an assertion: that Thomas Jefferson's influence on American political history is greater than that "of any other figure." He argues that Jefferson infused the United States with the republican spirit that has characterized the country since its birth.

"Jefferson is chiefly responsible for the disentanglement of government and religion," Gutzman, a history professor at Western Connecticut State University, explains. He also sparked the general belief at the time of the Revolution "that the government would be Republican and most of its office-holders elected."

He points to Republican principles championed by Jefferson such as local control of education, democratizing land holding and decentralized government. In addition, he says the Louisiana Purchase orchestrated by Jefferson, which added more than 800,000 square miles of land west of the Mississippi River, is the primary reason that the United States became a transcontinental country. This, he believes, allowed it to eventually become an economic, military and diplomatic superpower.

Gutzman also points to the principles in the Virginia Statute for Religious Freedom that was drafted by Jefferson and widely copied by other states and incorporated into the U.S. Constitution by James Madison. In England, you could not attend the excellent universities Oxford or Cambridge or serve in Parliament if you weren't Episcopalian, the prevailing form of Christianity back then. "Jefferson thought that was wrong," he says. "The Jefferson view is that the government can only pervert religion. The government can only impose on people's consciences, so it shouldn't be involved."

The University Of Virginia Model

Although Jefferson himself owned land and was a member of Virginia's aristocracy, he spearheaded the dismantlement of its system of primogeniture and entail. This had prevented landholders from dividing properties to future generations. "In colonial Virginia, 85 families owned about two-thirds of the land, and you can't have a republic with 85 families owning most of the land," Gutzman says. "With the change, instead of an aristocratic land distribution, you had free distribution from one generation to another and land highly divided. It's an extremely republican ideal."

Jefferson's grave marker lists his founding of the University of Virginia, but not his time in the White House, as one of his primary achievements, and Gutzman says there is a good reason for that. People don't even realize Jefferson is the man who dreamed up how all universities operate these days, he says.

Prior to the founding of the University of Virginia, "the centerpiece of the curriculums were Greek and Latin. Students came to class to recite what they memorized," he says. "Jefferson believed instead that students should study what they desired and thought useful. Instead of reciting what they memorized students demonstrated their knowledge with essay exams, which weren't used anywhere before the opening of the University of Virginia in 1825. Every post-secondary school in America is now the University of Virginia. It's the mother ship of American post-secondary education."

Jefferson advocated the power of state governments to such an extent that when Jefferson talked about his "country," he was referring to Virginia, Gutzman says. "In general Jefferson thought that to have a republican society it had to be highly decentralized. It didn't mean, though, that he thought it wasn't necessary for the federal government to have all the necessary strength when it came to diplomatic and military matters."

A Revolution Of Government Principles

Gutzman argues that the debate over the competing visions of Jefferson and Hamilton was settled in the election of 1800. That year, John Adams, who was a member of Hamilton's Federalist Party, lost to Jefferson's Democratic-Republican Party.

In the 1790s, Hamilton wanted to use the military to tamp down political rebellion, "and his party was responsible for the Sedition Act, which made it a crime to speak out against the government. I think that was the route America would have followed if not for the Republican success in the election of 1800. The victory meant that an aristocratic model of government was done. That was a lasting victory.

Jefferson said the election of 1800 was as real a revolution of government principles as 1776 was in its form. The contest between the two was so lopsided that Hamilton's party literally ceased to exist."