The Problems the United States Had With Paying Debts After the Revolutionary War

The United States had racked up $43 million in debt fighting the Revolutionary War. The U.S. had gained its independence, but immediately after the war, the new country had difficulty figuring out the identity of the country, while also trying to figure out how it would pay its debts. While the states fought together against the British during the war, they returned to being sovereign states after the war. The Articles of Confederation failed to establish a national government with any real power, while continuing the status quo of the states remaining sovereign entities with the power to tax themselves, control tariffs, and print their own currencies.

The sovereignty of the states was guaranteed by the Articles of Confederation. This meant Congress lacked the authority to impose taxes on the states to collect revenue, which was badly needed at the time to pay off debts incurred during the Revolutionary War. As a result, the Continental Congress had to take out loans and print money, which led to hyperinflation and reliance on foreign loans, to pay off war debts. The U.S. struggled to pay its debts after the war and defaulted on French loans in 1785 and 1787. The Constitution, ratified in 1788, gave the federal government the authority to levy taxes on the states. With the help of James Swan, an American banker who took on the French debts and later resold them on domestic U.S. markets, the U.S. government was able to free itself from all foreign debts.

Along with taxation powers, the states were given the power to control tariffs on interstate trade. This meant that Massachusetts could impose tariffs on goods imported from neighboring Rhode Island. This only discouraged trade between states and increased disunity in the newly independent country. Foreign powers like Great Britain, who the U.S. had just defeated to gain independence, reaped the benefits of different trade policies of different states. When Massachusetts and New Hampshire closed their ports off to British goods, Connecticut opened up their ports and benefited from cheap British goods. No national trade policy created conflict between states and foreign powers reaped the benefits.

No common currency was established by the Articles of Confederation. In 1775, before the Articles of Confederation was created and ratified, the Continental Congress issued paper money called Continentals. Congress had printed too many Continentals during the war and the states were printing their own currencies, making Continentals worthless. Various state currencies had different values, making trade between states all the more difficult. Benjamin Franklin had printed money for the colonies and was aware of the negative effects of competing currencies on commerce between the colonies. He advocated for a common currency to be established for this reason and was granted his wish. Article I, section 8 of the Constitution gave Congress the authority to coin money. Congress passed the Coinage Act in 1792, which established the U.S. dollar as the standard currency of the United States.

The United States teetered on the edge after fighting and gaining their independence. The country owed debt to several foreign powers including France, Netherlands, and Spain. Immediately after the war, it wasn't clear if they would become a unified country or a loose confederation. The Articles of Confederation was a strong vote for the latter and resulted in the states continuing to have the power to dictate their own trade policies that ended up hurting domestic trade, while being a boon for foreign powers like Great Britain.