THE FINANCIAL HISTORY OF THE WAR OF 1812

Lisa R. Morales, B.A., B.M., M.Ed

Dissertation Prepared for the Degree of

DOCTOR OF PHILOSOPHY

UNIVERSITY OF NORTH TEXAS

May 2009

APPROVED:

Randolph B. Campbell, Major Professor
Denis Paz, Committee Member
G. L. Seligmann, Committee Member
Ronald Marcello, Committee Member
Michael McPherson, Committee Member
Richard McCaslin, Chair, Department of History
Michael Monticino, Interim Dean of the Robert B.
Toulouse School of Graduate Studies

Morales, Lisa R., The Financial History of the War of 1812. Doctor of Philosophy (History), May 2009, 218 pp., 1 table, references, 207 titles.

The War of 1812 brought daunting financial challenges to the national government of the United States. At the onset of war, policymakers were still in the process of sifting through a developing body of American economic thought while contemplating the practicalities of banking and public finance. The young nation's wartime experience encompassed the travails of incompetent and cautious leadership, the incautious optimism that stemmed from several previous years of economic growth, the inadequacies of the banking system, and, ultimately, the temporary deterioration of the financial position of the United States. While not equivalent to great tragedy, the war did force Americans to attend to the financial infrastructure of the country and reevaluate what kinds of institutions were truly necessary.

This study of the financing of the War of 1812 provides a greater understanding of how the early American economy functioned and the sources of its economic progress during that era. Financial studies have typically not been a primary focus of historians, and certainly with regard to the War of 1812, it is easy to understand a preoccupation with political and military affairs. To a large degree, however, economic realities and financial infrastructure determine a nation's capacity for growth and change as well as national strength. The War of 1812 offers a prism through which to view the tensions of economic and financial policymaking during an emergency situation and reveals an important turning point in the development of distinctly American financial ideas and institutions.

ACKNOWLEDGMENTS

I would like to gratefully acknowledge the patient and insightful guidance of Dr. Randolph B. Campbell, University of North Texas Regents Professor of History, whose suggestions made possible the completion of this project. His enthusiasm for, and knowledge of, the subject matter provoked much thought and stimulating discussion.

Many thanks also to the illustrious members of the committee who reviewed the end result. Your contributions were invaluable.

Lastly, recognition must be extended to Patrick J. Morales. His encouragement facilitated the writing of this behind-the-scenes account of financial policymaking during the War of 1812.

Again, many thanks to all.

TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION

The War of 1812 brought daunting financial challenges to the national government of the United States. When the war came, policymakers were still in the process of sifting through a developing body of American economic thought while contemplating the practicalities of banking and public finance. The young nation's wartime experience encompassed the travails of incompetent and cautious leadership, the incautious optimism that stemmed from several previous years of economic growth, the inadequacies of the banking system, and, ultimately, the temporary deterioration of the financial position of the United States. While not equivalent to great tragedy, the war did force Americans to attend to the financial infrastructure of the country and reevaluate what kinds of institutions were truly necessary.[1]

Increasingly scarce resources in the midst of a series of American defeats during the war years created policymaking tension between the executive and legislative branches of government regarding financial matters.[2] As the war progressed, the executive branch, through the treasury department, advocated a more centralized approach to monetary policy and a revised taxation system to raise revenue. These ideas contrasted with an influential body of economic thought from the Jeffersonian tradition that emphasized the fear of concentrated power and the danger of paper money. A comparison of congressional debates prior to and after the war

[1] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, December 11, 447. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Joseph Desha, Republican of Kentucky, expressed the views of many pro-war congressmen when he stated that war should be waged "independent of expense" because the country was too prosperous to fail financially. John C. Calhoun, Republican of South Carolina, conveyed the same sentiment. The optimism expressed as the war began gave way to a new awareness of financial needs, and by February 1814, Congress was actively contemplating proposals for operational financial institutions such as a national bank.

[2] The Gallatin and Madison Papers, as well as the *Annals of Congress* each offer details of the constant tension between the executive and legislative branches of government. Financial policy could not be effectively made within this environment of ideological distrust. Additionally, Gallatin was preoccupied with military defeat rather than financial policy.

reflects the practical education that members received during this period on issues related to financial policy. Before the War of 1812, principled men conveyed the depth of their sentiment opposing a centralized banking entity, but in the war's aftermath, financial weakness revealed the country's need for sound economic policies and structures.[3]

To appreciate fully the responses of the executive branch and Congress to the war, it is crucial to trace the development of American economic thought during the colonial and early national eras. The first three chapters of this study provide the reader with broad historical context, enabling an in-depth awareness of longstanding ideas reiterated by executive and congressional leadership during the war years. Chapter 2 offers a brief exploration of pivotal European intellectual influences and thematic American concerns related to money from the colonial era, as well as an introduction to Jeffersonian economics, which will equip the reader with a sense of the continuity of American financial debates through the colonial and early national periods. American financial debates often resulted from colonial Americans' ambivalence related to the achievement of rapid economic growth and its burdens. Chapter 3 addresses the transformational course of American economic development through commercial activity and maturing trade relationships, both of which brought a degree of prosperity that gave colonists a sense of long-term economic security. Expanding trade and productive capacity, the luxury of consumption, and the need for money and banking institutions motivated public discussions about the morality of financial operations. From the late seventeenth century through the War of 1812, Americans continually evaluated economic ideas and observed the practical realities of finance, synthesizing a distinctly American point of view.

---

[3] Murray N. Rothbard, *A History of Money and Banking in the United States* (Auburn, AL: Ludwig von Mises Institute, 2002), 72-83. Rothbard examines the financial mess left by the banking system after the War of 1812. Stating that the War of 1812 "had momentous consequences for the monetary system", he identifies the issues that national leadership had failed to address.

While colonial Americans, including Thomas Jefferson, may have debated financial necessities according to regional concerns, Alexander Hamilton decisively answered the question of what national financial policies and mechanisms were "necessary and proper" under the Constitution of 1787. Chapter 4 discusses Hamilton's vision for the future of the United States that would culminate in a burgeoning American empire, competitive with the nations of Europe. He foresaw an active, involved government ensuring the health of the American business and the growth of the economy. To that end, Hamilton wanted businessmen, merchants, and people of wealth, in general, to be personally connected to the fortunes of the United States. Believing that public debt would provide a strong focus for the fledgling nation, the first secretary of treasury understood the importance of binding various interests to the success of the country. In particular, he knew that those accustomed to power and wealth would require a stake in America's future or they would act as constant adversaries. Ownership of national debt, in combination with the goal of establishing national financial credibility within international circles, were two ways of ensuring that those with resources felt a connection to the federal government of United States. Hamilton understood that the financial health of the nation was tied to the financial infrastructure it created, and both factors would be the basis of any kind of national strength.[4]

Hamilton's perspective dominated the original financial framework of American government. His recommendations to Congress resulted in the federal government's assumption of all public debt, the creation of a mint, and the nation's first central banking entity. The controversial Bank of the United States became the decisive issue of the 1790s and beyond. Unfortunately for those officials responsible for the waging of the War of 1812, many leaders in

[4] Alexander Hamilton, *Writings*, ed. Joanne Freeman (New York: Literary Classics, 2001). See "Memorandum by George Beckwith on a Conversation with Hamilton," "Report on Public Credit," "Report on a National Bank," and "Report on the Subject of Manufactures," 523-529, 531-574, 575-612.

Congress and members of the executive branch remained unconvinced of its necessity after twenty years of operation.[5]

Although Hamiltonian finance set the country on a course towards government involvement in the economy, Thomas Jefferson and Albert Gallatin offered a different direction. Chapter 3 additionally discusses the influence of Republican ideals, which, in opposition to Hamiltonian finance, emphasized simplicity, frugality, and the benefits of limited government. As president, Thomas Jefferson chose Albert Gallatin to be his secretary of treasury; Gallatin was well-studied and tempered, and shared Republican values. Jefferson's chief financial advisor entered his office determined to trim government and eliminate the public debt. The latter policy was one of the success stories of the Republican era prior to the War of 1812. National debt levels declined steadily during Gallatin's time in office and were literally halved in the ten years between 1801 and 1811; however, the War of 1812 proved disastrous for Gallatin's debt-reducing precedent.[6]

Chapter 5 explores the economic reasoning and financial ideas of James Madison, Jefferson's friend and secretary of state who became president in 1809. Certainly, Madison's thoughts regarding the importance of international trade flows as well as his leadership, or lack thereof, during the debate over rechartering the Bank of the United States in 1811 profoundly impacted his presidency and the direction of the war. Through 1811, commerce steadily increased and the national debt declined, but that year proved to be a challenging turning point. When the issue of renewing the charter of the Bank of the United States rose, congressional

[5] Congress allowed the Bank of the United to expire in early 1811, leaving the government with no central monetary authority during the prosecution of the war.

[6] *American State Papers,* 3, Finance, 2: 22-23. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. In 1801, when Gallatin entered the office of treasury secretary, he was facing a federal debt just over $82 million. At the time of the war's beginning in 1812, Gallatin's efforts had reduced the debt to $45 million, its lowest point. By 1815, the federal debt had climbed to $99 million.

leaders were wary of the institution's power and did not perceive its overwhelming contributions. Gallatin, who continued as secretary of the treasury under Madison's administration, indicated that Treasury would be "inconvenienced" without the Bank, but did not convey the potential for economic calamity with the prospect of its demise. Moreover, President Madison said little about financial matters and did not influence the outcome of the bank controversy.[7]

Perhaps the challenge of operating without the Bank of the United States would have been manageable without the demands of war, but waging war in any era requires great financial resources. A decade of policies leaning towards frugality, simplicity, and lean government operation created an atmosphere of vulnerability rather than the strength of abundant resources. Jefferson, Gallatin, and Madison had not prepared the nation for a prolonged period of fighting and all of its financial demands.

The nascent United States faced a variety of difficulties during the War of 1812, including the legacy of Republican leadership. Chapter 6 examines the basis of wartime finance within the context of Jeffersonian tradition and offers a sense of the foreign relations difficulties that Madison inherited. In many ways, Republican leadership had prepared the nation for peace. Trade policies, debt reduction and diminished military expenditures put the United States in a weaker position. From a policy perspective, the war exposed the frailties of the American financial system, the weakness of decentralization, and the failing of a philosophy of scarcity in time of war. War, in any era, appears to be an ideal time to marshal resources, to prepare in terms of abundance rather than operate on a minimalist standard. American finances in 1812 would not allow abundance, however, and that reality illustrated the failure of American leaders to understand the practical dimensions of the financial operation of federal government.

[7] An examination of the Madison Papers held at the Library of Congress reveals Madison's silence regarding the financing of the war. See http://memory.loc.gov/ammem/collections/madison_papers/

Chapter 7 details Madison's entry into war and the United States financial position in 1812-1813. Political infighting, poor cabinet choices, and cautious leadership each affected the ability of the executive branch to deal with financial matters. Madison was a man of principle and intellectual insight who had to deal with petty personal, regional, and party politics within his cabinet in the midst of international crisis. His leadership was compromised as he tried to fill the gap created by blatantly incompetent or absent advisors. For political reasons, President Madison nominated a completely ineffectual secretary of state (Robert Smith) and was forced to take on the responsibilities of foreign affairs in addition to his presidential duties. His attorney general (Caesar Rodney) was more interested in his private practice than his cabinet position. Both the secretary of war (William Eustis) and the secretary of navy (Paul Hamilton) lacked any experience or particular skill for their positions. The leading biographer of Madison, Ralph Ketcham, refers to Madison's cabinet as "one of the weakest cabinets in American history," and during the crisis of war, these internal inadequacies proved consequential. Contributing to the problem, Madison did not act immediately in response to obvious personnel issues, and as a result, cabinet shifts became a source of turmoil. Madison was equipped with limited resources of time and energy, and these issues undoubtedly affected the leadership of the war effort. [8]

In addition to discussing Gallatin's efforts, chapter 8 explores the failure of American congressional leaders to realize the impact of inadequate financial structures and planning through the middle year of the war, 1813. During that year, the American government was unable to finance the war independently and came desperately close to complete financial ruin. Because the United States had experienced a degree of prosperity prior to war, policymakers had

[8] Ralph Ketcham, *James Madison: A Biography* (1970; repr., Charlottesville: University of Virginia Press, 1990), 482-483. Ketcham details Madison's difficulties with his cabinet choices as well as his very patient handling of various personnel situations. He mentions that with the exception of Gallatin, "Political necessity and sectional balance seemed to force mediocrity on Madison for the rest of his cabinet."

assumed that the nation's treasury could rely on people and institutions with resources, and, ultimately, the ability and willingness of the public to purchase government debt, literally funding the war effort, was paramount to the war's continuation. Gallatin was particularly adept at handling this situation; his skill and personal contacts resulted in the dramatic involvement of bankers Stephen Girard, David Parish, and John Jacob Astor in the war financing effort during the catastrophic year of 1813.[9]

Secretary of Treasury Gallatin was Madison's one exceptional cabinet member, and thus, occupied a central leadership position. Chapters 6, 7, and 8 explain the extent to which he was a pivotal figure in the financial history of the War of 1812. He had served as Thomas Jefferson's personal advisor, friend, and secretary of the treasury from 1801 until 1809, and although he expected to be rewarded with the office of the secretary of state under Madison's administration for his efforts during Jefferson's presidency, Gallatin continued in his role guiding the treasury department until May 1813. That he remained at Treasury after 1809 is a testimony to Gallatin's loyalty and personal feelings towards the two Virginians, Jefferson and Madison. He was tired of the position, truly wanted to pursue foreign affairs, and was personally offended at the attacks leveled against him.[10]

Philosophically, Gallatin believed in Republican principles but saw value in some elements of Hamiltonian finance. His practicality helped to check the ideals of the two intellectuals whom he served, and he succeeded in conjoining the ideals of Jefferson with the mechanisms established by Hamilton. Gallatin was the quiet force who diligently worked to reduce the national debt while creating an operational treasury department. Unfortunately, he

---

[9] Raymond Walters, *Albert Gallatin: Jeffersonian Financier and Diplomat* (Pennsylvania: University of Pittsburgh Press, 257-258.

[10] L.B. Kuppenheimer, *Albert Gallatin's Vision of Democratic Stability* (Westport, CT: Praeger Publishers, 1996), 73. Kuppenheimer notes that Gallatin became the "target for pent-up resentment" from political enemies of the administrations that he served, because he did not have the "stature of Jefferson or Madison."

was rewarded with congressional attacks and a focus on his foreign-born status at the onset of Madison's presidency. Once the war began, he remained treasury secretary for almost a year, when he departed to participate in the negotiation process to end the war. Gallatin was followed by William Jones and George Campbell who served briefly, and Alexander Dallas who worked to re-charter the Bank of the United States.

While encouraging domestic manufacturing, the war devastated the trade of the United States. American congressional leadership continually acknowledged the entrepreneurial spirit present throughout the nation, but the idea of formalized governmental financial structures controlling capital and the money supply provoked fear and negative emotions. Chapter 8 discusses the desperation evident in 1814 as Congress and the President became more uncertain when the war would conclude and how they should proceed with the financial management of the country through treasury notes, loans, the rechartering of a national bank, and taxation. Madison had expected the negotiation of the war's end as early as December 1813, and it was quite shocking that fighting continued throughout 1814. The country was on an uncharted course.[11]

The Treaty of Ghent, formalizing the end of War of 1812 on the basis of *status quo antebellum* was signed on December 24, 1814, and announced throughout the United States during the month of February 1815. The war had expanded the parameters of American financial and economic thinking as the executive and legislative branches of government were able to see the weakness of their own design, appearing inauspiciously as a failed Canadian invasion, an empty treasury, and the burning of the capital city. As a result, American leaders

[11] Kuppenheimer, *Albert Gallatin's Vision*, 90. Kuppenheimer discusses Gallatin's concerns regarding the weakness of the American position during the negotiation process. It was unclear how the war would conclude.

were momentarily convinced of the importance of financial infrastructure for economic growth and preparedness.[12]

The Gallatin Papers on microfilm and Gallatin's published writings provided an important starting point for a study of the financial history of the War of 1812. The Jefferson and Madison Papers at the Library of Congress offered important presidential perspectives of wartime efforts. Ironically, Jefferson, the president who sought to avoid war during his terms in office was far more vocal in his analyses of banking and financial matters during the actual wartime era. The *American State Papers* provided the financial reports generated by each wartime treasury secretary as well as communications and inquiries from pertinent committees. The *Annals of Congress* offered a detailed account of the competing ideas surrounding the financial issues as presented by congressional leadership. The Senate account is quite succinct and much less informative than the corresponding account given by the House of Representatives; as a result, this study almost exclusively references the proceedings of the House.

Several historians have pointed to the need for greater attention to financial history within the early national period. The significant work of Richard Sylla, Robert E. Wright, David Cowen and other New York University business historians has underscored the important and positive impact of early financial policymakers and individual financiers. Throughout his definitive book entitled *The War of 1812*, Donald Hickey mentions financial issues and their significance to the war effort; but concludes with the statement that more study is needed

[12] Donald Stabile, *The Origins of American Public Finance: Debates Over Money, Debt, and Taxes in the Constitutional Era, 1776-1836* (Westport, CT: Greenwood Press, 1998), 169. Historian Donald Stabile alludes to this development and discusses the renaissance of Hamiltonian ideas and financial principles that occurred after the war's conclusion.

regarding the financing of the war.[13] J.C.A. Stagg discusses the challenge of American financial needs during the Republican era.[14] Historian Edwin J. Perkins devotes a chapter to the financial issues of the War of 1812 in his major work *American Public Finance and Financial Services, 1700-1815*, but his account makes no attempt to be definitive.[15]

A study of the financing of the War of 1812 provides a greater understanding of how the early American economy functioned and the sources of its economic progress. Financial studies have typically not been a primary focus of historians, and certainly with regard to the War of 1812, it is easy to understand a preoccupation with political and military affairs. To a large degree, however, economic realities and financial infrastructure determine a nation's capacity for growth and change as well as national strength. The War of 1812 offers a prism through which to view the tensions of economic and financial policymaking during an emergency situation and reveals an important turning point in the development of distinctly American financial ideas and institutions.

[13] Donald Hickey, *The War of 1812* (Urbana: University of Illinois Press, 1989), 322.
[14] J.C.A. Stagg, *Mr. Madison's War: Politics, Diplomacy, and Warfare in the Early American Republic, 1783-1830* (New Jersey: Princeton University Press, 1983).
[15] Edward J. Perkins, *American Public Finance and Financial Services 1700-1815* (Columbus: Ohio State University Press, 1994), 324-348.

CHAPTER 2

THE BEGINNING OF AN AMERICAN ECONOMIC PHILOSOPHY

Arguments regarding the financing of the War of 1812 were rooted in a diversity of European thought, which over time amalgamated into a distinctly American intellectual heritage. Enlightenment authors including David Hume and Adam Smith, along with an unorganized body of mercantilist thought, provided American philosophers such as Thomas Jefferson and Benjamin Franklin with contrasting principles to contemplate. Throughout the War of 1812, congressional leaders as well as those affiliated with the executive branch relied on Jeffersonian tradition and certainly echoed the early sentiments of Franklin, often referencing economic and political writings that Americans had discussed even prior to independence. During the seventeenth and eighteenth centuries, mercantilist and Enlightenment philosophy offered colonists varied analyses of the nature of humanity and political power as it related to governmental structure and the individual. American thought was stimulated by concern for liberty, the need for societal order, fears of anarchy and tyranny, and the appropriate actions and organization of government, each of which had economic implications. What emerged from the mixture of seventeenth and eighteenth century European thought was a varied and colorful body of political thought with economic and financial ramifications that would continue to be influential during the years of the War of 1812.[1]

---

[1] Mercantilism, which emphasized the economic good of the state through protectionist policies, and the philosophy of the Enlightenment, which focused on the capability of the individual to contribute to society, provided the basis of contrasting economic reasoning.

During both the late colonial and early national periods, Thomas Jefferson was a particularly authoritative figure who embodied the European ideological influences present in America. Jefferson formulated his basic philosophical framework quite early in life, and his economic philosophy grew from a personal synthesis of political ideals.[2] Throughout his career, Jefferson clearly pondered what kind of society would bring the greatest good for the greatest number of people, and as he sorted through ideas to meet that goal, his writings reflected the themes of individual liberty and the importance of agrarian living. Although Jefferson was neither an economist, nor particularly comfortable with financial reasoning, the principles that he advocated contained the seeds of American economic thought that became a powerful influence within the debates of the Twelfth, Thirteenth, and Fourteenth Congresses. An exceptional student of philosophy, Thomas Jefferson conveyed an American view of widely-read European philosophers, and his understanding of economic and financial matters was repeatedly expressed by those who opposed Madison's War and its financing from 1812 to 1815.[3]

Jeffersonian tradition was a product of Enlightenment thought. In his book, *The Empire of Reason*, historian Henry Steele Commager argued that while the Enlightenment began in Europe, the intellectual movement culminated in America. Although the simplicity of this perspective has been questioned by his colleagues, his work acknowledges the important influence of the Enlightenment on American thought and institutions.[4] The challenge of

---

[2] Dumas Malone, *Jefferson and His Time Vol. 1: Jefferson the Virginian* (Boston, MA: Little, Brown and Co., 1948), 101, 105, 108.

[3] See the *Annals of Congress* through the Twelfth, Thirteenth, and Fourteenth Congresses. Republicans and Federalists alike employed Jeffersonian arguments against increased debt, the issuance of treasury bills, and monetary authority.

[4] Henry Steele Commager, *The Empire of Reason: How Europe Imagined and America Realized the Enlightenment* (New York: Doubleday, 1977), preface. Jack C. Thompson, "Review Essay: Ideas and the American Enlightenment," *American Quarterly*, Vol. 30, No. 2 (Summer 1978) 243-252. Thompson explores Commager's thesis and refers to it as "the unbelievable, filiopietistic hypothesis that is the subtitle of *The Empire of Reason*." 244. See also Richard B. Sher and Jeffrey R. Smitten, eds., *Scotland and America in the Age of Enlightenment* (Princeton, NJ: Princeton University Press, 1990).

determining exactly how the Enlightenment affected Americans is not so easy to establish. The Enlightenment has been discussed from various vantage points, and disagreements exist among historians regarding the people and ideas involved as well as establishing the time frame in which it occurred. One of the foremost authorities on the subject, Peter Gay, defines the Enlightenment from the time of Locke to Condorcet, roughly mid-1600s to the end of the eighteenth century.[5]

A short summary of Enlightenment thought would of necessity include the following components: a determination to experience and observe the world in order to arrive at knowledge, a common belief in the possibilities of human progress as illustrated by philosophers' willingness to solve basic human problems intellectually, and a faith in reason. When Isaac Newton published an account of the physical laws of the universe in 1687, he unleashed a torrent of activity based on methodical questioning and scientific discovery. Newton's accomplishments changed the perception of what an individual could do. This systematic approach to individual inquiry put a focus on the importance of education and the logical order of nature. Political and economic theorists would follow suit, attempting to make sense of governmental organization within the framework of individual rights. The intellectual threads of Enlightenment authors moved beyond the field of science, to address subjects of politics and government, economics, and education.[6]

Many European philosophers were widely read and influential within the colonies, but no simple consensus emerged from a common understanding of their works. Several philosophers of political theory, however, were particularly important, and their works contained the seeds of

---

[5] Peter Gay, "Enlightenment in the History of Political Theory," *Political Science Quarterly* Vol. 69 No. 3 (Sept. 1954), 374.

[6] Ibid., 374. "…leading writers [of the Enlightenment] brought the conception of natural law to its culmination, created the foundations of modern sociology, developed utilitarianism, anticipated socialism, and gave democratic theory the most profound interpretation it has ever received."

contrasting economic views. Prominent Americans reacted to the ideas of Enlightenment authors such as Thomas Hobbes (1588-1679), John Locke (1632-1704), and Baron de Montesquieu (1689-1755). Intermingling with a broad range of Enlightenment authors, other influences consisted of a loose collection of mercantilist writers, an economic doctrine which reached its zenith in the mid seventeenth century, as well as authors associated with the Scottish Enlightenment of the eighteenth century. An understanding of each of these representative influences is necessary to gain an appreciation for the contrarian and complex viewpoints discussed by educated colonists.

Thomas Hobbes' *Leviathan*, published in 1651, presented a definitive view of human nature and political necessities. Hobbes believed that the natural state of humanity is a passionate pursuit of individual interests, creating a constant state of war or its potential among men and nations. The best known section of *Leviathan*, Chapter 13, begins with the premise that all men are by nature equal, and Hobbes built on that foundational thought with the idea that man's natural equality will result in the pursuit of his desires using brute force (war). Within this construct, Hobbes defined liberty and natural rights in a subsequent chapter, noting the conflict between liberty, "the absence of external impediments" and the natural rights of "every man to every thing." To this great dilemma of human existence and society, Hobbes developed his own concept of contracts, whereby men could choose to give up their natural rights for the good of society. Hobbes did not believe that humans would choose to forfeit their natural rights of their own accord, but rather argued that the intense fear of a powerful sovereign would be the most effective contractual force. Fear was the regulating component of Hobbesian philosophy; his view of humanity was not optimistic.[7]

---

[7] Thomas Hobbes, *Leviathan*, ed. Marshall Missner (New York: Pearson Education, 2008), 81-85.

Thus, Hobbes concluded that a stable society could be cultivated only with strict order, and that a sovereign or strong executive would be needed at the helm of government. According to Hobbes, monarchical authority was an effective form of government, crucially centralized in order to impose the rule of law and provoke the necessary fear among the masses that would result in societal stability and their obedience. Historian George Mace has challenged an exaggerated focus on Hobbes' pessimistic view of human nature, and instead makes the case that the English philosopher was actually more moderate than the portrayals offered by typical scholarly analysis. In Hobbes' writing, he notes the difficulty of governing the passions of men, while also acknowledging the role of natural law and the limits of absolute power. Mace indicates that the Hobbesian balance of liberty and natural law, societal stability and governmental power, alongside contract theory is a major theme present in the thinking of early Americans.[8]

By contrast, John Locke articulated a social contract theory involving the ideal of the consent of the governed and the importance of government as a protector of life, liberty, and property. Known for his liberal emphasis on the individual and individual rights, Locke expressed a positive view of humanity, using the term "tabula rasa" or "blank slate" to describe human beings at birth.[9] His famous *Essay Concerning Human Understanding* published in 1690 discussed the importance of experience in developing knowledge and even moral truth. He rejected the notion that humans were born evil, but instead believed that personal development

[8] George Mace, *Locke, Hobbes, and the Federalist Papers: An Essay on the Genesis of the American Political Heritage* (Carbondale: Southern Illinois University, 1979), 35-97.

[9] John Locke, *Essay Concerning Human Understanding* (1690), Book 2, Chapter 1, No. 2. "Let us then suppose the mind to be, as we say, white paper, void of all characters, without any ideas:- How comes it to be furnished? Whence comes it by that vast store which the busy and boundless fancy of man has painted on it with an almost endless variety? Whence has it all the materials of reason and knowledge? To this I answer, in one word, from EXPERIENCE. In that all our knowledge is founded; and from that it ultimately derives itself. Our observation employed either, about external sensible objects, or about the internal operations of our minds perceived and reflected on by ourselves, is that which supplies our understandings with all the materials of thinking. These two are the fountains of knowledge, from whence all the ideas we have, or can naturally have, do spring."

was most affected by observation and experience, sensation and reflection or, more generally, environmental factors. With this premise came the promise of infinite possibilities concerning the shaping of the psyche.

In the same year, 1690, that witnessed the meteoric rise and public reception of his *Essay*, Locke also published *Two Treatises of Civil Government*. Reminiscent of his "blank slate" concept of the human mind, Locke stated in the second *Treatise* "In the beginning all the world was America," alluding to untouched, unblemished land with limitless potential and an optimistic future. Beyond his belief in the original innocence of humanity, Locke articulated some revolutionary views. Within the first treatise, Locke addressed the concept of "Divine Right of Kings," which stated that a monarch derived his power from the will of God and was a representative of God on earth. Locke believed this concept to be absurd and challenged the Hobbesian worldview necessitating the peoples' fear and centralized authority. Instead, he argued that human freedom is a construct of natural law and effective governments must involve the consent of those who are governed.[10]

The *Second Treatise on Government* discussed concepts that would become identified with distinctly American thought. Man is by nature free, and not in a state of war, but instead governed by reason. Government requires consent, and the purpose of government is the protection of citizens' property and life. Additional Lockean values stressed the importance of property rights and the intrinsic value of money. Although historian Gary Wills's research and

---

[10] John Locke, *Second Treatise of Civil Government* (1690), Chapter 5, Section 49. Neal Wood, *John Locke and Agrarian Capitalism* (Berkeley: University of California Press, 1984), 51.

analysis suggests that Locke was not a primary influence on Jeffersonian writing, Lockean liberalism was undoubtedly an important component of colonial thought.[11]

Along with Locke, Baron de Montesquieu was one of the most widely read philosophers in North America. From Montesquieu, Americans gleaned the significance of the balance of power, three branches of government, and the concept of checks and balances. He also offered an analysis of different kinds of governments, and identified the fundamental characteristics of monarchies, republics, and despotisms. Each operated according to a principle: monarchies were free governments led by a hereditary figure and were built on the principle of honor; republics were free governments led by popularly elected leaders and relied on the principle of virtue; lastly, despotisms represented governments led by dictators and relied on the principle of fear. American thinkers like Thomas Jefferson and James Madison wrestled with the concept and dilemma of Republican government as presented by Montesquieu. Jefferson first felt an affinity to *The Spirit of the Laws*, Montesquieu's 1748 work, but his position evolved as he was convinced that the philosopher's elitism should not be applied to America. Additionally, Montesquieu's argument that republics could only exist within small areas forced Madison to consult other sources for advice.[12]

Interspersed with the philosophies of authors such as Hobbes, Locke, and Montesquieu in the minds of colonists, was a fundamental body of thought that dominated political and economic debates from the sixteenth century. The mercantilist economic ideal was widely accepted in Europe, although mercantilism was not a formally articulated or unified economic theory. Ironically, its chief critic, Adam Smith, best articulated the tenets and goals of

[11] Ronald Hamowy, "Jefferson and the Scottish Enlightenment: A Critique of Garry Wills Inventing America: Jefferson's Declaration of Independence" *William and Mary Quarterly* 36, (Oct. 1979), 503-523. Gary Wills, *Inventing America: Jefferson's Declaration of Independence* (Garden City, NY: Doubleday, 1978).

[12] David Lundberg and Henry F. May, "The Enlightened Reader in America", *American Quarterly*, Vol. 28, No. 2 (Summer 1976), 262-293. See the comparison of library holdings on page 275.

mercantilism. In Smith's summary, mercantilists advocated the acquisition of precious metals and/or specie by a country in order to build that nation's wealth. To gain national wealth, a nation's government literally needed to steal and hoard as much specie as possible. Specie could be acquired through acts of piracy and maintaining a favorable balance of trade with other countries. Mercantilism spurred international competitiveness since one nation gained wealth at other nation's expense; the international economy was a zero-sum game with one winner, and the rest, losers.[13]

This competitiveness intensified international rivalry and stressed the fixed nature of wealth creation. The accumulation of gold and silver, not productive capacity or potential promised greater wealth to mercantilist policymakers. As a result, mercantilism established an economic system that limited growth, while imposing an elite merchant order on society. "Mercantilists simply wanted the lower orders of society to be efficient factors of production," not active participants in the economic future.[14]

An Englishman, Thomas Mun, authored the decisive work articulating mercantilist principles. Entitled *England's Treasure by Foreign Trade*, Mun's most famous work expressed the principles of economic nationalism and was published in 1664. Specifically during the time of its writing, Mun wanted to see the protection of English trade from the powerful Dutch. He and other mercantilists encouraged the collusion of domestic and foreign government policies with the interests of commerce; an activity that resulted in increased monarchical power and the sponsorship of business monopolies.[15] Centralized authority meant efficient use of resources and trade in goods.

---

[13] Adam Smith, *The Wealth of Nations* (1776; repr., New York: Prometheus Books, 1991).

[14] Michael Kamman, *Empire and Interest: The American Colonies and the Politics of Mercantilism* (Philadelphia, PN: J.B. Lippincott Co., 1970), 21.

[15] Kamman, *Empire and Interest*, 16-17.

Typically, the monarch of a country would promote mercantile monopolies to produce and trade goods internationally for the nation's, as embodied by the king, economic and financial benefit. Commercial monopolies were protected by the sovereign, because the key to winning in this system by acquiring more specie than other nations was to produce goods with the goal of exporting more than the value of imports. Maintaining a favorable balance of trade in order to acquire specie was the primary goal of mercantilism. Americans perceived that mercantilism tended to create a king-sponsored mercantile aristocracy. Through the perspective of Benjamin Franklin, historian Drew McCoy summarized well the American response to the English mercantilist system:

> …he [Franklin] often directed his attention to the regrettable consequences of a mercantilist tendency to sacrifice the comfort and security of England's common people to the interest of a profitable export trade.[16]

Alternative economic philosophies emerged from an awareness of the limitations of mercantilism. The turn of the eighteenth century was a time of change, resulting from new technologies and industrial capacity as well as a corresponding focus on the removal of restrictions and the empowerment of the individual. As the people of Scotland grappled with the state of their nation and its effective development, Scotland produced some of the most thought-provoking writers of the eighteenth century. Undoubtedly, the Scottish Enlightenment profoundly influenced American economic thought. Jose Torre states: "Into the nineteenth century, Americans followed the Scottish political economists and increasingly adopted liberal ideas on money, banking and the nature of the economy." Authors such as Frances Hutcheson, David Hume, and Adam Smith focused on the significance of rational behavior and natural law, identifying strengths and weaknesses of human capacity. According to Torre, their studies of

[16] Drew McCoy, *The Elusive Republic: Political Economy in Jeffersonian America* (Chapel Hill: University of North Carolina Press, 1980), 57.

humanity recognized that human reasonableness was limited and that human passions or sentiment must be considered. However, each of them emphasized the importance and role of reason for the individual and society.[17]

David Hume (1711-1776) addressed an assortment of ideas in his writing and is perhaps infamous for his pivotal comment that "every man must be supposed a knave," which is reminiscent of Hobbes' position. Beyond his theories of human nature, Hume wrote a number of significant essays on topics related to commerce, trade, and financial issues. He believed that commerce was essential to the economic growth of a nation, stimulating new industry and generating all manner of economic activity.[18] He also, however, asserted that healthy and growing commercial interests in a society will strengthen the power of the state (monarch). Hume viewed this "greatness of the state" as a positive outcome, provided that citizens were not deprived of the "fruits of their labor." It is not difficult to understand why Thomas Jefferson, every wary of state power, rejected Hume's perspective, while foundational American leader Alexander Hamilton, who sought to create an efficient, powerful national government, quoted him.[19]

Hume was a prolific writer who advocated knowledge gained through observation and experience as well as an advanced form of skepticism. Accordingly, his reflections on monetary concerns were conveyed in a rational and keenly observational manner. For example, he expressed concerns related to the use of paper currency, but simultaneously recognized its benefits.

---

[17] Jose R. Torre, *The Political Economy of Sentiment: Paper Credit and the Scottish Enlightenment* (London: Pickering and Chatto, 2006), 37.

[18] David Hume, "Of Commerce," *Philosophical Works of David Hume* Vol. 3 (Boston, MA: Little, Brown, and Co.), 289.

[19] Paul Rahe, "Jefferson's Machiavellian Moment." in *Reason and Republicanism: Thomas Jefferson's Legacy of Liberty*, ed. Gary L. McDowell and Sharon L. Noble (Lanham, MD: Rowman and Littlefield, 1997), 53-77.

> …in every kingdom into which money begins to flow in greater abundance…everything takes a new face: labor and industry gain life; the merchant becomes more enterprising; the manufacturer more diligent and skillful, and even the farmer follows his plough with greater alacrity and attention.[20]

Hume's ideas were a direct influence on generations of American colonists and offered economic and financial policymakers a point of thought-provoking departure in the formation of American reasoning.[21]

Among the Scottish Enlightenment thinkers, Adam Smith was arguably the most important in terms of the development of American economic thought. Not all of his ideas were accepted and enacted, and Americans were not necessarily consistent in their acceptance of his conclusions, but the *Wealth of Nations*, published in 1776 profoundly influenced American thinkers. Certainly, historian Joyce Appleby has pointed to the significance of Smith's theories to Jeffersonian capitalism and the Hamilton-Jefferson debates of the early republic. In the final analysis, Smith's economic reasoning focused on the empowerment of the individual greatly appealed to democratically-minded American leaders.[22]

The Wealth of Nations conveyed a few basic ideas. First, mercantilism's vision of the world did not adequately address societal and economic realities. Smith envisioned the economy as a structure that hinged on the individual's sense of self-interest. In Smith's concept of the economy, it was freedom of choice, or the individual's ability to acquire or sell what is best for him, that brought about individual and societal utility. As individuals pursued their interest, they would be guided by "the invisible hand," resulting in ultimate good brought to society. Public good, civic virtue, and society's utility could all be fulfilled within this structure of the market,

---

[20] Hume, "Of Money," 315.

[21] John M. Werner, "David Hume and America," *Journal of the History of Ideas*, 33, (July-Sept. 1972) 451. "Hume's influence was present not only in the writings of Americans; it was felt also in their deliberative bodies." Werner specifically mentions Hume's influence on Madison, Franklin, Hamilton, and Jefferson (prior to his retirement).

[22] Joyce Appleby, *Liberalism and Republicanism in the Historical Imagination* (Cambridge: Harvard University Press, 1992), 2-3, 323.

the bringing together of buyers and sellers. In an earlier work, *The Theory of Moral Sentiments*, Smith expressed his beliefs regarding the nature of human motivation and the balancing of self interest and empathy. According to Smith, two almost opposing forces, self interest and empathy, worked to bring about the greatest good to the greatest number of people, and should not be hindered by intrusive government intervention.[23]

Enlightenment thought valued reason and rational thinking, individualism, and freedom. Within that framework, Smith tended to emphasize both the freedom and self-restraint involved in the pursuit of individual self interest. Joseph Cropsey, scholar of philosophy, posits that Smith believed in the power of commerce to balance conflicting interests in a free society. "…commerce generates freedom and civilization, and at the same time free institutions are indispensable to the preservation of commerce." As the "natural order of society," the mechanisms of a free market system would protect freedom, civil and religious.[24] Hume and Smith did not agree on this issue of freedom and prosperity.

Although on the surface, some ideas of Hobbes and Locke meshed with Scottish Enlightenment thinking, there was also an important difference, attended to by historian Samuel Fleischacker in a discussion of the Scottish impact on America. He noted the academic perception of a wide dichotomy between the natural rights and fierce individualism of Locke and Hobbes contrasted with a more "civic republican" point of view found within the Scottish writers. The debates among historians regarding the nature of republicanism and whether a version of republicanism or liberalism was more influential on the founding of the American nation has roots within this basic philosophical dialectic. The overall importance of Scottish

---

[23] Vernon L. Smith, "The Two Faces of Adam Smith," *Southern Economic Journal*, 65, (Jul., 1998), 2-3. Donald Winch, "Adam Smith: Scottish Moral Philosopher as Political Economist." *The Historical Journal*, 35, (Mar., 1992), 91-113.

[24] Joseph Cropsey, *Polity and Economy: With Further Thoughts on the Principles of Adam Smith* (Indiana: St. Augustine's Press, 2001), 112.

Enlightenment thinkers cannot be adequately measured, but suffice it to say that the Scots profoundly added to the interweaving of contrasting ideas within the American vocabulary.[25]

After exploring some of the European roots of a distinctively American view of economic and financial policy, Thomas Jefferson deserves special treatment. Jefferson's perspective demonstrated both the impact and transformation of European philosophy within the American experience. He relished the intellectual process of absorbing and synthesizing new ideas, and because of the enormous number of his sources, Jefferson's thinking was complex and sometimes reflected contradictory impulses. Historians whose focus of study is Jefferson tend to preface their remarks much like Peter Onuf who states "Jefferson's story cannot be reduced to lifelong advocacy of a single principle…Jefferson invited wildly contradictory characterizations of his political thought."[26] Thomas Jefferson was truly an original American philosopher who framed his thoughts with ideas taken from classical and European sources.

Jeffersonian philosophy is a crucial intellectual thread in American history and, although exclusive to Jefferson's own concerns, also represented the interests of a significant part of society. First and foremost, Jefferson believed in the ideal and practical results of liberty. He constantly advocated individual property ownership and participation in government affairs. For that reason, he wanted government to remain close to the people and reflective of the needs of the citizenry. Certainly, there was an echo of John Locke in Jefferson's voice, as well as a positive notice of Adam Smith's ideas.[27] He identified with a pastoral image of America, believing that rural living provided the best hope of a perpetually free society. From his

25 Samuel Fleischacker, "The Impact on America: Scottish philosophy and the American founding," *The Cambridge Companion to the Scottish Enlightenment*, ed. Alexander Broadie (Cambridge University Press, 2003), 316. "So the debate between the Scottish and Hobbesian-Lockean view of the founders is part of a larger controversy over whether the political philosophy expressed in the American Declaration of Independence and Constitution is primarily a „liberal' or a „civic republican' one."

26 Peter Onuf, *The Mind of Thomas Jefferson* (Charlottesville: University Press of Virginia, 2007), 27.

27 Joyce Appleby, *Capitalism and a New Social Order: The Republican Vision of the 1790s* (New York University Press, 1984) 25-50. See also McCoy, *The Elusive Republic*, 35-47.

perspective, the growth of industry and the cities accompanying it would lead to domination by a new financial order and result in corruption and vice. In short, he expressed a curious mixture of ideas and observations of underlying realities, which has provoked much thought and argument among historians of the early national period.[28]

Because his thinking was gleaned from contrasting philosophical directions, Jeffersonian philosophy has instigated great consternation among contemporary American historians. Two strains of thought were present throughout the period of the Enlightenment and within Jefferson's writings: liberalism and republican thought. John Locke and Lockean liberalism has been connected with an emphasis on the individual's freedom from certain responsibilities or experiences, while classical republicanism tended to focus on order, representative government, the public good, and the civic responsibility of the individual. In analyzing the origins of Jefferson's perspective and the intellectual roots of the colonial and early national experience, these seemingly innocuous premises have been a source of confusion. In particular, controversy has surrounded the term "republican"; historians Steven J. Ross and Robert Shalhope offer some general guidance and have expressed congruous professional judgments. They concluded that the meaning of republicanism in its most general sense involved the "absence of monarchy and aristocracy," and was changeable over time in response to experience. Beyond that, details related to the republican tradition are subject to intense scrutiny.[29]

Historians Forrest McDonald and Lance Banning have identified the oppositionists of eighteenth century England as an important influence in the development of Jeffersonian

[28] Leo Marx, *The Machine in the Garden: Technology and the Pastoral Ideal in America* (Oxford University Press, 1964), 71. Yet Marx notes "Jefferson's genius lay in his capacity to respond to the dream yet disengage himself from it."

[29] See the Appleby-Banning discussion. Joyce Appleby, "Republicanism and Ideology" *American Quarterly*, Vol. 37, No. 4 (Autumn 1985), 461-473. *Liberalism and Republicanism in the Historical Imagination* (Cambridge, Massachusetts: Harvard University Press, 1992).
Lance Banning, "Jeffersonian Ideology Revisited: Liberal and Classical Ideas in the New American Republic," *William and Mary Quarterly*, Vol. 43, No. 1 (Jan 1986), 3-19.

thought.[30] As England experienced fundamental change within the context of the industrial revolution, the nation developed economic and financial structures to meet the needs of this momentous transition. The English version of industrialization resulted in monopoly power and the appearance of a merchant and business elite who benefited from national policies at the expense of the common man. Special interests serving national wealth and the king, represented by Robert Walpole and the Tories, concentrated power in the hands of a few, and those officials who favored commerce were generally referred to as affiliated with the interests of the "Court." Part of the English Enlightenment, writers such as Henry St. John, First Viscount Bolingbroke, John Trenchard, and Thomas Gordon objected to this emerging economic reality with its political ramifications, and expressed great dissatisfaction with the "courtly" politics. Hence, they were labeled "country" and became known for their idealization of pastoral living.

Trenchard and Gordon authored a set of essays collectively known as *Cato's Letters*, which were read throughout the colonies. The essays explored the corrupting effects of unchecked power, and fundamentally affected Jefferson's thinking, since Jefferson's political and economic instincts were rooted in this same concern. Historian Bernard Bailyn also points to the centrality of Jefferson's concern with the nature of power: "…the fear of power…was an animating spirit behind all of his thinking, and ultimately the source of his deepest ambiguities."[31]

[30] Forrest McDonald, *The Presidency of Thomas Jefferson*, (Lawrence: University Press of Kansas, 1976), 19. Lance Banning, *The Jeffersonian Persuasion: Evolution of a Party Ideology* (Ithaca, New York: Cornell University Press, 1978), 42-69. Banning explains the context for oppositionist thought and concludes with the statement: "In America, peculiar circumstances opened an enormous field of influence for the same ideas." (69)

[31] Bernard Bailyn, "Jefferson and the Ambiguities of Freedom," *Proceedings of the American Philosophical Society*, Vol. 137, No. 4, 250th Anniversary Issue. (Dec., 1993), 511. James Read reiterates Bailyn's statement even more directly. "At the core of Jefferson's political thought was suspicion of political power; his belief in an eternal struggle between the power of government and the liberty of citizens—an unequal struggle in which all the advantages lie on the side of power."
James H. Read, *Power versus Liberty: Madison, Hamilton, Wilson, and Jefferson* (Charlottesville: University Press of Virginia, 2000), 120.

Although Jefferson did not care for David Hume's lack of faith in human nature and emphasis on commerce and the king, another member of the distinguished Scottish Enlightenment appealed to his sense of liberty. Building on the foundation of oppositionist thought, Adam Smith's focus on individual decision-making and individual freedom with minimal government regulation aligned with Jefferson's concept of how a national economy should work. Additionally, Smith espoused free trade and discussed the interaction of a multitude of interests for the public good. Smith decried monopolies, advocated competition, and seemed to convey the benefits and advantages of a decentralized system.

Jefferson's economic ideas developed through the latter part of the colonial era and profoundly influenced the early national period of American history. Although historian Robert Shalhope considered Jefferson remarkable for his consistency, William Grammp, writing in 1946, identified some issues on which Jefferson changed his mind. Grampp saw three distinct periods of Jeffersonian economic thought. To 1790, Jefferson expressed his emphasis on an agrarian and self-sufficient society. From 1790 to 1805, the statesman discussed a laissez-faire policy, and after 1805, Jefferson reversed course to promote protectionist policies and national government intervention. In terms of the development of American economic thought, Grampp's thesis illustrates the practical shifts of a major American leader.[32]

Especially interesting about Jefferson's economic thought are his ideas regarding the nature and function of banking. During the early period, he did not oppose banking entirely. However, responding to Alexander Hamilton's plan for the Bank of the United States in 1790, he saw impending economic tyranny and the potential creation of a monied elite. By the third

[32] Robert E. Shalhope, "Thomas Jefferson's Republicanism and Antebellum Southern Thought," *The Journal of Southern History*, Vol. 42, No. 4 (November 1976), 536. Shalhope provocatively states: "The most striking thing about Jefferson's republicanism was its remarkable consistency."
William D. Grampp, "A Re-examination of Jeffersonian Economics," *Southern Economic Journal*, Vol. 12, No. 3 (Jan. 1946), 281.

phase, he opposed government-subsidized national banks but also became alarmed at the sheer numbers of state banks and the artificial money creation process.[33] Jefferson distrusted paper money, and within his vision, did not necessarily see the importance of a banking system, of a national bank, or of banks, in general. Jefferson's concerns about banking and finance have merit. He identified speculation with greed and commented on the detrimental nature of such activities: speculation is based upon perpetual optimism that prices will rise, and as it feeds higher prices, asset bubbles are created, resulting in the extremes of the business cycle.

Thomas Jefferson constantly expressed his distinctive economic perspective founded upon a concern for the danger of the centralization of power and belief in individual empowerment through an agrarian society. In some ways, his vision of farmers engaged in a limited trade of raw materials represents a continuation of the mercantile system that had developed during the colonial era, but his advocacy of free trade pointed to the influence of the Scottish Enlightenment. Jefferson's ideal America would be primarily rural, reflecting pastoral values and a simple morality. In the final analysis, Jefferson's perfect society was a unified America made possible through common individual experiences of land and property ownership within the business of farming. His premise may have been simple, but Jefferson held complex views, incorporating many sources and developing his ideas in response to his observations and experiences.

Thomas Jefferson developed his economic ideas from observations of the colonial economy and his study of political philosophy, and his economic theorizing urged caution with regard to banking and centralized money power, while advocating an agrarian lifestyle and limited household manufactures. Jeffersonian analysis directly influenced generations of

[33] Grampp, 273. A comment of Grammp's summarizes Jefferson's future stance: "Jefferson originally believed that the evils of banking could be eliminated…but by 1802…held that banking in any form was an unmitigated evil."

American leaders. In 1788, Governor of New York and future presidential candidate in 1812, Dewitt Clinton, voiced Jeffersonian concerns in relation to power and money.

> From the insolence of great men—from the tyranny of the rich—from the unfeeling rapacity of the excise-men and tax-gatherers—from the misery of despotism—from the expense of supporting standing armies, navies, placemen, sinecures, federal cities, senators, presidents, and a long train of etceteras, Good Lord deliver us.

As Clinton's statement indicates, economic and financial issues were easily connected with tyranny in the colonial mind, and therefore evoked great political passion. Jefferson certainly argued that money power should be treated with great care.[34]

---

[34] Herbert Agar, *The Price of Union* (New York: Houghton Mifflin Co., 1966), xvii. "War and industrial revolution promote strong government."

CHAPTER 3

ECONOMIC ACTIVITIES IN COLONIAL AND EARLY NATIONAL AMERICA

The perception of continued American prosperity, experienced from the early national era to the point of the beginning of the War of 1812, gave policymakers a false sense of confidence regarding the ability of the American economy to weather national crisis without adequate financial preparation. The idea that America was too prosperous to fail and that the strength of its private sector eliminated the need for a centralized monetary authority dominated the thinking of those who advocated an American declaration of war against the British. Indeed, the colonial and early national economic record indicated the growth of enterprise and success of business in the new nation and was made even more impressive by the difficulties of the first settlement experiences.[1]

In 1607, the first permanent settlement did not appear as a future success story. Preoccupied with looking for gold on the ground in order to collect their fortune and return to England, the initial settlers of Jamestown did not demonstrate the "vigorous spirit of enterprise" later connected with colonial prosperity. Reports of cannibalism convey the extreme level of desperation and subsistence living during the founding years. Likewise, New England settlers who were starving in 1620 and aided by the Indians for the first Thanksgiving in 1621, struggled with basic issues of survival. That American society moved from subsistence and barter to commercial prosperity within a century is remarkable.[2]

Following the settlement of the first English colonies during the early seventeenth century, the area that became the United States witnessed a remarkable economic transformation.

---

[1] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, 476-481. Calhoun's pro-war speech portrayed America as a nation with great capacity to pay for war. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[2] Thomas Doerflinger, *A Vigorous Spirit of Enterprise: Merchants and Economic Development in Revolutionary Pennsylvania* (Chapel Hill: University of North Carolina Press, 1986).

American economic development during the colonial era is a fascinating story involving growth and innovation, practical concerns, and the ad hoc development of an embryonic financial structure. This economic transformation provided the basis for future American prosperity as well as the emphasis of Jeffersonian tradition on interconnected international trade in a peaceful world.[3]

The primary reason for America's rapid economic rise was the interdependent trade relationship between the colonies and the mother country. As a mercantilist nation, England was motivated to facilitate trade and establish monopolizing regulations in relation to her land holdings. Englishman Thomas Mun remains one of the best known mercantilist writers and with one statement he expressed the goals of his country: "The ordinary means…to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value."[4] To that end, Britain passed a series of Navigation Acts throughout the latter half of the 17th century. The Navigation Act of 1660 created a monopoly relationship between the colonies and England related to goods produced in the colonies, among them, sugar, tobacco, cotton, and indigo. England provided an automatic, if not limited, market for American raw materials and helped to motivate colonial merchants.[5]

Mercantilism may have benefited the mother country in the short run, but was potentially harmful to the colonies in the long run in that England's attempts to control American trade only considered British interests and limited American trade possibilities. During the seventeenth century, American colonists developed strategies to balance royal regulations and hoped for lax

---

[3] Dumas Malone, *Jefferson and His Time Vol. 3: Jefferson and the Ordeal of Liberty* (Boston: Little, Brown and Co., 1962), 63. Malone discusses Jefferson's belief in the importance of American neutrality and peaceful foreign relations when he served in the position of secretary of state.

[4] Thomas Mun, "The Means to Enrich the Kingdom and to Increase Our Treasure," Stuart Bruchey, ed., *The Colonial Merchant* (New York: Harcourt, Brace, and World, Inc., 1966), 46.

[5] Ronald Seavoy, *An Economic History of the United States from 1608 to the Present* (New York: Routledge Publishing, 2006), 57.

enforcement. Bernard Bailyn's *New England Merchants* placed American merchants at the center of British trading relationships and includes many accounts of northern colonists who through their efforts experienced business success and upward social mobility. Further, he discussed the intensity with which merchants approached the economic possibilities of the New World and ignored the legal regulations of English monopoly power. Bailyn's work asserted that early New England merchants, their activities and ideas, established the basis of American society. America was a burgeoning economic power within the first century of its existence due to the intense commercial activity of its colonists.[6]

American colonies were part of a complicated web of trans-Atlantic trade relationships between Great Britain, continental Europe, the West Indies, and Africa. Triangular trade took many paths among these entities, and American colonists took advantage of the interconnectedness of world trade flows. Colonial merchants were an integral part of the Atlantic economy, and beyond building American wealth, they helped to invigorate the capitalist spirit. Broadly conceived, the American mindset during the colonial era sought opportunity and mobility through the pursuit of individual interests and commercial profit. American business ideas, financial organizations, and the activism of British mercantilism all contributed to the intensity of colonial economic development during the seventeenth century.[7]

To a degree, England recognized the economic energy of colonial merchants. The passage of the British Navigation Acts was in part a response to the accomplishments of American mercantile interests through the last decades of the 1600s. Organized trade

---

[6] Bernard Bailyn, *New England Merchants in the Seventeenth Century* (Cambridge, MA: Harvard University Press, 1955), 8-9, 86. Bailyn notes that "merchants were able to frustrate the Council's aims because of a simple contradiction in the machinery of control. The Council's monopoly depended on the cooperation of the merchants themselves" p.9.

[7] Phyllis Whitman Hunter, *Purchasing Identity in the Atlantic World: Massachusetts Merchants, 1670-1780* (Ithaca, NY: Cornell University Press, 2001), 11.

relationships had emerged, and in a short half century, "colonial merchants competed on equal terms with English merchants in the trans-Atlantic trade."[8] Consequently, Britain felt the need to regulate American enterprise in order to maintain commercial supremacy and ensure that colonial enterprises were benefiting the mother country as opposed to building their own independent economy. Americans understood the British position, and formed political lobbies to represent American regional interests within the British political system. Amazingly, it was only a matter of decades after the founding of the first permanent settlement, Jamestown, in 1607 that American merchants were successful enough to organize these political lobbies in London. Lobbyists met in London coffeehouses to discuss colonial trade issues, but there was not one single lobby representing all colonial interests. Within the first fifty years of trading history, multiple lobbies had been established according to regional concerns. New England, the Chesapeake, the southern colonies each had their own representation with lobbyists who did not necessarily coordinate activities.[9]

American lobbies within England were meant to guarantee that colonial commercial interests were represented to members of Parliament and that American commerce maintained an impact on international trade. Their existence testifies to the significance of colonial business activities before the close of the seventeenth century: Americans were an economically minded people. By 1720, colonists' business interests were firmly established and American trade had

---

[8] Seavoy, *Economic History*, 57. "By 1650 commerce originating in North American and Caribbean colonies was large enough for Parliament to direct its flow in order to maximize revenue from it."

[9] Alison G. Olsen, "The London Mercantile Lobby and the Coming of the American Revolution," *The Journal of American History* Vol. 69, No. 1 (Jun., 1982): 23. See footnote 4. Olsen mentions that American merchants enjoyed a representation of their interests in government forums by English counterparts. In the 1670s, Chesapeake interests organized a lobby; by the 1680s, New England had a lobby. New York followed suit in the 1690s, with the Carolina organization present by 1715.

outstripped its meager supply of specie. In little over a century, the American colonies had moved from starvation and subsistence to enjoying the greatest standard of living in the world.[10]

In the midst of this economic transformation, distinctively American economic ideas and financial institutions developed rapidly over a relatively short period of time. Colonists had accumulated knowledge of workable precedents within the British system, but initial generations relied upon financial structures and practices that organically developed according to the practical needs of American business. Prominent economic historians often use the word "fragmented" to describe colonial politics and economy, noting that the thirteen colonies were not unified, particularly when decisions were made involving business interests and financial well-being. There was no superseding authority organizing colonial financial mechanisms and business practices, and essentially, the colonies employed a decentralized decision-making process governed by regional interests and the motives associated with individual profit maximization. Practical needs governed the production and consumption choices of millions of small business owners, household manufacturers, and larger business enterprises, collectively stimulating the dynamic economy that emerged. [11]

This process of growth and development was not a slow and steady rise to success free from tension and conflict. Early America was marked by both economic progress and financial wrangling, a foreshadowing of great economic potential as well as the intense disagreements that growth would bring. Like the Deist concept of God as a great watchmaker who provided the foundational framework for the universe and established its natural laws, then released it to work

---

[10] Seavoy, *Economic History*, 64. Economic historian Edwin Perkins states that "by the mid-eighteenth century, if not earlier, the typical white household in the mainland colonies was almost certainly enjoying the highest standard of living anywhere in the globe." Edwin Perkins, *The Economy of Colonial America* (New York: Columbia University Press, 1988), 14.

[11] J. McAllister, "Colonial America, 1607-1776," *Economic History Review*, Vol.42, No. 2 (May 1989): 247. Allison Olson points out that London lobbies of mercantile representatives were quite fragmented. "One of the most notable features of the earlier mercantile activity was its fragmentation…into at least five different groups" according to American region. Olson, "The London Mercantile Lobby," 22-23.

on its own accord, so generations of American colonists established the basis of a functioning economy and left future Americans to discover and build upon their creation. Individual decisions regarding the nature of appropriate government functions and societal norms encouraged enterprise and market growth, while offering a diversity of precedents for future economy and financial policymakers. The interests and concerns that framed American debates during the colonial and early national periods fueled a vital process through which American economic policy and financial structures were molded.

American business activities created markets, necessitating the means of production and trade: finance. Associated questions concerning money and banking introduced concepts of American values as well as the struggle to define them within the economic and financial sphere. After the turn of the eighteenth century, the issue of American currency would not cease to be a matter of public discourse, and political tensions surrounding the creation of appropriate financial mechanisms generated recurring themes of the colonial era and early national period. Debates during the colonial period of American history, exploring what should constitute money and the ethics of the banking process, are a useful prism for viewing the complexity of the American mind in the early nineteenth century.

How did the colonists prosper, and what was their relationship with financial institutions? American colonists were primarily small-scale farmers, shopkeepers, and craftsmen, and from the beginning, were engaged in foreign trade, according to the research of historian Carole Shammas. Shammas has indicated that although a myth of agrarian self-sufficiency emerged during the eighteenth century, individuals and households regularly engaged in foreign trade, an important component of the colonial economy, to acquire consumer goods.[12] What financial

---

[12] Carole Shammas, "How Self-Sufficient Was Early America?" *Journal of Interdisciplinary History* Vol. 13, No. 2 (Autumn 1982): 247-272. Douglass North also notes the importance of foreign trade in American

means facilitated these transactions? In terms of "hard money", the primary coin used by American colonists was generated by the Spanish government, but Americans incorporated a great variety of other coins into their money supply, including the French guinea as well as French crowns/livres, the Portuguese "joe," the Spanish doubloon, and Brazilian coins .[13] Although Murray Rothbard begins his major work with the statement that the British pound was an important currency used by colonists, Edwin Perkins notes that England, concerned about the loss of specie, limited colonial access to British pounds: "Parliament did not allow the export of English coin from the British Isles…and refused to establish a separate mint…" Regardless, the challenge of scarcity within the monetary system resulted in the use of a variety of European coins: Spanish coin was the most prominent.[14]

Americans favored a specie standard but used commodity money when necessary. Money must fulfill three basic functions: a medium of exchange, store of value, and unit of account. In order to be effective, currency must be considered acceptable and legal to all parties involved, sustain a reasonably stable value, and be convenient to count. Specie, coins made of gold or silver, fulfilled the first two requirements quite well, and were generally the most acceptable form of currency. However, the economic activities of producing and trading grew faster than the acquisition of specie. As a result, colonists realized that valuable commodities could also be used. At various times in early colonial history, commodities such as beaver fur, wampum, fish, corn, rice, and tobacco were used as money and a basis for trade.[15] Regional strengths and

---

development, giving it the status of a primary growth factor. Douglass North, *Economic Growth of the United States* (New York: Norton and Co. 1966).

[13] Murray N. Rothbard, *A History of Money and Banking in the United States: The Colonial Era to World War II* (Auburn, Alabama: Ludwig von Mises Institute, 2002), 49. "By far the leading specie coin circulating in America was the Spanish silver dollar…"

[14] Rothbard, *A History of Money and Banking*, 47. Perkins, *Colonial America*, 161.

[15] Glyn Davies, *A History of Money: From Ancient Times to the Present Day* (Cardiff: University of Wales Press, 2002), 459. Davies notes that "one of the most popular of the indigenous types of money by far was wampum." In the Chesapeake, receipts were issued for tobacco and accepted as currency.

economic practices as well as urban-rural concerns determined which commodities were accepted in what place. Nevertheless, throughout the colonial era, hard money with intrinsic value generated a sense of honest and stable trade.

Paper money offered convenience and greater abundance, but was certain to cause controversy. As “soft” money, paper had no intrinsic value and thus its users were dependent upon an uncontrollable factor: its credibility. The reality of paper money was that it was generated by a man-made process, and so, questions abounded that would extend beyond the colonial era. Did paper currency benefit all of society or only a few? Did a banking system that provided paper money perpetuate public good or fuel the whims of an elite? For colonists accustomed to trading in terms of physical goods and/or the weight of gold and silver, the financial revolution of the eighteenth century, the institutions it created, and the accompanying use of paper money were sources of uncertainty.[16]

The shortage of specie, however, made its sole use impractical and as a result, the colonies experimented with paper currency. Kenneth Galbraith, Edwin Perkins, and Glyn Davies each make statements indicating that the colonies were among the first societies to experiment with paper money and that it was troublesome from the beginning.[17] Discussing “monetary innovation in America,” economic historian Richard Sylla notes the significance of American financial efforts. “One would be hard pressed to find a place and time in which there was more monetary innovation than in the British North American colonies in the century and a half before the American Revolution.”[18]

---

[16] Forrest McDonald, *The Presidency of Thomas Jefferson* (Lawrence: University of Kansas Press, 1976), ix.

[17] See Davies, 473; Perkins, 168; and Kenneth Galbraith, *Money: Whence It Came, Where It Went* (Boston: Houghton Mifflin Co., 1995), 45: “If the history of commercial banking belongs to the Italians and of central banking to the British, that of paper money issued by a government belongs indubitably to the Americans.”

[18] Richard Sylla, “Monetary Innovation in America,” *The Journal of Economic History*, 42, (March 1982), 23.

The use of paper money in America officially began with the desperation of the Massachusetts Bay colony in 1690. The Massachusetts legislature did not know how else to pay for a military expedition and devised a new means of finance: printed bills of credit to be redeemed for purposes of taxation. In practice, colonists used these bills of credit as money, and they functioned as a medium of exchange. New England may have pioneered the use of bills of credit among other monetary devices, other colonies followed suit. Pennsylvania, Maryland, Rhode Island, and South Carolina experimented with issued notes that could be redeemed for gold and silver before the mid-1700s.

Printing bills of credit did not offer colonists enough of a monetary resource. Another mechanism for the production of paper money emerged when colonial legislators, in addition to issuing bills of credit, also established land bank or loan offices. Economic historian Ronald Seavoy notes that land banks were established relatively early in colonial history to deal with currency challenges by issuing notes or certificates according to the value of the recipient's or depositor's land. South Carolina established a land bank in 1712, Massachusetts in 1714, Rhode Island in 1715, New Hampshire in 1717, Pennsylvania in 1723, and New Jersey in 1723.[19] These bank notes were also exchanged as currency. Historian Theodore Thayer has commented on the important role that land banks played in providing financial stability. He indicates that land banks were a powerful monetary authority within the colonies, comparing their influence to the modern Federal Reserve System. "…the functions of the land-bank system embraced every phase of the colonial economy…" [20]

The most common form of paper currency was bills of credit in anticipation of tax revenues, but land bank certificates, bills of exchange and specific commodity paper such as

[19] Seavoy, *Economic History*, 65.

[20] Theodore Thayer, "Land Bank System in the American Colonies," *The Journal of Economic History*, 13, (Spring 1953), 145-159.

tobacco warehouse receipts were also important. Bills of exchange were issued by merchants and businessmen and were pegged to number and value of the commodities that the receiver of the paper owned. This type of paper currency was widely accepted and used as money. Tobacco warehouse receipts became a financial feature of the Cheseapeake region and provided another money supply source. Historian Mary Schweitzer asserts that this component of the Chesapeake money supply was quite advantageous, that tobacco receipts helped fuel the diversification of the Maryland economy and overall economic expansion. The overwhelming impression one receives of the colonial financial situation is that it was complex, diverse, and a direct contrast to central planning.[21]

Bills of credit were particularly prone to inflationary pressure and became an increasingly ineffective store of value. By the 1750s, Massachusetts had so much paper currency in circulation that consumers and producers reverted to the barter system and price instability negated financial security. As a result, paper money acquired a bad reputation, and England took a stand against land banks as well. Throughout the colonial financial experience, England largely ignored the colonists' needs and did not attempt to provide an adequate currency system for North America. Intense economic and financial coordination with the colonies for the purpose of American economic health was not where British interests rested.[22]

Although the land banks were relatively successful within the middle colonies, New England colonists were a bit too eager to print money. The price instability and inflation that resulted from legislative actions gained the attention of the British Crown, and consequently, in 1751 the British banned the printing of paper money in New England. In 1764, Britain applied that law throughout all of the colonies. Interestingly, Virginia refused to issue paper money in

[21] Mary M. Schweitzer, "State-Issued Currency and the Ratification of the U.S. Constitution." *The Journal of Economic History*, 49 (Jun., 1989), 311-322.
[22] Ibid., 159.

the form of bills of credit until 1755, after the British banned the practice in New England, but before it applied to all the colonies. Virginian reluctance stands as a short-lived experiment.[23]

In the changing economic landscape of the eighteenth century, banks gained stature as lending and money-issuing institutions. This banking growth greatly expanded the commercial and entrepreneurial capabilities of the populations served. In general, banks facilitate transactions while lowering transactions costs, which is the time and energy it takes to trade. Also significant, these financial structures connect various interests of the populations they serve. Depositors, or those who store their resources in such an institution, provide financial capital to those who would make productive use of those same resources. In other words, savers/depositors make fund available to would-be borrowers. This kind of function is very important to the long term development of any economy. Chernow explains:

> …picture any financial system as represented by a simple graph with three bars. As the middleman, the eternal matchmaker, the wholesale banker naturally occupies the center position. He is forever suspended between the providers of capital—whether individual or institutional investors—and the consumers of capital—whether individual, business, or governmental borrowers…[24]

Thus, the function of a financial system is to enable depositors to "store" their funds, and then, use those deposited funds to lend or invest in favorable enterprises. Colonists had to determine whether this function and corresponding banking activities increased or diminished public virtue and societal utility.

Prior to the Revolution, Americans were influenced by and communicated various ideas about the nature of "good" money. Mercantilism was a profoundly influential, if scattered, body of thought and emphasized that "good" money contained intrinsic value. Even John Locke, the

---

[23] E. James Ferguson, "Currency Finance: An Interpretation of Colonial Monetary Practices," *The William and Mary Quarterly* Vol. 10 No. 2 (April 1953), 177. Roger Weiss, "The Issue of Paper Money in the American Colonies 1720-1774," *The Journal of Economic History* Vol. 30 No. 4 (Dec 1970), 777.

[24] Ron Chernow, *The Death of the Banker: The Decline and Fall of the Great Financial Dynasties and the Triumph of the Small Investor* (New York: Random House, 1997), 100.

philosophical voice of the Enlightenment, advocated sound money policies in agreement with mercantilism's premise. Thus, when American colonists debated their needs for a financial system, along with the morality of "good" and "bad" money, there was a lot of significant fodder for debate. According to Glyn Davies, author of *A History of Money*:

> In no other country in the history of the world has the subject of money and banking given rise to such long-sustained, deep-rooted, widespread, acrimonious, publicly debated and eagerly reported controversy as in America.

Davies also notes that in America "monetary quarrels have right from the start been deeply divisive and almost never ending."[25] In the annals of American history, those involved in commercial enterprise and those with contrasting priorities put money concerns and banking institutions at the center of national discourse, and colonial Americans relied on varied personal encounters to formulate their opinions. Without the advantage of modern monetary theory, policymakers and executors responded to the practical needs of their local governments. Remedying dire situations such as the complete absence of governmental funds, sometimes with ill-effects, left colonists to determine the nature and appropriateness of money from their mixed experiences. Money and banking became moral issues because of their potential effects on American life, and the issue of the morality of money and banking was significant in shaping policy debates. The story of early American finances is one of disunity and fragmentation, experimentation and practicality, encapsulated by instability, and it was this unpredictability that made the question of what constituted money and how financial matters should be handled such serious topics for a developing America.

Typically, discussions that began with finance became the most acerbic debates in American history, with emotions elevated from a sense of ambition or loss, combined with past experiences with extreme monetary policies. Colonists knew well the challenge of scarcity that

[25] Davies, *A History of Money*, 473.

accompanied the use of specie as the chief medium of exchange; yet, on the other hand, experiments with paper currency seemed morally dangerous.

Consider the famed minister Jonathan Edwards, an unlikely source of ideas regarding the monetary debates of early America. In his sermons from the 1720s through the 1740s, he noted the difficulty of maintaining a spiritual focus in the midst of expanding trade and specifically lamented the abuse of inflationary realities within his region of New England. Massachusetts was in financial turmoil by the 1740s. Too many bills of credit had been issued through the 1730s, creating intense inflation, and Britain had taken notice by requiring the colonial government to retire its bills. To move from inflation and abundant paper money to having no bills of credit with which to trade were extreme monetary situations, and the colony debated the merits of a land bank. Furthermore, Edwards was disturbed at the willingness of members of his congregation to use inflation to their advantage. Equating the actions of debtors who purposefully borrowed at an interest rate less than the inflation rate to stealing, Edwards advised his congregants to think about the public good. He believed that currency instability had produced "moral vertigo" and continued to wrestle with morality of monetary issues and the nature of financial institutions.[26]

Beyond the famed pastor, Jonathan Edwards, other high profile Americans were worried about the effect of money on society. Currency issues received notable attention in early eighteenth century American journalism, and one of the first public monetary debates published citizens' dramatic sentiments related to money. The John Colman pamphlet debate with Edward Wiggleworth is noteworthy because the themes of both authors, expressed during the early colonial era, would be present a century later. The Colman-Wigglesworth debate began with Colman's 1720 essay entitled *The Distressed State of the Town of Boston, Considered*, and

[26] Mark Valeri, "The Economic Thought of Jonathan Edwards," *Church History*, 60, (March 1991), 37-54.

certainly gave the issue of money a moral basis. (God was for or against the use of paper money, depending on whose statement one read.) John Colman provided a spirited defense of paper money. His pamphlet called for the creation of a land bank to cope effectively with the scarcity of coin that was inhibiting trade. He used his writing to explore the importance of money as a medium of exchange and imbued money with almost supernatural powers, Colman stated that money "gives life to business" and "employs the poor, feeds the hungry, clothes the naked." Indeed, it was the responsibility of the populace to fulfill its moral obligation and support the money cause. In short, Colman portrayed money as the key to economic success and a divinely inspired instrument of prosperity. Using several biblical references, Colman entreated his readers to have compassion and support the land bank initiative. Believing that a greater supply of money would allow trade to function and labor to be used more productively, he concluded with great dramatic emphasis that apart from the land bank "It is a dark day upon us…I pray [to] God…"

"One in the Country" responded to the Boston townsperson (Colman), giving the money debate an urban-rural context as well as a contrasting moral perspective. Edward Wigglesworth, Harvard Professor of Divinity, is credited with the published responses to Colman's writing. He clearly believed that Colman was much confused regarding the benefits of paper money. According to Wigglesworth, Boston was distressed because of the poor state of trade, which was the fault of greed and avarice. Contributing an "us-them" mindset to the debate, Wigglesworth pitted merchant and business interests against the non-merchants of the country. He did not believe that all trade resulted in public good, but instead saw the money crisis as an extension of merchant greed and the evils of individualism. Merchants and traders had overtraded, and that was the cause of monetary duress. Wiggleworth expressed his suspicion of trade and traders, the instability of paper money, and the role of debt in a soft money environment. He further conveyed the idea that paper money resulted in increased debt, and that people would purposefully borrow beyond their ability to pay in order to purchase “gew-gaws” for their personal consumption. Wigglesworth did not see the productive benefits of increased money supply (increase of capital, financial and otherwise), but instead saw the impact on less thoughtful consumers of trivial items. Paper money would corrupt society, and according to Wigglesworth, “credit will increase the evil.”

The core of Wigglesworth’s opposition to a land bank was that merchants brought economic and financial trouble upon themselves. Echoing mercantilist tenets, he stated that the answer to the current crisis was greater attention to the trade balance. Merchants should export more than they import. Most telling, however, was one of his final thoughts. Wigglesworth presented a Jeffersonian argument many decades before Thomas Jefferson made known his thoughts in opposition to Hamiltonian finance:

> Must Men spend more than they earn? Must publick & private Banks be established, that so when People have spent all they have earnt, they may know where to go and borrow more, to lay out for things they have no need of? I am against a private Bank, because that when the Province Bills which are now out, shall once be drawn in, all the Cash of the Country will then be at the direction of the Bankers. And it is easy to foresee this Consequence, that whatever Project they may have in their heads, how inconsistent soever it may be with the publick Welfare, they wont want means to bring it to pass. Nothing will be restrained from them.[27]

The founder of the American Philosophical Society and central figure in the creation of the American nation, Benjamin Franklin was also a very capable businessman. Retiring from his commercial affairs at the age of forty as a wealthy man, Franklin had given some thought to the

[27] The Leslie Brock Center for the Study of Colonial Currency, University of Virginia etexts, Accessed from http://etext.virginia.edu/users/brock/Colman.html and http://etext.virginia.edu/users/brock/Country.html on December 5, 2007.

money question at the start of his career. In his 1729 essay outlining his perspective on the issue of the appropriateness of paper money, Franklin repeated some of the arguments used by John Colman in the 1720 pamphlet war. Franklin began his persuasive work by focusing on the importance of science and learning, attempting to emphasize the importance of reason and to remove the monetary issue from religious and moral-values laden arguments that had dominated colonial discussions. As a young man of twenty-three, he presented a systematic approach to monetary management and lamented that his countrymen did not spend adequate efforts to gain understanding. Emphasizing the advantages of a substantial paper money supply, he simultaneously acknowledged the need for balance.

Franklin began his discussion with a statement acknowledging the basic structure and impact of supply and demand on money. Recognizing the nature of the money market, he noted that when currency levels are less than those required by the economic activities of a nation, the price of money will work to ration that scarcity, meaning the rate of interest will increase. A decline in the money supply will act as a deflationary pressure pushing the price of goods down, but raising interest rates to accommodate inadequate money supply. The reverse is also true, according to Franklin. If more money than is needed is available, then inflationary pressures push commodity prices upward, and the interest rate decreases since an abundance of currency exists. He added to his analysis that scarce money tends to discourage labor and resulted in a greater consumption of European goods.[28]

As the good-natured negotiator that he was, Franklin addressed the concerns of those who tended to oppose paper money. He noted that excess currency resulted in a general price increase or inflationary pressures, and that currency should be treated with care. He also pointed

[28] Benjamin Franklin, *Writings*, ed. J.A. Leo Lemay, "A Modest Enquiry into the Nature and Necessity of a Paper Currency," (New York: Library of America, 1987), 121.

out that special interests such as landowners and lawyers have a vested interest in opposing paper currency: the former out of concern for stable values and the latter out of concern for a profitable legal practice. Franklin believed that more money in circulation would help debtors and that rates of indebtedness would decline. Detractors of paper money sharply disagreed with this point, believing that soft money encouraged the common person's acquisition of debt.

Like Colman, Franklin conceptualized money as a medium of exchange:

> …Men have invented money…it is, to those who possess it…that very Thing which they want, because it will immediately procure it for them.

He also explained a more modern concept of the origin of national wealth, arguing that it did not consist of the acquisition of money, but instead resulted from the productivity of labor. Without an adequate supply of money, Franklin argued that Americans would be forced to revert to the barter system, which he found neither efficient nor productive.[29]

Throughout his writing, Franklin took great pains to convey a clear, calm, reasoned approach to the subject of money. The ideas and language he used avoided any sense of elitism, and, in fact, he made the case that the lives of ordinary men would be favorably impacted by the increase of paper money. This American philosopher appealed to farming interests and the concerns of small business owners to convey the enormous advantages of abundant currency for those with fewer resources. In their attempt to persuade their fellow colonists of money merits, both Benjamin Franklin and John Colman discussed the state of ship-building and the assistance that paper money could provide to that industry.

Jonathan Edwards, John Colman, Edward Wigglesworth, and Benjamin Franklin each pointed to the new reality of early eighteenth century America. Economic growth due to expanding trade had stretched the limits of the specie-focused colonial monetary system. In great

---

[29] Franklin, *Writings*, 126.

part, this reality had to do with the lack of productive infrastructure within the developing colonies. Capital was in short supply, and money was needed to purchase capital goods (financial capital). As colonial society became prosperous, individual access to capital became more of an issue.

Economic historian Jacob M. Price's book *Capital and Credit* specifically describes the situation for merchants within the Chesapeake region. He noted that by the 1720s, merchants saw the need for improved banking activities in order to meet the ever-increasing capital needs of merchants engaged in foreign trade. Price also noted that regardless of accounts of an elite merchant class, American merchants seeking to expand their profitability during the early 18th century were mostly middle class. A financial system of sorts would be entirely necessary for continued business growth among the merchant class, wealthy or not.[30]

Financial and economic historians of early America can and do debate the degree to which the emergence of financial structures and government monetary practices contributed to overall business growth and expansion. Roger Weiss contends that colonial issues of paper money created a climate of financial instability, and that the scarcity of money during the colonial era is "exaggerated" by historians of the era. Despite his findings, the consensus of many other historians is that money scarcity limited growth and was a problem to overcome.[31] James Ferguson, with a contrasting point of view, notes that the colonies provided a rich and diverse heritage of financial actions, and, in particular, disagrees with the notion that colonial finance was a failure. Robert E. Wright and Ronald W. Michener discuss the mixed results of colonial monetary practices stating that New England and the South tended to issue paper in disastrous proportions, while the Middle Colonies exercised restraint and enjoyed a more stable

[30] Jacob Price, *Capital and Credit in British Overseas Trade: The View from the Chesapeake, 1700-1776* (Cambridge, MA: Harvard University Press, 1980), 63-95.
[31] Weiss, "The Issue of Paper Money in the American Colonies, 1720-1774," 770-784.

financial framework. Thayer emphasizes the success of the land bank system. Certainly, the colonies determined independent courses of action with regard to financial needs and offered multiple examples for posterity's education.[32]

The first commercial bank in America may not have been formed until 1782, but a vibrant American economy had developed through the colonial era with the assistance of various financial institutions and practices.[33] Foreign trade within the mercantilist system had provided a mechanism for rapid economic growth, and one of the greatest needs of a new America was funding the capital needs of business to continue that development. From 1720 to 1775, the colonies experienced sheltered growth within the British empire, and Marc Egnal mentions that the need for capital was answered with increased access to financial services. Egnal literally connects the rising per capita income of white American colonists to their ability to borrow. While he credits an expanding British economy with rising American income, the internal development of American financial processes during that period was undoubtedly significant.[34]

In the final analysis, the supply of money was a crucial factor for the efficient operation of American business and trade during the colonial era. Price instability and inflation or the experience of scarcity and barter were two extremes sets of personal experiences that colonists faced. As colonists attempted to remedy financial ills related to either extreme, distinct philosophies of money developed separating rural and urban, moral and immoral, merchant and non-merchant. American colonists experimented with solutions to economic crisis, discovering

[32] E. James Ferguson, "Currency Finance: An Interpretation of Colonial Monetary Practices," *The William and Mary Quarterly*, 10, (Apr., 1953), 153-180. Ronald W. Michener and Robert E. Wright, "State „Currencies' and the Transition to the U.S. Dollar: Clarifying Some Confusions," *The American Economic Review*, 95 (Jun., 2005), 682-703.Robert E. Wright, "Bank Ownership and Lending Patterns in New York and Pennsylvania, 1781-1831," *Business History Review*, 73, (Spring 1999), 40-60. Ronald W. Michener and Robert E. Wright, "State „Currencies' and the Transition to the U.S. Dollar: Clarifying Some Confusions," *The American Economic Review*, 95 (Jun., 2005), 682-703.

[33] The Bank of North America opened in Philadelphia in 1782.

[34] Marc Egnal, "The Economic Development of the Thirteen Continental Colonies 1720-1775*," The William and Mary Quarterly* Vol. 32 No. 2 (April 1975), 214.

that financial systems can either empower the common man or help to create an elite group of monied men. Consequently, when colonists provided the ideological and operational basis of the American political system, they expressed their beliefs that these types of money questions were central to the functioning of government.

The connection of political power to the economic decision-making capabilities of the citizenry would be the focus of American national debate well beyond the time of the Revolution and of great concern to Thomas Jefferson. Jefferson and Madison came of age during the height of the colonial era in Virginia and were convinced of the advantages of a globally connected, trade-based American economy, but did not believe issues of money and banking to be of equal importance. Often overlooked, the practical issues of access to currency and banking operations, in addition to the value created by extant financial structures, were crucial factors facilitating individual decision-making.

The foundation of American economic progress, and the distinctly American monetary values that developed, were a response to tensions related to the appropriateness of financial mechanisms established at the state level during the colonial era and at the national level after independence was declared in 1776. A crucial component of the American psyche can be found within the varied and acerbic financial debates of these early generations, leading to further American experimentation with, and discussion about, the functions of money and banking during the Constitutional era and beyond. As the meaning of the 1787 Constitution was established, the public conflict between the ideas of Alexander Hamilton and Thomas Jefferson during the 1790s gave voice to these historic concerns and provided a layered precedent for early national policymakers to reference during the War of 1812.

CHAPTER 4

THE NEW SCIENCE OF AMERICAN FINANCE

In response to debates surrounding the direction of American finance in 1790, Representative Fisher Ames of Massachusetts uttered a memorable statement: "The science of finance is new in America; a gentleman may therefore propose the worst of measures with the best intentions."[1] Mr. Ames' observation aptly described the state of experimentation and economic reasoning found in policy debates of the time and could be considered financially prophetic, particularly concerning the future of war financing. In the midst of the great unknown of finance in America, economic matters in the early national period were dominated by the outlooks of two strong-minded men, Alexander Hamilton and Thomas Jefferson. Hamiltonian and Jeffersonian principles generated a contrast of economic emphases and methods of government operation that helped to define American thinking about economy and finance for generations. The perspectives of Hamilton, the policy pragmatist, and Jefferson, the economic idealist, directly influenced American economic and financial leadership from the country's constitutional inception in 1789 through James Madison's presidency and beyond. An examination of any part of the financial history of this era cannot ignore their views and many contributions.

One of George Washington's primary tasks as the first President of the United States was to establish a working government. Understanding the significance of the economic challenges facing the new government, Washington asked the most knowledgeable and experienced

[1] *Annals of Congress*, House of Representatives, 1st Congress, 2nd Session, 1194. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

economic policymaker to accept the secretary of the treasury position. Robert Morris declined.[2] As an alternative, Morris recommended a man he believed to be energetic and have sound ideas, and with whom he had enjoyed frequent communication throughout the Confederation era. Alexander Hamilton accepted the position, bringing a varied background to his new employment.[3]

Morris and Hamilton had certainly exchanged significant ideas concerning solutions to the early period of financial chaos, a dangerous component of the sense of crisis felt after the United States declared independence and during the waging of the Revolutionary War. Many of the suggestions contained in Hamilton's later work, the proposals that he made in his official capacity as secretary of the treasury during the 1790s, were drawn from his writings to Morris during the early 1780s and constructed from ideas that he had advocated for at least a decade. In addition to the communication they enjoyed, Morris served as a useful administrative example to Hamilton. As the Superintendent of Finance under the Articles of Confederation, Morris petitioned to expand the role of the federal government in regulating the country's financial situation. He presented a plan for the creation a national bank, was concerned about financial stability and the payment of the public debt, and emphasized the importance of American creditworthiness. In a letter to the President of the Confederation Congress, Samuel Huntington, Morris concluded with an admonition: "Congress well know that the Public Credit cannot be

[2] Ron Chernow, *Alexander Hamilton* (New York: Penguin Press, 2004), 286. Chernow provides an appropriately detailed account of Washington's meeting with Morris. Robert Morris was on the path towards financial ruin, and he would see the end of his career in debtor's prison.

[3] Edwin J. Perkins, *American Public Finance and Financial Services 1700-1815* (Columbus: Ohio State University Press, 1994), 200. Perkins' interpretation places Hamiltonian finance squarely within the context of Morris' ideas. "Many of Hamilton's ideas and proposals had obvious precedents in the colonial and Confederation periods…this study stresses the domestic origins of the secretary's policies and especially the contributions of his mentor, Superintendent of the Treasury Robert Morris, under the Articles of Confederation."

restored without Method, Economy and punctual performance of contracts…". Robert Morris, the businessman, set a precedent for Hamilton to follow.[4]

Alexander Hamilton, an intense nationalist and the man so central to the development of American finance, was interestingly enough, not a native of an American state.[5] Born in the West Indies on the island of Nevis, Hamilton spent time as a child on the island of St. Croix. His unfortunate family situation has been well documented and much discussed.[6] Without belaboring the point, his mother, Rachel Faucette, fled one man's abuse and was abandoned by another, leaving the young Alexander to grapple with the threat of poverty and the limitations of illegitimate status. Rachel Faucette died in February of 1767 when Hamilton was either ten or twelve years old depending on his assumed date of birth (1755 or 1757).[7] Before her death, she started small businesses and incurred debt as a single mother; consequently, Hamilton watched helplessly as bills accumulated in the year following her death and other family members took advantage of the situation. Hamilton's childhood experiences demonstrated to him the uncertainty and unfairness of life, the injustice of poverty, and the vulnerability associated with having few resources of his own. From his early years, Hamilton certainly could have extrapolated that in time of crisis, practical results are important.[8]

---

[4] Robert Morris, *The Papers of Robert Morris*, vol. 1, ed. E. James Ferguson (Pennsylvania: The University of Pittsburgh Press, 1973), 62-64. "To the President of Congress," May 14, 1781. See also Morris' "Plan for Establishing a National Bank, with Observations," 66-76. Ferguson notes in his introduction to Morris' banking plan that Morris provided the Confederation government with a "long-range program" that included capital growth and foreign investment.

[5] Perkins, *American Public Finance*, 200. Speaking of Hamilton, Perkins states: "no other individual…had such an immediate impact on shaping the structure of the U.S. financial system."

[6] Chernow, *Hamilton*, 1-107. Richard Brookhiser, *Alexander Hamilton: American* (New York: Simon and Schuster, 1999), 16-18. Jacob Earnest Cooke, *Alexander Hamilton* (New York: Charles Scribner's Sons, 1982), 1-3. Forrest McDonald, *Alexander Hamilton: A Biography* (New York: Oxford University Press, 1976), 1-57. Willard Sterne Randall, *Alexander Hamilton: A Life* (New York: Harper Collins, 2003), 1-64.

[7] Chernow chooses the earlier date, January 11, 1755. See page 17 of his Hamilton biography. Randall concurs with that conclusion in his work on page 11.

[8] Chernow, *Hamilton*, 26. "Let us pause to tally the grim catalog of disasters…their father had vanished, their mother had died, their cousin and supposed protector had committed bloody suicide, and their aunt, uncle, and

Faced with poverty, the humiliation of illegitimate status, and a lonely existence, Hamilton found a sense of direction through work and self-education. Completely on his own, Hamilton supported himself by working for a trading firm, Beekman and Cruger, as a clerk. Ultimately, the firm's owners saw the potential of his abilities, offered him more responsibility, and helped to sponsor his education in the American colonies. This background provided him with both an appreciation for individual achievement and an insider's view of merchant activities. The ideal of individual opportunity combined with an understanding of the needs of traders would serve him well in his capacity as the first secretary of the treasury.[9]

Beekman and Cruger, a merchant firm from New York with operations in St. Croix, dealt primarily in the export-import business. Historian Ron Chernow has summarized the business setting where Hamilton received his initial education with one overarching sentence: "The firm dealt in every conceivable commodity required by planters…"[10] In a 1772 letter to Nicholas Cruger, Hamilton reported to the owner on a variety of activities, from the arrival of sloops to the state of a pack of mules delivered to the firm. He also mentioned commodity accounts dealing with codfish, rum, bread, tea, lumber, and wine in his report. Importantly, Beekman and Cruger gave Hamilton a practical viewpoint from which he observed the demands of the business and corresponding firm activities at the side of Nicholas Cruger. Cruger thought so highly of his abilities that he gave him supervisory authority in the owner's absence. As a result, Hamilton gained managerial experience when the firm left him to supervise St. Croix operations alone.[11]

---

grandmother had all died…such repeated shocks must have stripped Alexander Hamilton of any sense that life was fair, that he existed in a benign universe, or that he could ever count on help from anyone…"

[9] John R. Nelson, Jr., "Alexander Hamilton and American Manufacturing: A Reexamination", *The Journal of American History*, Vol. 65, No. 4 (March 1979), 972. "The purpose of Hamilton's political economy was the preservation of private property and the liberty to use it." Nelson connects Hamilton's political economic philosophy to a concern with the freedom of merchants and traders to conduct business.

[10] Chernow, *Hamilton*, 29.

[11] Alexander Hamilton, *Writings,* ed. Joanne B. Freeman, Library of America Series (New York: Columbia University Press, 1979), 4. Alexander Hamilton to Nicholas Cruger, "Counting House Business."

Before any mention of an opportunity to travel to America emerged, Hamilton made it a point to read and process the writings of important authors for the purpose of educating himself. While he sought this self-education, a propitious event occurred. Hugh Knox, a Presbyterian minister from the colony of New Jersey, moved to St. Croix to pastor a church and was introduced to the intellectually hungry Hamilton. Knox apparently shared the ideas of the Scottish Enlightenment with the young man, spurring the development of Hamilton's intellectual development. Furthermore, Knox spearheaded an initiative to raise funds for Hamilton's tour of America and solicited monies from his employers who willingly contributed. In 1773, Hamilton set sail for the American colonies, leaving his former life behind. Those most familiar with his work, writing, and skills had funded an educational tour to North America from which their protégé would never return.[12]

Studying at King's College in New York, Hamilton worked to expedite the time he spent in school. Chernow notes that Hamilton's college essays reflected the influences of many prominent philosophers such as Locke, Montesquieu, Hobbes, Hume, Blackstone, Grotius, von Pufendorf, and Vattel.[13] While absorbing political theory, Hamilton was simultaneously faced with the issues and actions of revolutionary fervor. Amidst the great war of words publicly waged prior to the outbreak of the Revolution, the opposition of colonists to the proceedings of the Continental Congress provided fodder for discussion. In particular, Minister Samuel Seabury's agrarian perspective caught the attention of the twenty-year old Hamilton. Seabury argued against American rebellion, believing that colonial alienation from Britain was the least

---

Cooke, 4. Jacob Cooke summarizes Hamilton's experience in this way: "For an able and ambition young man, countinghouses like Cruger's provided, in sum, the equivalent of a modern college degree in business administration…"

[12] *The Papers of Alexander Hamilton* Vol. 3, ed. Harold C. Syrett (New York: Columbia University Press, 1962), 573. "Letter from Hugh Knox" There is some question as to whether Hamilton left for the colonies in 1772 or 1773. By 1773, he was applying for college within the colonies.

[13] Chernow, *Hamilton*, 52.

expedient or prudent option.[14] He advocated a conciliatory approach and stressed the importance of the interdependency of colonial American and British economic interests. Further, the Reverend, writing as "A Westchester Farmer," explored the divide between farmers and merchants fueled by resentment and divergent political interests.[15]

In his first public writing on the subject of American politics, Hamilton argued with Reverend Seabury, utilizing natural rights doctrine and the theoretical construct of liberty. He expressed the Lockean ideal of consent of the governed and stated that the difference between freedom and slavery involved individual and/or societal agreement with the structures of governance. "…Americans are intitled [sic] to freedom…All men…have one common right…no…man should exercise any power, or pre-eminence over his fellow creatures…unless they have voluntarily vested him with it."[16] It is worth noting that in this early writing Hamilton emphasized the importance of individual liberty, while simultaneously identifying the importance of a central authority empowered to make effective decision: "Feebleness" in government brings danger to the people, he asserted.[17] Through his response to Seabury, Hamilton supported the Continental Congress' decision to stop all trade as "the only peaceable means in our power to save ourselves from the most dreadful state of slavery."[18]

With youthful exuberance, Hamilton expressed his belief in natural law and in the importance of individual freedom under specified law. Moreover, he repeatedly discussed the function of government, referring to numerous sources. *The Farmer Refuted* specifically

---

[14] Samuel Seabury, "Free Thoughts on the Proceedings of the Continental Congress: A Letter to the Farmers" (White Plains: Westchester Historical Society, 1930). Seabury felt that non-importation, non-exportation, non-consumption policies would not succeed. "Instead of conciliating, it will alienate the affections of the people of Great-Britain…"

[15] Ibid. "I know not how it happens, but not only the merchants, but the generality of citizens, treat us countrymen with very undeserved contempt. They act as though they thought, that all wisdom, all knowledge, all understanding and sense, centered in themselves, and that we farmers were utterly ignorant of every thing…"

[16] Hamilton, *Writings*, ed. Freeman,11-12.

[17] Hamilton, *Writings*, 13.

[18] Ibid, 31.

referenced the importance of Grotius, Puffendorf, Locke, Montesquieu, and Burlemaqui to the pamphlet writer's thought, and noted that other authors could be named. Hamilton believed that government should provide a structure for society, protecting liberty and the safety of individuals, and that the governed should have a hand in choosing the method of government. To underscore that point, he employed frequent references to contract theory and repeatedly contrasted tyranny with freedom.[19]

Hamilton left his studies at King's College to become a member of a New York militia and went on to distinguish himself by founding an artillery unit on behalf of the American cause during the Revolutionary War. As a result of his developing reputation, he received an invitation to serve on the staff of George Washington. His four years of experiences assisting Washington within the framework of the Revolutionary War served as a lesson on the harsh realities of government and leadership. He saw firsthand the difficulty of limited resources and restricted government authority, which motivated him to continue to study theories of power and effective governance.[20] Hamilton's pay book has provided historians with a comprehensive resource from which to understand the development of his viewpoint, revealing a diversity of influences on his thinking while he analyzed national issues. While an aide-de-camp to Washington, Hamilton took notes in his pay book based on his reading of many political philosophers. Several

---

[19] *The Works of Alexander Hamilton* Vol. 1, ed. Henry Cabot Lodge (New York: G.P. Putnam's Sons, 1904), "The Farmer Refuted" (1775). Accessed from http://oll.libertyfund.org/title/1712

[20] *The Papers of Alexander Hamilton* Vol. 2, ed. Syrett. 532, 605. Communications to and from Nathaniel Greene typically detail the challenge of waging war within the governmental structure and understanding. For example, Nathaniel Greene wrote Hamilton in January 1781 with a tone of disgust "This army is in such a wretched condition that I hardly know what to do with it. The officers have got such a habit of negligence, and the soldiers so loose and disorderly…"532; Hamilton also wrote to Robert Morris of difficulties. In April 1781 Hamilton stated that he "was among the first who were convinced that an administration by single men was essential to proper management…it is the only resource we have to extricate ourselves from distresses which threaten the subversion of our cause…"605

philosophers were particularly important: David Hume, Adam Smith, and Malachy Postlethwayt.[21]

As his thought matured, Hamilton penned his ideas regarding the post-Revolution direction of national government. A set of six *Continentalist Essays* (1781-1782) expressed the further development of Hamilton's thinking, calling for a stronger federal government with the capacity to take immediate action, noting the importance of unity, and enumerating the flaws in human nature. A concern with trade and commerce was also apparent as he discussed the need for taxation and increased revenues as well as issues related to the power of the federal government to regulate trade and establish public credit. He concluded these early writings with the juxtaposition of a united country, domestically successful and creditworthy abroad, with a weak, frail collection of individual states at each other's throats with unconstructive competition.

> There is something noble and magnificent in the perspective of a great Federal Republic, closely linked in the pursuit of a common interest, tranquil and prosperous at home, respectable abroad; but there is something proportionably diminutive and contemptible in the prospect of a number of petty states, with the appearance only of union, jarring, jealous and perverse, without any determined direction, fluctuating and unhappy at home, weak and insignificant by their dissentions, in the eyes of other nations.[22]

Through the *Continentalist Essays* Hamilton explored various topics important to the creation of effective government and provided an account of his early thinking. *Continentalist No. I* discussed the treatment of power: "too much power leads to despotism, too little leads to anarchy, and both eventually to the ruin of the people."[23] Hamilton argued for strength within the governing congress, but identified the importance of political balance. *Continentalist No. II* again explored the nature of power, but added to it the idea that power should be "distributed" to ensure liberty and repeated the notion that strength is a crucial component for governmental

[21] E.P. Panagopoulos, "Hamilton's Notes in His PayBook of the New York State Artillery Company," *The American Historical Review*, Vol. 62 (Jan, 1957), 310-325.
[22] *The Papers of Alexander Hamilton* Vol. 3, ed. Syrett, 106. "Continentalist No. VI" July 4, 1782.
[23] Ibid, Vol. 2, 651.

success. At this early point in his career, he noted the difficulties of a weak central government. *Continentalist No. III* unabashedly asked that additional powers be given to Congress as Hamilton noted the many challenges facing a floundering American government. *Continentalist No. IV* dealt with the specific issue of trade and the reality of revenue support. Hamilton indicated in no uncertain terms that the government of the United States needed greater power to regulate trade, find revenue sources, and establish public credit. *Continentalist No. V* tackled the trade debate. Hamilton rejected complete free trade, seemed to negate the views of David Hume, and momentarily referred to the ideas of "the great COLBERT." He advocated the use of imposts to raise revenue, discussed the importance of large trading cities, and saw these issues as vital to America's future. *Continentalist No. VI* elaborated on the theme of trade and governmental power. Hamilton initiated the discussion with an explanation of the impact of a government not empowered to regulate trade. According to Hamilton, common interests make for a "happy America." He would be in a position to act on these convictions as secretary of the treasury, convinced as he was of the importance of common interests to bring about unity and broad-based support of the national government. Common interests, in Hamilton's estimation, involved national economic and financial issues, and could be enhanced with regulating financial structures.[24]

At the same time that his published works spoke of the nature of freedom and individual liberty, he privately wrote of a concern for the passions and irrational behavior of people. How government would be established was of foremost importance to him; in order to be efficient and effectively address diverse interests, Hamilton again advocated a strong executive power. In a striking letter to Governeur Morris, Hamilton candidly revealed a nuanced view promoting a strong executive, but noting the importance of representative democracy with representatives

[24] Ibid, Vol. 3, 106.

truly chosen by the people. Hamilton even went so far as to voice concern that the state senate under the New York Constitution could "degenerate into a body purely aristocratical." In the final analysis, Hamilton judges the expediency of Morris' government on the happiness it could offer to the people.[25]

While not approving of aristocratic government, he was not a believer in democracy either. Statements such as those he made to John Jay reflected his preoccupation with instability and the turbulence of passions of the people. At the beginning of revolutionary fervor, Hamilton remarked to Jay that the "…state of passions which fits the multitude, who have not a sufficient stock of reason and knowledge to guide them…are apt more or less to run into anarchy…it is not safe to trust to the virtue of any people.[26] Hamilton also saw from his vantage point during the Revolutionary War that government by committee (Continental Congress) did not function well. He characterized this body with the words "folly, caprice, and a want of foresight…"and truly believed that centralized authority would bring with it accountability and energy, as well as serve to attract men of knowledge and aptitude.[27]

From his background, Hamilton understood the difference between approaching a situation from a position of strength or a position of weakness. He consistently argued for the natural rights of the people, justice, and individual liberty while at the same time recognizing that a national government could not long survive from a position of weakness. The genius of Hamilton was that he placed commerce at the center of the American empire of the future, while

---

[25] Hamilton, *Writings*, ed. Freeman, 47. (May 1777) Letter from Alexander Hamilton to Gouverneur Morris regarding the New York Constitution.

[26] Ibid, 44. (November 1775) Letter from Alexander Hamilton to John Jay regarding the danger of trusting in virtue.

[27] Ibid, 48. (February 1778) Letter from Alexander Hamilton to George Clinton entitled "The Trouble with Congress."

simultaneously realizing how crucial a stable financial framework would be an operational national government:

> Money is with propriety considered as the vital principle of the body politic; as that which sustains its life and motion…From a deficiency in this particular, one of two evils must ensue; either the people must be subjected to continual plunder as a substitute for a more eligible mode of supplying the public wants, or the government must sink into a fatal atrophy, and in a short course of time perish.[28]

As he began his term as America's first secretary of the treasury, Hamilton envisioned a large, prosperous nation. In 1787, writing in *Federalist No. 11*, Hamilton sought to motivate public opinion in support of the new Constitution with an exposition of "one great American system" and two years later, Hamilton remarked that the United States was a "young and growing empire, with much enterprise and vigour."[29] By 1792, he was willing to state candidly his developing vision and again identified the two principles of consequence to him: the unity of the nation and an efficiently working central government. The secretary of the treasury also mentioned a fondness for republicanism, but continued his analysis by expressing doubts about the capacity of a truly republican government to maintain order and provide security.[30]

If nothing else, Hamilton was a consistent philosopher of political economy. Through the revolutionary era, he employed natural law and compact theory to support the cause of independence. As he observed the challenge of leadership within the decentralized structure of congress and committee work, Hamilton examined the effectiveness of the national government and concluded that unity required centralized power and the energetic actions of intelligent men. A visionary, Hamilton saw that America was a potentially great empire, and understood that people are both the purpose of government as well as the danger to government, that is, irrational

---

[28] Ibid, 203, 290. "Federalist No. 12" and "Federalist No. 30."

[29] Ibid, 208, 523. "Federalist No. 11" and "Memorandum by George Beckwith on a Conversation with Hamilton.."

[30] Ibid, 750. Letter from Alexander Hamilton to Edward Carrington, "A Faction Decidedly Hostile to Me."

and passionate elements could foster instability, a distinct threat to unity. Finally, throughout his career he advocated commerce as the lifeblood of the nation and key to development, asserting that trade and commercial activities needed the support of a strong national government.

The principles of Hamiltonian finance can be understood through a reading of three of his major Treasury proposals, *Report on Public Credit* (1790), *Report on the National Bank* (1790), and *Report on the Subject of Manufactures* (1791). Within these three reports he submitted to Congress, Hamilton attempted to establish practical structures through which a distinctly American economy could work more effectively. Hamilton contributed much in a short time; by 1792, Hamilton's influence had already peaked and subsided.[31]

With his *Report on Public Credit*, offered in January 1790 to Congress, Hamilton instigated the first of the great financial debates of the Constitutional era. Hamilton recommended that the United States government fund the debt already owed to creditors of the national government and assume debts owed by individual states, all of which he calculated at approximately $54 million. As part of this proposal, he suggested that the new national government should not exert itself on behalf of the original holders of American wartime securities, but should honor its commitment to current holders. This did not seem fair to members of Congress, James Madison among them, concerned with the financial loss of original holders who sold their war bonds at deep discount when times were bad. Speculators had gained access to bonds at a fraction of their original cost, and to some in Congress it did not seem honorable to reward those who had taken advantage of the fear of the people. Although Hamilton understood this argument, his goal, echoing Robert Morris, was to establish a principle: the trustworthiness and dependability of the American government, signaling to the

[31] Perkins, *American Public Finance*, 245. "Hamilton got virtually everything he wanted during his first two and one-half years in office, but starting in 1792 his power to control events began to ebb."

rest of the world American longevity and investment potential. Hamilton clearly recognized that both domestically and in foreign arenas the perception of American credit trustworthiness would be a vital factor in the creation of overall American credibility, particularly in time of national emergency. [32]

Another of Hamilton's goals expressed through the *Report on Public Credit* involved an intention to connect the monied and business interests to the new government. Hamilton, however, did not stop with the theme of unity. He consistently mentioned the possibility of a national emergency and the corresponding need for more-than-adequate preparation. Hamilton was impressed by the fact that in "times of public danger," no matter how wealthy the country, financial assistance could be of the greatest importance. In moments of crisis, public credit and trustworthiness can be the crucial factor in determining whether a nation's citizens or foreign allies would extend help.[33]

Hamilton further recognized that the United States needed investors and investment. In 1790, the United States was capital poor, as Hamilton repeatedly noted. Monied individuals were reticent to advance industrial production or provide financial capital. To entertain foreign investment, Hamilton understood that practical messages needed to be sent to assert a functional and safe financial climate. In the midst of a money crisis, Hamilton also needed to make arrangements to ease the currency shortage of the new country. By funding public debt, including the holders of existing securities, Hamilton believed that the scarcity of money problem would be somewhat alleviated, that interest rates would decline, that trade would

[32] *Annals of Congress*, House of Representatives, 1st Congress, 2nd Session, 1234-35. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[33] Hamilton, *Writings*, ed. Freeman, "Report on Public Credit,"531. "That exigencies are to be expected to occur, in the affairs of nations, in which there will be a necessity for borrowing. That loans in times of public danger, especially from foreign war, are found an indispensable resource, even to the wealthiest of them. And that in a country, which, like this, is possessed of little active wealth, or in other words, little monied capital, the necessary for that resource, must, in such emergencies, be proportionably urgent."

respond with expansion, and that the American economy would, overall, be stimulated.[34] Funding of the national debt and assumption of state debts, then, would become a source of unity and generate an awareness of the importance of an active national government in time of crisis.[35]

Hamilton's concept of a national bank supported many of the same objectives addressed in the *Report on Public Credit*. Hamilton had been convinced of the need for a national bank since at least 1781, when his mentor, Robert Morris was about to promote such an institution to serve the needs of the Confederation. In an April 1781 letter to Robert Morris, he expressed ideas that became themes of his public career: the importance of establishing and building American public credit, national credibility, and the creation of financial incentives and structures to meet that end.[36] He was convinced that only "by introducing order into our finances—by restoring public credit—not by gaining battles, that we are finally to gain our object."[37]

Hamilton had witnessed and participated in the great national crisis of the American Revolution and had a keen understanding of the demands imposed upon government during emergencies and the practical needs of the leadership involved. He understood the dangers associate with centralized power and America's money supply but believed that a greater risk consisted of a lack of financial infrastructure insuring efficient process. Moreover, Hamilton was aware that in order for monied individuals to invest in any large enterprise, thereby risking their fortunes, wealthy men needed assurance and a legitimate source of confidence in America's financial system. Hamilton's policies reflect his knowledge of the psychology of monied men,

---

[34] Ibid, 535. "…it answers most of the purposes of money…"

[35] Nelson, "Alexander Hamilton and American Manufacturing," 989. Nelson discusses Hamilton's ideas regarding the capital needs of the United States during the early 1790s. "…capital was the critical issue…Hamilton described three major capital resources: domestic banks, the funded debt, and foreign investment…" Nelson maintains that Hamilton's plans for remedying the capital shortage were based on faulty assumptions.

[36] *Papers of Robert Morris*, vol. 1, ed. Ferguson, 42. Alexander Hamilton to Robert Morris, April 30, 1781. "…a plan must be devised…[that will] be a source of national strength and wealth. I mean the institution of a National Bank…"

[37] Ibid, 32.

investors, and merchants, and an awareness that the American financial system needed to mitigate risk in order to make the new United States attractive for capital investment.[38]

The proposal leading to the Bank of the United States advocated an entity with unprecedented financial status. It was to serve several functions according to Hamilton: encourage the circulation of paper currency, provide government means for emergency spending, and ease the demands of financial infrastructure, making it easier to collect taxes. Hamilton repeatedly spoke of the utility of such an institution and the confidence it would bring, both internally and externally. Specifically, Hamilton's banking plan involved a public-private power sharing arrangement whereby government could purchase up to 20 percent of the bank's stock, but have no immediate decision-making role in day-to-day operations. In practice and particularly during crises, the treasury department had great influence, but the intent was to create great private interest through the success of this important banking institution.

As a quasi-public institution, the Bank of the United States provided a mechanism for the financial management of a large country. Centralization enabled closer observation and analysis of national financial status and, theoretically, greater financial stability. Financial historian David Cowen has detailed some practical benefits of the Bank of the United States. The national bank became the guardian of the public money, the government's fiscal agent, and a mechanism for the transportation of deposits. Additionally, the Bank of the United States could respond to immediate governmental financial needs and coordinate loan details. [39] Prior to the bank's incorporation, Madison represented the opposition when he voiced his studied thoughts on the

---

[38] Ibid., 41-42. "To…give individuals ability and inclination to lend, in any proportion to the wants of government, a plan must be devised, which by incorporating their means together and united them with those of the public, will on the foundation of that incorporation and Union, erect a mass of credit that will supply the defect of monied capitals and answer all the purposes of cash…, a plan which will give them the greatest security…"

[39] David Cowen, *The Origins and Economic Impact of the First Bank of the United States* 1791-1797 (New York: Garland Publishing, 2000), 138-140.

subject of Hamilton's report, stating on record: "…the proposed Bank could not even be called necessary to the Government. At most it could be but convenient."[40] Those who opposed the concept of a national bank may have viewed these activities as merely issues of convenience, but Hamilton understood the implications. When managing financial resources pertaining to a vast country and millions of people, perhaps within the context of wartime emergency, the workability of the financial process easily became a matter of national security.

Hamilton's actions conveyed the concern of a central banker for the welfare of the entire financial system; however, early Bank of the United States actions contributed to distrust of the bank in certain circles. Cowen summarizes the effect of the bank's first subscription offering. Twenty thousand shares valued at $8 million were quickly sold to the public; speculation in scripts (receipts offering the right to buy stock) was rampant, driving prices up and then, dramatically scripts lost half of their high value. Fortunes were made and lost quickly, and unfortunately, the first assistant at Treasury, William Duer, was involved. Thomas Jefferson watched this process unfold with great distaste for the banking process. Unsure of the public's potential response, Bank of the United States leadership had erred on the side of easy money, and Hamilton learned a hard lesson about the significance of the Bank of the United States and the potential role it could take. Monetary policy experimentation at the start of operations for the Bank of the United States did not result in consistent success, and it took some time and experience for American leaders to understand the magnitude of the Bank's capabilities and the most effective channels for its power.[41]

[40] *Annals of Congress*, House of Representatives, 1st Congress, 3rd Session, 1950. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[41] Cowen, *First Bank of the United States,* 35-43.

Over the course of its twenty-year existence, the Bank of the United States offered a type of centralized financial management that facilitated economic growth in an emerging nation.[42] Hamilton left office in January 1795, but continued to observe its activities until his untimely death in 1804, and for ten years, the Bank of the United States benefited from Federalist administrations partial to its success. By 1800, the banking system had grown to accommodate nearly thirty banks operating in support of the nation's commercial activities, and the Bank of the United States was certainly integral to that development.[43]

Hamilton's last proposal, *Report on the Subject of Manufactures*, advocated government incentives to encourage the development of industry within America. Hamilton was careful to expound on the importance and priority of agriculture in America, but acknowledged the need for manufacturing capacity. In this final report, Hamilton further emphasized the impact of national emergency on a country ill-equipped to produce its own goods. Aware of the realities of operating within the British trading system, he noted that because world powers did not operate on a free trade system, government involvement in the market would be necessary. International relations involved politics and crises that sometimes disintegrated into hostility, therefore America should economically protect itself. In other words, government involvement and incentives might be necessary to achieve a more competitive position and to be prepared in case of emergency.[44]

---

[42] Edward S. Kaplan, *The Bank of the United States and the American Economy* (Westport, CT: Greenwood Press, 1999), 25-29. Kaplan discusses that the bank was not intended to serve central banking functions, but more simply "acted as both a creditor and debtor to the government." He does acknowledge that with the advent of branch banking, to which Hamilton was opposed, and the increase of state banks, the first Bank of the United States took on some of the responsibilities of central banking. See also Cowen, pages 138-143.

[43] Bray Hammond, *Banks and Politics in America: From the Revolution to the Civil War* (Princeton, NJ: Princeton University Press, 1957), 144-145. See Hammond's list of 29 banks in existence by the turn of the nineteenth century. Benjamin J. Klebaner, "State Chartered American Commercial Banks 1781-1801," *Business History Review*, Vol. 53 (Winter 1979), 530-531.

[44] *Papers of Alexander Hamilton*, vol. 10, ed. Syrett, 230. "Alexander Hamilton's Final Version of The Report on the Subject of Manufactures."

Throughout his writing and his tenure in public office, Hamilton identified as vital two key issues: unity (or the connectedness of the people to their national government) and financial as well as military preparation for national emergencies. Hamiltonian finance sought practical responses to those considerations. As a result, Hamilton was less concerned with the theoretical power of government within constitutional constraints and more interested in establishing an effective government with whatever means were available.

Thomas Jefferson operated from an entirely different set of assumptions based upon on a background that contrasted greatly with Hamilton's. Jefferson was a product of the Virginia plantation system, a child of the planter gentry. His eminent biographer, Dumas Malone, has characterized his childhood situation: "He grew up in the generous society which had been created…by a group of planters...From his earliest memories his financial position was assured… .[45] A prolific thinker, Jefferson voraciously absorbed the ideas of a diversity of authors, and his ideas developed along the lines of decentralized power structures, democratic practices, and individual liberty. Ironically, after a lifetime of experiences, he observed that even in the midst of true democracy, a "natural aristocracy" would emerge, an aristocracy of merit and intellect.[46] By the time he entered the presidency, Jefferson had served his country in various capacities: author of the Declaration of Independence, wartime governor of Virginia, minister to France during the Confederation era, and secretary of state. In his last major public position, the presidency, he experienced an intense challenge of incorporating reality into his ideological framework.

[45] Dumas Malone, *Jefferson and His Time Vol. 1: Jefferson the Virginian* (Boston, MA: Little, Brown and Co., 1948), 5.
[46] The Jefferson Papers, Library of Congress, Series 1, letter to John Adams dated October 28, 1813. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers on January 15, 2008.

The "Revolution" of 1800 propelling Thomas Jefferson to the presidency and ending more than a decade of Federalist presidential leadership, in many ways was a watershed event.[47] Historian Joyce Appleby asserts that "American political culture changed decisively in that election."[48] Never again would a Federalist president be elected, and the priorities of Hamiltonian finance would come under constant scrutiny. In 1801, Thomas Jefferson entered the presidency with grave reservations about the nature of the banking system, the power of banks, and the centralized control of money. Furthermore, Jefferson advocated the immediate reduction of the national debt and military spending.[49] James Madison, his secretary of state, and Albert Gallatin, his secretary of the treasury, became trusted advisors and in the operation and goals of the executive branch.[50]

Jefferson's economic philosophy originated from his belief that an agrarian society best provided for the self sufficiency of its citizenry, instilling in them a sense of ownership and obligation. Republicanism, as Jefferson saw it, went beyond the absence of monarchy to emphasize principles of simplicity, frugality, and decentralized power. Within that framework, Jefferson wanted to remove the Hamiltonian debt structure, reduce taxes, and expand trade with American raw materials in exchange for European industrial production. Jefferson was persuaded that Hamiltonian finance had extended the scope of national government, giving too much responsibility to government and diminishing the role of the individual. In order to achieve

[47] Stanley Elkins and Eric McKitrick, *The Age of Federalism* (New York: Oxford University Press, 1993), 691. Elkins and McKitrick assert: "The year 1800 marked the end of Federalist predominance in the nation's public life, a predominance never to be reasserted."

[48] Joyce Appleby, *Capitalism and a New Social Order* (New York University Press, 1984), 4.

[49] *The Papers of Thomas Jefferson*, Yale University Avalon Project, "First Annual Message to Congress" December 1801. Accessed from http://avalon.law.yale.edu/19th_century/jeffmes1.asp on January 20, 2008.

[50] Dumas Malone, *Jefferson, the President: First Term: 1801-1805*, *Jefferson and His Time*, vol. 4, (Boston: Little, Brown and Company, 1970), 57. "In matters of general policy he conferred freely with both of them, treating them both as peers. The term "triumvirate" which has been so often applied to them is fitting…"

the goals of his economic policy, Jefferson relied extensively on Gallatin, his leading economic and national financial advisor.[51]

Albert Gallatin was a Swiss-born American who emigrated to the United States in 1780 at the height of the Revolutionary War. During this youthful era, Gallatin began his illustrious career as a French tutor at Harvard with the goal of finding his fortune possibly through the purchase of farm land and a career as a distinguished farmer. Ultimately, Gallatin married and made his life in Pennsylvania, beginning a political career there.[52]

After less than a decade of living in America, Gallatin was convinced of the truth of Republican principles and wanted to participate in the new national government. Jefferson's expressed Republican principles of simplicity and frugality compared well with elements of his Calvinist roots, although Gallatin did acknowledge the dissimilarity of the Jeffersonian emphasis on the common man with the aristocratic traditions of his country of origin. In the final analysis, Gallatin rejected the notion that societal elites could make better decisions on behalf of a nation and argued for the empowerment of the individual.[53]

In 1795, as a representative of Pennsylvania to Congress, Gallatin established himself as a politician with financial expertise. In his 1796 tome entitled *A Sketch of the Finances of the United States*, he offered an exhaustive analysis of the American financial position. Gallatin did not favorably review Federalist financial policy, particularly as it pertained to taxation policy, military expenditures, and the public debt. This report criticized the consequences of Federalist policy, chiefly, greater debt levels, and as a result, Gallatin endeared himself to the two leading

[51] Malone, *Jefferson, the President: First Term*, 57. "Jefferson was capable of being his own secretary of state but not of being his own secretary of treasury."

[52] Raymond Walters, *Albert Gallatin: Jeffersonian Financier and Diplomat*, (Pittsburgh, PN: University of Pittsburgh Press, 1957), 9-25. When he was nineteen years old, Gallatin and his friend, Henri Serre, embarked on their American odyssey. Upon their arrival, they tried various money making ventures. For example, they bought and sold tea, purchased a cow with an eye towards farming, and dreamed of establishing a Genevan settlement on the western frontier.

[53] Walters, *Albert Gallatin*, 8, 35, 56.

Republicans, Thomas Jefferson and James Madison. Jefferson and Madison saw in Gallatin's financial viewpoint a refutation of, and alternative to, the reasoning of Hamiltonian finance.[54]

One of Gallatin's first actions as Jefferson's secretary of the treasury was to provide the president with a sketch of American finances. Gallatin conveyed to Jefferson the need to reduce military expenses, especially those associated with the navy, and he wanted to see the burden of internal taxes removed to whatever extent possible. In the months that followed, Gallatin continued to develop a comprehensive plan to reduce debt levels. Wary of the national debt, Gallatin was opposed to the creation of a large defense establishment and was concerned about the potential for the abuse of money power at the hands of policymakers.[55]

During his first year in office, Gallatin clearly acknowledged his role in facilitating financial actions based on Republican principles. Gallatin wrote of his earnest desire to see the "permanent establishment of republican principles of limitation of power and public economy" in a letter to Jefferson dated August 10, 1801.[56] While Gallatin agreed with Jefferson on fundamental principles and governmental ideals, on one particular issue the Secretary of the Treasury counseled moderation. Gallatin detailed for Jefferson in December 1803 the functions of the Bank of the United States. Bank notes circulated as currency thereby easing scarcity; the national bank acted as a repository of public funds providing financial security and accessibility; the bank also provided a source of credit for the federal government. For these reasons and more, Gallatin conveyed his strong sentiment in favor of the national bank.[57]

---

[54] *The Writings of Albert Gallatin*, vol. 3, ed. Henry Adams (Philadelphia: J.B. Lippincott, 1879). "A Sketch of the Finances of the United States" Accessed from http://oll.libertyfund.org/title/1951 on January 20, 2008.

[55] Ibid., vol. 1. Albert Gallatin to Thomas Jefferson, March 14, 1801. Accessed from http://oll.libertyfund.org/title/1953 on January 20, 2008. See also Walters, *Albert Gallatin*, 146.

[56] Ibid., vol. 1. Albert Gallatin to Thomas Jefferson, August 10, 1801. Accessed from http://oll.libertyfund.org/title/1953 on January 20, 2008.

[57] Ibid., Albert Gallatin to Thomas Jefferson, December 13, 1803 on January 20, 2008. Accessed from http://oll.libertyfund.org/title/1953 on January 20, 2008.

At the time Gallatin became secretary of the treasury in 1801, his main goal was the elimination of the public debt, and despite great odds, this issue represents the remarkable success story of Jeffersonian finance. When he took over leadership of the treasury department in 1801, federal debt stood at $83 million and grew to a high of $86 million in 1804. By the start of the War of 1812, Gallatin had supervised the reduction of the federal debt to $45 million. The ensuing war, of course, devastated these efforts and by 1816, the national debt had become $127 million.[58] Gallatin managed to facilitate this debt reduction effort in the midst of the near constant international turmoil that plagued the Jefferson administration.

Republican sympathies decried excessive industrial and urban growth, seeking a kind of agrarian simplicity. When Jefferson spoke of creating a "wise and frugal" government in his first inaugural address, he wanted to promote governmental restraint that offered freedom to its people. In the final portion of his message, he literally outlined the details of his republican principles including the encouragement of agriculture, payment of the public debt, and "peace, commerce, and honest friendship" with all countries. Above all, he sought to prevent tyranny and ensure the appropriate civilian control of the military.[59] Jefferson's priorities represented a departure from the scope of Federalist governmental activities, which emphasized order through unity and structural preparation in the event of crisis.

The one contingency of such great concern to Hamilton was a secondary issue in the mind of Jefferson. Except for defensive purposes, Jefferson, who resisted Hobbesian pessimism, was not overly convinced of the need for financial or military preparation in the face of national emergency. His emphasis was the limitation of governmental power, and he sought to resist the

---

[58] *American State Papers*, 3, Finance, 1: 716 and 2: 148, 206, 246, 307, 439, 496 and 3: 8, 136. United States Department of Treasury, Historical Debt Outstanding 1791-1849. Accessed from http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo1.htm on February 1, 2008.

[59] *The Papers of Thomas Jefferson*, Yale University Avalon Project, "First Inaugural Address." Accessed from http://avalon.law.yale.edu/19th_century/jeffmes1.asp on January 21, 2008.

expansion of its activities to accommodate some unforeseen disaster. The ideals of Jeffersonian economics were based on an assumption that actually opposed Hamilton's focus; rather than worry about national emergency and financial structure, Jefferson thought in terms of pursuing peaceful foreign relations, the free trade of neutrality, and minimal government activity. At the end of his first term in office in 1804, Jefferson penned a statement that expressed the foundation of all of his policy decisions:

> The greatest security against the introduction of corrupt practices and principles into our government, which can be relied on in practice, is to make the continuance of an Administration depend on their keeping the public expenses down at their minimum.[60]

As the administration handled international conflict through the first term, even Gallatin resisted the moves towards expansion and expense. Responding to correspondence from Jefferson as well as naval funding requests, the secretary of treasury implored the president not to "press" treasury "beyond our former calculations." Throughout his presidency, Jefferson found it difficult to reconcile fully the principle of frugality with the realities of national power.[61]

Unquestionably, Thomas Jefferson's presidency began with great promise. Two days after his inauguration, he wrote of his excitement about the possibilities surrounding him.

> "A just and solid republican government…will be a standing monument and example for the…imitation of the people of other countries…and I join with you in the hope…that they will see, from our example, that a free government is of all others the most energetic…"[62]

From the beginning, however, Jefferson, Madison, and Gallatin were forced to deal with international complications. Jefferson was inaugurated on March 4, 1801, and by May of that year, the Pasha of Tripoli had declared war on the United States, beginning a four-year conflict

[60] *Writings of Albert Gallatin*, vol. 1, ed. Adams. Thomas Jefferson to Albert Gallatin dated 1804 Accessed from http://oll.libertyfund.org/title/1953 on February 10, 2008.

[61] Ibid. Albert Gallatin to Thomas Jefferson, May 3, 1804. Accessed from http://oll.libertyfund.org/title/1953 on February 10, 2008.

[62] Thomas Jefferson, *Writings*, ed. Merrill D. Peterson (New York: Library of America, 1984), 1084.

with the Barbary pirates.[63] In 1802, American access to the port of New Orleans was threatened by French control of Louisiana, but next year witnessed the Louisiana Purchase and an end to possible conflict with Napoleon. Jefferson felt somewhat comforted by the thought that Europe was on the verge of another internal war, and in 1805 he was relieved of the Mediterranean crisis when the war with the Barbary pirates ended. Just as the president and his cabinet resolved one war crisis, however, England and France displayed contempt for American sovereignty and neutral maritime rights through a series of decisions, decrees, and orders-in-council as well as the continued English policy of impressment. During Jefferson's second term in office, European actions of 1806 and 1807 degenerated into a mass of problems related to English and French treatment of American commercial interests and merchant marines.[64]

Biographer Dumas Malone presents Jefferson as an incredibly detail-oriented and able administrator.[65] He was informed, knowledgeable, and ideologically equipped to make decisions. Unfortunately, his second term became oddly difficult as European relations continued to deteriorate and the young United States seemed to be constantly caught in the middle of an Anglo-French power struggle. With the *Chesapeake-Leopard* affair of 1807 and the failure of diplomatic understanding, even Gallatin was actively preparing for a situation that looked like the brink of hostilities. On July 17, 1807, Gallatin wrote to his relative by marriage, Joseph Nicholson, beginning the body of his letter with the statement: "With you, I believe that war is inevitable." Gallatin continued his correspondence with a broad plan of the financial arrangement that would become necessary. Specifically, he acknowledged the challenges of

---

[63] Michael Kitzen, *Tripoli and the United States at War: A History of American Relations with the Barbary States, 1785-1805*, (London: McFarland and Co., Inc., 1993), 45. "…Jefferson was in the…predicament of determining how to project a naval force into the Mediterranean without betraying his campaign promise of maintaining peace."

[64] Malone, *Jefferson the President: First Term: 1801-1805* , 262-283. *Jefferson and His Time Vol. 5, Jefferson the President: Second Term: 1805-1806* (Boston, MA: Little, Brown and Company, 1974), 39, 97, and 101-117.

[65] Malone, *Jefferson, the President: First Term*, 66.

financing a war effort through internal taxation or trade revenue and spoke of the need to borrow. To that end, Gallatin noted the importance of the banking system.[66]

Gallatin's writings reveal that he was thinking through the financial implications of war with England in a flurry of financial reports and military recommendations. He participated in a cabinet examination of options in 1807, sending the president a "Memorandum of Preparatory Measures" that enumerated the tasks to complete for readiness. He discussed the vulnerability of seaport cities, issues related to arms and ammunition, use of gunboats, and myriad other concerns. The tone of the correspondence was decidedly urgent.[67] The threat of war passed, however, as Jefferson decided on a policy of peaceable coercion, the embargo, and then, the president ceased to exert leadership. To leading American policymakers, war had been the expected outcome, but Jefferson was physically unable to lead the country into war, succumbing to illness and indecision as his second term ended. The main assumption upon which his Republican system relied, peaceful foreign relations and its corresponding free trade, had failed to prepare the country for the practical demands of war.[68]

[66] *Writings of Albert Gallatin*, vol. 1, ed. Adams. Albert Gallatin to Joseph Nicholson, July 17, 1807. Accessed from http://oll.libertyfund.org/title/1953 on February 8, 2008.

[67] Ibid., Albert Gallatin to Thomas Jefferson, July 25, 1807. Accessed from http://oll.libertyfund.org/title/1953 on February 7, 2008.

[68] Robert M. Johnstone, Jr., *Jefferson and the Presidency: Leadership in the Young Republic*, (Ithica, NY: Cornell University Press, 1978), 283-289, 297-301, 307-314. Although Johnstone offers a generally positive assessment of Jefferson's accomplishments and leadership as President, he notes the faulty reasoning underlying the policy of embargo and what he calls Jefferson's abdication of leadership. "The president…chose this time virtually to abdicate his leadership and withdraw from responsibility for the formulation of new policy (286). Dumas Malone also makes mention of Jefferson's "lame duck" status and like Johnstone uses the word "abdication" to describe his final months in office. *Jefferson and His Time Vol. 5, Jefferson the President: Second Term, 1805-1809* (Boston, MA: Little, Brown and Co., 1974), 622-643.

CHAPTER 5

THE COMPLEXITY OF MADISONIAN FINANCE

Historian Neal Reimer suggested in 1954 that James Madison remained one of the ―least understood" of the American founders. At that time, Reimer asserted that interpretations of Madison‗s thought were ―distorted" because scholars failed to grasp the true significance of the republican principles that were the foundation of Madison‗s leadership approach and philosophical bent. The validity of Reimer‗s fundamental claim persists, certainly with respect to Madison‗s treatment of executive power, but also regarding a less frequently discussed subject: the development and expression of Madison‗s financial thought.[1]

James Madison‗s public service encompassed many positions, from state legislator to congressman, to secretary of state and finally, President of the United States. In a career lasting more than forty years, Madison grappled with many different leaders and events. He was repeatedly faced with questions concerning the country‗s economic distress potential, and as a policymaker, he was forced to assess the viability of various options. What is remarkable about Madison is that he seems to have never lost sight of what the American Revolution and what the word ―American" meant to him.

Madison‗s deeply held beliefs were founded on his studied approach to political issues in the face of the practicalities of building a new nation. He was truly one of the most intellectually active of the Revolutionary founders, constantly generating ideas and operating principles related to independence and the creation of government. Coming of age at the beginning of the revolutionary war, Madison served as a member of Congress intermittently throughout the 1780s. After being convinced of the weakness of the Articles of Confederation, he was pivotal

[1] Neal Riemer, ―The Republicanism of James Madison," *Political Science Quarterly*, 69 (Mar., 1954), 45.

in helping to shape the effort for national reform, and then, monumentally influenced the outcome of the Constitutional Convention of 1787. As the Speaker of the House during the sessions of the first Congress, Madison was famously responsible for crafting the Bill of Rights and leading opposition to Hamiltonian finance. After the Federalist presidential era had ended, he was Jefferson's secretary of state from 1801 to 1809; in this capacity, he advocated policies of commercial retaliation, believing that they were the mechanism short of war to gain the attention of England and France and protect American neutral rights.[2]

The principles of the American Revolution made an indelible impression on the young Madison and were guideposts throughout his career. From his analysis, he believed that unchecked power posed an extreme danger to the people of any nation, and that power combined with centralized government structures, would provide the means for unscrupulous men to usurp the political autonomy of individuals. Both Jefferson and Madison were convinced of this tendency regarding the nature of power and government, and throughout their fifty year friendship, which began in 1776 and lasted to the grave, they exchanged thoughtful communications on the topic. The elder Jefferson profoundly influenced the ideas of the younger man and vice versa.[3] Through his life's work, Madison determined to uphold the natural rights of every man through decentralized power structures. The republican principle of freedom

---

[2] Ralph Ketcham, *James Madison: A Biography* (1970; repr., Charlottesville: University of Virginia Press, 1990), 425. Ketchum describes Madison's ―republican theory of foreign affairs…the growth of a peaceful, prosperous society resting on the virtue and industry of its yeomanry and guaranteeing maximum personal liberty…required the nation to shun military adventures…that led to tyranny…to avoid entanglements in foreign wars, to seek reciprocal trade agreements and the free flow of goods, to use the power of its prosperous commerce to resist foreign depredations, and to wait for the stupendous growth of American wealth and population to make the nation impregnable to its enemies…"
Jack N. Rakove, *James Madison and the Creation of the American Republic* (1990; repr., New York: Pearson Longman, 2007), 167-168.

[3] Lee Wilkins, ―Madison and Jefferson: The Making of a Friendship," *Political Psychology*, 12 (Dec., 1991), 594.

necessitated a limited government; this was the vision that Jefferson and Madison struggled to bring to life.[4]

Madison demonstrated great ability to express his judgments on paper and tended to take a scholar‘s approach to the problems and issues of his day. Two examples illustrate the manner in which he arrived at his conclusions. Before the Constitutional Convention, Madison devoured information concerning ancient and modern governments. He reduced his analysis to a small book of a little more than forty pages, which he used to help focus his thinking during convention debates. Madison‘s preparation gave him the advantage of knowledge, and he was able to exert great influence over the proceedings.[5] A second example of his need to take time for inquiry and analysis involved a treatise he wrote on the topic of British policy in relation to international law and neutral rights. In 1805 as Jefferson experienced increased pressure to deal with foreign offenses, Madison studied the problem of British violations of American sovereignty from an academic standpoint. The result was a work more than one hundred pages in length that challenged the British position and logically proved that their actions defied international law. That Britain was not concerned with the ―logic" of her actions was a point that Madison ironically made as he concluded his study.[6]

A deliberate and principled methodology also provided the foundation of Madison‘s financial philosophy, and by the time of his appointment to Jefferson‘s cabinet, had been formed over the course of two decades spent as a public servant and private citizen. With some concern, he had observed the financial struggles of the new nation during the revolutionary war and

---

[4] James Madison, *Writings*, ed. Jack Rakove (New York: Literary Classics of the United States, 1999), 211. *Federalist no. 39* expresses two tenets of Madison‘s ideal of republicanism.

[5] Ketcham, *James Madison*, 183. Through the spring and summer of 1786, Madison studied material provided by Jefferson. Ketcham describes Madison‘s leadership within the convention through chapter 10.

[6] Ibid., 442-43. Ketcham describes how Madison examined the English crisis of 1805, studying the problem for three months and writing a treatise for the perusal of Jefferson‘s administration.

Confederation era. During the revolutionary war, the state governments issued paper which resulted in massive inflation and corresponding depreciation in value of the money supply. Madison‘s interest was piqued by the financial predicament of the new nation in the midst of waging war, and he wanted to understand the factors involved.[7]

In 1779, Madison penned an essay entitled ―Money" that was subsequently published in Philip Freneau‘s *National Gazette*.[8] Madison argued that the amount of currency in circulation was not the sole factor determining the value of currency and that printing more paper did not necessarily stimulate economic growth in real terms. Rejecting what would later be called the quantity theory of money, Madison explained that the depreciation of monetary value was not simply the result of the printing of greater quantities of paper money, but rather, occurred because the value of the currency was tied to the credit of the issuer and the firmness of the redemption date.[9] This perspective opposed the conclusions of David Hume, who emphasized the positive role of paper money as ―the oil which renders the motion of the wheels more smooth and easy."[10] Madison specifically refuted Hume‘s position.[11]

---

[7] Hugh Rockoff and Gary M. Walton, *History of the American Economy*, 8th ed. (New York: Dryden Press, 1998), 141. Rockoff and Walton state: ―Internally, the most pressing problems were financial. Between 1775 and 1781, the war was financed by the issue of paper money in amounts great enough to result in a galloping inflation…" See also E. James Ferguson, *The Power of the Purse: A History of American Public Finance 1776-1790* (Chapel Hill: University of North Carolina Press, 1961), 25-47.

[8] Madison‘s essay was published in two parts on December 19 and 22, 1791 in the *National Gazette*.

[9] Bruce D. Smith, ―James Madison‘s Monetary Economics," *Cleveland Federal Reserve Economic Review* (Q1,1998) 16. ―Madison‘s essay, ‗Money,‘ challenges the belief in a necessary connection between money growth and inflation that underlies much of the quantity theory of money. He obviously considered the circumstances of a government that was engaged in monetizing a temporary budget deficit, issuing inconvertible paper money, and promising to establish a gold standard and redeem its paper currency at some future time…his concerns have universal application."

[10] David Hume, Essay III ―Of Money," *Philosophical Works: Essays, Moral, Political, and Literary* Vol. 3 (1854; repr. Boston, MA: Brown, Little, and Co., 1996), 309. Hume reports on page 313 that ―…in every kingdom into which money begins to flow in greater abundance than formerly, everything takes a new face: labor and industry gain life…"

[11] James Madison, ―Money" 1791; repr *Federal Reserve Bank of Minneapolis Quarterly Review*, 21 (Fall 1997), 4.

The young Virginian‘s assertion that one of the most significant factors influencing the value of money was the issuer‘s public credit and creditworthiness addressed the psychology of finance. Madison understood the power of belief that lay beneath financial operations; people had to believe that the government or issuer has the ability to redeem the currency for specie within a specific timeframe. Another important theme mentioned in the essay pertains to the ―spirit of monopoly," which Madison felt was particularly destructive. Throughout his career, he decried the concentration of power, and in this writing focused on the economic impact of monopolies, which he noted, exerted an inflationary pressure on goods. Madison intended for his readers to ponder the tendency of prices to rise within the construct of monopoly, a phenomena he viewed as pernicious. This concern with the abuse of power was at the root of his financial philosophy, just as it informed his political thought.

Madison‘s theory of finance included a distrust of paper and an emphasis on the value of property or commodities. He wanted to see a focus on the economic value of the actual materials or product and believed that money and financial transactions were secondary to overall economic health. As a result, he did not favor the repeated printing of paper money, believing that the totality of the financial context, property and quantity of goods, should be first considered. Additionally, he articulated his broad view of property and connected it to the real value of money.[12] The concept of property was central to Madison‘s philosophy, and in 1792, he composed an essay to explore the topic further. Property, according to the Virginian could be anything, merchandise, land, or idea, with value and availability within the scope of individual rights. He conceived of property within both tangible and intangible contexts and recognized its

[12] Madison, ―Money", 7.
―Money is the instrument by which men‘s wants are supplied, and many who possess it will part with it for that purpose, who would not gratify themselves at the expence [sic] of their visible property…the principle of Hume‘s theory is erroneous…he considers the money in every country as representative of the whole circulating property and industry in the country…

economic implications. In terms of his policymaking, financial or otherwise, his concept of property was foundational: ―Government is instituted to protect property of every sort, as well that which lies in the various rights of individuals as that which the term particularly expresses. This being the end of government, that alone is a just government which impartially secures to every man whatever is his own.”[13]

Madison did not ignore international influences on trade and monetary flows and placed his concept of money within the framework of foreign trade and connectedness. The value of currency, he had observed, was not independent of monetary values in neighboring countries. In the case of a price differential, the market would seek a new equilibrium. Should inflationary pressures exist, the market for money would extend to other countries with cheaper currency, a movement which would, in turn, exert deflationary pressure. In 1779, Madison expounded upon the impact of the globalized marketplace in order to communicate to his audience that countervailing forces would emerge to find balance.

Value, according to this American philosopher, was determined by real items in possession, not by an arbitrary decision to print more paper bills. He made a nuanced point in observing that if money becomes more plentiful but the quantity of goods (property) remains the same, the desire to spend has been stimulated to the detriment of the overall economy. Prices will rise as demand outstrips supply. As he finished his thoughts, he could not resist a jab at the

---

[13] James Madison, ―Property,” Essay for *National Gazette*, published on March 27, 1792, reprinted in *Liberty and Order: The First American Party Struggle*, ed. Lance Banning (Indianapolis: Liberty Fund, 2004). Accessed from http://oll.libertyfund.org/title/875/63884 on March 2, 2008.
―In its larger and juster meaning, it embraces every thing to which a man may attach a value and have a right; and which leaves to every one else the like advantage. In the former sense, a man‘s land, or merchandize, or money is called his property. In the latter sense, a man has a property in his opinions and the free communication of them. He has a property of peculiar value in his religious opinions, and in the profession and practice dictated by them. He has a property very dear to him in the safety and liberty of his person. He has an equal property in the free use of his faculties and free choice of the objects on which to employ them. In a word, as a man is said to have a right to his property, he may be equally said to have a property in his rights.”

mentality of financiers and stated that it did not matter if paper money was printed and entitled “bills of credit” while more money was printed and called “land office certificates.” To Madison, it was not financial genius to give these two debt instruments different dates of redemption and separate arrangements. Regardless of what they were called, they would merely serve to encourage spending with nothing added of value to the economy. Paper issued as loan office certificates and paper issued as bills of credit would both artificially increase available monies without stimulating wealth in real terms.[14]

During the 1780s, Jefferson attempted to establish a commercial system between America and France, and Madison served his state in the Virginia legislature, spent time at Montpelier, and helped to create a new national government. The two communicated regularly on a variety of subjects, including commercial issues. It is clear from a reading of their letters that they shared a sense of political and financial priorities; among other issues, the two men wrote of their mutual distrust of paper money. In August 1786, as Madison conveyed to Jefferson the gravity of their state‘s and the nation‘s economic crisis, he lamented that increasingly men were turning to paper money, “the rage,” even though specie would act as the best and most valued currency. Echoing his 1779 findings, Madison further declared his agreement with hard money principles, stemming from the general concept that “The value of money consists in the uses it will serve.”[15] At the end of that same year, when a legislative request to provide paper currency emerged, Madison sent Jefferson a newspaper clipping noting the failure of the measure. “. . .an emission of paper money would be unjust, impolitic, and

[14] Madison, “Money,” 7. “By increasing the quantity of money therefore, you both increase the means of spending, and stimulate the desire to spend; and if the objects acquired do not increase in proportion, their price must rise from the influence of the greater demand for them.”

[15] *The Writings of James Madison*, vol. 2, ed. Gaillard Hunt (New York: G.P. Putnam‘s Sons, 1900). James Madison to Thomas Jefferson, August 12, 1786. Accessed from http://oll.libertyfund.org/title/1934 on February 28, 2008.

destructive of public and private confidence and of that virtue which is the basis of a republic government."[16] As a Virginia legislator and emerging nationalist, Madison was well aware of the pitiful condition of the economy, but still tended to focus his attention and influence on long term economic concerns. Both Jefferson and Madison were aware of the economic and financial challenges facing the embryonic nation during the postwar era.

Thus, Madison articulated his views related to money as early as 1779, discussed trade and finance with Jefferson, and continued to express his financial philosophy as the new government began operations. Further development of Madison's thinking regarding American financial policy was revealed in his responses to Hamilton's proposals in the early 1790s. Madison favored funding of foreign debts from the standpoint of cultivating public credit, but opposed the idea of a permanent funded debt as he contemplated its impact on future generations. He and Jefferson corresponded about this issue with the latter making his famous remark that ―the earth belongs to the living," meaning that the current generation should not bequeath the burden of debt on those not yet living.[17] Madison had profound concerns about the dominance of money and the power of financial policy to influence the direction of a Republican government. If the avoidance of tyranny was a central component of the new nation's political principles, funding a permanent debt and printing bills that would be used as currency from it, seemed self defeating. Moreover, Madison did not want to reward the money power,

---

[16] The Madison Papers, Library of Congress, Series 2, General Correspondence, December 4, 1786, Letter from James Madison to Thomas Jefferson (with clippings). Accessed from http://memory.loc.gov/ammem/collections/madison_papers/mjmser2.html on March 2, 2008.

[17] The Jefferson Papers, Library of Congress, Series 1, General Correspondence. 1651-1827 Thomas Jefferson to James Madison (with Copies and Fragment), September 6, 1789. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on March 3, 2008.
―…it may be proved that no society can make a perpetual constitution, or even a perpetual law. The earth belongs always to the living generation… Turn this subject in your mind, my Dear Sir, and particularly as to the power of contracting debts, and develop it with that perspicuity and cogent logic which is so peculiarly yours…"

“stockjobbers” and “speculators”, with federal assumption of war bonds indiscriminant of original holders.[18]

In his response to the 1791 bank bill Madison outlined his opposition, but began by acknowledging the bank‘s potential benefits. Among the several advantages he noted were that it would increase the efficiency of the financial system and encourage effective government operations. Despite these benefits, he believed that replacing specie with paper money would be detrimental to society because of the loss of monetary value; additionally, he was concerned with the potential for financial panic. Madison asserted that rather than one central bank, “several banks properly distributed” could better handle the tasks of national finance. Associating the “concentration of wealth and influence” with the administration of the bank, he referenced the appropriateness of the bank of England to that country due to its aristocratic pretenses, while arguing that the United States did not need such an establishment.[19] Madison insisted in 1791 that bank functions were a matter of convenience, not necessity, and ended his speech opposing Hamilton‘s creation with the following words: “…the power exercised by the bill was condemned by the silence of the Constitution…”[20]

Madison did not perceive the activities of a national bank to be necessary for government functioning in the people‘s interest. He dismissed the importance of the power of the bank to borrow and the greater significance of borrowing, lending, and raising funds in time of emergency. Instead, he was preoccupied with the potential for the abuse of power, monopoly control of the money supply and credit, and the connection of special interests to government.

---

[18] Banning ed., *Liberty and Order*. “Debates in the House of Representatives on the First Report on Public Credit, 9–18 February 1790.” See Madison‘s speech given February 11, 1790. Accessed from Accessed from http://oll.libertyfund.org/title/875/63836.

[19] *Annals of Congress,* House of Representatives, 1st Congress, 3rd Session, February 2, 1791, 1950. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[20] Ibid., 1952.

One of the most telling statements that Madison ever wrote to Jefferson pointedly communicates republican sentiment towards Hamilton‘s financial program. ―The stockjobbers will become the praetorian band of the government—at once its tool & its tyrant; bribed by its largesses, & overawing it by clamours and combinations…” This concern motivated his great hesitation in supporting a central banking entity throughout his life.[21]

Despite his reasoned efforts, Madison lost the debate regarding the national bank in 1791. The first Bank of the United States was incorporated, and stocks were sold to the public. In a letter to Thomas Jefferson, James Madison equated Bank of the United States subscriptions with gambling, and used words like ―plunder” and ―excess” to describe the activities surrounding the initial public offering. Madison predicted that under the bank‘s supervision, the monied interest would be able to monopolize the activities of government and restrict the opportunities available to the people. Indeed, Madison was appalled at the ―frenzy” of debt-driven greed he witnessed at the hands of bank promoters.[22]

Regarding Hamilton‘s report on the subject of manufacturing in America, Madison as well as Jefferson arrived at some interesting conclusions. In Paris, Jefferson had been forced to assess the reality of trade restrictions and America‘s place in the world as he had worked to secure favorable terms of trade for the United States. While both Jefferson and Madison advocated an agrarian society, based on an international system of free trade and peaceful foreign relations, they did recognize the limitation of the international order and accepted that government intervention might be necessary.

Especially because Republican ideology relied upon peaceful foreign relations, James Madison faced a daunting challenge when he was inaugurated on March 4, 1809. England and

---

[21] Banning ed., *Liberty and Order*, James Madison to Thomas Jefferson ―On Speculative Excess,” Summer 1791. Accessed from http://oll.libertyfund.org/title/875/63836 on March 3, 2008.

[22] Ibid.

France were engaged in a fierce struggle for control of the Europe in which trade and commerce were used as weapons of war. The Napoleonic Wars (1803-1815) resulted from the rivalry of these two powerful nations and affected the United States in unexpected ways. French and English policymakers hoped that by repeatedly violating American neutral rights, the fledgling nation could be forced to choose sides. In the eighteen months before Madison‘s presidency began, war had seemed the most likely outcome. Tensions had slowly built during Jefferson‘s second term and had exploded in the immediate aftermath of the *Chesapeake-Leopard* affair in June 1807. By fall of 1807, however, when the President‘s cabinet and Congress reconvened, tensions had eased, even though the issues remained unresolved. Unfortunately, British actions continued to threaten American commerce as well as the personal safety of American seaman and sailors.

During the final year of his administration, Jefferson determined that he would limit his decisions in order to prevent his successor from being saddled with an unalterable policy.[23] Jefferson‘s seeming indecision and reluctance to address English (or French) injuries to the United States contributed to the vulnerability of the American international position. By the end of 1808, Jefferson‘s strategy of commercial warfare or peaceable coercion via embargo had devastated the American economy rather than European commerce. His concept of military preparedness, which emphasized self-defense rather than offensive power, relegated the navy to gunboats rather than warships. Additionally, in the midst of the other issues, the former president

[23] *The Works of Thomas Jefferson*, vol. 11., ed. Paul Leicester Ford (New York and London, G.P. Putnam‘s Sons, 1904-5). November 13, 1808, Letter from Thomas Jefferson to Lt. Gov. Levi Lincoln. Accessed from http://oll.libertyfund.org/title/807 on March 5, 2008.
―On this occasion, I think it is fair to leave to those who are to act on them, the decisions they prefer, being to be myself but a spectator. I should not feel justified in directing measures which those who are to execute them would disapprove. Our situation is truly difficult. We have been pressed by the belligerents to the very wall, & all further retreat impracticable."

also left to Madison a badly fractured Republican Party. Historian Forrest McDonald has characterized the situation in his conclusion:

> …Jefferson's legacy to his successor was a can of serpents. Jefferson's second term was merely a calamity; Madison's first would be a disaster.[24]

Although McDonald offered a highly negative interpretation of Jefferson's presidency, sympathetic authors have also enumerated the various kinds of difficulties Madison had to contend with as the result of Jefferson's retiring approach to the decision making process during the final months of his presidency.[25]

In his inaugural address, Madison spoke to the American public about the primary issues affecting the nation's future, asserting that both within and without the country was beset with problems. "The present situation of the world is indeed without a parallel and that of our own country full of difficulties."[26] Madison publicly acknowledged the disastrous impact of the embargo on the nation's economic situation and noted the "distressed" state of American commerce. For an economy whose foundation was foreign trade, the embargo had been a disaster. The Jeffersonian assumption that American commerce was a large enough factor to affect the economic well being of England and France significantly had been faulty. Ironically, while Britain and France were relatively unfazed by American commercial retaliation, the United States would not recover the peak export levels of 1807 until 1834. The unfortunate truth was that in the midst of threat of war and financial crisis, Madison presided over an already handicapped economy.[27]

---

[24] Forrest McDonald, *The Presidency of Thomas Jefferson* (Lawrence: University Press of Kansas, 1976), 167.

[25] Ketcham, *James Madison*, 464.

[26] James Madison, *First Inaugural Address*, The Avalon Project at Yale University. Accessed from http://avalon.law.yale.edu/subject_menus/madispap.asp on March 5, 2008.

[27] *American State Papers*, 3, Finance, vols. 2-5, Reports submitted by the Secretary of Treasury. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Douglass North, *The Economic Growth of the United States 1790-1860* (New York: Norton and Co.,

Madison gave clear indication of his principled convictions, continuing to enlighten the populace regarding republican themes of peaceful foreign relations and the adherence of leadership to the Constitution. The new president also referred to the ideal of freedom and the reduction of public debt. Simultaneously, he offered a contrast between American peace through justice with the ―arbitrary" acts of belligerent powers, indicating their unreasonableness and setting the stage for future difficulties.[28]

Foreign affairs aside, the most decisive event during Madison's first term in office in shaping American financial policy was the failure to renew the Bank of the United States charter. Incorporated in 1791 with a twenty-year charter, the national bank needed a congressional vote of confidence in 1811 in order to continue its existence. As in the congressional debates of February 1791, lawmakers expressed strong sentiment favoring and opposing the bank through the January and February months of 1811. Madison remained silent through the bank ordeal as his secretary of the treasury, Albert Gallatin, and a Republican senator from Georgia, William Crawford, took up the fight.

Over the twenty years of its existence, the Bank of the United States had contributed much to the development of a functional financial system in America. Business historian David Cowen places the Bank at the center of an emerging America stating, ―Hamilton's brainchild…was a crucial component in the building of the early U.S. economy."[29] A public-

---

1961), 26. See chart on page 26, but also peruse the charts on pages 221 and 233. North documents the fact that the value of exports grew from $20 million in 1790 to a high point of $108 million in 1807. After a steep decline in 1808 to $22 million, it was 1834 before exports were again beyond $100 million ($102 to be exact), and 1835 before values exceeded their 1807 high.

[28] Irving Brant, *The Fourth President: A Life of James Madison* (NY: Bobbs-Merrill Co., 1970), 404-405.

[29] David J. Cowen, ―The First Bank of the United States and the Securities Market Crash of 1792" *The Journal of Economic History*, Vol. 60, No. 4 (Dec., 2000), 1041. See also Cowen, *The Origins and Economic Impact of the First Bank of the United States, 1791-1797* (New York: Garland Publishing, 2000), 238. Cowen concluded his study of the first Bank of the United States with statements underscoring the importance of that institution. ―The Bank was the critical element of the early U.S. financial system. It provided central banking services for the country until 1811. It was such a strong pillar that Treasury Secretary Albert Gallatin, a member of

private power sharing arrangement, the bank was intended to assist the treasury department in various ways, even though it was led by directors who were elected by shareholders (as in a private business arrangement). In operation, the Bank of the United States served as a government repository of funds, paid the interest on United States debt, and created a system through which foreign and domestic revenue could be collected.[30] Economic historian Edward Kaplan noted the dual roles that the Bank of the United States fulfilled, ―as both a creditor and a debtor to the government."[31] Professor of Economics John Wood has characterized the bank‘s operations as ―successful in all aspects of its business. It performed efficiently as a fiscal agent for the government, managed a conservative but profitable portfolio, and maintained the convertibility of its liabilities into coin."[32] Business historian Richard Timberlake reiterated the conclusion that bank management employed a cautious approach to its activities through its high reserve ratio, modest extension of credit, and currency goals. More importantly, Timberlake‘s study additionally conveyed the perspective that the Bank of the United States did, in fact, recognize its central banking potential because of its ability to dominate the banking system.[33]

Republican Senator Henry Clay, vocal leader of the opposition to the Bank, remarked in February 1811 that ―wealth is power, and under whatsoever form it exists its proprietor…will have a proportionate influence."[34] The Bank of the United States, did, in fact wield great power, and the nation‘s early experience with the Bank of the United States was a very public lesson in

---

the Republic party that continually advocated the destruction of the Bank, immediately recognized the value of the institution upon his coming to office and often found himself as its chief proponent."

[30] Edward S. Kaplan, *The Bank of the United States and the American Economy* (Westport, CT: Greenwood Press, 1999), 26.

[31] Ibid, 27.

[32] John H. Wood, *A History of Central Banking in Great Britain and the United States* (New York: Cambridge University Press, 2005), 125. He also noted that the ―Bank‘s services were in demand from the beginning…"

[33] Richard Timberlake, *The Origins of Central Banking in the United States* (Cambridge, MA: Harvard University Press, 1978), 9-10.

[34] *Annals of Congress*, Senate, 11th Congress, 3rd Session, 209. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

financial volatility. The first Bank created the financial conditions that resulted in the Panic of 1792 through a massive printing of bank notes followed by a rapid contraction of credit. Individual speculative excess fueled the process and contributed to the crash.[35] Madison's negative impression of the greed and tyranny associated with money power remained with him for the next twenty years. What he did not realize is that his arch enemy, Hamilton, had also felt great alarm in response to the mania.[36]

As president in 1811 when renewing the bank's charter was considered, Madison's silence was palpable. He knew that his cabinet was divided, with Gallatin as a lonely voice advocating charter renewal. Illustrating the weightiness of the issue, in the months directly preceding a congressional vote, two former presidents felt compelled to give their point of view. Republican Thomas Jefferson and Federalist John Adams had ceased communication for twelve years due to their political differences, but re-discovered their friendship after a mutual friend noted their common disgust with banking, in general, and the national bank, in particular. It is telling that two political enemies found common ground in January of 1811 because of their opposition to the bank. One wonders if part of Madison's silence stemmed from the sheer force of pressure. John Adams was quoted as saying: ―Banking infatuation pervades in America. Our whole system of banks is a violation of the very honest principle of banks. There is not honest bank but a bank of deposit. A bank that issues paper at interest is a pickpocket, or a robber. But the delusion will have its course. You may no more reason with a hurricane. An aristocracy is growing out of them that will be as fatal as the feudal barons…"[37]

---

[35] Cowen, ―First Bank of the United States and the Securities Market Crash of 1792," 1047. Cowen has noted that total notes issued by the Bank quadrupled within the month of January and that the institution began drastically reducing its loan risk within February.

[36] Ibid, 1053.

[37] *The Thomas Jefferson Papers,* Library of Congress, Series 1, General Correspondence. Benjamin Rush to Thomas Jefferson, January 2, 1811. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on March 4, 2008.

Although he did not publicly address the issue, Madison was not completely still, as an unfinished essay on the topic of banking reveals. A set of “detached memoranda” with an apparent date of 1811 includes an essay entitled “Bank” with an introductory statement indicating that it belonged “with the printed ones in Freneau to the class of political economy.” Undated and unfinished, it is unclear when and in what context the essay was written, but since the preceeding letters are dated from 1811 and that is the year marking the great Bank of the United States charter debate, it seems logical that Madison's writing addressed those concerns.[38] Similar to his approach in 1791, Madison recognized the advantage of banks to society, concluding that “if it were desirable to abolish them entirely and everywhere, the attempt would be hopeless.” The real concern explored by the bulk of his essay relates to the creation of a privileged group of people based on their influence and perhaps, ready access to financial capital. Madison's republican principles made him fearful that since the directors of the Bank could control the institution's policies, determine lending practices, and generate profit based on their knowledge of specific financial arrangements, they could also unduly manipulate economic opportunities.[39]

The much longer essay immediately following “Bank” treats the corresponding subject of monopolies. Madison discussed the usefulness of temporary monopolies, in the cases of book authors and inventors, but argued the danger of “perpetual monopolies” on the basis of their antithesis to free governments and tendency towards human abuse. Within this context, he mentioned the creation of a banking entity as a source of monopoly and offered a word of caution regarding monetary monopoly (banks), land monopoly (entail and primogeniture), municipal monopoly (incorporation), and religious monopoly (state control of religion). The

---

[38] Elizabeth Fleet, “Madison's ‘Detatched Memoranda’” *The William and Mary Quarterly*, Third Series, (Oct., 1946), 534.

[39] Madison, *Writings*, ed. Rakove, 754.

theme of Madison‘s writing pertained to the tendency of man to abuse his power to the detriment of individuals in society.[40]

Regardless of the strength of his written thoughts on the subject, Madison allowed his words from 1791 to represent the presidential will at the time of the major congressional debate of January and February 1811. Since he had specifically referred to the ―silence" of the Constitution as evidence of that document‘s ―condemnation" of the bank proposal in 1791, it is reasonable to assume that the absence of an affirmative statement from him in 1811 indicated strong disapproval. A review of the congressional record reflects that the legislative body was divided on this issue and debated the bank measure with great vehemence. The chasm between those who favored the bank and legislators in opposition to the re-chartering of Hamilton‘s institution defied compromise.

In 1791, Fisher Ames had argued on behalf of the Bank of the United States, urging his colleagues to understand the necessity of the institution as a guarantor of the government‘s credibility and ability to borrow in case of national emergency. Hamiltonian finance was preoccupied with the risk of disaster in case of national crisis and sought to establish structures to offset that risk. At that time, Representative Madison completely disagreed with the premise, believing that the Constitution gave no power to Congress to create a centralized money power in time of peace. Twenty years later, President Madison watched as his secretary of treasury attempted to protect the nation‘s financial infrastructure. Gallatin had submitted a report to Congress as early as March of 1809 in which he cogently listed reasons for the re-charter of the bank.[41] Gallatin‘s 1809 submission was not an impassioned or emotional appeal, but instead a

---

[40] Ibid., 756-758.

[41] *American State Papers*, 3, Finance, 2: 352. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. ―Bank of the United States."

matter-of-fact and short report documenting the bank‘s present condition and operations. Gallatin did, however, request an expansion of the bank‘s capital from the $10 million it was appropriated in 1791 to $30 million at the time of its re-charter. From that optimistic standpoint, it does not appear that the Secretary of Treasury expected the charter to expire without positive congressional action. What is surprising is that by August of 1810, Madison was writing to Gallatin and referencing arrangements made for the ―winding up of its [the Bank of the United States‘] affairs"[42] On January 5, 1811 Gallatin noted in a letter to Madison that John Jacob Astor would release funds for the government‘s use if the bank was not re-chartered.[43] When Gallatin sent his important report to Congress on January 30, 1811, in the midst of the great debate, he began with a reference to his 1809 report, commenting that nothing had changed in his view. He went further in 1811, describing an ―established" banking system and framing the question of the national bank in terms of convenience.[44]

Gallatin made the case that the Bank of the United States facilitated various transactions because of the convenience it offered. Seeming to undercut his position in favor of bank renewal, Gallatin indicated that preparations had already been made to use the services of state banks if the Bank of the United States was not re-chartered, and that in his best judgment, business would be conducted with less convenience and less safety, but ―no insuperable difficulty." While calm and reasoned in tone, Gallatin‘s argument fell short of pleading the absolute necessity of the institution, and in fact, he asserted that re-chartering was the best option

---

Important Bank functions that Gallatin listed include the safe keeping of the public moneys, transmission of public moneys, collection of the revenue, and capacity for loans.

[42] Albert Gallatin, *The Writings of Gallatin*, vol. 1, ed. Henry Adams (Philadelphia: J.B. Lippincott, 1879). James Madison to Albert Gallatin, August 14, 1810. Accessed from http://oll.libertyfund.org/title/1953

[43] Ibid., Albert Gallatin to James Madison, January 5, 1811.

[44] *American State Papers,* 3, Finance, 2: 480-481. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. ―The banking system is now firmly established…and extends to every part of the United States…The question is…whether the Bank of the United States be most convenient…" for the purposes of responding to the needs of the federal government and the public.

because it would require the least amount of change within the system. At best, his persuasive efforts were inadequate; at worst, he had given up. In a letter dated March 1811, Gallatin had clearly heard enough as he submitted his resignation to the president:

> ...New subdivisions and personal factions, equally hostile to yourself and to the general welfare, daily acquire additional strength. Measures of vital importance have been and are defeated; every operation, even of the most simple and ordinary nature, is prevented or impeded; the embarrassments of government, great as from foreign causes they already are, are unnecessarily increased…Such state of things cannot last; a radical and speedy remedy has become absolutely necessary. .. I clearly perceive that my continuing a member of the present Administration is no longer of any public utility, invigorates the opposition against yourself, and must necessarily be attended with an increased loss of reputation to myself... I beg leave to tender you my resignation…[45]

During the Senate‘s proceedings, William Crawford of Georgia acted as a surrogate for Gallatin‘s views. As the chair of a five person committee evaluating prospects for bank renewal, Crawford had attained legitimate power by 1810. His committee received petitions from various entities calling for bank renewal, but Crawford did not communicate either the committee‘s findings or an impassioned case for the bank. Crawford‘s biographer, Chase Mooney, pointed out that even as the senator submitted a bill (February 5, 1811) that would have renewed the bank‘s charter for another twenty years, he did not engage a discussion on behalf of the bank or acknowledge his committee‘s work. Gallatin‘s January 30th letter was the only expression of the bank‘s significance offered at the time of the bill‘s proposal.[46]

Passion was quite evident on the side opposing the bank‘s existence. On February 11, 1811, Senator Joseph Anderson, Republican of Tennessee, moved to strike out the first section of the bill, the portion of the proposal that established the bank; an action that would effectively kill the renewal process. Crawford responded with a statement of astonishment and proceeded to

---

[45] *Writings of Albert Gallatin*, vol. 1, ed. Adams, Madison to Gallatin, March 1811. Accessed from http://oll.libertyfund.org/title/1953 on March 10, 2008.

[46] Chase C. Mooney, *William H. Crawford* (Lexington: The University Press of Kentucky, 1974), 20.

defend the constitutionality of the national bank proposal.[47] The bank debate had begun. In the House of Representatives, Congressman Joseph Desha, Republican of Kentucky, viewed the bank ―as being directly at war…with the Constitution" and said that while he did not consider himself particularly knowledgeable of banking operations, he knew enough to understand the speculative nature of the entire system.[48] Representative P. B. Porter, Republican of New York, also mentioned his lack of familiarity with the specific functions of the national bank, but considered the institution an overreaching of national power.[49] Prevailing reasons for opposition to the bank included foreign ownership of capital and the danger of foreign influence as well as the inherent power of money. Opposition themes focused on bank governance and the twenty-four bank directors who acted as a moneyed aristocracy, controlling the supply of capital and determining who could receive the bank‗s benefits. Certainly, the twenty-year discussion of the bank‗s constitutionality was revived.

Henry Clay provided the strongest speech detailing opposition to the bank in February 1811. His biographer, Robert Remini, has indicated that Clay‗s decision to reject the bank bill was made for ―personal and political reasons" well before the debate transpired.[50] Invoking each of the aforementioned reasons, Clay attacked the directors of the bank and asked what the very nature of this government should be. Not only did Clay indicate that the United States government lacked the power to create a bank, he questioned the national power to charter companies at all. Clay did not agree with the argument that the precedent of the bank‗s original

[47] *Annals of Congress*, Senate, 11th Congress, 3rd Session, 132. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. ―Mr. Crawford said this was a way of disposing of business which struck him as somewhat astonishing." Crawford went on to detail many of the powers that Congress had given itself which were not explicitly stated within the Constitution. For example, Congress approved the construction of a lighthouse as part of the broader power to regulate commerce. See page 135.

[48] *Annals of Congress*, House of Representatives, 11th Congress, 3rd Session, 657. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[49] Ibid., 627, 629, and 646.

[50] Robert V. Remini, *Henry Clay: Statesman for the Union* (New York: W.W. Norton and Co., 1991), 69.

charter and twenty-year operation should determine its future course. Addressing those men who articulated that premise, Clay asked incredulously ―. . .do they forget that we are not in Westminster Hall?" In the tradition of the best conspiracy theorists, Clay fretted that foreign intrigue had been the downfall of many a free government and noted the impact of foreign ownership of bank capital. Clay became very specific in his approach as well, asking Congress to consider what national problem the Bank of the United States had actually helped to solve. Had the national bank alleviated the problems of impressment, American-British relations, or the *Chesapeake* disaster? With that thought, Clay concluded his witty, at times sarcastic, and lengthy oration.[51]

On February 20, the Senate took a final vote on Anderson‗s measure to strike out the establishment clause in the first section of the bill renewing the bank‗s charter. The vote was seventeen who answered to affirm non-renewal to seventeen who voted against the measure. Vice President DeWitt Clinton cast the deciding vote opposing the continuance of the bank. Through a close vote and spirited process, the political tide turned against the bank. In February of 1811, Congress had made a decision that would singularly affect the waging of the war of 1812.

Whereas in 1791, lawmakers read Hamilton‗s original proposal with its themes of national crisis and the importance of unity and strength, in 1811, legislators were reading a less colorful duplicate copy. Hamilton‗s spirit and urgency had waned in the face of republican principles, and the two leading proponents of the Hamiltonian institution spoke of convenience rather than necessity. Madison‗s silence, by his own analysis, stands as testimony to the consistency of his financial thought from 1791 to 1811. From 1811 until 1816, there would be no central organizing entity to break order to the multi-faceted financial position of the United

[51] Remini, *Henry Clay*, 217.

States. In episodes of peace, this situation would prove to be a challenge, but in time of war, it would be a great difficulty.

The Federalist No. 39, authored by James Madison, began a discussion of republican government with the question of what qualities would be necessary to make it work. Madison‘s fundamental premise was that true republican government could exist only with the broad-based participation of the citizenry involved in the decision-making apparatus of their government. He rejected as tyranny the potential for any segment of society to attain undue power with the capacity to manipulate the direction of society against the best interests of the people. [52] Political scientist Colleen Sheehan has explained Madison‘s focus in reference to Hamiltonian thought as follows: ―For Madison, republicanism meant the sovereignty of public opinion and the commitment to participatory politics. Hamilton advocated a more submissive role for the citizenry and a more independent status for the political elite."[53] Beyond political philosophy, this summary of the views of these two men is useful when considering early national financial development.

Madison‘s intellectual legacy involved a significant financial thread in his emphasis on production and real goods, opposition to monopoly power, caution with regard to paper currency, and a dislike for Hamilton‘s bank. His early observation that the mechanisms of finance must be secondary to productivity and economic growth challenged the use of money during the early national era, and, in fact, continue to provoke thought. Madison was convinced that republican principles would be economically advantageous, that limited government would cultivate the

[52] Madison, *Writings*, ed. Rakove, 211-212. ―It is essential to such a government, that it be derived from the great body of the society, not from an inconsiderable proportion, or a favored class of it; otherwise a handful of tyrannical nobles, exercising their oppressions by a delegation of their powers, might aspire to the rank of republicans, and claim for their government the honorable title of republic."

[53] Colleen A. Sheehan, ―Madison v. Hamilton: The Battle over Republicanism and the Role of Public Opinion," *The American Political Science Review*, 98 (Aug., 2004), 405.

most independent and productive mindset for the people, and that his role was to prevent the danger of the abuse of power. Consequently, it was important to Madison that in matters of national finance, republican principle not be forsaken for the sake of expediency.

Madison‘s views were rooted in his experiences as a land owner and member of the Virginia gentry, but also reflected his analytical approach to life. Madison advocated specie-backed currency and a conservative policy of currency printing, but his brilliance pertains to his clear understanding that currency was most useful and valued when it carried meaning. Consequently, specie-backed currency issued by a credit-worthy government and containing a firm date of redemption would create and sustain an atmosphere of trust. He did not stop there, however, with his theorizing. Madison placed his concept of property, what men actually owned and produced, at the center of economic and financial matters. He truly believed that the nation‘s economic and financial health would be determined by the productive pursuits and real wealth of its citizenry. Financial matters would follow economic gain, and as such, money and its mechanisms were not the primary concern. Through a handful of writings on the subject, Madison examined the issues important to the creation monetary policy and although his answers defied Hamiltonian logic, they did adhere to a long-term perspective that prioritized the protection of individual liberty.

At the beginning of Madison‘s presidency as the nation turned towards war, Jefferson remarked to Cesar A. Rodney, Madison‘s Attorney General, in February of 1810 that when nations are at peace, the citizenry relies on the body of representatives, but in time of war, citizens expect strong executive leadership.[54] Madison was well aware of that propensity and felt that the centralization of authority was a disturbing threat even in time of war. Long before

[54] Thomas Jefferson, *Writings*, ed. Merrill Peterson (New York: Library of America, 1984), 1218. February 10, 1810, Letter from Thomas Jefferson to Caesar A. Rodney, ―Prostration of Reason.‖ ―In times of peace the people look most to their representatives; but, in war, to the executive solely.‖

he became president, he theorized in 1795 about the expansive power of the executive and reduced protection of liberty that occurs during time of war. The concerned and urgent tone of his writing reflected his belief that the two aforementioned realities opposed republican actions taken in the best interest of the people.[55]

Historian Donald Hickey in his major study the War of 1812 concludes with the statement that ―Madison was one of the weakest war leaders in the nation's history…Cautious, shy, and circumspect, Madison was unable to supply the bold and vigorous leadership that was needed."[56] However accurate this may be, it is also true that Madison was a principled man who truly believed in the underlying tenets of his Republican philosophy, a body of thought that identified freedom and limited government as priorities. In conviction and temperament, Madison was consistent and thoughtful, endeavoring to balance United States national interests with individual rights. Likewise, Madisonian finance followed those precepts. In the final analysis, Madison's financial philosophy relied on the principles that he and Jefferson held dear, and in his various capacities as an American leader, he refused to sacrifice his economic convictions for short-term financial expediency.[57]

---

[55] Banning, ed., *Liberty and Order,* James Madison April 20, 1795, ―Political Observations." Accessed from http://oll.libertyfund.org/title/875/63908 on March 9, 2008.
―Of all the enemies to public liberty, war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few. In war, too, the discretionary power of the Executive is extended; its influence in dealing out offices, honors, and emoluments is multiplied; and all the means of seducing the minds are added to those of subduing the force of the people. The same malignant aspect in republicanism may be traced in the inequality of fortunes and the opportunities of fraud growing out of a state of war, and in the degeneracy of manners and of morals engendered by both. No nation could reserve its freedom in the midst of continual warfare."

[56] Donald Hickey, *War of 1812: A Forgotten Conflict* (Chicago: University of Illinois Press, 1989), 301.

[57] Robert M. Johnstone, Jr., *Jefferson and the Presidency: Leadership in the Young Republic*, (Ithica, NY: Cornell University Press, 1978), 306. Johnstone ends his evaluation of Jefferson's leadership by stating that ―Madison inherited the bankruptcy." In contrast with Hickey, Johnstone recognizes the weakened position in which Madison found himself at the beginning of his presidency. The Republican Party was no longer unified and the country was economically floundering.

CHAPTER 6

A STRANGE REVOLUTION OF SENTIMENT

The financial history of the War of 1812 is inextricably linked with Jeffersonian ideals and the policies of his administration.[1] In a letter to Thaddeus Kosciusko just after the war began, Thomas Jefferson offered his explanation of its curious timing. Jefferson described decades of American economic growth and productivity, alluded to British and French attacks on American national sovereignty, and concluded that "the difficulty of selecting a foe…has spared us many years of war." He felt that the war's timing, on the cusp of Madison's second term, was advantageous. Characteristically supportive of Madison's administration, Jefferson indicated that the country was in a much better position to wage war at the present moment in 1812 than at previous points in American history. Further, he took a moment to admire the actions of his administration, crediting reduced debt and greater "strength and preparation" as the basis of the improved domestic stature of the United States. Jefferson's favorable outlook, expressed in June 1812, helped to justify his own policies, which had delayed the onset of war with Europe.[2]

The situation of the United States before and during the War of 1812 was not a simple affair. Relations between Great Britain and the United States had deteriorated throughout the Jefferson's terms in office and involved tensions that had simmered beneath the veneer of diplomatic cordiality over an extended period of time. America had endured many British acts of aggression that could have been considered adequate reason for war, but Jeffersonian

---

[1] Donald Hickey, *The War of 1812: A Forgotten Conflict* (Chicago: University of Illinois Press), p. 5. Hickey begins his one-volume work by establishing the relationship between Jeffersonian policies and the eventual War of 1812. "These policies—initiated by Jefferson and carried on by his friend and successor, James Madison—put the United States on a collision course with Great Britain and ultimately led to the War of 1812."

[2] *The Works of Thomas Jefferson*, vol. 11, ed. Paul Leicester Ford (New York: G.P. Putnam's Sons, 1905), Thomas Jefferson to General Thaddeus Kosciusko, June 28, 1812. Accessed from http://oll.libertyfund.org/title/807. Jefferson also indicated that Britain had addressed the wrongs committed against the United States over the past several years just enough to avoid war, but had never truly resolved the issues of its questionable treatment.

sensibilities had prevailed, advocating caution pertaining to a policy of war. After its outbreak, the War of 1812 became an unusual example of conflict. Its long-term issues and immediate triggers were enmeshed, and despite the years of flirting with war, the United States remained unprepared even as it initiated action. Although hostility was apparent from 1803, two consecutive administrations, alongside the corresponding Congresses, failed to prepare the country for actual conflict with Europe. Presidents Jefferson and Madison and Secretary of the Treasury Gallatin were well aware of the potential for war throughout the collective three terms in office, but did not accommodate the financial needs that war would bring.

As early as 1803, the Jefferson administration breathed a collective sigh of relief as fighting re-ignited between England and France, believing that their feud would remove the focus of the two powerful nations from the United States. As Jefferson saw it,

> Tremendous times in Europe! How mighty this battle of lions & tygers! With what sensations should the common herd of cattle look on it? With no partialities, certainly. If they can so far worry one another as to destroy their power of tyrannizing, the one over the earth, the other the waters, the world may perhaps enjoy peace, till they recruit again.[3]

Jefferson reiterated this sentiment in 1805, assuring himself and Gallatin that if England and France fought each other, America would be "free to retire."[4] In his public addresses, he deliberately emphasized the theme of friendship, concluding his third annual message with a request of his countrymen to maintain their neutrality and an American policy of free trade in the

[3] Jefferson, *Works*, vol. 10, ed. Ford, October 4, 1803, Thomas Jefferson to Benjamin Rush. Accessed from http://oll.libertyfund.org/title/806. See also the July 11, 1803 letter from Thomas Jefferson to Horatio Gates: "We are friendly, cordially and conscientiously friendly to England, but we are not hostile to France. We will be rigorously just and sincerely friendly to both. I do not believe we shall have as much to swallow from them as our predecessors had." See also *The Writings of Albert Gallatin* Vol. 1, ed. Henry Adams (Philadelphia: J.B. Lippincott, 1879). October 3, 1803, Thomas Jefferson to Albert Gallatin. Accessed from http://oll.libertyfund.org/title/1953 on March 24, 2008. "European War: May not the idea of our having so happily escaped, by the success of the late negotiation, becoming parties to it, be mentioned…"

[4] Jefferson, *Works*, vol. 10, ed. Ford, Thomas Jefferson to Albert Gallatin, October 23, 1805. Accessed from http://oll.libertyfund.org/title/806 on March 24, 2008. "war on the continent of Europe seems certain…we are free to retire…"

midst of European war.[5] Jefferson was convinced that Europe's conflict need not affect American industry and merchant activities; however, from the beginning of his second term in office, Jefferson necessarily contemplated the possibility of conflict and impact of war in reference to relations with England, France, and Spain. In the final analysis, Jefferson's foreign policy and war preparation directly followed from a statement made in his sixth annual address in which he argued the impossibility of preparation for every contingency because of the incredible cost to the nation.[6] That statement summarizes the difference between Hamiltonian and Jeffersonian finance, and could well serve as a succinct explanation of the financial history of the War of 1812.

Years before his presidency, Madison gave much thought to the American foreign policy and the likelihood of war. Prior to becoming president and understanding the European situation as commander-in-chief, Madison served as Jefferson's secretary of state. In that capacity, he was responsible for the conduct of foreign affairs and continually evaluated America's position in the world. Throughout Jefferson's first term, the administration's focus was on Spain, France, and the acquisition of territory through the Louisiana Purchase. American diplomacy had to work around the reticence and secrecy of the Spanish empire as well as the difficulties associated with Napoleon's ambition.[7] During that time, however, Madison told Robert Livingston and James Monroe that war between France and Britain was likely. His estimation of the United States's position within that conflict is telling: "the importance of the United States is rising fast

---

[5] Ibid., "Third Annual Address," October 17, 1803. "In the course of this conflict, let it be our endeavor, as it is our interest and desire, to cultivate the friendship of the belligerent nations by every act of justice and of incessant kindness; to receive their armed vessels with hospitality from the distresses of the sea, but to administer the means of annoyance to none; to establish in our harbors such a police as may maintain law and order; to restrain our citizens from embarking individually in a war in which their country takes no part…"

[6] Ibid., "Sixth Annual Message," December 2, 1806. "Our duty is, therefore, to act upon things as they are, and to make a reasonable provision for whatever they may be. Were armies to be raised whenever a speck of war is visible in our horizon, we never should have been without them. Our resources would have been exhausted on dangers which have never happened, instead of being reserved for what is really to take place."

[7] A survey of Madison's writings from 1803 to 1804 provides ample evidence of this preoccupation.

in the estimation of both the French and British…" This optimistic assessment of American power surely resulted in an inflated estimation of American stature, providing less incentive for American preparedness and removing a sense urgency from Jefferson's administration. Both Jefferson and Madison were predisposed to think of the world economy in terms of its connectedness, and both believed in the economic power of a burgeoning United States. The great dichotomy of Jeffersonian foreign policy was established early, interweaving an optimistic sense of the potential leverage of the United States with measured responses to the realities of British and French behavior.[8]

After observing the beginning of the Napoleonic wars, Madison revisited the challenges that accompanied the American position. He was preoccupied with understanding neutral rights and was especially concerned with the impressment of American seamen. As early as January 5, 1804, Madison expressed to his negotiator in England, James Monroe, the absolute importance of his efforts, taking the step of communicating privately to insure the integrity of his correspondence. On that date, Madison sent Monroe a proposal detailing American demands with regards to English actions. Article 1 was particularly important because it dealt with impressments and defined contraband of war. In his attached analysis for Monroe, "Observations on the Preceding Plan," Madison again noted the significance of impressments, underscoring how it had become official British policy and was a policy that the United States had tolerated too long. In 1804, Madison acknowledged that the problem could no longer be

[8] James Madison, *The Writings of James Madison, comprising his Public Papers and his Private Correspondence*, vol. 7, ed. Gaillard Hunt (New York: G.P. Putnam's Sons, 1900). James Madison to Robert Livingston and James Monroe, May 28, 1803. Accessed from http://oll.libertyfund.org/title/1938 on March 26, 2008.

ignored and that the practice of impressments was, in his words, "spreading." In response, Madison asserted that a neutral flag should be a safeguard.[9]

Through this writing, Madison clearly acknowledged in early 1804 that British actions were "indefensible" and that Britain's determination to "dominate" the seas was in violation of international law. Again, however, the administration was not single-minded in its policy approach, reflecting the split motivations of Jeffersonian foreign policy. Convinced of British wrongs, the administration was determined not to escalate matters. On March 6, 1805, Madison instructed Monroe to avoid "illiberal or hostile sentiments towards Great Britain" and to express friendship, even while attempting to address what Madison clearly considered the insults of British aggression stemming from impressment. Madison told Monroe to communicate American concerns regarding British behavior, but to simultaneously "…cherish friendly relations with Great Britain." In the final analysis, Jefferson's administration understood the implications of British actions against American national sovereignty, but wanted to demonstrate to Britain the longsuffering nature of American friendship. [10]

Jefferson and Madison employed this strategy over the course of many years. On May 17, 1806, in a letter to Monroe and Pinckney, Madison reiterated the importance of conveying American goodwill towards Britain. Madison attempted to explain why there was no cause for offense: "United States are sincerely and anxiously disposed to cherish goodwill and liberal intercourse between the two nations…"[11] Another year passed and again in February 1807, Madison repeated the same concerns using stronger language. He noted the failure of the previously optimistic strategy, underscored the significance of the issue of impressment, and

[9] Madison, *Writings*, vol. 7, ed. Hunt. January 5, 1804, Letter from James Madison to James Monroe. Accessed from http://oll.libertyfund.org/title/1938 on March 17, 2008.

[10] Ibid., James Madison to James Monroe, March 6, 1805.

[11] Ibid., May 17, 1806.

offered his formal thoughts on a variety of topics. Madison asserted that Britain was making an "egregious mistake" in claiming that no cause for offense had been given. He then expressed the terms of American neutrality in reference to colonial trade, blockades, marginal jurisdiction on the high seas, east and west India trade, and indemnifications.[12]

By May 20, 1807, Madison was willing to acknowledge to Monroe and Pinckney the extent of the problem of Great Britain's refusal to recognize the injustice of impressment. The implication was that diplomacy had failed despite the negotiators' best efforts. Still, Madison conveyed the wish of the president to remind Great Britain of American friendship. Although not conceding to the British stance on the impressment issue, he asked the question "would war be a better resort?," noting that such action would be disastrous for the United States. Madison expressed the view that America was too important to Britain for that European country to accept war; the United States was, afterall, the "principal remaining market for her [British] manufactures." The Secretary of State indicated that the United States would continue to pursue the "spirit of accommodation" despite British disregard for American sovereignty. The end result was the same as before.[13]

The American relationship that Jefferson's administration cultivated with Britain alternated between messages of friendship and animosity, as Jefferson's own speeches reveal. As late as December 1806, Jefferson was still publicly commenting on the "friendship" between the two countries. In a special message to Congress, Jefferson stated:

> I have the satisfaction to inform you that the negotiation depending between the United States and the government of Great Britain is proceeding in a spirit of friendship and accommodation which promises a result of mutual advantage.…[14]

---

[12] Ibid., James Madison to James Monroe, February 3, 1807 See also the letter from James Madison to James Monroe, January 5, 1804.

[13] Ibid., James Madison to James Monroe and Charles Pinckney, May 20, 1807.

[14] Jefferson, *Works*, vol. 10, ed. Ford. "Special Message on Great Britain," December 3, 1806. Accessed from http://oll.libertyfund.org/title/806 on March 30, 2008.

Despite their words, American policymakers and merchant marines were very much aware of the precedent of British aggressiveness on the high seas. In 1805, the British *Essex* decision had targeted the American re-export trade. France and England repeatedly issued veiled ultimatums in the form of trade restrictions through the next couple of years, and in November of 1807, Britain's Order in Council caught the attention of the American government. Certainly, Jefferson's administration was well aware of the international challenges and the need for war preparation. With Jefferson's approval, Congress passed non-importation legislation. Moreover, Madison had taken time to intellectually process these issues. Over a period of months in 1806, James Madison penned a treatise documenting the illegality of British actions towards the United States according to accepted principles of international law. He enumerated in a reasoned fashion the nature of neutrality and neutral rights, and the wrongs committed against the United States.[15]

Although Madison discussed many issues such as maritime rights, neutrality, and trade concerns, it is hard to underestimate the impact of the policy of Britain's policy of impressment on American sentiment. Impressment was at the root of a continual conflict from approximately 1802 until 1813. In a 1948 paper, historian Anthony Steel began by recounting the numbers. Conservative estimates indicate that at least 2,410 Americans were impressed from 1792 to 1802, with another 6,057 Americans forced into the service of the Royal Navy between 1802 and 1812.[16] Beyond the numbers, the policy of impressment represented to Americans a constant threat of subjugation as well as the British determination to defy American national sovereignty.

---

[15] Madison, *Writings*, vol. 7, ed. Hunt, "An Examination of the British Doctrine, which Subjects to Capture a Neutral Trade, not Open in Time of Peace." Undated, but follows a letter to John Armstrong dated March 15, 1806. Accessed from http://oll.libertyfund.org/title/1938 on April 2, 2008.

[16] Anthony Steel, "Anthony Merry and the Anglo-American Dispute about Impressment, 1803-6," *Cambridge Historical Journal*, 9 (1949), 331.

The events of June 1807 greatly tested the policy and approach of Jefferson and Madison, while bringing the issues of impressment and British hostility to the forefront of American consciousness.

The *Chesapeake-Leopard* incident was the emotionally galvanizing event that could have triggered actual war. On June 22, 1807, an American naval vessel, the *Chesapeake*, was leaving the Norfolk area when it was accosted by the British ship *Leopard*. The *Leopard*'s commander demanded a search of the American ship, which the American commander refused. The British ship then fired on the *Chesapeake*, resulting in the deaths of three men and injury to another eighteen, and the British removed four men from the American ship, labeling them as deserters. This violent action was a clear act of aggression, and as naval historians Spencer Tucker and Frank Reuter state, "only war could result."[17] Jefferson noted that while war was likely, the decision belonged to Congress. He also wrote of his reasoned ideals: perhaps the United States could show the rest of the world how to redress wrongs committed against them without war.[18]

Two days after the confrontation, Madison referenced "British outrages" and used the term "hostile attack" when mentioning the *Chesapeake-Leopard* incident. Madison instructed Monroe to negotiate a formal apology, the return of seamen, and rescission of the impressment policy. Madison further asserted to Monroe that if the British government did not respond,

[17] Spencer C. Tucker and Frank T. Reuter, *Injured Honor: The Chesapeake-Leopard Affair* (Annapolis, Maryland: Naval Institute Press, 1996), ix. "Perhaps the only surprise was that the stalemate lasted almost five years."

[18] Jefferson, *Works*, vol. 10, ed. Ford. June 29, 1807, Letter from Thomas Jefferson to William Caball. Accessed from http://oll.libertyfund.org/title/1734 on April 3, 2008. "This will leave Congress free to decide whether war is the most efficacious mode of redress in our case, or whether, having taught so many other useful lessons to Europe, we may not add that of showing them that there are peaceable means of repressing injustice, by making it the interest of the aggressor to do what is just, and abstain from future wrong."

Monroe should hurry back to the United States. All negotiations on other subjects were to be suspended. By July 17 it was clear that the aggression would not be addressed satisfactorily.[19]

In the immediate aftermath of this event, Jefferson hurriedly summoned his cabinet; Madison prepared instructions for his lead negotiator in London; Gallatin presented both his military and financial thoughts to the president. The triumvirate of the executive branch was convinced that war would be necessary and immediate as the summer of 1807 began, but by the fall, passion for war had waned and policy discussions of economic coercion began. As a result, America did not militarily respond to British aggression in the immediate sense, but instead waited years to declare war in response to long-standing British policy. Again, there are many and varied reasons for the delay, but when war was finally declared, little attention had been devoted to the development of a coherent national financial policy that would support the magnitude of the demands on American resources. [20]

Amid the many questions surrounding the origins of the War of 1812, the more provocative question begging to be asked in the aftermath of the *Chesapeake-Leopard* Affair pertained to American preparedness, especially as it related to American financial readiness. With the benefit of at least five years warning, why was the country relegated to economic crisis from the beginning of the endeavor? It cannot be claimed that the War of 1812 was an unexpected occurrence or that there was no time to prepare for its onset. What is indeed peculiar

---

[19] Madison, *Writings*, vol. 7, ed. Hunt. July 15. July 15, 1807, Letter from James Madison to John Armstrong and James Bowdoin; July 17, 1807, Letter from James Madison to James Monroe. Accessed from http://oll.libertyfund.org/title/1938 on April 5, 2008.

[20] Jefferson, *Works*, vol. 10, ed. Ford. Thomas Jefferson to Albert Gallatin, June 25, 1807. Accessed from http://oll.libertyfund.org/title/806 on April 5, 2008. "I am sorry to be obliged to hasten your return to this place, & pray that it may be without a moment's avoidable delay. The capture of the *Chesapeake* by a British ship of war renders it necessary to have all our Council together…" Madison, *Writings*, vol. 7, ed. Hunt. James Madison to James Monroe, July 6, 1807. Accessed from http://oll.libertyfund.org/title/1938 on April 5, 2008. Gallatin, *Writings*, vol. 3, ed. Adams. Albert Gallatin to Thomas Jefferson, July 25, 1807. See also the July 17, 1807 letter from Albert Gallatin to Joseph Nicholson. Accessed from http://oll.libertyfund.org/title/1938 on April 5, 2008. Ibid., Albert Gallatin to Thomas Jefferson, October 21, 1807: "…the message appears to me to be rather in the shape of a manifesto issued against Great Britain on the eve of a war…Unless, therefore, some useful and important object can be obtained by the message in its present form, I would wish its general color and expression to be softened…"

about the "Strange War of 1812" is that so few preparations were completed in the five years preceding its outbreak.

Gallatin thought that the United States ought to respond to the latest act of British aggression and fully expected an American declaration of war by fall of 1807.[21] He quickly outlined defensive plans and urged specific military preparation, but Gallatin was not alone in his assessment. Both Madison and Jefferson alluded to the financial demands of war in their writings from this period. Furthermore, resulting from the *Chesapeake-Leopard* incident, the national mood was more inclined towards war, displaying overt hostility beyond the state of underlying tension that had existed since 1803.

Through July 1807, as Jefferson's administration continued to actively discuss war with England within Cabinet circles Albert Gallatin was particularly interested in the financial implications and offered his initial thoughts to Joseph Nicholson, a relative by marriage who had served in the American navy.[22] Presciently, Gallatin detailed the financial realities of such an event, noting American dependence on debt financing and its impact on the reduction of the already existent public debt. Despite the cost, Gallatin favored war, believing that war was the only option to restore national honor.

> We will be poorer, both as a nation and as a government, our debt and taxes will increase, and our progress in every respect be interrupted. But all those evils are not only not to be put in competition with the independence and honor of the nation; they are, moreover, temporary, and very few years of peace will obliterate their effects.[23]

---

[21] Gallatin, *Writings*, vol. 1, ed. Adams. Albert Gallatin to Thomas Jefferson, July 25, 1807. Accessed from http://oll.libertyfund.org/title/1938 on April 4, 2008. "I will only add that if the British Ministry is possessed of energy, and that we have no reason to doubt, we must expect an efficient fleet on our coast late this autumn, with perhaps a few thousand land forces, for the purpose of winter operations in the South. Their great object of attack will be one of four places, according to seasons and circumstances,—New York, Norfolk, Charleston (or perhaps Savannah), New Orleans."

[22] Gallatin, *Writings*, vol. 1, ed. Adams. Albert Gallatin to Joseph Nicholson, July 17, 1807. Accessed from http://oll.libertyfund.org/title/1938 on April 4, 2008. Gallatin thought that four months delay in declaring war would give time for preparation and defensive initiatives.

[23] Ibid.

The treasury secretary predicted the economic course of war, writing that funds would be scarce, taxation would be ineffective, and the financial situation would necessarily deteriorate. His strategy was to survive war financially, after which he thought that the country could recover relatively painlessly during peacetime.[24]

Beyond his financial expertise, Gallatin also drafted defensive plans for Jefferson, outlining the locations of American vulnerability and providing direction for military planning. Among the many points he mentioned to Jefferson, the Secretary wanted to see the port cities adequately protected and felt that Canada was an important component of military strategy. Control of Canada would help protect American borders, make a powerful symbolic statement regarding American strength, and, at a practical level, ruin the British fur trade. He estimated expenditures for a year of war at $18 million, noting that it would be necessary to borrow around $9 or $10 million.[25] By all accounts, Gallatin believed in mid-1807 that war was inevitable.[26]

Not only did Gallatin see the war clouds on the horizon, during the months of June and July of 1807, the country appeared poised to declare war. Congress took its summer break, however, and by mid-August, Gallatin wrote to Madison from New York about the resistance to war that he sensed from the citizenry: "The people of this city do not appear to me to be in favor of war, and they fear it so much, that they have persuaded themselves that there is no danger of that event."[27] By October, war fever had somewhat subsided, and Gallatin even advised the president to "soften" his tone throughout the annual message of 1807.[28] Congress also seemed

[24] Ibid. This is a thought expressed repeatedly over the course of the following five years.

[25] Gallatin, *Writings*, vol. 1, ed. Adams. Albert Gallatin to Joseph Nicholson, July 17, 1807 and Albert Gallatin to Thomas Jefferson, July 25, 1807. Accessed from http://oll.libertyfund.org/title/1938 on April 4, 2008.

[26] Ibid., Albert Gallatin to Nicholson, July 17, 1807, Gallatin remarked "Like you, I think that war is inevitable…"

[27] Ibid., Albert Gallatin to James Madison, August 15, 1807.

[28] Ibid., Albert Gallatin to Thomas Jefferson, October 21, 1807. "…the message appears to me to be rather in the shape of a manifesto issued against Great Britain on the eve of a war…Unless, therefore, some useful and

more willing to let events take their course. Apart from the will to pursue a policy of war, Jefferson and Congress avoided further hostilities by legislating and implementing the "restrictive system," and in December 1807, essentially banned foreign trade to and from the United States with the Embargo Act.

Gallatin, however, kept the possibility of war in the forefront of his considerations. Throughout 1808, the treasury secretary continued to bring attention to the implications of the outbreak of war. Gallatin's biographer, Raymond Walters, noted that Gallatin worked extensively with a Republican congressman from Tennessee, George Campbell, to steer political discussion during this period of time.[29] In April of 1808, Campbell had written a public letter to his constituents in which he explored American options in terms of war and peace. Part of his assessment explored the financial preparedness of the United States in case of war. His view was that, although trade restrictions would negatively affect American finances, the United States treasury could handle the demands of war without significant taxation. Not expecting great financial difficulty, he advocated military preparedness, writing to his constituents that "…in such a crisis as the present, the most effectual way to preserve peace, is to be prepared for war." Echoing Gallatin's thought, Campbell also indicated that postwar peace would enable the retirement of the public debt.[30]

Gallatin was particularly interested in the development of what became known as the "Campbell Report" and assisted with its creation.[31] In this report, Campbell enumerated the violations against the United States from both France and England. Further, he discussed

---

important object can be obtained by the message in its present form, I would wish its general color and expression to be softened…"

[29] Walters, *Gallatin*, 203. Walters indicates that Campbell sought out Gallatin and Madison.

[30] Noble E. Cunningham, ed., *Circular Letters of Congressmen to Their Constituents 1789-1829* (Chapel Hill: University of North Carolina Press, 1978) "From George Campell" dated April 14, 1808, 569 and 571.

[31] Walters, *Gallatin*, 204. "Most ambitious of the papers was one he prepared for Campbell late in November: a 4,600-word statement of the American government's case against Great Britain and a proposal for a new policy toward her."

American reaction, wanting to impress his listeners with the fact that the United States had resisted subjugation. He ended his presentation with three resolutions: America could not give in to the demands of either country, more commercial restrictions were necessary, and the country should be preparing for war. Gallatin was certainly aware of and involved, to some extent in the creation of Campbell's report, which conveyed a particular view that identified national honor and sovereignty as the crucial element of war consideration.[32]

Regarding financial considerations, Jefferson and Gallatin both expressed similar reasoning for limiting the financial resources devoted to war expenditures. Adding to the complications, Jefferson was unwilling to commit to any long term course of action towards the end of his presidency. He indicated to James Monroe that he no longer made decisions, but offered his opinions only, not wanting to restrict his successor's options. His reticence to commit his successor to a specific course of action was perhaps secondary only to the impact of his Republican philosophy on war policy:

> If we go to war now, I fear we may renounce forever the hope of seeing an end of our national debt. If we can keep at peace eight years longer, our income, liberated from debt, will be adequate to any war, without new taxes or loans, and our position and increasing strength put us *hors d'insulte* from any nation.[33]

Although Gallatin had believed in the necessity of war from 1807, it is interesting to note that Gallatin expressed cautionary sentiments similar to Jefferson's when writing the former president in early 1812:

> With respect to the war, it is my wish, and it will be my endeavor, so far as I may have any agency, that the evils inseparable from it should, as far as practicable, be limited to its duration, and that at its end the United States may be burdened with the smallest

[32] Gallatin, *Writings*, vol. 1, ed. Adams. "Campbell Report" dated November 1808. Accessed from http://oll.libertyfund.org/title/1938 on April 4, 2008.

[33] Jefferson, *Works*, vol. 11, ed. Ford. Thomas Jefferson to James Monroe, January 28, 1809. Accessed from http://oll.libertyfund.org/title/807 on April 4, 2008.

> possible quantity of debt, perpetual taxation, military establishments, and other corrupting or anti-republican habits or institutions.[34]

Jeffersonian (or Republican) financial and philosophical priorities were quite simply not congruent with a diversion of financial energies for purposes of war.

In addition to the Republican emphasis on frugality and reducing the public debt, Jeffersonian policies to address British and French actions also worked to devastate the American economy, the opposite direction of financial preparation for war. Trade restrictions designed to force the hand of a more powerful nation were a miscalculation. Restricting trade to the nation's largest commercial partners was a policy based on an inflated sense of American importance in global trade patterns. Jefferson and Madison, in particular, were convinced of America's importance to British commerce, even while Great Britain perceived American weakness.[35]

Gallatin's ideas and the Campbell Report notwithstanding, Jefferson and Madison genuinely believed that an expanded policy of "peaceable coercion" would bring about a change in British behavior. Advocating the embargo, a complete stoppage of trade, they charge Gallatin with the task of enforcing the act during the year 1808. (The measure passed in December 1807.) The Treasury Secretary conveyed to Jefferson a need for caution with regard to such a policy. "Governmental prohibitions do always more mischief than had been calculated," he wrote, adding that it was a "doubtful policy."[36] In a sense, Jeffersonian policy was madness in the face of war. The embargo in combination with other Jeffersonian policies such as paying down the

---

[34] Gallatin, *Writings*, vol. 1, ed. Adams. Albert Gallatin to Thomas Jefferson, March 10, 1812. Accessed from http://oll.libertyfund.org/title/1938 on April 7, 2008.

[35] Burton Spivak, *Jefferson's English Crisis: Commerce, Embargo, and the Republican Revolution* (Charlottesville: University Press of Virginia, 1979), 131. Spivak puts it this way: "Not only was British policy anti-American by design, but the English banked on success because of American weakness."

[36] Gallatin, *Writings*, vol. 1, ed. Adams. December 18, 1807, Letter from Albert Gallatin to Thomas Jefferson. Accessed from http://oll.libertyfund.org/title/1938 on April 7, 2008.

debt, avoiding the creation of a strong military force, decreasing taxation, and relying on revenue from duties when implementing a policy of commercial warfare against the largest trade partner perhaps made sense during peacetime, but did not establish an adequate financial policy for national emergencies. After his presidency ended, Jefferson continued to insist that the embargo would have succeeded had it been fully carried out, but wartime policymakers publicly stated the opposite conclusion.[37]

An examination of financial reports from 1807 to 1812 reveals both the deterioration of the American financial position that resulted from restrictive policies as well as Gallatin's optimistic assessment of the nation's ability to financially absorb wartime resource demands through debt-financing. From 1807 until 1812, Gallatin consistently maintained in his official writings that the country could financially survive war and then recover quickly during a return to peace. Of course, Gallatin assumed prior to 1811 that he, as treasury secretary, would have access to a credible and capable national bank while financing a war.

The financial report of 1807 reflected a nation in relatively good financial position. Net revenue from duties covered expenses, and there was no need for debt-financing. The nation's financial house was in order, balanced as the result of Gallatin's vigilance and disciplined approach, but the Secretary submitted his report with cautionary statements such as: "…the revenue of the United States will…be considerably impaired by war…"[38] In the fall of 1807, he

[37] Jefferson, *Works*, vol. 11, ed. Ford. July 16, 1810, Thomas Jefferson to Thomas Dearborn. Accessed from http://oll.libertyfund.org/title/807 on April 7, 2008. "I have ever been anxious to avoid a war with England, unless forced by a situation more losing than war itself, but I did believe we could coerce her to justice by peaceable means, and the embargo, evaded as it was, proved it would have coerced her, had it been honestly executed." *American State Papers*, 3, Finance, 4:1. Treasury Secretary Alexander J. Dallas publicly reported on page one of the December 8, 1815 account of the "State of the Finances" the following conclusion: "The restrictive system, which commenced in the year 1807, greatly diminished the product of the public revenue; but it was not until the crisis involved an actual declaration of war, that the augmentation in the expenses of the Government became obvious and important."

[38] *American State Papers*, 3, Finance, 2:248. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

advocated preparatory measures, but by the time of his 1808 report, he spoke of having only $3 million surplus for war expenses, and made no mention of other forms of financial readiness.[39] Gallatin's focus at Treasury since his arrival in 1801 had been the elimination of the public debt, and under his supervision its levels were reduced from $90 million in 1801 to $56 million in 1808 ($45 million in 1812). Despite this success, 1809 marked the year that Gallatin's report began to note the ill effects of Jeffersonian commercial policy. It documented the substantial revenue decline from 1807 to 1808, forcing Gallatin to write earnestly about the need for a loan.[40] His 1810 report to Congress witnessed another contraction of revenue, a reduction from $10 million in 1808 to $6 million in 1809, and in 1811 the budget saw a steep rise in expenditure. At this point, Gallatin expressed the challenge of debt-financing and during the year before the war began, and as the Bank of the United States lay dying, the treasury secretary was again forced to rely on loans.[41] After all of his efforts and success in reducing the debt and at a time when he questioned the productiveness of his position, this must have been a dispiriting conclusion.

Since American leaders, especially Gallatin, were convinced of the war's inevitability in 1807, a logical question pertains to the quality of preparation that occurred between the time of increased awareness of war's likelihood and its actuality in 1812. In 1807, Gallatin's report to Congress detailed total expenses of $12.6 million with receipts of $15.8 million. Further, the largest expenditure was the public debt payment of $8 million, while naval and military expenditures combined approached only $2.5 million. In 1808, receipts increased to around $18 million with naval and military department figures reflecting an increase to around $3.7 million.

[39] Ibid., 308.
[40] Ibid., 374.
[41] *American State Papers*, 3, Finance, 2: 497. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

Again, Gallatin expounded on the subject of war and its financial implications. He discussed the negative impact on revenue of a future maritime war and mentioned the importance of the Bank of the United States. Additionally, he cautioned against excessive taxation and asserted the importance of war loans. Through the first months of 1812, Gallatin maintained his belief in the American ability to finance a limited war ("maritime") through debt financing.

The financial story of the war, then, necessarily begins with the decrease in national revenue that occurred from 1807 to 1812. The financial tide had turned for the United States government, and Gallatin's progress of many years was decelerating. By 1811, Gallatin felt the need to clarify for the readers of his financial report the exact sources of revenue: duties on importations and sales of public lands, the latter comprising only a fraction of the former. He acknowledged the success of debt payments and noted that American had paid off some $42 million. He told his hearers that the United States would not necessarily be able to raise these amounts in loans, attempting to warn Congress that public credit was an undependable commodity in time of crisis. The November 1811 report saw total receipts equal $16,291,446, a figure that included a temporary loan. Gallatin was concerned about the reality of military expenses (army and navy) which had increased to $4.2 million, while payment towards debt was $7.25 million.[42]

From 1807 to 1812, Gallatin repeatedly discussed the possibility of war and its financial implications in his reports to Congress. Despite his attempts to raise awareness, no actions were taken to insure the financial viability of the federal government in the event of war. In fact, there seems to have been a underlying misconception regarding the need for financial institutions, especially during war. Jefferson expressed his distrust of the Bank of the United States in a

[42] *American State Papers*, 3, Finance, 2:479. November 25, 1811 "Just because the United States paid off $42 million in time of peace does not mean it can raise this in time of war…" Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

statement to Gallatin made long before the thought of war. Speaking of the Bank of the United States, the President asserted that the institution would be dangerous during time of war, even more so than in peacetime, because its financial authority might undercut the government's decision-making ability. The impression that centralized financial mechanisms would lead to another form of tyranny obfuscated the practical considerations for republican policymakers in terms of financial readiness.[43] Congress echoed Jeffersonian concerns regarding paper money when the country was on the cusp of war. In June 1812, when Gallatin urged passage of legislation that would enable the issuance of treasury notes, all of the traditional concerns related to paper money emerged again.[44]

This idea of the potentially dangerous role of a central banking entity and paper money, in combination with policies of commercial warfare, greatly contributed to inadequate financial planning and directly led to the deteriorating state of American finance. One could argue that not only did the administration and Congress not prepare for war financially, they also embarked on the worst possible strategy during the years preceding its outbreak. The "restrictive system" of 1807 and the elimination of a federal loan source, when debt financing was the financial strategy to accommodate crisis, limited the government's revenue sources and were two factors determining the financial history of the war. Gallatin's initial thoughts of preparation, expressed in 1807, had not accounted for those two contingencies.

---

[43] Jefferson, *Works*, vol. 10, ed. Ford. Thomas Jefferson to Albert Gallatin, December 13, 1803. Accessed from http://oll.libertyfund.org/title/806 on April 8, 2008.
"This institution is one of the most deadly hostility existing, against the principles & form of our Constitution. The nation is, at this time, so strong & united in it's sentiments, that it cannot be shaken at this moment. But suppose a series of untoward events should occur, sufficient to bring into doubt the competency of a republican government to meet a crisis of great danger, or to unhinge the confidence of the people in the public functionaries; an institution like this, penetrating by it's branches every part of the Union, acting by command & in phalanx, may, in a critical moment, upset the government. I deem no government safe which is under the vassalage of any self-constituted authorities, or any other authority than that of the nation, or it's regular functionaries. What an obstruction could not this bank of the U. S., with all it's branch banks, be in time of war? It might dictate to us the peace we should accept, or withdraw it's aids. Ought we then to give further growth to an institution so powerful, so hostile?"

[44] Donald H. Kagin, "Monetary Aspects of the Treasury Notes of the War of 1812," *The Journal of Economic History*, 44 (Mar., 1984), 73.

The year 1812 must have felt to the secretary of the treasury like a financial fist rammed into the government's mouth. After working so diligently over a decade to bring Republican sensibilities to life, reducing the federal debt by half and creating an orderly system, his accomplishments were dismissed and negated in many ways by falling income and increasing expenditures. A sign of future challenges, Gallatin was forced to rely in June 1811 on an issue of treasury notes, and in March 1812, Congress authorized a loan of $11 million to provide immediate financial relief for the federal government. By December of 1812, Gallatin knew that the situation would worsen. Financial historian Donald Kagin alludes to a growing awareness at the treasury department with the comment that Gallatin "realized that the Treasury was in deep trouble" within the first half of 1812.[45]

Gallatin also knew that while he could convey his thoughts and advocate certain measures to Congress, the creation of national financial policy involved a careful dance between the executive and legislative branches. Gallatin, during both the Jefferson and Madison administrations, had conscientiously submitted reports to Congress, but ultimately, the representatives of the people made decisions regarding what initiatives to enact. Congressional leadership in the months leading to and during the War of 1812 was a deciding factor in the creation of financial policy, and many prominent voices articulated the economic reasoning that would take the United States through the war years.

The first session of the Twelfth Congress in November 1811 began with a discussion of Madison's annual address, much of which discussed the issue of relations with Great Britain. In

[45] *American State Papers*, 3, Finance, 2: 580. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. In 1807, Gallatin had believed that the $11 million amount in the treasury would be enough to meet the "extraordinary expenses of war." From his earlier reports, Gallatin had estimated that the United States would need to borrow several million per year to pay for the war. In December of 1812, Gallatin conveyed to Congress that he could not adequately estimate war expenses and that the country would need to borrow around $20 million for the year 1813. His 1812 report represented a decided change from earlier more optimistic proposals. See also Donald H. Kagin, "Monetary Aspects of the Treasury Notes of the War of 1812," *The Journal of Economic History*, Vol. 44, No. 1 (Mar., 1984), 71 and 72.

response, the House appointed a committee to consider Anglo-American issues and determine the wisest course of action. Peter B. Porter of New York, chairman of the committee, provided the House of Representatives with a report in November of 1811. "To wrongs so daring in character, and so disgraceful in their execution, it is impossible that the people of the United States should remain indifferent."   The committee determined that the time had come to "call in the resources of the country" and move towards war. Further, the committee advocated resolutions to establish a larger military presence and arm merchant vessels. Although financial matters appeared secondary, they were the foundation of these recommendations. Beyond the report, Porter personally identified his rationale for war and reasons for American success.[46]

Representative Porter wanted Congress to understand the importance of war as a strategy. On December 6, 1811, Porter stated "all hopes of accommodating our differences with Great Britain by negotiation must be abandoned."[47] Great Britain had continually violated American maritime rights, and the Orders in Council negatively impacted American trade; these infringements necessitated action. Porter asked Congress to contemplate the character of the United States. Was the nation to remain weak and vulnerable? Was weakness to be the character of the country? Perhaps the most fascinating part of Porter's ideas pertained to his concept of how American could succeed. He acknowledged the complete inadequacy of the American navy, which could offer no competition to Britain's resources, but asserted that within six months after a declaration of war, hundreds of armed privateers could be in the fight. He suggested that the United States could "harass and destroy the vast and profitable commerce of Great Britain." British fisheries to the North could be targeted as well as commerce with the W.

---

[46] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, "Committee on Foreign Relations Report", November 29, 1811, 376-377. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[47] Ibid., "Foreign Relations" December 6, 1811, 414.

India islands, and the United States could endeavor to devastate British trade along the coast of South America.[48]

Porter concluded with two rather ambitious objectives. He thought that the United States should take the war to England, and annex Canada. The Canadian idea figured largely in the war planning effort. Porter truly believed that the "provinces to the North" were "indispensable" to Great Britain in a general sense. British trade, land, and resources revolved around Canada in Porter's wartime strategy. Acquisition of Canada would figure prominently in the ideas of both Gallatin and Madison as they advised Jefferson concerning the potential for war.[49]

Beyond strategizing about wartime tactics and methods, the financial implications were obvious to all good Republicans, and John Randolph of Virginia was one of the most vocal and pointed. "He knew not how gentlemen, calling themselves Republicans, could advocate such a war." He labeled the proposed actions a "war of conquest" and sarcastically described "a holiday campaign", making the point to his colleagues that no one was counting the cost in terms of lives and financial resources. With more sarcasm, he noted that Canada was "to conquer herself" and would acquiesce to American demands resulting from her great feelings of kinship. He pointed out the inconsistencies in what he had heard, and was the first to allude to the financial ramifications of war policy.[50] Randolph was a spirited and decidedly traditional Republican voice of dissent.

John C. Calhoun of South Carolina responded to Randolph's concerns. Regarding the expense of war, he intimated that the trade limitations that had existed were "almost" the price of

---

[48] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, 415-416. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Porter stated: "That we can contend with Great Britain openly and even handed on the element where she injures us, it would be folly to pretend…But without such a navy the United States could make a serious impression on Great Britain, even at sea. We could have…privateers in every part of the ocean…" to destroy Great Britain's commerce.

[49] Ibid., 416

[50] Ibid., 447. Randolph sarcastically stated "there is to be no expense of blood, or treasure, on our part" for what he said was conceived as a "holiday."

the war. In essence, he believed that the war would largely pay for itself.[51] Joseph Desha, a Republican congressman from Kentucky who had advocated assertive action against Britain since 1808, clearly expressed the reasoning that would move the country towards war without adequate financial preparation or coherent financial policy. He recognized that congressmen were divided on the topic of the expense of the war, but did not believe financial considerations to be that important of a factor.

> What, sir, a country so extensive as America, so populous, abounding in wealth, and I trust, the people patriotic, possessing a full share of national pride, and not be willing to be out the expense of supporting their rights? This is, in my mind, a preposterous idea…the people cannot estimate in pounds, shillings, and pence, the value of national honor and rights…[war is] independent of consideration of expense.

Even though other voices expressed opposition, Desha's perspective provided an anchor for those who supported war in the latter part of 1811 and 1812, apart from intensive preparatory measures.[52]

Other voices of opposition to war did emerge following John Randolph's lead. Representative John Dawson, Republican from Virginia, spoke of calamity and ruin; Representative William R. King, Republican from North Carolina, said that he would never vote for a war for commerce; but, it was Adam Boyd, Republican from New Jersey, who asked the questions for which Gallatin surely wanted answers. How many troops would be needed? "What will you export while that war continues?" Boyd understood that the waging of this war could not be adequately financed with current receipts while dependent upon revenues from foreign trade. He came closest to conveying financial reality with the statement: "You are almost to drain your treasury."[53]

[51] Ibid., 476.
[52] Ibid., December 12, 1811, 478.
[53] Ibid., December 13, 1811, 519-521.

In January 1812, Representative Daniel Sheffey, Federalist from Virginia, more thoroughly discussed the realities of the antebellum situation. He considered specious the premise that war was necessary for the nation's honor and discussed the cost of men and money. Sheffey noted that war would bring only economic turmoil, but given time, new markets would develop with nations other than France. He called "delusional" the idea that the United States occupied a supremely important position in world affairs, pointedly refuting the optimism of other policymakers. Perhaps most significant, however, he asked the pertinent question of financial readiness. "Before entering headlong into this war, I should think it necessary…to make some estimate of the expenditures which will become necessary, and of our pecuniary resources." He listed troop needs and expenses related to the navy and again asked the question of revenue source. Where would the money come from? He doubted the existence of enough capital to justify the borrowing levels required to support the war and noted the necessity of taxation with distaste. He estimated debt associated with the coming war at approximately $130 million, expressing the great danger associated with such an event.[54]

Sheffey represented traditional Republican values which included a distrust of standing armies and a desire for limited government. He noted that the action of war had been long opposed over a period of years. The Congressman then publicly recognized that the dynamic of discussion had changed: "there has been of late a strange revolution of sentiment." His statement reflected the presence of strong personalities in Congress who articulated a new course of action to answer insults against America. Republican leadership had absorbed the thinking of those who advocated aggressive action and its corresponding larger role for the federal government; Sheffey, for one, was appalled.[55]

---

[54] Ibid., January 3, 1812, "Additional Military Force," 619-636

[55] Ibid., 633.

In the midst of this congressional dialogue, Henry Clay, the Speaker of the House, provided his persuasive point of view. Regarding expense, his position was that the cost of not going to war was too great to be ignored. The nation's finances had deteriorated as the result of Britain's actions. "If pecuniary considerations alone are to govern, there is sufficient motive for the war."[56] The Congressman calculated that, in peace, the United States lost at least $10 million of revenue each year because of trade losses. According to Clay, Britain saw the United States as a rival, not merely an enemy and the only recourse was to save American honor; that alone would restore American finances. In other words, his version of financial policy was to war first and let the finances recuperate during the peace that followed.[57]

In the Senate, leading voices also pressed the issue of war preparation. The fellow Virginian who consistently expressed his doubt regarding Madison's leadership, William B. Giles, urged his colleagues to contemplate carefully the demands of war. Even if the United States planned for a defensive war, he noted, at some point offensive resources would become necessary. He questioned why William Crawford, a senator in the Twelfth Congress, would put forth a plan calling for limited military provisions and army recruitment. "Why send one thousand on a service, when we know that two thousand are necessary, and perhaps incompetent?" Like Randolph in the House, he demonstrated his skills of wit and sarcasm. Essentially, Giles wanted the Senate to think more seriously and approach the subject of war from some other standpoint than scarcity. Giles was also concerned about the condition of the treasury department, which he described as "decrepit."[58] This senator was part of a damaging anti-Gallatin faction within the Republican Party, and his remarks on the topic of the state of American finance reflected his personal animosities and his need to attack.

---

[56] Ibid., December 1811, 599.
[57] Ibid, 601.
[58] Ibid., December 17, 1811, 38.

William Giles did not see the point in celebrating the reduction of the national debt. He posed a question that still resonates within discussions of American finance: what difference did debt reduction mean to the lives of Americans? From Giles's perspective, reduction of the national debt had not fundamentally changed American life, and he criticized Gallatin for neglecting to find revenue sources while parsimoniously supervising American resources. "If you dealt out your means so sparingly as to fail your object, it would then become prodigal waste and profusion of economy." His criticism was pointed, and certainly contributed to the difficulties of Madison's administration. Giles thought it was important that America appear to Great Britain like a credible threat before going to war.[59]

On the other side was a senator from Tennessee, George W. Campbell, who defended Gallatin, referring to his financial expertise, and offered an argument in contrast to Giles's oration. The United States should raise a force "just adequate" to meet the needs of this war; Campbell did not believe the American public would pay for the expense of "unnecessary" expenditures. While Campbell asserted the importance of a limited commitment (of sorts), he also admonished the Senate to prepare for a long war, emphasizing that it was easy for a country to declare war, but peace did not depend solely on one belligerent.[60] James Lloyd of Massachusetts called the lack of preparedness nearly "treasonable" while Obediah German of New York noted that Madison did not appear at all serious about the declarations of war. German stated that Madison had not filled any posts or facilitated the purchase of arms and munitions during the Congressional break. He concluded with the idea that a country's preparation for war, if sufficient, could act as a deterrent for aggression.[61]

---

[59] Ibid., December 17, 1811, 35-37.

[60] Ibid., December 18, 1811 "Additional Military Force," 78.

[61] *Annals of Congress*, Senate, 12th Congress, 1st Session, February 27, 1812, "Increase of the Navy," 131. See also: June, 13, 1812 "Declaration of War" p. 281-283. Accessed from the Library of Congress, American

The Senate continued to debate initiatives involving the increase of military capabilities from the winter of 1811 until the declaration of war in June 1812. In March of 1812, William Crawford of Georgia discussed specific costs related to naval expenditures and articulated the possible need for taxation to offset expenditures. He believed that costs had been underestimated and that the country needed to prepare for the financial demands of war. Throughout these preparatory months, however, those who realized the country was unprepared financially and thought the issue important failed to offer any kind of specific direction for financial policy. In the days prior to the American declaration of war, Obediah German continued to discuss the impossibility of resource preparation and war action with mission-like zeal. Even a leading businessman, John Jacob Astor, signed a petition asking for a continuation of the embargo and non-importation rather than war. In one of the final debates, on June 16, James Bayard from Delaware asserted the ridiculousness of an "unarmed nation…[attacking] a nation cap-a-pie."[62]

As Congress debated impending war, certain financial realities became clear. Those who advocated war were less concerned with financial preparation or its implications for the waging of war; they believed that issues related to finance would remedy themselves after the war's conclusion. In 1807, Gallatin had discussed the necessity of debt finance in the case of war; he understood that borrowing would be the accepted course of finance. Unfortunately for his strategy, by the time of the war no central bank existed, and Gallatin had no choice but to rely on a decentralized system of state banks and individual financial support to survive the war. Adding to the difficulties, war supporters were, by and large, opposed to direct taxation as a means of

---

Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. German admonished his peers with an example of Hamiltonian reasoning: "A country well prepared to meet war will scarcely find war necessary."

[62] Ibid., June 16, 1812, "Declaration of War," 288. Bayard: "…neither the government, nor the people had expected, or were prepared for war. Even at this moment, the general opinion abroad was, that there would be no war…Nor could people be persuaded that an unarmed nation was about to attack a nation cap-a-pie…everyone would be taken by surprise and unprepared for its shock…"

raising revenue. Financial policy had been a limited consideration in the discussions prior to war, and the country's policymakers unwittingly brought financial crisis to the American war effort.

Representative Sheffey loudly and pointedly conveyed the potential for financial crisis. He was alarmed at the prospect of war, and perplexed that the conflict avoided for so long could suddenly envelop the nation. No one in leadership could answer his persistent questions. He estimated the cost of war at $45 million annually, at a time when $15 million expenditure level was the norm. "Where are the means to defray such expenditures?"[63] He doubted the capacity of the country to finance the war by depending only on a strategy of debt finance. Sheffey approached impending war with a sense of great pessimism, and he feared that the "strange revolution of sentiment" toward war, demonstrated by many members of Congress, would lead to future insecurity and national ruin. Towards the end of his speech, he offered these philosophical words of historic commentary:

> Those who have paid any attention to…the history of man must know that ambition, like avarice, is never satisfied. Those with whom it is the ruling passion, proceed from conquest to conquest, and after having subjugated the whole world, dissolve in tears, because there is not another world left to conquer. What encouragement is there left for us in a war where victory is defeat, and success, ruin![64]

[63] Ibid., January 3, 1812, "Additional Military Force," 631.
[64] Ibid., 633.

CHAPTER 7

WAR CANNOT BE CARRIED ON WITHOUT MONEY

On June 1, 1812, James Madison, the fourth President of the United States, sent to Congress an analysis of the state of relations between the United States and Great Britain. His review of foreign policy issues led him to the conclusion that American "conciliation" over the past several years had given Britain the impression that she could continue aggressive behavior with relative impunity. "Our moderation and conciliation have had no other effect than to encourage perseverance and to enlarge pretensions."[1] Consequently, Madison clearly articulated the need for war as June of 1812 began, but stopped short of recommending specific action.

Offering Congress a detailed historical account, he enumerated British wrongs such as the practice of impressment, the continual violation of American neutrality, and harassment of American merchants and ships within United States coastal waters. While Madison mentioned concerns related to the challenge of the western frontier and the ignominy of the British encouragement of Indian attacks on Americans, the president fundamentally asserted that commercial and economic interests were at the heart of the American motivation to settle British insults. British lack of regard for American trading interests was interpreted as a formal attack on national sovereignty. The system of British blockades, made formal English policy by a series of Orders-in-Council, was especially offensive and provided the basis of the hawkish American argument for war. Ironically, even though matters related to the country's economic and

[1] James Madison, *The Writings of James Madison, comprising his Public Papers and his Private Correspondence, including his numerous letters and documents now for the first time printed*, ed. Gaillard Hunt, vol. 8, (New York: G.P. Putnam's Sons, 1900). "Special Message to Congress," June 1, 1812. Accessed from http://oll.libertyfund.org/title/1933 on April 25, 2008.

financial welfare were central to the American dialogue prior war, the country remained financially unprepared to defend its commercial honor.[2]

Madison reasoned that a state of war already existed between Britain and the United States despite the United States's peaceful intentions and adherence to the principles of freedom. While not overtly calling for war, he concluded his message by stating that actions by foreign governments would "speedily enable Congress to decide with greater advantage on the course due to the rights, the interests, and the honor of our country." In spite of these words, Madison refrained from engaging in a discussion regarding the readiness of the United States government and how it should prepare for a course other than peace.[3] He left that deliberation for a politically divided Congress to decide.

Just seventeen days after summarizing the current state of hostilities, Madison signed an American declaration of war against Great Britain. For a president who helped create Jeffersonian tradition, which emphasized limited government, peaceful foreign relations, as well as little tolerance for public debt, a declaration of war was a dramatic departure from his earlier confidence in commercial restriction and the framework of a connected global economy. Madison's willingness to authorize war moved the country in a new and uncertain direction, as former president John Adams noted in a letter to his friend Thomas Jefferson:

---

[2] Ibid. "British cruisers…hover over and harass our entering and departing commerce… Under pretended blockades, without the presence of an adequate force and sometimes without the practicability of applying one, our commerce has been plundered in every sea, the great staples of our country have been cut off from their legitimate markets, and a destructive blow aimed at our agricultural and maritime interests. .. Not content with these occasional expedients for laying waste our neutral trade, the cabinet of Britain resorted at length to the sweeping system of blockades, under the name of orders in council, which has been molded and managed as might best suit its political views, its commercial jealousies, or the avidity of British cruisers." Certainly, one can list other causes of war such as difficulties with warring Indian tribes and the perception of British involvement inciting violence and hostilities among Indians and Americans.

[3] Ibid.

> We now have war in earnest. Money, mariners, and soldiers, would be at the public service if only a few Frigates had been ordered to be built.[4]

Adams believed that the policies of Jefferson and Madison had failed to prepare the country in either financial or military terms for conflict with the world's superpower, and with those few words he aptly described the American state of readiness.[5]

Former president John Adams's insight notwithstanding, the country's policymakers from both the executive and legislative branches had actively debated war policy and its implications since the fall of 1811. Treasury Secretary Albert Gallatin was a central figure in the planning process for war, and his approach to managing the financial condition of the country in the event of war was founded on an assumption of cautious optimism. He had clearly enjoyed immense success at the Treasury Department if judged by the Jeffersonian criteria of reducing public debt levels and minimizing the actions of the national government and had observed the financial capabilities of the United States during peacetime. These experiences supported his belief that the United States could finance the war as necessary in an immediate time frame, paying off the debt once peace returned. Unfortunately, this viewpoint gave way to great discouragement when wartime reality proved financially disastrous. The annual reports to Congress generated by the treasury department from this time period reflect the development of Gallatin's awareness.

In November of 1811, when Gallatin submitted his annual report to Congress regarding the state of finances, he asserted a confident tone. Even with the likelihood of war looming, the Secretary was convinced that the country's finances could handle the demands of such an event.

---

[4] The Jefferson Papers, Library of Congress, Series 1, John Adams to Thomas Jefferson, June 28, 1812. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on April 26, 2008. Throughout his correspondence with Jefferson in the months prior to war, Adams placed the blame for the crisis with England squarely on Jeffersonian policies of embargo, commercial restriction, and lack of preparedness. Interestingly, Adams stated the reality of the financial situation in simple terms.

[5] Ibid. In several letters to Jefferson after their friendship was renewed, Adams repeatedly asserted the flawed result of Jeffersonian policy, insisting on the "rightness" of his own presidential intent.

The financial report of 1811 revealed an increase in actual revenue from trade and other sources, to $13.5 million from approximately $8.7 in 1810. Treasury had benefited from borrowed funds during 1811, however, with a temporary loan of $2.75 million approved by Congress in December of 1810. In total, receipts (combining actual revenue sources with the temporary loan) amounted to more than $16 million, and when added to the balance in the Treasury of $3.5 million, gave the United States government access to $19.75 million for the fiscal year 1811. Relative to previous years, this amount appeared to be a reasonable sum, and at this point, Gallatin still believed that the cost of war would be manageable.[6]

Additionally, as Gallatin compared annual revenue to annual expense, he expressed reasonable confidence about the financial condition of the country. Army and naval expenditures were approximately $2.1 million each, with minimal funds dedicated to Indian issues. The largest expenditures remained public debt payments on interest and principal, which amounted to around $8 million. Total expenditures, at $15.8 million, were less than receipts, although expenses were more than revenue apart from deposits and loaned funds.[7]

Gallatin's estimate of expenses for the coming year, 1812, did account for a much lower revenue expectation of $8.2 million, but only allowed for a small increase in military establishment expenses, from $2.1 million in 1811 to $2.5 million in 1812. Gallatin did not expect a huge increase in expenditures, even though he was aware of impending war. With projected expenses of $9.4 million and estimated revenue of $8.2 million, Gallatin was prepared

[6] *American State Papers*, 3, Finance, 2: 497. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. November 25, 1811. In relating the state of the public debt to the potential for war, Gallatin noted that the country's progress "proves, decisively, the ability of the United States, with their ordinary revenue, to discharge, in ten years of peace, a debt of forty-two millions of dollars." Gallatin did mention in a later part of the report that just because the United States could pay off such a sum did not mean that the country should borrow to that extent in time of war. He also noted that foreign nations would probably not loan funds to an embattled America.

[7] Ibid., 495.

to finance a deficit of $1.2 million in 1812. Apparently, Gallatin thought that he could keep the deficit at minimal levels.

Throughout the November 1811 report, Gallatin's perspective indicated that the difficulties associated with finance during time of war were not insurmountable and that the United States need only borrow enough to make up the difference of any deficit encountered. Further, he was not overly anxious about the problem of debt accrued during time of war because of his belief in the country's revenue producing abilities and potential for frugality once the war ended. The final section of the report most revealed this relative calm, as Gallatin listed the four major points he wanted to impress upon his reader. First, he noted that the United States required a fixed revenue of approximately $9 million, apart from considerations of war. Second, internal taxation would <u>not</u> become necessary to answer the demand for increased revenue. An increase in duties could solve that problem. Third, Gallatin stated his wartime finance strategy: "…a just reliance may be placed on obtaining loans, to a considerable amount, for defraying the extraordinary expenses which may be incurred beyond the revenue stated…" Finally, he asserted that the financial exertions of war would be remedied after the war's end when the nation returned to peacetime expenditures. Thus in late 1811 Gallatin did not communicate alarm related to impending hostilities with England and the potential for American economic distress.[8]

A little over a year later, in December 1812 after six months of generally unsuccessful war, Gallatin's annual report offered Congress a growing awareness of a changing financial reality. Gallatin noted to Jefferson on December 18, 1812 that "the series of misfortunes

[8] *American State Papers,* 3, Finance, 2: 497. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Albert Gallatin, "State of the Finances," November 25, 1811, 497. The forth point aptly summarizes Gallatin's perspective and financial strategy: "…the peace revenue of the United States will be sufficient, without any extraordinary exertions, to discharge in a few years, the debt which may be thus necessarily incurred."

experienced this year in our military land operations exceeds all anticipation…"[9] This sentiment could have easily applied to the financial situation as well. The 1812 annual report revealed that between expected revenue sources, loans, and the balance in the treasury, the government had \$20 million at its disposal, while expense for the army and naval departments amounted to around \$11.1 million. Receipts were deceiving, however, because revenue apart from borrowed funds totaled only \$10.9 million; without loans, the United States government could not cover the army and naval expenses alone. Gallatin was beginning to realize that rough financial waters lay ahead; his expectations for 1813 were truly shocking.[10]

Regarding projections for 1813, Gallatin was certain that military expenditures would increase to at least \$21.9 million and receipts would remain relatively stable at \$12 million. This difference was quite a discrepancy, and with total expenses at \$31.925 million, more than \$19 million in loans or other borrowed funds would be needed, discounting debt payments.[11] It is no coincidence that at about this time Gallatin became interested in participating in the negotiation process in Russia. By 1813, he saw little left to achieve within Treasury, and knew that the country faced insurmountable financial difficulties apart from the conclusion of war. As a result, Albert Gallatin, the treasury secretary who had devoted twelve years to the department through two administrations became convinced that he could best serve his country by helping to end the

---

[9] Albert Gallatin, *The Writings of Albert Gallatin*, vol. 1, ed. Henry Adams (Philadelphia: J.B. Lippincott, 1879). December 18, 1812, Letter from Albert Gallatin to Thomas Jefferson. Accessed from http://oll.libertyfund.org/title/1953 on May 1, 2008.

[10] *American State Papers,* 3, Finance, 2:580-581. Albert Gallatin, "State of the Finances," December 7, 1812. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[11] Ibid.

war. After six months of fighting and American defeat, Gallatin could see that his sanguine assessment of the state of American wartime finances had been misguided.[12]

It is not clear that policymakers other than Gallatin actively contemplated the financial ramifications of military defeat. By December 1812, the administration could see that the progress of war was not what it had envisioned, and the succession of strategic defeats during the fall campaign was highly discouraging for Madison supporters. A central component of American wartime strategy had been built upon the concept of the quick conquest of Canada. Militarily, the acquisition of British territory would send a dramatic message to Britain regarding American capabilities, but it also was a key to the financial operation of war. Canadian commerce, resources, and population potentially could have provided additional revenue sources and removed barriers for the Americans to foreign trade. Unfortunately for American strategy, the Canadian question was not well handled, and Canada did not simply acquiesce to American expansionism. Rapid American losses greatly troubled American policymakers and made it difficult to predict what resources were necessary.[13]

Following a three-pronged strategy developed by General Henry Dearborn, the American military planned to attack Montreal as well as the Niagara and Detroit frontiers. From the beginning, the strategy was hampered by truly incompetent leadership. General William Hull entered Canada in mid-July, but his men had no faith in his ability to lead and refused to follow his command. Then, a series of rapid and strategic losses proved unnerving: Fort Michilimackinac surrendered to the British on July 17, Fort Dearborn occurred in August, and

[12] Walters, *Albert Gallatin*, 259. Gallatin wrote to his fellow diplomat and peace negotiator, James Bayard, that he felt that he could be more useful negotiating peace than serving as secretary of treasury. Walters notes that Gallatin essentially thought that treasury was "hopeless" by March and April of 1813.

[13] Gallatin, *Writings*, ed. Adams. Accessed from http://oll.libertyfund.org/title/1953 on May 1, 2008.
In his "Memorandum of Preparatory Measures" sent to Thomas Jefferson when war appeared most imminent (July 25, 1807), Gallatin offered extensive guidelines for the prosecution of war. Canada was a central part of his strategic recommendations, and the destruction of the British fur trade was an important economic goal.

General William Hull surrendered to General Isaac Brock at Detroit on August 16. The American loss at the Battle of Queenston Heights on the Niagara Frontier on October 13, in combination with increasing British blockades in force by December, were also strains on American morale. In the final analysis, the autumn invasion of Canada had failed and all of this activity took a toll on the nation's resources. Despite the grim realities, many members of the Twelfth Congress chose to focus on what they considered American "successes" of the war, and throughout the second session still did not adequately examine the need for additional revenue. Naval victories, such altercation between the *Constitution* and the *H.M.S. Guerriere*, the *United States* and the *H.M.S. Macedonian*, the *Constitution* and the *H.M.S. Java* offered Congress some hope in the midst of an uncertain fall campaign.[14]

Gallatin was reeling from the military losses, and his letters to Madison during the fall of 1812 convey a compete preoccupation with military matters and issues of leadership, not necessarily an auspicious sign for the financial management of the country. On August 19, 1812, he wrote to Madison that he had "not unimportant communications" and asked that the president remain in Washington so that they could discuss a possible of armistice and military options, among other subjects. His autumn letters made barely any mention of issues connected to American finances, and one could extrapolate from the written record that Gallatin was so disturbed by strategic and leadership failures at every level that his attention was understandably diverted from Treasury issues. In addition to the struggle of war, which was complicated

[14] *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 140-141. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

enough, Gallatin was also painfully aware of domestic weaknesses that added to the country's financial imbroglio.[15]

Gallatin identified the country's wartime challenges in his correspondence, understanding that rapid American defeats profoundly increased resource demands and exacerbated revenue inadequacies. Not only was he profoundly disturbed by wartime setbacks, he also knew that there were many domestic factors contributing to American financial decline. An explanation of the American financial situation throughout the war of 1812 necessarily involves a discussion of internal affairs such as the state of the banking system, the impact of domestic politics and the dissension within Madison's administration upon financial policy, and the reluctance of Congress to address the issue of taxation. Beyond the war, a combination of factors negatively influenced the financial system and impeded the development of effective financial policy-making within the federal government. Gallatin dealt with each of these issues on a daily basis.

The state of the banking system was a fundamental problem for the effective waging of war. The expiration of the charter of the Bank of the United States in March of 1811 was an unexpected wrinkle in Gallatin's early war planning. As an efficient provider of loans and government credit, the Bank had served as an important resource for Gallatin throughout the Jefferson and Madison presidencies. Prior to the emergency of war, Gallatin characteristically offered Congress an optimistic assessment of the federal government's position in the absence of the bank. Throughout 1810 and 1811, Gallatin had indicated in his "defense" of the bank that he could utilize the services of state banks with only an increased "inconvenience." He did not communicate what historian Bray Hammond has noted, that state banks "were a poor substitute

[15] The Madison Papers, Library of Congress, Series 2, Albert Gallatin to James Madison. See Gallatin's letters dated August 13, August 19, August 31, December 11, and December 12, 1812. Accessed from http://memory.loc.gov/ammem/collections/madison_papers/mjmser2.html on May 2, 2008.

at best," and at worst, "nearly useless"[16]. Without a centralized banking entity, Gallatin would find that Treasury was at the mercy of individual concerns and regional biases, and that state banks had no incentive to support a national government in time of financial crisis.[17]

Gallatin faced two basic problems with regard to reliance on state banks. First, state banks did not necessarily have to redeem bank notes on demand or hold adequate specie in reserve. Regarding the first issue, the financial ramifications of sporadic bank note redemption translated into inadequate currency supply and lack of uniformity, completely decentralized monetary policy and implementation process, and a national government incapable of enforcing monetary decisions. Because banks were not required to hold a certain amount of specie reserves, the national government could not prevent panics and financial crisis could result in the suspension of specie redemption. Overall, both of these state bank policies would diminish the public's confidence in the banking system, and Gallatin no longer had the support of an agency that helped to regulate the banking system and its credit. To make matters worse, while the war was prosecuted, the West coped with a feverish demand for land and capital, and the federal government was severely handicapped in its ability to supervise financial activities.[18] Consequently, even internal demands were a stress on the financial system. Banking historian Richard Timberlake has argued that, in general, central banks are important because of their capacity to support the objectives of national government when operating effectively. Gallatin was deprived of this major policy tool and a systemic nucleus of financial activity.[19]

---

[16] Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (New Jersey: Princeton University Press, 1957), 229.

[17] Edward S. Kaplan, *The Bank of the United States and the American Economy* (Westport, CT: Greenwood Press, 1999). Kaplan alludes to this on page 41.

[18] Kaplan, *The Bank of the United States*, 38.

[19] Richard H. Timberlake, "The Specie Standard and Central Banking in the United States Before 1860" *The Journal of Economic History*, 21 (Sept., 1961), 318. See also John Thom Holdsworth, "Lessons of State Banking Before the Civil War" *Proceedings from the Academy of Political Science*, 30, (May 1971), 26-27. Edwin Perkins, *American Public Finance and Financial Services*, 1700-1815 (Columbus: Ohio State University Press,

Gallatin made use of myriad state banks, and, in January of 1812, delivered a report to Congress detailing in which state banks public monies were deposited. Resolution of this issue was particularly important for purposes of revenue collection. After March 4, 1811, customs collectors were directed to deposit revenues collected in certain state banks; Gallatin sought to employ state banks with an affinity for paper money. In Boston, the Union and Massachusetts Banks became repositories, and in New York, the Manhattan Co. and Mechanics Bank were used. The city of Philadelphia provided the services of two banks, the Bank of Pennsylvania and the Farmers and Mechanics Bank, while Baltimore offered the Bank of Baltimore and Commercial and Farmers' Banks. In Norfolk, Gallatin employed its Bank of Virginia branch, and in Charleston, the state bank of South Carolina was used. Lastly, New Orleans provided the Bank of Louisiana as a resource for the Treasury Department.[20] These state banks in major port cities offered Gallatin the advantages and disadvantages of a decentralized financial system impaired by divergent interests.

Contributing to the fragmented financial system, Gallatin and the executive branch could not seem to overcome divisive domestic politics, exacerbating the differences among policymakers. Increasing political rancor, personal animosities, and disagreement over war policy created a disharmonious atmosphere in Congress and Madison's administration. May of 1812, two months before the declaration of war, Felix Grundy, representative from Tennessee, noted the problem of disunity within the context of raising funds to fulfill loans. "It is a fact to be lamented, that there exists in this country an organized opposition to the constituted authority,

---

1994), 274. Donald Kagin "Monetary Aspects of the Treasury Notes of the War of 1812" *The Journal of Economic History*, 44, (March 1984), 69-88. Ronald Seavoy, *An Economic History of the United States from 1607 to the Present* (New York: Routledge, 2006), 100.

[20] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, "Public Deposits in Banks," January 8, 1812, 2059. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

whose influence is seen and felt on this floor…"[21] Within the Republican Party, there were great differences regarding the appropriateness of Madison's decisions, and despite the fact that the Virginian was such an important figure in the founding of the nation, he was not accorded blind respect by those who considered themselves "true" Republicans.[22] The war also brought to the forefront sectional concerns in combination with financial distinctions.

DeWitt Clinton of New York voiced Republican discontent and roused opposition to Madison's administration with his run for the executive office in 1812. Historian Steven Edwin Siry has brought attention to the impact of sectional politics and the implications of a split within Republican circles related to the 1812 election. Clinton campaigned as a northerner who both understood commerce and true republican principles. He was also against the war, asserting that Madison had signed the war declaration without adequate preparation and only for political reasons. Clinton identified and played on the differences within the Republican Party as well as Federalist opposition to war, and his presidential run represented the geographic segmentation of the country. "Sectionalism became even more apparent when every state located north and east of the Delaware River, except Vermont, gave its electoral votes to Clinton…" Dewitt Clinton as a symbol of opposition to Madison's policies, became a point of concern for the administration.[23]

As further evidence of increasing animosity and an addition to the problem of Republican dissension, Federalist interests in the northeast opposed the war effort and felt no compunction to assist with financial provisions. Matthew Carey, a Philadelphia pamphleteer with Republican sympathies, was quite alarmed, writing to Madison in early 1813 that "a most daring, powerful,

---

[21] Ibid., May 1812, 1409-10.

[22] Walters, *Gallatin*, 251. Raymond Walters alludes to the disunity of Congress when discussing Gallatin's response to the financial needs of war. The politics of John Randolph, William Giles, and the Smith brothers, as well as disenchanted Republicans plagued Madison and caused Gallatin untold grief.

[23] Steven Edwin Siry, "The Sectional Politics of "Practical Republicanism": De Witt Clinton's Presidential Bid, 1810-1812," *Journal of the Early Republic*, 5 (Winter, 1985), 447.

unprincipled and formidable conspiracy exists in New England." Carey fully expected some kind of secession of New England, and certainly, his earnest warning caused Madison great concern.[24] This sort of division was absolutely a component of wartime financial realities: raising funds from those individuals and institutions unfavorable to the administration's policies would be impossible. Gallatin had not planned for the intensity of wartime domestic political divisions and their affect on public financial support.

Although Gallatin became painfully aware of the problem of political factionalism in 1812-1813, he had previously acknowledged the possible difficulty of raising funds during his original bout of war planning as early as 1807. At that time, however, he had believed that the country would need only around $10 million additional revenue in borrowed funds, and had remarked that

> People will fight, but they never give their money for nothing. Patriotic gifts and loyalty loans cannot be depended upon; we must buy money at its market price, and in order to borrow cheaper it will be necessary to keep up the price of stocks by occasional purchases.[25]

While he had stated five years earlier his awareness that raising financial support would not be easy, he had not counted on the political reticence of banks, bankers, and other holders of financial capital to offer their resources in time of economic distress. A scholar of the Madison presidency, Robert Allen Rutland, states that Federalists in New England literally "used the artillery of their press to denounce the war loans as a devious means of prosecuting a wicked

---

[24] The Madison Papers, Library of Congress, Series 2, Matthew Carey to James Madison, January 21, 1813. Madison, in fact, wrote a private letter to Thomas Jefferson expressing his fears on the subject. Accessed from http://memory.loc.gov/ammem/collections/madison_papers/mjmser2.html on May 15, 2008.

[25] Gallatin, *Writings*, vol. 1, ed. Adams, Albert Gallatin to Joseph H. Nicholson, July 17, 1807. Accessed from http://oll.libertyfund.org/title/1953 on April 4, 2008. "Money we will want to carry on the war; our revenue will be cut up; new and internal taxes will be slow and not sufficiently productive; we must necessarily borrow. This is not pleasing particularly to me; but it must be done; for whilst we must avoid expenses for inefficient operations and waste, as far as is practicable, the expense, provided we can by any method whatever defray it, must never be an objection to any necessary measure of defence, or to any rational active operations against the enemy. We have about eight millions in the Treasury, and from a very rough estimate I think that we will want to borrow about ten millions annually whilst the war lasts; rather less, however, the first year, although it will be the most expensive."

war." This political and regional opposition made the execution of financial policy extremely difficult.[26]

Gallatin prepared financial reports, navigated a fragmented financial system and political reality, but was not able to generate revenue from nothing. During the first year of war, his perspective shifted from the cautious optimism expressed during the five previous years to an understanding that economic desperation mandated some type of taxation system. Recognizing that one of the most perplexing financial aspects of the War of 1812 involved the overall lack of revenue, Gallatin attempted to motivate Congress to enact a comprehensive tax plan. With foreign trade and customs duties in decline, tax policy became the basis of interaction between the executive and legislative branches and the treasury secretary sent his proposals to two consecutive chairmen of the Committee on Ways and Means, Ezekiel Bacon, Republican of Massachusetts, and Langdon Cheves, Republican of South Carolina. Unfortunately for Gallatin's peace of mind and the nation's financial health, Congress did not move quickly.[27]

The Committee on Ways and Means, under the leadership of Bacon, sent a letter to Secretary Gallatin dated December 9, 1811, inquiring of several points important to the financial health of the government and also with the idea of war. First, Bacon wanted to discuss the interest on a proposed temporary loan and the payment arrangements to be made. Second, the committee wanted Gallatin to identify additional revenue sources. Further, the committee asked for Gallatin's recommendations for the development of a comprehensive revenue plan within the context of war.[28]

---

[26] Robert Allan Rutland, *The Presidency of James Madison* (Lawrence: The University Press of Kansas, 1990), 126-127.

[27] Ezekiel Bacon was Chairman of the House Ways and Means Committee through the first session of the twelfth congress; Langdon Cheves became Chairman of the House Ways and Means Committee at the time of the second session.

[28] *American State Papers*, 3, Finance, 2: 523. "Increase in Revenue." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

When Gallatin responded, he expressed many thoughts consistent with prior writings. For example, he estimated revenue in the coming year at around $9.6 million and thought that the country would need to borrow around $10 million, but would also need to prepare for annually increasing funding needs in the event of war. Gallatin acknowledged that any estimate of funding from duties was pure “conjecture” and listed the difficulties of trade within the setting of war. He remarked that the government could not rely on any more that $2.5 million from duties. He did, however, believe that the rate of duties could be doubled and collected with relative ease.[29]

By 1812, Gallatin obviously understood that some type of taxation system would be necessary, and he felt a great need to explain to Bacon why his position had changed since 1808.

> It is therefore also proper to observe that at that time the subject of the renewal of the charter of the Bank of the United States had been referred by the Senate to the Secretary of the Treasury, nor had any symptom appeared from which its absolute dissolution without any substitute could have then been anticipated.

Gallatin continued his explanation by stating that the rejected bank proposal included a provision to increase its capitalization to $30 million, of which half was to be available to the federal government. Had the bank been operational in 1812, it would have alleviated many of country’s financial concerns. Gallatin believed that had the bank been authorized to loan to the government up to $20 million annually, then internal taxes would not have been necessary. Additionally, the treasury secretary mentioned the United States government’s challenge of a “diminished ability to borrow.”[30]

In the absence of the Bank, Gallatin specified that $3 million should be raised through direct taxation and $2 million through indirect taxation. Direct taxes involved property and

---

[29] Ibid., 524-527. See also Gallatin to Ezekiel Bacon, dated January 10, 1812.

[30] *American State Papers*, 3, Finance, 2: 524. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

income, and Gallatin did not offer specifics on that subject. Gallatin, however, did provide a list of sources for indirect taxation, relying on the system that had worked during previous years. His suggestions included taxes on domestic spirits, sugar, licenses to retailers, sales at auction, carriages, and stamp duties as possible tax sources and, in order to facilitate tax collection, Gallatin suggested that the position of revenue commissioner should be "re-established". The financial machinery of government was simply not in place, as that comment illustrated. He concluded his proposal to the Committee with an examination of the need for treasury notes and additional loans; in short, he emphasized his strategy of deficit finance while repeating his financial mantra: "it is still hoped that the ordinary peace revenue of the United States will be sufficient to reimburse, within a reasonable period, the loans obtained during the war…"[31]

During 1812, Congress began to consider the funding issues requiring immediate attention and debated the merits of treasury notes. On June 17, the day before the war declaration passed the Senate and was signed by the President, the House of Representatives engaged in a heated discussion regarding the nature and use of treasury notes, one of the few options available to increase revenue. Treasury notes were paper debt instruments that were sold to the public that could also be accepted as a means of exchange, and in that sense, these securities had the potential to act as a sort of currency. Rather than an emphasis on timely decision-making, congressional discussions often became a forum for the discontented to express traditional fears related to paper money. As a result, the practical needs of the executive branch encountered a labyrinth of philosophical orations with historical interpretations that suited the speakers.

[31] *American State Papers*, 3, Finance, 2: 524. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

William W. Bibb, Republican of Georgia, alluded to the rhetoric of Jefferson's administration with relation to paper money, noting the intensity of fear engendered by paper and debt during that earlier decade:

> …the people…were told that virtue, morality, and religion would be driven from the land; that all public and private confidence would be destroyed; that the Bibles would be committed to the flames…none of these things came to pass.[32]

Clearly, Representative Bibb was making an exaggerated point, but the congressional discussion of treasury notes was, in fact, a heated and emotional debate bringing back traditional concerns about paper, its value, and the potential of its negative economic impact.[33] In the midst of detractors, Representative Alexander McKim, Republican of Maryland, asserted to his colleagues that "War cannot be carried on without money" and went on to describe the methods available to Congress to fund the war: taxes and loans. In his estimation, treasury notes were loans to the government, and crucially necessary.[34] Asking whether Congress intended "efficient war, with a sagacious enemy, without revenue, without taxes", Thomas R. Gold, Federalist from New York, expressed the composite views of those who opposed the Treasury note issue. He found it alarming that the country had initiated a war that already required loans and emphasized to his peers the need for other revenue sources. Gold wanted to see taxes imposed and urged fellow congressmen to contemplate the passage of loans with no consideration of repayment.[35]

---

[32] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, 1495. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[33] Kagin, "Monetary Aspects of the Treasury Notes of the War of 1812," 73.

[34] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, 1499. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. McKim: "War cannot be carried on without money; the government must have money; and only two modes of raising the necessary money have been suggested: by taxes, or by loans. In the war now contemplated, it will be necessary to resort to both these resources." June 1812

[35] Ibid., Mr. Gold: "Public credit is to a nation wealth; it is its mines—its security in peace—its sinews in war—is with difficulty established; preserved only by constant care, and easily abused and lost…I cannot dissemble my concern for the public credit; I do believe the revenue of the country will not meet the engagement, and that the public securities to be issued on the loan will suffer depreciation."

Beyond Gold's legitimate concerns, a practical financial problem was apparent. The very reason for Congress' consideration of an issuance of treasury notes in June 1812 was that the $11 million loan authorized by Congress in March of 1812 had not been fulfilled. Despite Gallatin's best efforts, banks and individuals were little interested in purchasing government debt. The challenge of finding subscribers for the March loan had led to a bill for $5 million in treasury notes. Congress did not have other options. This measure passed on June 17, 1812, one day before war was declared and obviously before the true crisis of war was experienced.[36]

On June 22, the House again considered raising duties on imported goods by a staggering 100 percent. The treasury note debate was not quite finished even within this new context. Abijah Bigelow, Federalist of Massachusetts, asserted that the country would be "deluged" with treasury notes and believed that the increase in duties was a inadequate measure to truly address the financial needs of the country. Echoing Mr. Gold, Bigelow asked for a more comprehensive plan of taxation, a revenue source that would allow for the appropriate repayment of borrowed funds.[37] Bigelow's colleague from the same state and with the same party affiliation, Elijah Brigham, also offered the reasons for his opposition to the proposed bill. He mentioned that it was a disincentive to foreign trade and would defeat its very purpose while noting that the "restrictive system" had already taken a toll on commerce and manufactures. Brigham believed that additional duties of the proposed magnitude would destroy the morale of the public, particularly in the east. Elisha Potter, Federalist from Rhode Island, noted the impact of higher prices on consumers. Despite the ferocity of the debate, the measure passed on June 22.[38]

---

[36] *Annals of Congress*, House of Representatives, 12th Congress, 1st Session, 1509. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[37] Ibid., 1517.

[38] Ibid., 1527-29

During the melee of financial policymaking, Ezekiel Bacon, Chairman of the Ways and Means Committee, advocated a comprehensive financial program to ensure the availability of funds for the war effort. He seemed to appreciate Gallatin's financial reasoning, and on June 26, submitted a total of thirteen bills to his colleagues for debate and passage. Encompassing direct taxation, increased duties, carriage and liquor duties, and myriad others, Bacon attempted to motivate Congress to create a comprehensive taxation plan that would improve the state of revenue.[39] Each bill was read twice and put aside. Immediately, Representative Jonathan Roberts, Republican of Pennsylvania, rose to argue that it was unnecessary to debate and pass tax policy during the session. He assured his colleagues that Secretary of Treasury Gallatin felt that the issue could wait, and that because there was no particular urgency, taxation should be tabled and discussed again during the November session.[40] In fact, Roberts presented a resolution to delay discussion on each of Bacon's thirteen bills. After some debate, the House concluded that "no great evil would ensue from postponement," and believing the issue of taxation relatively unimportant in June and July and too intricate to craft quickly, Congress decided to wait until the November session to discuss it again. The House voted 72 to 46 to postpone the question of taxation until the legislative body met again, and House adjourned on July 6, 1812, departing when Gallatin was facing one of his most disheartening moments, the debacle of the fall campaign.[41]

Almost four months passed without congressional financial action, and when Congress reassembled on November 2, 1812, its members discussed many issues unrelated to taxation or increased revenue. In short, Congress seemed oblivious to the extent of an impending financial crisis. Congressmen and Senators bickered with each other on various topics such as payments to

[39] Ibid., 1555.
[40] Ibid., Roberts: "It did not appear from the report of the Secretary of Treasury that it was necessary."
[41] Ibid, 1557.

the army, merchant bonds, naval increases, and the need for additional military force. The subjects of loans, treasury notes, and taxation were not again discussed until 1813.[42]

By autumn 1812, Gallatin noted that he could not longer depend on banks for loans, and he was advocating a $21 million loan with no particular resource from which to acquire it![43] It was a sign of the state of leadership that in March of 1813, Gallatin wrote in desperation to Madison: "We have hardly money enough to last till the end of the month."[44] Gallatin was actively pursuing fulfillment of the loan allowed by Congress at the first of the year, and he remarked to Madison that he was finding it difficult to raise the money, noting that individual subscribers had not been forthcoming. At that time, he opened additional subscriptions in Boston and Charleston.[45]

In summary, neither the legislative nor the executive branches were able to work together long enough to develop a comprehensive financial plan to get the United States through the war without experiencing financial duress. The second half of 1812 was a time of intense disagreement in Congress. The presidential election brought divisions to the forefront, and simultaneously, policymakers were grappling with the implications of defeat and the resulting financial needs. In January 1813, Congress considered the question of another war loan to start the year's financial operations, as well as another issue of treasury notes. Congress again broached the topic of taxation, but adjourned without enacting tax policy on March 3.

---

[42] *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 869-918 "Loan Bill," "Treasury Notes," and "War Taxes," February 17, 1813, 1075. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[43] Gallatin, *Writings*, vol. 1, ed. Adams. "Memoranda" dated fall 1812 and 1813. Accessed from http://oll.libertyfund.org/title/1953.

See also Kaplan, *The Bank of the United States*, 41.

[44] Gallatin, *Writings*, vol. 1, ed. Adams. Albert Gallatin to James Madison, March 5, 1813. Accessed from http://oll.libertyfund.org/title/1953 on May 14, 2008.

[45] Ibid.

For all of Madison's sagacity, he was remarkably silent regarding the financial consequences of his war policy. Throughout this period, Madison did not seem to exert his leadership in financial matters, and at a time when national government most needed direction in developing satisfactory financial policies, Madison did not act. It is obvious that he trusted and depended on Gallatin for that kind of leadership, even though the treasury secretary was a politically vulnerable figure and not trusted by an important contingent within Congress. Some were dismissive of his skills and sought to undermine his ability to lead.[46]

Perhaps Madison was simply too preoccupied with urgent concerns and incompetent leadership within his administration to concentrate his energy on the financial condition of the country. For example, animosity between the secretary of the treasury and the secretary of war meant that estimates of expenditures would be a constant source of strain. Certainly, mismanagement at the highest levels of government created an atmosphere of doubt, distrust, and resulted in wasted resources.

Speaker of the House and vocal Republican Henry Clay took note of the situation. In a letter to Caesar A. Rodney, Madison's Attorney General until 1811, Clay bluntly stated "…Mr. Madison is wholly unfit for the storms of War…he is not fit for the rough and rude blasts which the conflict of Nations generate." Clay continued his correspondence with the thought that officials filling positions in Madison's administration would be particularly important because of the president's inadequacies. Clay did not express much hope for the successful filling of posts, believing that Madison could not be decisive in that realm either. Writing in late December 1812, Clay mentioned that the Twelfth Congress was capable of prosecuting the war, despite the

---

[46] Rutland, *Presidency of James Madison*, 126. Rutland refers to Gallatin as Madison's rock. "Monroe had Madison's confidence, but the real rock of the cabinet was Gallatin." Ketcham and Walters detail the political difficulties Gallatin faced.

"incompetence" shown by the army and the fact that Madison could not decide on the Secretary of War position.[47]

An earlier letter from James Monroe related to Clay the ambivalent thinking of the chief executive. After the debacle of the fall campaign and specifically the fall of Detroit, Madison suggested sending Monroe as a Major General to "take command of the forces." Monroe was not entirely persuaded, and, indeed, it must have sounded like an act of desperation to reroute the secretary of state into a field of battle.[48] Madison did not follow through with this idea, but it certainly made an impression on Monroe. An instinctive leader, Clay must have questioned the president's judgment at that point.

In terms of leadership and the effective use of resources, one of the great problems of the war stemmed from the incredibly weak thinkers within the military establishment.[49] For example, historian Ralph Ketchum relates that after six months of planning, Henry Dearborn still did not know who would command operations in Upper Canada. Further, Dearborn, the ranking general, and Madison were simply not of similar mind when it came to waging war. One particular example was noteworthy. Dearborn chose to accept an armistice offered by the governor general of Canada, and when Madison heard the news, he promptly ordered Dearborn to engage Britain with all energy. Dearborn's intent was to buy some time for his army to prepare, but Madison understood no such objective.[50] Throughout the war, leadership pursued often discordant objectives, with important financial ramifications.

Understanding this disarray of the military is relevant to a discussion of the financial history of the War of 1812. Gallatin, the esteemed and experienced secretary of the treasury

[47] Henry Clay, *The Papers of Henry Clay*, ed. John F. Hopkins, vol. 1, (Lexington: University of Kentucky Press, 1959-), 750. Henry Clay to Caesar A. Rodney, December 29, 1812
[48] Ibid, 727. Monroe detailed the state of failure of the American effort. See also Ketcham, 542.
[49] Rutland, *Presidency of James Madison*, 106.
[50] Ketcham, *Madison*, 538-539.

responsible for financial planning, was absolutely preoccupied with the disaster of military leadership. Although he had attempted to influence some military decisions throughout the fall campaign, by January of 1813, Gallatin was desperate. He crafted a letter to the president using much stronger language than evident in earlier correspondence. In an unusually assertive voice, Gallatin told Madison

> The fate of your administration, of the Republic cause, perhaps of the Nation depends substantially on the proper management of the War department…from the beginning I never would be reconciled to the selection of an inferior character for that station.

It is an indication of the desperation that Gallatin must have felt that he then volunteered to move from Treasury to take over the War Department "with all its horrors and perils." He would have preferred incompetence at Treasury rather than directing the war efforts.[51]

Gallatin's letter also stands as a testimony to the importance of cooperation within government in order to achieve frugality; he felt that his efforts were ineffective in the face of animosity and counter-agendas at the cabinet level. This issue appears to have had a major impact on Gallatin's ability to plan and prepare for war financially. Secretary of War William Eustis was not an effective manager of the war. Naval secretary Paul Hamilton was also incompetent and had become an alcoholic, unable to discharge his duties. Madison would make cabinet changes in early 1813, replacing Eustis with John Armstrong and Hamilton with William Jones. Jones was a well received choice, while Armstrong's loyalty was questionable. The Treasury Secretary made it clear to Madison that he was dependent on his working relationships

[51] The Madison Papers, Library of Congress, Series 2, Albert Gallatin to James Madison, January 7, 1813. Accessed from http://memory.loc.gov/ammem/collections/madison_papers/mjmser2.html on May 15, 2008. Gallatin's concern with the appointment of General Armstrong to the Secretary of War position was that he "might not bring in the administration that entire unity of feeling…so useful in producing hearty cooperation and unity of action…this is felt by me with particular force, because the treasury department stands most in need of that cooperation and is most seriously affected when perfect cordiality and disposition to accommodate does not exist."

with those who made decisions regarding the prosecution of the war for accurate financial information and projections.[52]

In January 1813, Abijah Bigelow, a New England congressman, voiced his thoughts regarding the state of American finances. Stating for the record that he had always opposed the war, he surveyed the military losses and commented on the financial strategy and condition of the United States Treasury with the following memorable line: “An empty Treasury to be replenished by naked loans is but an ill omen of success.[53] Bigelow’s statement was a succinct and apt description of the situation, but did not help the embattled treasury secretary find solutions to the coming financial crisis. Gallatin would face the pivotal year 1813 alone, with few resources to see the country through the war.

[52] Ibid.

[53] *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 873-874. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

CHAPTER 8

THE CHALLENGE OF 1813

Six months after war was declared, American leaders across the spectrum of government still did not share unified views regarding either the war's causes or purpose. President Madison alone seemed resolute, determined to bring the conflict to an end that served American interests. He doggedly persisted in asserting the justice of the cause and the need to defend American sovereignty and commercial rights. Unfortunately, the lack of a common concept of the war in the broadest sense made it difficult for policymakers at various levels to agree on the mechanics of prosecuting the war, including practical matters such as finance. Treasury almost ran out of funds in early 1813 and was forced to rely on the mercy of wealthy individuals after the banking community largely refused to contribute to the instruments of war finance. During the summer and fall, Congress had little choice but to enact tax proposals belatedly and pass additional loan bills from a sense of emergency resulting from inadequate preparation. In short, the year 1813 presented a series of financial trials because of the inevitable growth of expenses combined with lack of agreement among decision-makers regarding the justice and progress of the war.[1]

Several figures played primary roles in the complicated process associated with the development of financial policy, in spite of the fact that the House of Representatives continued to be divided in perspectives on the war and finance. Langdon Cheves of South Carolina served as Chairman of the important Ways and Means committee during the second session of the

[1] In both his personal communications and public addresses, Madison consistently stressed that the American war with Britain was absolutely essential for the defense of American rights. A representative example of Madison's repeated assertion of the justice of the American cause can be found in his address to Congress at the end of 1812: "Above all, we have the inestimable consolation of knowing that the war in which we are actually engaged is a war neither of ambition nor of vainglory; that it is waged not in violation of the rights of others, but in the maintenance of our own; that it was preceded by a patience without example under wrongs accumulating without end…" James Madison, *The Writings of James Madison, comprising his Public Papers and his Private Correspondence, including his numerous letters and documents now for the first time printed*, vol. 8, ed. Gaillard Hunt (New York: G.P. Putnam's Sons, 1900). "Fourth Annual Message" November 4, 1812. Accessed from http://oll.libertyfund.org/title/1939 on June 1, 2008.

Twelfth Congress, and John Wayles Eppes of Virginia took over that position in the Thirteenth Congress. Both men exerted firm leadership and worked with the executive office to understand the financial needs of the federal government, but they did not necessarily agree with or adequately support the requests of the administration.[2] Within Treasury itself, major change occurred in the midst of war. Albert Gallatin, after heading the department since 1801, longed for another assignment and departed in May 1813 to assist with war negotiations in Russia. Gallatin's replacement, William Jones, secretary of the navy, absorbed the responsibilities of the secretary of the treasury along with his naval duties, but was not entirely comfortable with both roles. Gallatin's absence was notable. Lastly, presidential leadership was an obviously important component of policymaking, and while Madison provided the rationale for war, he was not a dominating personality. Jefferson, through private correspondence with Eppes, also influenced proceedings. Thus, Jeffersonian tradition continued to evolve in the realm of public finance.[3]

The middle year of war, 1813, began with pessimistic expressions as Congress pondered a diversity of issues ranging from war funding to the expansion of the military. Virtually every proposal before Congress became an occasion for vigorous debate related to the reasons for, and rightness of, the war. Congress was certainly a divided entity, regularly subjecting itself to

---

[2] J.C.A. Stagg indicates that the "opinions of Cheves on financial and naval affairs were far too extreme for Gallatin…" and that by 1813, Eppes became "the first important Republican to desert the administration" in his capacity as Chairman of Ways and Means. J.C.A. Stagg, *Mr. Madison's War: Politics, Diplomacy, and Warfare in the Early American Republic*, 1783-1830 (New Jersey: Princeton University Press, 1983), 290 and 314. Cheves from South Carolina and Eppes from Virginia represented the ideals of their sectional politics.

[3] Although Jefferson had long claimed the role of "spectator" (see Jefferson's letter to Levi Lincoln dated November 13, 1808), he wrote a series of lengthy letters to Eppes in 1813 on the subject of finance. It was obviously a topic on which he had a well-developed perspective, and he wanted to exert indirect influence as the war progressed and its finance became more and more problematic.
Thomas Jefferson, *The Works of Thomas Jefferson*, vol. 11, ed. Paul Leicester Ford (New York and London, G.P. Putnam's Sons, 1904-5). Thomas Jefferson to Levi Lincoln, November 13, 1808. Accessed from http://oll.libertyfund.org/title/807. The Jefferson Papers, Library of Congress, General Correspondence Series 1, Thomas Jefferson to John Wayles Eppes: June 24, 1813; September 11, 1813; November 6, 1813. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on June 2, 2008.

agonizing and repetitive arguments in the process of arriving at any type of practical decision. The lengthy interchanges that typically followed legislative proposals indicate that many in Congress had not reconciled themselves to the reality of war.[4]

In January 1813, Congress continued a debate begun at the end of the prior year regarding issues such as whether to allow further expansion of the military in terms of leadership and enlistment periods.[5] Many congressmen stated their opposition to the war during the course of that particular debate, but Joseph Pearson, a Federalist from North Carolina, offered one of the most pointed remarks for the record. "Under the pressure of existing circumstances, involved in a war with a powerful nation—a war now prosecuted for a doubtful…national right…attended with disgrace, defeat, and disaster…[what course of action will] restore the blessings of peace to the country," he asked.[6] Pearson argued for the renewal of peace, rather than continuing to evaluate the demands of war. On the same day, Saturday, January 2, Representative Joseph Moseley, Federalist of Connecticut, brought attention to the "disasters" associated with the Canadian invasion, focusing on the dichotomy between the success predicted by the administration and actual events. Moseley pointed out that conquest was never an easy venture, and he believed that America had recklessly engaged in bombastic rhetoric with little consideration for harsh reality of wartime action. According to Mosely, the United States had

---

[4] *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 476. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. In an address to his colleagues on December 30, 1812, Representative Troup acknowledged the difficult position of the legislative body in the midst of those who opposed the war and refused to support the means of its prosecution. "The next campaign must be opened with vigor, and prosecuted to success…It is a good rule that he who is opposed to the war shall not plan the campaign…" Troup went on to relate the problematic sentiments of Rep. Potter who stated that "having opposed the war, he was opposed to the ways and means of conducting it—and therefore every object of expenditure connected with it…"

[5] Ibid, 470, 482. On December 30, the bill concerning additional military force came under consideration, and on Saturday, January 2, discussion resumed in earnest.

[6] Ibid, 499.

excelled “in the art of proclamation” at the time of the onset of war. Strong words did not bring about military success or justice of cause.[7]

Moseley directly stated the weakness of Republican finance, sounding the theme of those who had opposed the war: “the slender Military Establishment of the United States, whilst it conserves economy, and favors the genius of the government, forbids a hasty resort to war…”. Representative Matthew Clay, Republican of Virginia, told his listeners that the sole answer to the war was unity: “the only way to insure success is to unite.” He offered a contrasting perspective to Moseley’s caution. Responding to the dissension around him, he characterized the United States’ action as a “righteous war” and provided a short justification of government efforts. Canada, he said, belonged to the United States.[8] Massachusetts Federalist Elijah Brigham, however, provided an apt summary of the central issue of the debate, involving not just expansion of the military, but every war-related proposal in front of Congress. Following Clay’s speech, Brigham pointed out the fundamental problem that he had with the measure. Brigham believed that to expand the military according to the bill represented a “second declaration of war.” He opposed the principle of this particular war, stating that this “war of conquest [was] totally inconsistent with the spirit and genius of our Constitution.” Brigham believed that the War of 1812 was a dangerous venture that could ultimately lead to the separation of the country. Further, he did not believe that its causes continued to exist. The Orders in Council had been repealed, and the issue of impressment was not enough of a reason to continue and expand the American effort.[9] If some thought that consideration of any wartime measure represented a

---

[7] *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 482. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[8] Ibid., 490 and 498. “Let us raise a sufficient army…It is absurd to suppose that we shall not succeed…We have the Canadas as much under our command as she has the ocean…I would take the whole continent from them and ask them no favors…” This statement was made on January 2, 1813 after the disastrous fall campaign in which a Canadian invasion failed.

[9] Ibid., 512-518.

"second declaration of war," it is easy to understand the difficulty of creating a comprehensive financial program. Such was the state of congressional dialogue at the start of 1813.

It is not surprising, then, that in the midst of this fundamental questioning of the war, the financial program for 1813 was created moment-by-moment and in a haphazard fashion. Many congressional policymakers such as Representatives Pearson, Mosely, and Brigham doubted the very necessity of war and had not moved beyond the debate of November 1811 concerning the validity of the option of war. Without the will to plan to expand resources, or a unified sense of purpose in leadership, finances became a matter of crisis management.

In the latter part of January, when Congress began the process of discussing the issue of further funding, questions related to the justness of the war's cause were made even more complicated by expressions of historic concerns pertaining to money, banks, and extreme levels of debt. On January 23, Representative Cheves presented to the House of Representatives a report outlining the state of American finances and a loan bill for an unspecified amount. He recommended the amount of $16 million and told his peers that banks were in a good position to loan the government necessary funds. Cheves argued that since the demands of commerce had been so lessened with the prosecution of war that "holders of money" would see it in their best interest to assist government finance.[10] However, fear of a combination of money and power resulted in an extensive congressional debate concerning the dangers of unlimited executive power in reference to a proposed loan of $16 million.[11] Upon the bill's third reading,

---

[10] *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 870-872. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. "Mr. C thought the banks alone would be able, from the diminution of the demands of commerce upon them, to afford to Government the aids it wanted, if they would give a circulation to their business with Government, something like that which subsisted between them and individuals. They had drawn in much of their capital since the war, and were better able to loan now than they were the last year."

[11] Ibid., 878-879. In response to Cheves, Representative Milnor proposed to specify the interest rate of such a loan, thereby limiting what he perceived as broad executive power. The argument that the President did not have enough power to raise funds was not congruous with Milnor's republican sensibilities.

Representative Thomas R. Gold, Federalist of New York, could no longer restrain his thoughts and conveyed to the House particularly strong views. Gold was alarmed at the government's reliance on excessive borrowing and argued that the actions of the United States government defied basic principles of political economy. He could not understand why and how government could consider accruing massive amounts of public debt while not passing equal measures to offset it. Gold invoked the name of Sir John Sinclair and his 1784 work entitled *History of the Public Revenue*, asserting that the philosopher had proven that no government could recover from the extreme financial duress resulting from debt. Gold believed that the country's debt-laden financial arrangements would lead to national demise. He also quoted Dugold Stewart, a political economist of the Scottish Enlightenment, to emphasize further the importance of public credit. In true Jeffersonian tradition, Gold mentioned that future generations would be forced to wrestle with the debt burden from this war effort, and he concluded his address by doubting the necessity of continuing the war effort, of continuing a great expense of resources for a conflict without reason.[12]

Echoing the earlier sentiments of Brigham in the debate over additional military force, Gold noted that the Orders-in-Council had been revoked and "the blockades have fallen." He saw no reason to continue merely for the issue of impressments. In his dramatic penultimate line, Gold remarked: "The great calamities of this war exceed a hundred fold the complaint or cause of this war; the object of this war, compared with its price, dwindles into insignificance." After six months of war, Gold was apparently exhausted of the process, and at the beginning of

[12] Ibid., 895. "That this course, this resort to enormous loans, without any provision for securing even the interest, is in the face of every sound maxim of political economy, and must entail an oppressive debt on those to come after us, is most obvious; the effect is as certain as the laws of nature."

1813 realized the country still faced the great challenge of inadequate funds and incompetent fighting.[13]

Within the context of this congressional funding proposal, even more concerns were raised. In contemplation of the same loan bill, Timothy Pitkin, Federalist of Connecticut, expressed grave concern related to the financial discretion given to the executive branch, the entity that would determine the rate of interest and amount of discount appropriate for debt instruments in a market setting. Pitkin implied that Madison's administration might give financiers and bankers a "deal" at the expense of the federal government coffers. But Pitkin was not finished with the issue of power and money; he also raised the issue of war taxes, believing that such taxes would not equally affect each of the geographical sections of the country. He felt that taxation unfairly affected the East and did not know if the people of that region would agree to a system of taxation. In the final analysis, Pitkin feared that the 1813 war loan would lead to an indefinite burden of taxation.[14] Despite vigorous debate and the intensity of concerns voiced by various congressmen, the loan bill passed in the House on January 26 with a comfortable majority, seventy-five in favor to thirty-eight against.[15]

The very next day, the House considered an additional debt measure, another issue of treasury notes. Again, spirited debate ensued, and traditional arguments emerged related to the danger of paper within the monetary system. Representative Elisha Potter, Federalist of Rhode Island, opposed the measure, expressing a common complaint that paper money was creating a system of patronage and an aristocracy based on monied interests.[16] Further, he blamed the treasury department, believing that it had purposefully cultivated favoritism, and did not want to

[13] Ibid., 902.
[14] Ibid., 902-907.
[15] Ibid., 907.
[16] Ibid., 908.

see more power given to that executive department. Potter despised the selection of specific banks for use by the treasury department, and, like Pitkin, was concerned that the country was headed towards an "odious" set of taxes.[17]

Much like the debates surrounding war loans, the prospect of issuing more treasury notes provided another forum for the expression of caution related to the nation's finances. Langdon Cheves, the Chairman of the House Ways and Means Committee, after defending both the loan of $16 million and the Treasury note proposal, noted the repeated direction of thought taken by Congress in debate, stating "Gentlemen have again adverted to the particular causes of the war. There is no end to this subject…"[18] Ultimately, the bill authorizing the issue of $5 million of Treasury notes passed the House on January 27, seventy-nine in favor to forty-one against, and on February 8, 1813, the $16 million loan became law. Before recessing, Congress considered the issue of war taxes one more time and on February 17, 1813, determined that there was not enough time to enact appropriate measures. The issue of taxation was once again delayed.[19]

The aforementioned $16 million loan was a significant component of the 1813 program for public finance, but the measure immediately exposed the challenge of borrowing within an already drained private sector. Langdon Cheves' optimism had been ill-founded, and thankfully the concern of Congress with undue executive power had not restricted Gallatin's ability to seek options and offer discounts according to market demand. The first loan subscription was issued on February 20, resulting in an amount of only $3.95 million fulfillment of the loan. Subscriptions were opened a second time during the latter part of March, and an additional $1.88 million was raised. As appeals to banking institutions failed, Gallatin turned to wealthy

[17] Ibid., 909-910.
[18] Ibid, 919.
[19] Ibid., 1078-1079.

individuals in order to gain access to necessary capital; it was not an easy process to gain this support.[20]

Stephen Girard, a native of France, played a key role in the financing of the War of 1812 by supporting the $16 million loan. His status as banker and financier effectively demonstrated the limitations of an economy operating without a central bank. Because of the expiration of the Bank of the United States and the international situation, Girard opened a private bank in May 1812. Within weeks of its opening, Gallatin was corresponding with him, attempting to persuade him to help finance the war efforts of the American government. Girard's bank was exceptionally well-funded, but he was not inclined to aimlessly help the federal government. Historian Donald Adams notes that even in early 1813, Girard was not convinced that advantage accompanied assistance to government. "His reply to Gallatin on the matter of a proposal was cool and noncommittal."[21] Certainly, Girard's correspondence indicated his interest in his own profit rather than an unselfish or patriotic desire to contribute to the American war effort. Girard alerted Gallatin to the nature of his demands. In an August 1812 letter, Girard told Gallatin through a third party that his demands must be met in order for his bank to consider helping the treasury department in any greater capacity.[22] Ultimately, however, Girard and the resources of his bank were an undeniably important factor in providing a stop-gap measure to keep the American war effort going.

An immigrant from Germany, John Jacob Astor enjoyed frequent correspondence with Gallatin. Astor became one of the wealthiest men in American during the early national period as the result of his work ethic and business sense. He started with a storefront, expanded his

---

[20] Perkins, *American Public Finance*, 331.

[21] Adams, *Girard's Bank*, 30.

[22] Stephen Girard to George Simpson, August 6, 1812, The Gallatin Papers, University of North Texas Library, microfilm reel #25.

ventures into the fur trade, and sold his furs for goods around the world, which he sold at high prices in the United States. Once he acquired wealth, Astor realized that real estate was a method of investment and a way to increase his financial holdings. Nicknamed the "Landlord of New York," John Jacob Astor owned much of Manhattan during the prime of his life.[23]

Because of his financial holdings, Astor made an effort to know government officials who might regulate his shipping and trade; consequently, he cultivated a personal friendship with Secretary of the Treasury Albert Gallatin. Astor consistently warned the administration, through Gallatin, of the danger of Indian attacks on the frontier, always with an eye towards protecting his business interests. Astor also felt compelled to communicate to Gallatin the opposition and insults to the administration that he uncovered in New York. In the final analysis, Astor was not only a significant financial influence, but also tried to inform Gallatin of wartime political ramifications.[24]

David Parish was a European immigrant called "a scion of a family with influential connections in all the economic capitals of Europe" by historians Philip and Raymond Walters. Like Astor, he had Canadian business interests and was concerned with how wartime hostilities would affect his profit-making ventures, but unlike Astor, Parish was from a long-established European family of status and was born for financial success. In general, he lived his life as an adventurous financier, and as an American from 1806 to 1816, he supported the war and brought attention to the need for a second Bank of the United States, among his various other activities.[25]

---

[23] Lucy Kavalier, *The Astors: A Family Chronicle of Pomp and Power* (New York: Dodd, Mead, and Co., 1966), 5-37. Axel Madsen, *John Jacob Astor: America's First Multimillionaire* (New York: John Wiley and Sons, 2001), 168.

[24] John Jacob Astor to Albert Gallatin, August 31, 1812, The Gallatin Papers, microfilm reel #25. Astor was incredibly concerned about the potential aggression of Indians and wrote continuously to Gallatin on that subject and the need for defense. As an example of the sort of issues that Astor brought to Gallatin, in late August Astor included a copy of a newspaper article for Gallatin's perusal. The article lauded DeWitt Clinton and described Madison's administration with the word "imbecile".

[25] Walters and Walters, "American Career of David Parish," 149-166.

Philip and Raymond Walters clearly state the importance of the actions of these three financiers and the treasury secretary in arranging the $16 million loan. "By the efforts of the German-born Parish and Astor, the French-born Girard, and the Swiss-born Gallatin, accordingly, the greatest financial transaction during the War of 1812 was concluded, and the United States was saved from insolvency."[26] There is some irony in the fact that at a time when Gallatin endured such scathing criticism because of his Genevan heritage, three foreign-born individuals with personal wealth and financial expertise supported and influenced the development of American finance through the war effort and beyond. They had a firsthand view of the difficulties of a competent and able treasury secretary and understood the tools that the American government truly needed. Because of their wartime experience, Astor, Girard, and Parish were particularly interested in the creation of a central banking entity.

Since the war's beginning in 1812, Gallatin had courted several wealthy individuals to assist with Treasury funding, but to no avail. Stephen Girard opened his well-capitalized bank in Philadelphia literally weeks before war was declared, and historian Donald Adams documents Gallatin's pursuit of financial assistance from Girard from May of 1812. "Within a month of commencing operations, Girard's bank was drawn into the web of wartime Treasury financing." Girard did not operate from altruistic motives, however, and this initial proposed agreement with Treasury did not meet his high expectations in the final analysis. The deal fell through.[27]

Gallatin's March 5, 1813 letter to Madison reflects the difficulties that he had encountered as he attempted to work with John Jacob Astor, David Parish and others early in the year. Parish was simply not agreeable at that earlier time. As a result, Gallatin urged Madison to cut military and western expenses, while focusing on defensive measures, not an auspicious

[26] Ibid., 161.
[27] Donald R. Adams, Jr., *Finance and Enterprise in Early America: A Study of Stephen Girard's Bank 1812-1831* (Philadelphia, University of Pennsylvania Press: 1978), 26-27.

signal from the treasury secretary. Had Gallatin been able to reach an earlier understanding with the parties he had contacted, he would not have had to open the March loan subscription.[28]

After working to cultivate support, Gallatin and his friend Alexander J. Dallas, a leader of the Republican Party in Pennsylvania where Gallatin made his home, managed to secure the financial backing of the syndicate of John Jacob Astor, Stephen Girard, and David Parish for over $10 million. Raymond Walters and Donald Adams have documented the complicated web of personal relationships that made this loan subscription possible.[29] That Astor and Gallatin enjoyed a personal as well as professional acquaintance is evident from the numerous letters from Astor to Gallatin in Gallatin's papers. On March 20, 1813, Astor offered Gallatin his perspective regarding the failure of the loan subscription: "…pepal [sic] will not give there [sic] money as they say they will not furnish means to carry on a war which they do not [agree with]."[30] Private banker Stephen Girard was careful to specify the terms of the agreement, which, at a discount of $88 for every $100, were highly advantageous to him.[31] The syndicate of Astor, Girard and Parish was in place by the end of the first week of April, and Gallatin's letter to the secretaries of war and navy dated April 17 related the treasury secretary's relative success in coordinating this development. Gallatin also took the opportunity to reiterate the importance of following some kind of orderly and disciplined process when requisitioning funds.[32] In the

---

[28] Gallatin, *Writings*, vol. 1, ed. Henry Adams. "With respect to the enclosed, my reliance on Parish is not great; and he had positively refused to join with Le Roy and Girard and with Mr. Astor in making proposals for ten millions of the loan. I had set that going, and if it had succeeded I would not have opened the loan by subscription. He now says that it would have been better to invite proposals." Accessed from http://oll.libertyfund.org/title/1953

[29] Philip G. Walters and Raymond Walters, Jr. "The American Career of David Parish" *The Journal of Economic History*, 4, (Nov. 1944), 160-161; Adams, *Stephen Girard's Bank*, 26-30.

[30] John Jacob Astor to Albert Gallatin, March 20, 1813, The Gallatin Papers, microfilm reel #26.

[31] *American State Papers*, Senate, 13th Congress, 1st Session, 647. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[32] Albert Gallatin to James Madison, April 17, 1813, The Gallatin Papers, microfilm reel #26. "The Treasury was so far exhausted on the first day of this month that the small unexpended balance, dispersed in more than thirty banks, could not have afforded any further resources. This unpleasant situation was principally due to the large requisitions made by the War Department during the first quarter of this year, and it is indispensable to adopt some fixed rules which may prevent the occurrence of a similar crisis."

absence of the Bank of the United States, these financiers acted in the unusual position of collective investment banker to the American government.[33]

The three men who helped ease Gallatin's desperation and provided the means for the continuation of the war in the short term were all foreign-born businessmen of elevated means.[34] Prior to the tensions leading to the war, Stephen Girard, John Jacob Astor, and David Parish had each taken advantage of the uncertain international situation to create successful American-based businesses. Foreign trade and currency discrepancies had provided economic opportunities for these men, but, ultimately, the commercial restrictions during the latter part of Jefferson's administration gave each of them reason for concern, and by 1813, they were interested in seeing the war's end.

Gallatin had been in the ignominious position of a glorified beggar for the United States treasury because of the failure of the $16 million loan subscription. With his heightened awareness of the lack of public support for the war within monied circles, he apparently reached the end of his patience in dealing with the financial desperation of the United States government and took an appointment in the spring of 1813 to travel to Russia to assist with end-of-war negotiations. Gallatin biographer Raymond Walters has noted that Madison and his administration did not believe that the negotiation process would last more than a few months, and all expected Gallatin to return to his Treasury post by the first of the year.[35] As a result of that optimistic assessment, no serious effort was made to place a competent financial thinker at the helm of that troubled department. In this framework, the secretary of navy was appointed by Madison to serve also as the acting secretary of treasury. William Jones had been appointed

---

[33] Perkins, *American Public Finance*, 333. "The U.S. government thus experienced its first involvement with financiers performing essentially investment banking functions in April 1813."

[34] It is ironic that the men who essentially bailed the United States government out of bankruptcy were all European-born. Gallatin had been assailed by the administration's most vituperative critics for his Swiss birth.

[35] Walters, *Gallatin*, 251.

secretary of navy only in January 1813, so adding the unfamiliar treasury duties must have seemed like quite a task in the midst of waging a difficult war. Although he was unavoidably overwhelmed, Jones has received favorable treatment from historians. Ralph Ketcham referred to him as a "level-headed" decision-maker, while Leon Schur portrayed Jones in a positive way, adequate to the challenges.[36] From the beginning, Jones felt that the duties were too much, as evidenced by his comment: "I am a perfect galley slave…obliged to row double banked."[37]

What President Madison thought about the war and its financial ramifications was partially revealed by his principled and confident responses to wartime catastrophes and political dissension through the first months of 1813. He was certainly aware of troubling opposition to his war policy. Through this period, Madison continued to assert his reasoning for pursuing wartime objectives, and as his administration continued to change and effective leadership proved unreachable, he reasserted the importance of commerce to the future of America. In a special message to Congress in February 1813, he answered those who believed that impressment was the sole remaining cause for war with the response that national honor and injury in relation to commerce were the true reasons for the continuation of the fight. He found British actions to be "uncivilized", "un-Christian", and "insulting" to American sovereignty.[38]

Rather than advocate a reduction of expenditures and reduced wartime efforts, Madison saw the need for greater action. In his second inaugural address given on March 4, 1813, Madison concluded by focusing on the need for concentrated efforts: "To render the war short, and its success sure, animated and systematic exertions alone are necessary."[39] In a telling letter

---

[36] Ketcham, *James Madison*, 562. Leon Schur, "The Second Bank of the United States and the Inflation after the War of 1812" *The Journal of Political Economy* 68 (April 1960), 118-134.

[37] Rutland, *Presidency of James Madison*, 139. Hickey, *War of 1812*, 160.

[38] Madison, *Writings*, vol. 8, ed. Hunt. Accessed from http://oll.libertyfund.org/title/1939 "Special Message to Congress" February 24, 1813.

[39] Ibid., "Second Inaugural Address" March 4, 1813

to David Humphries dated March 23, 1813, Madison reiterated the importance of American commerce in the context of free trade as the object of the War of 1812. He also offered a response to Philadelphian Matthew Carey's concerns regarding New England secession, explaining his consistent calm in the face of criticism. Madison stated that he had never believed that the conspiracy was widespread, but only the work of a few individuals, and further, he did think that eastern states truly had motivation to separate from the union. Again, Madison asserted the basis of his trade and economic philosophy: he believed that trade connected the world, and sectional and national interests shared common motivations. Madison remained a focused, if restrained, leader, and even though his detractors were ready to concede defeat, the president continued to emphasize the goal of commercial independence.[40]

On May 25, 1813, in his message to a special session of Congress, he could not avoid documenting the state of American finances. While presenting a tempered assessment, he acknowledged American dependence upon debt financing, indicated that Treasury would need increased assistance, and boldly advocated a solid system of internal revenue. Madison stated that Americans would "cheerfully" contribute to the activities of their government and expressed an optimistic view of the willingness of the public to pay.[41] By mid-year, Madison sorely wished that Congress had acted sooner on the subject of taxation, as his administration continued to lack the financial means to achieve his vision of wartime success.[42]

[40] Ibid., Letter from James Madison to David Humphreys, March 23, 1813. As referenced in Chapter 5, in a letter marked "Private: To Be Destroyed", Matthew Carey told the president in frank terms that "A most daring, powerful, unprincipled, and formidable conspiracy exists in New England…"

[41] Ibid., "Message to the Special Session of Congress" May 25, 1813. "In recommending to the National Legislature this resort to additional taxes, I feel great satisfaction in the assurance, that our constituents, who have already displayed so much zeal and firmness in the cause of their country, will cheerfully give any other proof of their patriotism which it calls for. Happily, no people, with local and transitory exceptions, never to be wholly avoided, are more able than the people of the United States to spare for the public wants a portion of their private means…"

[42] Congress did not enact a system of taxation until fall 1813.

Regardless of the state of finances, Madison was determined to carry on the war. Gallatin had departed Treasury, and on June 3, Acting Secretary of Treasury, William Jones, offered Congress his first financial report, which detailed the receipt of $15.4 million and expenditures totaling $15.9 million from October 1, 1812 until March 31, 1813. The government could afford the difference because of an existing balance of $2.3 within Treasury, but Jones was describing a difficult situation. In his list of revenue sources, he again noted the existing $2.3 million balance, but documented the challenge of raising revenue during this time. Only $5.2 million was raised from duties, taxes, and fees, representing a small part of revenue needed. The remainder of the total $17.7 million came from debt instruments. The $5 million Treasury note issue from 1812 resulted in the receipt of $4.7 million from October to March, but the Treasury note issue passed in February 1813 for the same amount had netted only $32,000 by the end of March. The $11 million loan passed by Congress in March 1812 gave the government access to $4.3 million little over a year later, and the $16 million loan from February 1813 had been oversubscribed by approximately $2 million.[43]

Although the loan was oversubscribed, Jones' report partially revealed the extent of the difficulties associated with fulfilling the $16 million loan. After two separate subscriptions were offered to the public in March, only $6 million had been fulfilled. Truly, the support of Stephen Girard, John Jacob Astor, and David Parish, during the first week of April, proved invaluable, and the credibility of these men who served as loan underwriters explained its subscription success. Treasury secretaries following in Gallatin's footsteps found it difficult to replicate his work in cultivating such relationships, but it is also important to note that Gallatin had been pressed by the market to alter the terms of the loan in order to provide incentive for investors.

---

[43] *American State Papers*, 3, Finance, 2: 622-624. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. See also section B of the June report.

Treasury offered a rate of 6 percent interest for securities redeemable after 1825, while also providing a discount of 88 percent. This meant that for every $88 a person paid, they were entitled to $100 in securities, which was quite a discount and represented an important concession to the economic conditions.[44]

Jones' report made it obvious that the American financial position was precarious in mid-1813, and he concluded the report by stating the need for internal revenue. Importantly, Jones related to Congress that the benefit of any taxation system passed in late 1813 would not be full realized until late 1814 or early 1815.[45] Congress, for the first time began seriously to consider the dreaded war taxes. Gallatin had suggested consideration of war taxes from early 1812 and had attempted to impress the Committee on Ways and Means with the necessity of pursuing such measures.[46] On June 10, Committee Chairman Eppes, issued a report stating the increased need for greater internal revenue and a system of taxation to be in place for 1814. His purpose was to attempt to convince his colleagues of the need for further attention to internal revenue and taxation. Because of the length of the war, Eppes wanted to show that Congress could no longer avoid this issue and estimated that the government would need at least an additional $5.6 million. Eppes asked for bills related to assessment and collection, as well as laying and collecting a direct tax. He advocated a duty on imported salt, liquor distilling and wine retailing licenses, carriages, sugar, sales at auctions, bank notes, and foreign tonnage, all measures echoing

[44] *American State Papers*, 3, Finance, 2: 625. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[45] Ibid., 624.

[46] Gallatin to Ezekiel Bacon, January 10, 1812, The Gallatin Papers, microfilm reel #24. Bacon was then the chairman of the Committee on Ways and Means. Gallatin addressed the issue of war taxes in this lengthy letter which considered the difficulties of war finance six months prior to the declaration.

Gallatin's planning. Furthermore, Eppes recognized the practical needs of these proposed bills and requested that the office of commissioner of the revenue be established.[47]

The condition of the government's finances provoked even former president Thomas Jefferson to comment on the issue of public credit. For a man who clearly relished retirement, hesitated to comment on public policy, and in general, communicated only positive comments to those with whom he corresponded, Jefferson expressed uncharacteristically strong opinions related to finance and politics through a series of letters to Eppes. In a letter dated June 24, Jefferson counseled that responsible government cherished public credit by balancing borrowed funds with taxation. He cautioned Eppes against anything resembling perpetual debt, believing that debt was a burden unfairly placed on future generations.[48] Further, Jefferson was very concerned about the undue influence of banks and the disastrous impact of paper money on the economy. He urged Eppes to think about the increased use of treasury bills and a system of moderate taxes. Jefferson did not want banks to dominate war finance and posited that perpetual debt would bring about the bankruptcy of the American government. Eppes took Jefferson's thoughts under consideration, but was ambivalent regarding taxation. Although he had presented a report advocating measures of taxation, the Chairman of Ways and Means would later back away from that position, concerned about the long term impact of taxation.[49]

---

[47] *Annals of Congress*, House of Representatives, 13th Congress, 1st Session, 148-149. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[48] The Jefferson Papers, Library of Congress, General Correspondence Series 1, Thomas Jefferson to John Wayles Eppes, June 24, 1813. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on June 15, 2008.
"It is a wise rule and should be fundamental in a government disposed to cherish its credit, and at the same time to restrain the use of it within the limits of its faculties, "never to borrow a dollar without laying a tax in the same instant for paying the interest annually, and the principal within a given term; and to consider that tax as pledged to the creditors on the public faith."

[49] Ibid., Thomas Jefferson to John Wayles Eppes, November 6, 1813. In his letters to Eppes, Jefferson also tackled the issue of banks, banking, and a national bank. Certainly reflective of Jeffersonian tradition, Eppes would oppose the concept of a national bank when the subject emerged in 1814.

The House of Representatives did seriously contemplate the practicalities of taxation, but not without great consternation. On June 26 Congress began to discuss the subject of war taxation, and the bills presented proposed both direct and indirect taxes. One controversy immediately surfaced. At issue was whether citizens should pay based on their wealth, resulting in an unequal share of the burden, or whether a tax structure should be based on the principle of equality. Representative John Montgomery, Republican of Maryland, expressed great concern regarding the fairness of internal taxes and argued that citizens should pay "according to their wealth" in contrast with a blanket rate of taxation that unduly burdened those with fewer resources. The House rejected his ideas and debate continued.[50]

Three days later, on June 29 as the House considered an estate tax and a tax on distilled liquor, Representative Charles Ingersoll, Republican of Pennsylvania, used the occasion to assert the rightness and justice of the causes of this war. He argued for the imposition of taxes, stating that a "war, without taxes, is a body without soul." Ingersoll approached this important discussion with a long term view, favorable to the administration's policies, but with reasoning that followed a sometimes circuitous route. He first asserted the brilliance of Secretary of the Treasury Gallatin and noted the importance of finance to any wartime effort. "The armor of war is fabricated of iron, but it will never be lasting unless burnished with gold…unless…erected on a well-founded treasury." Ingersoll continued his lengthy address with an examination of the science of political economy and the ideas of Adam Smith, concluding that there was not a single

[50] *Annals of Congress*, House of Representatives, 13th Congress, 1st Session, 322. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Interestingly, Montgomery further connected the issue of taxation to the specie standard, pointing to a distrust of banking and paper money.

version of a correct system of taxation. An advocate for increased internal revenue, he discussed the history of taxation in America and concluded that a tax on income was best.[51]

Following more discussion on June 30, initial proposals passed the House on July 1. The contentious atmosphere remained, however, as additional revenue measures were contemplated. On July 8, the House specifically considered a direct tax to raise the amount of $3 million dollars, with New England shouldering the lion's share of the tax burden. At this point, Representative Elijah Brigham, Federalist of Massachusetts, could not keep silent. He again asserted his opposition to the war and as a result his opposition to this direct tax.: "the war in which this country is involved, has lost its popularity, if it ever had any, by the constant defeats and disasters attended to it."[52] Towards the end of deliberations in mid-July, Representative Alexander Hanson, Federalist of Maryland, rose to register his complete opposition to the entire system of revenue devised by the Committee on Ways and Means. In particularly strong language, Hanson made it clear that if the war had been supported by the public, then the means of finance would not be difficult. "if the people preferred war to peace, then the necessary measures growing out of a state of war would have been popular…the loan books were opened…[but] states abandoned the government and would not furnish the sinews of war." Hanson found the previous Congress, the representatives who had declared the war, to be responsible for the current financial debacle. The Twelfth Congress had not truly measured the support of the public, and thus, had failed to represent the interest of the people.[53] Even after a year and half of war, Congress could not find a semblance of unity.

Despite rancorous debate, a comprehensive system of taxation was enacted and became law during late July and early August. On July 24, several measures were enacted including

[51] Ibid., 352-360, 367.
[52] Ibid., 405.
[53] Ibid., 406 and 458.

duties on refine sugar, carriages, licenses to liquor distillers, and sales at auction. Over a week later, on August 2, more measures were signed by the president including direct taxes, duties on licenses to wine retailers, captured goods, and stamps. It had taken Congress a year and a half to consider, debate, and pass tax measures equal to the country's immense financial needs. Towards the end of the war, the collection of revenue would reflect this effort, although the administration also had to withstand public attack in order to bring taxation to fruition.[54]

Financing the war was exceedingly difficult, but domestic political divisions and petty personal interests plagued the Madison administration at every turn. This reality became painfully obvious in the events surrounding Gallatin's appointment as a treaty negotiator, a matter that remained unresolved at the time of his departure and illustrated the strength of political animosity against this esteemed individual. Although the treasury secretary had departed in early May, Secretary of State Monroe documented the actions of the "malcontents" in late June. In a letter to former president Jefferson, he mentioned the names of senators who blocked Gallatin's appointment from personal animosity. Monroe's list included Senators Rufus King (Federalist of New York), William Giles (Republican of Virginia), Samuel Smith (Republican of Maryland) as well as Michael Leib (Republican of Pennsylvania) and many others.[55] In a letter dated August 2, Madison directly expressed his dismay to Gallatin as he

[54] The Madison Papers, Library of Congress, Additional Correspondence Series 2, August 26, 1813, Letter from John Graham to James Madison. Accessed from http://memory.loc.gov/ammem/collections/madison_papers/mjmser2.html on June 15, 2008.
Also included is: "Federal Republican and Commercial Gazette" dated August 25, 1813. In a letter to Madison, John Graham included a newspaper published in Georgetown that spoke of war taxes in withering terms: "The two greatest curses which wicked and foolish rulers bring on a nation are WAR and TAXES." The newspaper author decried the administration's passage of taxation measures.

[55] The Jefferson Papers, Library of Congress, General Correspondence Series 1, James Monroe to Thomas Jefferson, June 28, 1813. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on June 15, 2008.
See also J.C.A. Stagg's article entitled "James Madison and the "Malcontents": The Political Origins of the War of 1812" *William and Mary Quarterly*, Third Series, Vol. 33, No. 4 (Oct., 1976) 557-585. Although Stagg is focusing on the political dissension leading to war, the article sheds light on the identity and values of the "malcontents" to whom Monroe referred.

related the outcome of the Senate confirmation proceedings. "You will learn from the Secretary of State the painful manner in which the Senate have mutilated the mission to St. Petersburg."[56] Gallatin was decommissioned as a negotiator, left St. Petersburg, and stayed for a few months in London. Ultimately, Madison reappointed Gallatin, and those arrangements were made by May of the next year, 1814. The larger issue of this confused appointment reflected the irrational opposition and personally vindictive spirit of certain congressmen to Madison's administration and policies.

At the same time of this exercise in domestic political wrangling, an additional loan bill in the amount of $7.5 million became necessary. Originating with Eppes and the Committee on Ways and Means, this proposal was first read on July 22 and quickly became law by August 2, a sign of the urgency of the financial situation. Gallatin happily noted from abroad that this loan was filled much more easily than the $16 million loan from earlier in the year.[57]

In his final report as acting secretary of the treasury, William Jones provided an account of the federal government's financial condition through the 1813 fiscal year, ending September 30. Receipts increased to $37.5 million, which included $13.5 from revenue sources such as customs and land sales, and the remainder, a staggering $24 million, was borrowed. The 1812 loan of $11 million provided cash flow of $4.3 million, while the 1813 loan in the amount of $16 million resulted in the collection of $14.5 million. Both 1812 and 1813 Treasury note issues resulted in $5.1 million during the first three quarters of 1813. With $2.3 million on deposit at Treasury, the government had access to almost $40 million. Expenditures amounted to $33 million, resulting in the existence of a "surplus" of $7 million. Jones estimated that if fourth quarter receipts and expenditures were included, the remainder in Treasury would be about $4.68

[56] Madison, *Writings*, ed. Hunt, Vol. 8. James Madison to Albert Gallatin, August 2, 1813. Accessed from Accessed from http://oll.libertyfund.org/title/1939 on June 17, 2008.

[57] Walters, *Gallatin*, 270.

at the end of December 1813. He also noted that \$3.85 million of the August \$7.5 million loan had been subscribed with the remainder to be received in the first months of 1814.[58]

As he evaluated potential expenses for 1814, Jones identified \$45.3 million in expenditures: \$1.7 million for civil and diplomatic expenses, \$12.2 million for public debt payments, \$24.5 million for the military establishment, and \$6.9 million for naval expenditures. Jones estimated that Treasury could rely on \$16 million in revenue and loan payments, but told Congress that the remaining \$29 million still required provision. Congressional deliberations in December 1813 had involved considering a further embargo of goods, and Jones concluded the report by acknowledging that the impact of the embargo could necessitate even further borrowing measures.[59]

Like Jones, Madison also attempted to put the tumultuous year of 1813 into perspective for Congress and the American public. His "Fifth Annual Address" in January 1814 began with an apologetic statement regarding the lack of diplomatic progress and British arrogance. Madison could not promise his country a quick end to the conflict through American victory or British capitulation, and additionally, he could not honestly express great hopefulness about the possibilities. Even with these limitations, Madison succinctly offered an eloquent defense of American action: "Under such circumstances a nation proud of its rights and conscious of its strength has no choice but an exertion of the one in support of the other." He depicted the British as "cruel" enemies and discussed the need to open trade and cultivate markets with foreign powers also at war with the English. Regarding finance, Madison characterized expenses with the word "extensive" and told his readers that in the coming year continued reliance on

---

[58] *American State Papers*, House of Representatives, 13th Congress, 2nd Session, 651-659. "State of Finances," January 10, 1814. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Letter G of the addenda, on page 662, shows the complete subscription of the loan.

[59] Ibid.

increasing amounts of loans would be necessary. He argued, however, that the costs were outweighed by the benefits gained through American efforts. This war was waged in pursuit of national security, "permanent safety" in the President's words, and additional expenses were warranted in consideration of that important purpose. The new year of 1814 brought with it anxiety and uncertainty as the administration had no idea what direction the war would take next.[60]

Indicative of the state of American financial management and reflecting the contentiousness surrounding the treasury secretary position, the Senate considered a statement regarding Albert Gallatin and his absence from Treasury as a diplomat in Russia on January 24, 1814 for political reasons. The legislative body declared Gallatin's position to be officially vacant, mandating action of the part of President Madison. His first choices to fill the position declined and, consequently, Madison asked Tennessee Senator George Campbell to fill the secretary of the treasury position, beginning his duties in that capacity in February 1814. Treasury Secretary Campbell was quickly overwhelmed, and as testimony to the difficulty of the demands, resigned before the war's end in October 1814. As this episode reveals, the final year of war brought even more severe challenges to Madison's administration in its need for reliable financial leadership.[61]

---

[60] Madison, *Writings*, vol. 8, ed. Hunt. December 7, 1813, "Fifth Annual Message." "If much treasure has been expended, no inconsiderable portion of it has been applied to objects durable in their value and necessary to our permanent safety." Could this be a statement of Madison's wartime financial policy? Accessed from http://oll.libertyfund.org/title/1939 on June 17, 2008.

[61] *Annals of Congress*, Senate, 13th Congress, 2nd Session, 600, 625, and 651. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Senator Mason was central to the effort to remove Gallatin from the position of Treasury Secretary in absentia and to motivate Madison to appoint someone to occupy that role.

CHAPTER 9

PURSUING A PHANTOM

As the second session of the Thirteenth Congress convened on December 6, 1813, once again John Wayles Eppes, Jefferson's former son-in-law and fellow Virginian, took up the mantle of leadership by urging his legislative colleagues to consider the needs of the Madison Administration. The War of 1812 had defied expectations of a quick negotiated end, and by the close of 1813, no one knew when the conflict would cease, as Madison's "Fifth Annual Message" revealed.[1] As a result of increasing uncertainty, congressional discussions grew more heated. Those representatives inclined to oppose the war became even more vocal in their attempts to stymie funding bills, and, as ideology and political division increased, the financing of the war became the casualty of a piecemeal process of wartime financial management. In short, the policymaking atmosphere of 1814 was more argumentative and less efficient than in previous years of war.[2]

On February 9, 1814, Eppes in his capacity as Chairman of the House Ways and Means Committee submitted a summary of the administration's financial needs for the coming year. He estimated total expenditures for 1814 at $45.35 million—divided into $13.9 million for civil needs and public debt, $24.55 million for military expenses, and $6.9 million for naval expenses.

---

[1] James Madison, *Writings of James Madison*, vol. 8, ed. Gaillard Hunt, "Fifth Annual Message", December 7, 1813. Accessed from http://oll.libertyfund.org/title/1939 on July 5, 2008. "The British cabinet, either mistaking our desire of peace for a dread of British power or misled by other fallacious calculations, has disappointed this reasonable anticipation. No communications from our envoys having reached us, no information on the subject has been received from that source; but it is known that the mediation was declined in the first instance, and there is no evidence, notwithstanding the lapse of time, that a change of disposition in the British councils has taken place or is to be expected. Under such circumstances a nation proud of its rights and conscious of its strength has no choice but an exertion of the one in support of the other."

[2] *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 1692. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. Calhoun indicated a rising level of frustration in Congress at the end of his February 1814 speech. Oppositionists repeatedly spoke of the war as misguided in purpose and unjustified from the beginning. Calhoun discussed the impact of a divided Congress, indicating a loss of strength and unity.

The sheer enormity of the $45 million number drew the negative attention of those who had questioned the necessity of war from its inception. Prior to the beginning of the war, total expenditures for these same categories amounted to approximately $8 million (or $13 million if payment on debt principal was counted), a stunning difference.[3] By the end of 1812, expenditures had climbed to around $29 million, and in 1813 aggregate expenses amounted to $33 million.[4] The $45 million that Eppes proposed was a shocking number in comparison, and members could not avoid contemplating the potentially endless upward movement of future budgetary needs.

Chairman Eppes also listed the means through which the federal government could meet its expenses; unfortunately, the nation's resources were not impressive and his plan relied on previously used measures. Customs and land sales could provide $6.6 million, internal revenue and direct taxation could provide $3.5 million, and the balance of loans, treasury notes, and cash in treasury would provide an additional $5.9 million. In total, Eppes estimated that national government already had access to $16 million, but would need to borrow in excess of $29 million to survive another year of war. This was distressing news for his peers, but Eppes did not waver from the same position that Gallatin had expressed since 1807. He plainly stated that "the resources of the nation, without any system of internal taxes, are sufficient in times of peace to discharge in twenty-two years, a debt of $92 million in principal." His message conveyed that Congress had no need to worry about the increasing debt the country was in the process of accruing; future prosperity would take care of that problem.[5]

---

[3] *American State Papers*, 3, Finance, 2: 495. November 25, 1811, "State of Finances." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.
[4] Ibid., 2: 580 and 2: 651. December 7, 1812 and January 10, 1814, "State of Finances"
[5] *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 1269.

In addition to Eppes' report of expenses and resources, the Chairman also attempted to prove that "moneyed capitalists" were able to fund the necessary loans. Filling the $16 million loan of 1813 had been a challenge as bankers had refused to participate for a variety of reasons, many of them political.[6] Eppes intended to reassure Congress that the country would not face that situation again. He drew on his knowledge of political economy and through his calculations indicated that the relationship of "circulating medium" to "productive industry" was such that financiers could afford to assist with the vast loan needed by the federal government.[7] Eppes's math may have offered working numbers indicating the public's ability to pay, but he did not account for the lack of political will.

Republicans who adhered to Jeffersonian views, as well as Federalists who opposed Madison's policies, were odd partners in the effort to oppose Eppes's proposals in particular, and further funding in general. As discussions commenced regarding the Loan Bill of 1814 for $25 million, representatives who had disagreed with past measures made their presence known to an even greater extent. The words of House Representatives Abijah Bigelow, Federalist of Massachusetts, Timothy Pitkin, Federalist of Connecticut, Thomas Montgomery, Republican of Kentucky, and Daniel Sheffey, Federalist of Virginia, provide significant examples of the opposition that Madison and his administration faced.

---

[6] Gallatin, *Writings*, vol. 3, ed. Adams. "Considerations on the Currency and Banking System of the United States" Accessed from http://oll.libertyfund.org/title/1950 on July 6, 2008.
Albert Gallatin referred to this difficulty when summarizing the history of American financial institutions in 1830: "The circulating capital of the United States, which must supply the loans required in time of war, is concentrated in the large cities, and principally north of the Potomac. The war was unpopular in the Eastern States; they contributed less than from their wealth might have been anticipated; and the burden fell on the Middle States." For a discussion of the war's economic impact on New England industry and Federalist opposition as it relates wartime loan funding, see also Robert East, "Economic Development and New England Federalism 1803-1814" *The New England Quarterly*, Vol. 10, No. 3 (Sep., 1937), 432-433.

[7] *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 1272-1273. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

Representative Bigelow offered the reasoning behind his disapproval of the war and its funding. He was determined to vote against the loan measure on the basis that he could not support a war of conquest and invasion. Moreover, the war had been "improvidently declared" and horribly mismanaged by Madison's administration.[8] Representative Pitkin supported Bigelow's sentiment and declared that the goal of the war in 1814 remained the same as it was at the beginning of the conflict, to conquer Canada. Pitkin declared that he would not be pressured to support the war merely because the war had been declared and it was a matter of duty to assist the president's efforts. He resented the implication that some of his colleague's definitions of patriotism involved blind support of a war he believed wrong and unnecessary. (A third opponent of this early funding proposal, Rep. Montgomery called this blinding patriotism "the doctrine of perpetual allegiance.")[9] Further, Pitkin was concerned that the entire debt would go beyond Eppes calculations to reach $107 million.[10] Representative Daniel Sheffey could not contain his thoughts and, echoing these concerns, postulated that a system of loans like those proposed simply could not be supported by the American economy at this time. He observed that commerce was suffering because of the war and its funding and argued that the only answer to the problems of the economy was an end to the conflict.[11]

Another congressman, Alexander Hanson, Federalist of Maryland, specifically addressed issues of financial theory in relation to wartime policy and elevated Hamiltonian philosophy in the process. He expressed great concern about the prosecution of the war and its continued financial demands. He did not believe that past efforts had achieved anything and wondered

---

[8] *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 1274-1283. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. "I will vote for no loans."

[9] Ibid., 1291.

[10] Ibid., 1285-1294.

[11] Ibid., 1297.

when the country's policymakers would stop the madness. "For a long series of time, this Administration has been pursuing a phantom—grasping at the shade of a shadow."[12] Hanson noted the expertise of Langdon Cheves, Chairman of Ways and Means prior to John Wayles Eppes, and made the case that Cheves refused to agree wholeheartedly with Gallatin's proposals and the administration's demands, ultimately relinquishing his position to follow his conscience. Hanson could find no reason to continue the war effort, and no reason to burden the country with the encumbrance of debt accompanied by the ruin of public credit.

> I speak the language of every financier and political economist, whose opinions are respected…it is ruinous and destructive of public credit to enter upon a system of loans without providing the ways and means…to rely upon loans to pay the interest of loans…is to adopt a most desperate system of fiscal gambling.[13]

Hanson's implication was that Cheves would never have submitted this proposal. Cheves himself admitted this fact during a later discussion of the same loan bill.[14] After establishing the potentially dangerous effects of the current loan bill, Hanson proceeded to question the basis of the war and impugn the restrictive policies authored by James Madison. In a long diatribe, he evoked Alexander Hamilton's name and commended him for his attention to the public credit, while also stating that Gallatin's financial planning had shown deference to Hamilton's ideas by also attempting to maintain the nation's creditworthiness.[15]

Demonstrating how political agreement arose during this time from different ideological positions, Representative Samuel Sherwood, Federalist of New York, opposed Eppes's proposal from the viewpoint of Jeffersonian traditions. Whereas Hanson believed that the loan bill did not

---

[12] Ibid., 1372

[13] Ibid., 1374-75 Representative Shiperd echoed this sentiment in his speech on February 18. See page 1504. "By crowding the market in such rapid succession with loans—large loans—you cheapen the credit of your Government…"

[14] Ibid., 1628 "It is indeed true that the system of finance on which the Government is acting, is different from that which I deem proper…"

[15] Ibid., 1378. "This deceased statesman [Hamilton] may be truly called the founder of the public credit of this nation…before the magical force of his genius, our fiscal embarrassments disappeared."

involve government enough, Sherwood criticized the undue authority that would be given to the financial sector through the implementation of Eppes' proposal. "I am opposed to the influence that will be given to the money lenders. A moneyed influence in a Republican Government should ever be rigidly and firmly resisted." Sherwood thus gave voice to Jeffersonian (and ironically, Madisonian) thought from the time of Washington's presidency, emphasizing the corrupting nature of power and the increased pressure that corresponded with money power. He referenced the influence of stock-jobbers, speculators, and usurers, stating that these people could easily manipulate the national interest if given authority within the federal government. In addition to the financial issues, Sherwood also opposed a war of conquest in principle. Jefferson could hardly have stated his position more clearly.[16] Hanson and Sherwood clearly focused on competing ideas, but agreed in the opposition to the Administration's financial plans.

February 1814 was a busy month for Congress. At the same time that the $25 million loan bill was proposed, Congress considered a treasury bill proposal in the amount of $5 million. Passage of the treasury bill proposal was far less contentious and occurred in the House on February 22. By March 4, the treasury bill had become law, allowing $5 million in treasury notes to be issued with the potential for another $5 million if needed. This latter $5 million was to be considered part of the total amount to be borrowed as specified in the loan bill.[17]

Discussion of the loan bill was not resolved so easily and continued to the end of February.[18] On February 25, Representative John C. Calhoun of South Carolina offered a long address to persuade his colleagues on the subject of the loan. Calhoun spoke directly to

---

[16] Ibid., 1526

[17] *Statutes at Large*, 13th Congress, 2nd Session, 100. "Act to Authorize the Issuance of Treasury Notes" March 4, 1814.

[18] "An Act to Authorize a Loan for a Sum not Exceeding Twenty-five Million Dollars" was passed by the house on March 3, 1814, with a vote of 97 to 55. *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 1798. The bill was approved and became law on March 24, 1814. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

“oppositionists,” justifying the reasons for the war and arguing that the conflict was necessary and important. In great depth, Calhoun explored impressment, commerce, and the treatment of America at the hands of the British, and, in the last part of his speech, Calhoun led his listeners to the point of support for funding initiatives. Interestingly in light of his future sectional stance, Calhoun underscored the importance of national identity and union of sentiments in order to rise above the spirit of party.[19]

Beyond loans and treasury notes, Congress also considered the creation of a second national bank. Among the many vituperative debates of 1814, none inspired as many proposals and competing speeches as the subject of the national bank, which emerged as a major issue in January of that year. As early as 1813, an amalgam of administration officials and private individuals had conceived of a workable plan for the operation of a new national bank. Albert Gallatin, Alexander Dallas, John Jacob Astor, David Parish, and Stephen Girard played key roles in drafting a plan and encouraging legislators to re-consider the importance of such an institution.[20] On this issue, Eppes staunchly disagreed with administration policy. Reflecting his father-in-law’s influence, Eppes broached the topic by indicating the committee’s disapproval of this entity on constitutional grounds. According to the committee’s reasoning, the federal government did not have the power to establish a corporation within a state “without the consent of the states.” Eppes’ short, one-sentence report prefaced a petition from the state of New York calling for a national bank. In the petition, one hundred twenty-one New Yorkers agreed that the

---

[19] *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 1673 and 1692. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[20] Edward S. Kaplan, *The Bank of the United States and the American Economy* (Westport, CT: Greenwood Press, 1999), 43-44. Raymond Walters, *Albert Gallatin: Jeffersonian Financier and Diplomat* (Pennsylvania: University of Pittsburgh Press, 1957), 260-261.

national bank would assist the federal government in fiscal matters, would help the entire banking system, and would benefit the public as a whole.[21]

Representative John Taylor, Republican from New York and a member of the Committee on Ways and Means, presented a bill for the incorporation of a national bank in mid-February 1814. Taylor's plan involved the creation of a major banking institution in Washington D.C., funded at $30 million with 300,000 shares, to be sold at $100 per share. He advocated governance by twenty-five directors, five of whom would be appointed by the president of the United States. Almost a month later, on March 10, Congress returned to the consideration of a national bank, and Representative James Fisk, another Republican from New York, suggested that the issue be referred to a select committee. Immediately, resistance was voiced as Representative Adam Seybert, Republican of Pennsylvania, opposed the idea of a select committee and argued that the Committee on Ways and Means should provide direction. Eppes responded that, although his committee had declared the bank unconstitutional, the discussion had been extremely divisive. Accordingly, he thought that the Committee on Ways and Means could not arrive at a consensus on the issue of a national bank or any related matter. His recommendation was that the authority of the House address these looming financial questions. Fisk's question was then "decided in the negative".[22] The debate surrounding this simple issue reveals much about the state of congressional decision-making.

The subject of a national bank again emerged in April 1814, when Felix Grundy, Republican of Tennessee, asked for the formation of a committee to consider the merits of such an institution. Immediately, Representative Thomas Newton, Republican of Virginia, proposed that Grundy's motion be tabled. The idea of Grundy's committee generated vigorous opposition

---

[21] *Annals of Congress*, House of Representatives, 13th Congress, 2nd Session, 873. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[22] Ibid., 1860

from Thomas Grosevenor, Federalist of New York, William Findley, Republican of Pennsylvania, as well as Newton, and that particular debate ended with daily adjournment, but no decision. A few days later, Calhoun brought up the discussion regarding Grundy's proposition, but added another element to the proceeding. Calhoun suggested that a committee be formed to consider the issuance of $15 million of treasury notes. The issue of a national bank then mutated into a discussion about additional treasury notes. Chairman Eppes responded to Calhoun with a defense of the actions of his committee and his support of the war. He was concerned that treasury notes would depreciate to a great extent and believed that Congress should be cautious with regard to paper money. Again, his statements reflected the correspondence he had with Thomas Jefferson and proved that financial policymaking was not a simple consideration.[23]

Finally, on April 4, the House determined that it would be appropriate to form a committee to consider re-establishing a national bank. Nine members were selected: Felix Grundy (Republican of Tennessee), John C. Calhoun (Republican of South Carolina), William Lowndes (Republican of South Carolina), Thomas Oakley (Federalist of New York), William Gaston (Federalist of North Carolina), John G. Jackson (Republican of Virginia), Artemas Ward (Federalist of Massachusetts), Samuel Ingham (Republican of Pennsylvania), and Jonathan Fisk (Republican of New York). Although the debate on this issue occupied much time and energy, this committee did not have a chance to work because on April 18, Congress adjourned for summer.[24]

Many troubling events occurred before Congress assembled again in mid-September 1814. In late August, the British captured the capital city of the nation and burned government

[23] Ibid., 1942-1949.
[24] Ibid., 1954.

buildings such as the presidential mansion, the capital, and the treasury building. British forces then moved on to fight in Baltimore and bombard Ft. McHenry. As these dramatic events occurred, the president and his administration were forced to flee their residences and the seat of government, and panic surrounding the physical safety of the country and its leaders created great uncertainty within society, in general, and the financial sector, in particular.[25] Not surprisingly, in the midst of the resulting bank runs, bankers suspended the redemption of currency in specie. Specie suspension represented a failure of the financial sector and was a dramatic statement regarding the state of American finance, making obvious the problem with the lack of centralized executive power related to financial institutions. The United States government and treasury leaders looked on relatively helplessly as banks responded negatively to the situation.[26]

At the helm of Treasury, George Campbell did not seem to know how to approach the problems his department faced. Historian Ralph Ketcham characterizes Secretary Campbell as the weakest member of Madison's cabinet during this time. Continually ill, he did not have the physical stamina or the financial expertise to deal effectively with the crisis engulfing the country. Overall, he could find no money and provided little planning for the administration.[27]

In order to apprise the Senate of the current financial condition of government, Secretary Campbell submitted the requisite report on the "State of Finances" to that legislative body on September 26, 1814. For fiscal year 1814, the federal government had spent $47,270,172, of which $2,445,355 had been expended for civil purposes, and $32,672,816 for military and naval

[25] Kaplan, *Bank of the United States*, 42.

[26] Donald R. Adams, *Finance and Enterprise in Early America: A Study of Stephen Girard's Bank 1812-1831* (University of Pennsylvania Press, 1978), 45-67. Chapter 4 deals extensively with the causes and impact of specie suspension.

[27] Ralph Ketcham, *James Madison: A Biography* (1970; repr., University of Virginia Press, 1990), 584-588. "Of the other members of the executive circle, only Treasury Secretary Campbell was weak…he was too sick to meet the heavy demands…and knew virtually nothing of the intricacies of finance."

purposes. Additional expenses involved aspects of accrued debt: almost $2 million was needed for interest paid on debt created before the war and almost $3 million for interest paid on debt created after war. If payments on principal were included, total debt payments amounted to $12.5 million.[28]

Campbell listed revenue sources at approximately $11 million, with almost $34 million in loans and treasury bills making up the difference. His report summarized activity related to the $25 million loan enabled by legislation passed in March. Rather than offer banks and the public the opportunity to fund the loan through one large subscription in the amount of the loan, subscriptions were broken up for practical reasons.[29] Campbell's report took notice of Treasury's experience with the "difficulties in obtaining loans" as the private sector essentially refused to fund the government loan. The treasury secretary also described the effect of specie suspension on the financial system, observing that inadequate specie reserves and the contracting money supply that corresponded with that phenomenon added to the "embarrassment" of the nation. He offered, however, no real solution to either of these problems.[30]

Campbell's plan for the future was quite limited and merely stated the strategies previously employed. He noted the importance of the direct tax and use of loans, but reassured his readers that the resources of the country were "ample" to meet the needs of war. The treasury secretary suggested that additional taxes and a spirit of sacrifice would be necessary to

---

[28] *American State Papers*, 3, Finance, 2: 840. September 26, 1814 , "State of Finances." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[29] Ibid., 841. The treasury department could not subscribe the amount of the March $25 million loan in total. By September of 1814, treasury had attempted to collect $10 million in partial fulfillment of the amount, but had succeeded in soliciting little over $6 million.

[30] Ibid., 840. September 26, 1814, "State of Finances." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

survive the following year. Beyond that, he seemed to be out of ideas, and truly, American leadership had no idea when the conflict would conclude.[31]

In October 1814, Campbell's tenure ended as Alexander J. Dallas, Republican of Pennsylvania, took over the position of Secretary of the Treasury. A difference in perspective and originality of ideas became immediately apparent, much of which may be attributable to the state of Campbell's health during his several months serving in Treasury. One of Dallas' first reports was in response to an inquiry of Chairman Eppes, answering questions related to public credit. Dallas asserted that the problem with public credit, to which he connected the issue of depreciation and declining monetary value, pertained to two issues. First, Dallas considered the country's inadequate system of taxation, and second, he noted the government's inability to "anticipate, collect, and distribute public revenue" as well as provide the mechanisms to support public finance. Dallas went on to provide his philosophical beliefs related to the nature of national wealth, which depended on agricultural production, property, and industry. His observations led him to comment that "national faith, and not the national wealth, has hitherto been a principal instrument of finance."[32]

Dallas indicated, in contrast to Campbell's report offered only a few weeks before, that taxation could not provide the amount needed and that public credit would become an increasingly important factor. The inflationary state of the money supply remained a thorn in the side of government, and the proliferation of state banks since the decline of Hamilton's bank had exacerbated this problem of value depreciation, a great impediment to the public trust.[33]

---

[31] Ketcham, *James Madison*, 584.

[32] *American State Papers*, 3, Finance, 2: 866. October 17, 1814, "Public Credit." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[33] Ibid.

On October 14, 1814, Chairman Eppes of the Committee on Ways and Means offered a perspective somewhat changed from their recommendations in February of that year. Whereas earlier proposals had advised a reliance on loans, this later report specifically counseled against increased borrowing, instead strongly advising a further issuance of treasury notes and improved tax system to solve funding problems. The Committee acknowledged the "embarrassment" of specie suspension within the middle states, in particular, and further described the impact of an faulty monetary system. With no common medium of exchange, state-issued notes circulated without supervision. Prior to the panic of fall 1814, individuals and institutions from different states accepted each other's notes, but following the fear and uncertainty provoked by the British invasion, state notes were confined to the geographical boundaries of the state from which they originated. The economic effect of this monetary restriction was to curtail commercial activity dramatically and create inflationary pressure. Ways and Means identified these issues and turned to treasury notes as the solution.[34]

Eppes and his Committee asserted that treasury notes could be used as an effective circulating medium, not coincidentally an idea that Jefferson had suggested in his correspondence with the Chairman. To that end, the report urged that treasury notes be issued in smaller denominations for use in the everyday transactions of life, payable to the bearer and transferable, receivable for public land payments and taxes, among other uses. The Committee also advocated an increase in tax levels, including an increase of the direct tax, duties on liquor, sales at auctions, and a host of duties on items of domestic use.[35]

---

[34] *Annals of Congress*, House of Representatives, 13th Congress, 3rd Session, 378. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008. "A reliance on loans, in the present situation of this country, would be uncertain; and the terms on which they would be obtained, not such as to induce a resort to them at the present moment."

[35] Ibid., 379. The Committee believed that taxation was necessary for the creation of public credit. Congress would vote on a long list of domestic articles to potentially tax, item by item.

After Secretary Dallas submitted his aforementioned first report on the state of the finances, the Committee responded by revising its direct tax recommendation in an upward direction, from 50 to 100 percent increase. In spite of the importance of the issue, discord dominated Congressional proceedings. Cyrus King, Federalist of Massachusetts, articulated a new level of hostility towards the administration, voicing the dissent of his New England compatriots. He stated four reasons why he could not support the Committee's and the Treasury Secretary's ideas, and the fourth reason was a stinging rebuke of the President: "I cannot unite in supporting this administration, with Mr. Madison at their head, because he has always shown a settled and determined spirit of hostility against the enterprise, the commerce, the rights, and the patriots of New England." King spoke against the "tyranny" of taxation and accused Madison of a worse sort of tyranny than what the nation was ostensibly fighting against with Great Britain.[36] It was an indication of the division and difficulty associated with the communications and operation of Congress during these final months of 1814 that additional measures to increase duties and taxation were not enacted until early in 1815. In this case, desperation had not led to quick action.

As Congress considered what action to take, the new secretary of treasury attempted to influence legislative members with initial reports that quite confidently advised the policymakers to enact his several suggestions. On October 18, he presented a six-point plan of action that delineated the specific funding needs, followed by the exact taxes necessary, the stopgap measure of annual loans, and the importance of the creation of a national bank with the capacity of making loans to the federal government. Dallas wanted to see a loan of $28 million for 1815

[36] Ibid., 448.

and an issue of treasury notes in an equivalent amount.[37] Again, Congress came to no conclusion.

Although Congress had reconvened in September, the legislative body did not return to the banking issue until November, when a new proposal emerged. In a November 1814 reading of the latest national bank bill, Congress considered an institution with $50 million capitalization divided into 100,000 shares sold for $500 per share. Much discussion ensued regarding where the bank branches should be located and the following cities were ultimately agreed upon: Boston, New York, Philadelphia, Baltimore, Richmond, Charleston, Lexington (KY), Raleigh (NC), Portsmouth (NH), and Chilicothe (OH). According to the proposal, Philadelphia would be the location of the principal bank. This plan, however, encountered an unexpected source of trouble. John C. Calhoun had initially conveyed his support of this bill, but on November 16 introduced his own bank proposal. Calhoun's concept of the bank provided the appearance of agreement, but was actually a complete change in the scope of national bank functions. He advocated capitalization of $50 million, one-tenth to be in specie with the remainder coming from $100 shares in specie and/or treasury notes, but, crucially, the United States government was to hold no stock and have no control over banking operations. Additionally, Calhoun's bank would not have been obligated to loan funds to the federal government in any way. The *Annals of Congress* offered the following statement of commentary: "This motion opened a wide and interesting scene of debate."[38]

On November 27, Dallas offered a written response to William Lowndes's (Republican of South Carolina) inquiry on the subject of a national bank. The November bill involved the issue of $44 million in treasury notes, with $6 million held in specie. Dallas first reminded

[37] Ibid., 401.
[38] Ibid., 587.

Lowndes and his colleagues of the increased threat that loss of value posed to Treasury functions and government finance. In his judgment, passage of this bank bill would result in further deterioration of the financial condition of the country. Dallas listed ten reasons, each beginning with the word "because", explaining why Calhoun's bank bill would result in catastrophe. It would fundamentally not inspire trust within the financial community to issue an enormous amount of treasury notes, and value would be lost. With the loss of trust, the hope of obtaining an adequate loan for 1815 would also be lost, since financiers and monied individuals would not subscribe. The depressed state of public credit resulting from implementation of the Calhoun plan would not allow the effective administration of financial operations. On November 28, the House voted to decline the reading of the bill for a third time.[39]

As December approached, American leadership demonstrated a decided loss of direction. In a telling letter to Thomas Jefferson, Secretary of State and War Monroe indicated the pitiful state of government in the midst of war conditions. Monroe quite bluntly told the former president that he had never before been in such a situation of "difficulty and embarrassment", two words that could easily describe the overall status of the nation as well. Discussing the capture of Washington, Monroe believed that Madison's orders had not been followed by administration officials, and that was the reason for American failure during the fall season. Monroe bemoaned the financial state of the country as well, which he thought was unnecessarily bad because no one had adopted Jefferson's suggestions: "Our finances are in a deplorable state." Jefferson responded on January 1, 1815, lamenting to Monroe that "we still expect to find in juggling tricks and banking dreams, that money can be made out of nothing." Jefferson's visceral reaction against financiers and the function of powerful banks had not changed with his

[39] Ibid., 686.

observations of the war.[40] From Monroe's statements, Madison had no authority over his subordinates or the financial management of the country; leadership was at a premium.

Two days before Christmas, the Senate sent the House another national bank bill to consider. The components included a $50 million capitalization to be sold at $500 per share and 4 percent interest. Fifteen million would be available to individuals and the remaining $35 million could be held as $5 million in specie, $10 million in treasury notes, with a $20 million war stock. A much revised version of the bank bill passed the House on January 7 and was considered by the Senate until January 20, when it was sent to the president for signature.[41] James Madison vetoed this bill on January 30, 1815, not for constitutional reasons, but because he did not believe that this proposed bank would effectively assist the federal government. Madison's executive and wartime experience had apparently changed his perspective related to the importance of a national bank.[42]

Unexpectedly and fortunately, news of the end of war came in early 1815. Jefferson remarked to William Crawford that news of the Treaty of Ghent, which had been signed on December 24, 1814, reached Washington on February 11, and he heard the news on the thirteenth of that month. The treaty represented a negotiated end to the war on the basis of "status quo ante bellum," meaning that neither side made concessions of territory or on the issues that led to war.[43] Jefferson noted with disappointment that the issue of impressments was not

---

[40] The Jefferson Papers, Library of Congress, Series 1, James Monroe to Thomas Jefferson, December 21, 1814, and Thomas Jefferson to James Monroe, January 1, 1815. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html

[41] *Annals of Congress*, House of Representatives, 13th Congress, 3rd Session, 1043-45, and Senate, 13th Congress, 3rd Session, 177. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[42] *American State Papers*, 3, Finance, 2: 891. January 30, 1815, "Madison's Veto Message." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[43] John Quincy Adams, James Bayard, Albert Gallatin, Jonathan Russell, and Henry Clay were the American negotiators of the Treaty of Ghent.

resolved by the terms of peace, but expressed gratitude that the conflict had concluded.[44] President Madison sent to the Senate the terms of the treaty on February 20, 1815.[45]

At the end of the year, in the final month of 1815, Secretary Dallas provided the Senate with a comprehensive report regarding the state of the finances. He reviewed the specific financial demands of the war, documenting each action taken by government to fund the effort. After completing that task, Dallas brought 1815 into perspective and anticipated the financial situation of 1816. Importantly, he offered a record of budget changes and debt levels for complete review.

Dallas noted that total receipts for the three years of war amount to $98 million, of which $62.5 million was acquired through debt measures. Expenditures during that same time period were just over $100 million, and Dallas calculated total national debt at the end of the third quarter 1815 at the $119.6 million level. Dallas concluded his summary with suggestions for congressional consideration. First, he addressed the monetary question and questioned whether to insist on the issue of bullion-based currency. Because of American credit and international money flow issues, it would be difficult for the United States to acquire gold and silver in foreign markets. Second, Dallas was concerned about the role of state banks and financial stability; third, he again stressed the importance of a national bank. Last, Dallas advocated a paper medium of exchange for the country. Despite Dallas' overwhelming concern with the state of American money supply, the secretary of the treasury ended his report by repeating the thematic

---

[44] The Jefferson Papers, Library of Congress, Series 1, Letter from Thomas Jefferson to William Crawford, February 11, 1815, with a postscript dated February 26. Accessed from http://memory.loc.gov/ammem/collections/jefferson_papers/mtjser1.html on July 20, 2008.

[45] *Annals of Congress*, Senate, 13th Congress, 3rd Session, 255-257. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

statement made by each of his predecessors, a projection that the public revenue would continue to grow in time of peace.[46]

The year 1815 marked the end of a contentious wartime era in which policymakers had been unable to agree on the appropriate course of war, either militarily or financially. On a more positive note, the end of war also witnessed the elevation of the competent Alexander Dallas to the secretary of the treasury position. Both developments were important to future American prosperity and an increased government emphasis on crisis preparation and the establishment of operational financial mechanisms. Dallas was instrumental in pressing Congress and the president for a functional national bank and designing a strategy to overcome the government's indebtedness.[47]

---

[46] *American State Papers*, 3, Finance, 3: 1. December 7, 1815, "State of Finances." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[47] Edwin J. Perkins, *American Public Finance and Financial Services, 1700-1815*, 335-336 and 344-346. Raymond Walters, "The Origins of the Second Bank of the United States," *The Journal of Political Economy*, 53 (June 1945), 116. Walters mentions Dallas as one of the most influential policymakers calling for the formation of a national bank.

CHAPTER 10

CONCLUSION

The War of 1812 was a pivotal experience in the development of American economic thought. An increased awareness of financial issues and the potentially negative economic impact of national emergencies motivated an intellectual shift on the part of policymakers. Politicians were forced to recognize the limitations of the existing public financial infrastructure, proven too weak to meet the demands of war. Post-war proceedings recorded within the *Annals of Congress* reflect the new attention devoted to these concerns as the legislative body considered both a more expansive revenue program as well as the importance of a national banking institution. In January of 1816, the Committee on Ways and Means with William Lowndes as its chairman offered a new sense of direction emphasizing the importance of financial preparation in advance of crises. "The only preparations against the dangers of foreign aggression…is that of a revenue." The committee continued by recommending that Congress adopt the basic proposal presented by the Secretary of the Treasury Alexander J. Dallas, which involved a system of taxation, an extraordinary promotion in time of peace considering that Congress delayed enacting appropriate tax measures in time of war.[1]

Congressional willingness to move in a different direction stemmed from the impact of wartime domestic political alliances and economic conditions. In the midst of the hostilities, Federalist and Republican congressmen reconciled sectional interests with political ideals in relation to issues of national finance, mainly for the purpose of expressing dissatisfaction with the executive branch. Previous political understandings and party politics gave way during the war as Federalists joined Republicans in opposition to the proposals of the Madison

[1] *Annals of Congress*, House of Representatives, 14th Congress, 1st Session, 517-518. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

administration; both parties, however, were forever altered by the war's conclusion. In the war's aftermath, the Republican Party absorbed a greater emphasis on national issues, while the Federalists began their national decline. These political shifts contributed to overall congressional change as ideology receded in the face of harsh economic conditions and corresponding financial reality.

Economic conditions that drew the attention of national representatives varied according to region, but there were certain aspects of the economy that provided an important gauge of the broader impact of the conflict on American life and made the congressional duty of managing war financing far more difficult. First, Congress relied extensively on the issuance of treasury notes to finance the war, and Congress's many acts authorizing treasury notes from 1811 to 1815, combined with the increased circulation of state bank notes, resulted in an average price inflation of 35 percent during that time period.[2] Because treasury notes were accepted as a medium of exchange with regard to the public's tax obligations to government, this tool became part of congressional monetary policy, although its implications were relatively unknown to the policymakers.[3] Foreign goods saw a staggering 70 percent inflation. Adding to this situation, the specie suspension of August 1814 facilitated greater depreciation of value as even more bank notes were generated as a result.[4] Economic and business historian Stuart Bruchey has detailed wartime inflation levels. Relying on statistics documenting changes in a compilation of a wholesale price index, where prices from 1910-1914 = 100, the following numbers show the extent of wartime inflation:

---

[2] Donald Kagin, "Monetary Aspects of the Treasury Notes of the War of 1812," *The Journal of Economic History* 44 (March 1984), 69-70. Kagin argues that the five treasury note issues during the War of 1812 effectively created a type of national currency.

[3] The term "congressional monetary policy" seems like an oxymoron in the contemporary setting, but without a central bank and because the executive branch lacked authority, Congress did determine monetary policy to a large degree.

[4] Murray Rothbard, *A History of Money and Banking in the United States: The Colonial Era to World War II* (Auburn, Alabama: Ludwig von Mises Institute, 2002), 76.

Wartime Inflation Levels

Year	Price Level
1811	126
1812	131
1813	162
1814	182

Compiled from Stuart Bruchey's *Enterprise: The Dynamic Economy of a Free People*

The decrease in purchasing power that accompanied inflation acted to reduce the credibility of the federal government as well as public willingness to support war finance efforts. Additionally, congressional leadership could personally feel the affect of this policy in their household budgets.[5]

Contributing to the problem of wartime inflation, the nation's financial system experienced a dramatic growth in state banking institutions through the 1810s. Former Secretary of the Treasury Albert Gallatin recognized the scope of this reality in a later analysis of American conditions. In his 1830 work entitled "Considerations on the Currency and Banking System of the United States," Gallatin noted the impact of the expiration of the Bank of the United States on the financial system, and showed that state banks had multiplied during the war years, apart from any governmental supervisory authority. In 1811, with the existence of the Bank of the United States, there were eighty-eight state banks in operation. Without the national bank, the number of state banks climbed to 208 in 1815 and 246 in 1816. This multiplication of

[5] Stuart Bruchey, *Enterprise: The Dynamic Economy of a Free People*, (Cambridge, Massachusetts: Harvard University Press, 1990), 183.

state banks created further decentralization within the financial system and added to the uncertainty of the time period.[6]

Another factor contributing to the nation's wartime sense of overall economic crisis was the decline of exports and the virtual elimination of foreign trade, a devastating blow to merchants engaged in that economic sector. By 1814, exports for the year had declined to an almost nonexistent level of $6.9 million. The positive impact of this trade decline was that it encouraged the development of domestic manufacturing, and after the war's conclusion, this increased productive capacity provided a foundation for expansion. As a point of comparison, American exports quickly recovered to $45.9 million in 1815, and to over $81 million in 1816. The incredible growth of trade immediately following the war also helped to facilitate a post-war boom.[7]

The end of the War of 1812 led to a short-lived expansion followed by the Panic of 1819 and a depression lasting until 1823. Interestingly, the leadership of former wartime Chairman of the Committee on Ways and Means, Langdon Cheves, at the second Bank of the United States during the period of panic and depression, which emphasized conservative monetary policy, resulted in worsening conditions and lasting resentment against the Bank. Economic conditions after the War of 1812 did not reflect a simple recovery experience or mild correction, and the actions of the second Bank of the United States can be considered yet another legacy of the war.[8]

---

[6] Albert Gallatin, *The Writings of Albert Gallatin*, vol. 3, ed. Henry Adams (Philadelphia: J.B. Lippincott, 1879), "Considerations on the Currency and Banking System of the United States." Accessed from http://oll.libertyfund.org/title/1953 on July 25, 2008.

[7] *American State Papers*, 4, Commerce and Navigation, 1:1021, 2:20 and 52. "Exports for the year ending September 30, 1814," "Exports for the Year Ending September 30, 1815," and "Exports for the Year Ending September 30, 1816." Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[8] Raymond Walters, "The Origins of the Second Bank of the United States," *The Journal of Political Economy*, 53 (June 1945), 116. Throughout this article, Walters discusses the involvement of six of the major figures in the financing of the war with the development of planning and legislation leading to the creation of the second national bank.

During the war, congressmen observed the ineffectiveness of their crisis management policies, and the president and his advisors gained firsthand knowledge of the limitations of public finance apart from appropriate mechanisms such as a national bank. With no institution on which the federal government could rely, the treasury department became just another participant in a distressed market for money. The overwhelming sentiment prior to war, particularly among those who opposed funding on a large scale, was that formal financial institutions were unnecessary because the practicalities of finance would resolve themselves during the time of need. In this respect, Jefferson was a significant influence. The three-year debate concerning how to handle financial limitations represented a culmination of disagreements between those of the Jeffersonian tradition and advocates of a Hamiltonian-influenced system. Ironically, Jeffersonian tradition provided the ammunition that oppositionists used to delay or derail implementation of Madisonian policy considerations. Jefferson had repeatedly disagreed with the involvement of the federal government in creating efficient mechanisms for public finance, and Federalists and Republicans in Congress repeated his themes in response to treasury department proposals. Although Jefferson largely maintained his views of money power and its aristocracy to the end of his life, Speaker of the House Clay, President Madison and Secretary of the Treasury Gallatin each acknowledged that Hamilton's perspective contained some truth: emergency situations defied ideology and practical needs had to be met.

Although Jefferson's influence was undeniably strong within the wartime congressional debates, the financial realities of the War of 1812 resulted in a new understanding of the nature of "necessary and proper" among these three prominent Republican policymakers. Henry Clay's public words the year after the war's official end clearly reflected his analysis of wartime financial management and convey how this experience affected his thought. On January 20, 1816 in the “Debate on Revenue Proposals” Clay questioned when the country would next be called upon to fight a war and asserted that although the country was currently in a state of peace, America should be financially prepared for another emergency situation. In a “Campaign Speech at Sandersville” dated July 25, 1816, he attempted to explain his reasons for the seeming inconsistency of voting against the bank charter’s renewal in 1811 while supporting the creation of the second Bank of the United States when legislation passed in spring 1816. He alluded to many reasons for his 1811 rejection of the first national bank, including capital ownership by foreigners, the complications of an impending war with Europe, and the fact that his Kentucky constituents “instructed” him to vote against the measure. The final reason he offered, however, was the weightiest. Clay explained that his view of the constitutionality of the bank had changed.

> What powers are really necessary for this purpose is a very difficult matter to determine. In 1811 I did not think a national bank necessary…I thought the state banks might afford to the general government all the facilities, which it derived from the institution, and that it was not necessary to regulate the currency of the country. But experience has shown the incorrectness of this opinion.[9]

A little over a year after the war’s end, former Treasury Secretary Albert Gallatin expressed his views related to the war’s true legacy to Matthew Lyon, a Republican politician. His commentary juxtaposed the “evil and good” of the war. An entrenched military apparatus and taxation system contrasted greatly with Republican ideals of freedom and the power of local government, giving him reason to pause. Gallatin, however, did not stop with that expected theme. In an interesting break from Jeffersonian tradition, Gallatin stated that the war demonstrated American weakness in the sense that the country’s citizens had become too preoccupied with loyalty to wealth and local government rather than to their national identity. He

---

[9] Henry Clay, *The Papers of Henry Clay*, vol. 2, ed. James F. Hopkins (Lexington: University of Kentucky Press, 1961),134-137, 216-222. January 20, 1816, “Debate on Revenue Proposals” and July 25, 1816, “Campaign Speech at Sandersville.”

felt that the experience of war had given Americans an opportunity to view themselves in a national context. An important part of the legacy of the War of 1812 pertains to the change of thought within American leadership, and its willingness to acknowledge the needs of the federal government at a practical level. In other words, certain Republican leaders were able to move beyond ideology to deal with government functions. Albert Gallatin demonstrated that pivot in his own thought and asserted that the experience of the war had increased the connection of the people with their national identity.[10]

No where is the change in thinking more evident than in the statements of President James Madison, who communicated a new appreciation for manufacturing interests, the importance of public credit, and the financial demands in the midst of national crisis. In a special message to Congress, dated February 18, 1815, Madison discussed the importance of trade restoration and government protection of American manufacturing interests. In another address given towards the end of that same year, Madison alluded to wartime financial difficulties, noting that the United States needed a common currency as well as some kind of monetary authority. Both speeches point to a shift in thought and Madisonian interest in the principles of Hamiltonian public economy. Madison's writings reveal that the congressman who had vociferously argued against the Hamiltonian system during the 1790s became a president who

[10] Albert Gallatin to Matthew Lyon, May 7, 1816, The Gallatin Papers, University of North Texas Library, microfilm reel #28. "The war has been productive of evil and good, but I think the good preponderates. Independent of the loss of lives, and of the losses in property by individuals, the war has laid the foundation of permanent taxes and military establishments, which the Republicans had deemed unfavorable to the happiness and free institutions of the country. But under our former system we were becoming too selfish, too much attached exclusively to the acquisition of wealth, above all, too much confined in our political feelings to local and State objects. The war has renewed and reinstated the national feelings and character which the Revolution had given, and which were daily lessened. The people have now more general objects of attachment with which their pride and political opinions are connected. They are more Americans; they feel and act more as a nation; and I hope that the permanency of the Union is thereby better secured."

had learned from the experience of crisis management when the nation's financial future seemed uncertain in the face of urgent resource demands.[11]

Madison's veto message of January 30, 1815, on the subject of the proposed national bank is also quite informative regarding his change in perspective. Unlike his arguments in the 1790s, Madison in 1815 dismissed constitutional objections to the national bank within the first few sentences. His reason for vetoing the bank was that he did not believe the proposed bank would effectively meet the needs of the federal government, because it did not create a strong enough connection or partnership with the federal government. This bank proposal, developed in Congress during the latter part of 1814, did not require the principal financial institution to provide funding or loans to the federal government. In fact, the bank would have had no obligation to cooperate in any way with government to insure public credit and help create value within the monetary system. Madison understood the implications and found that reality to be unacceptable. He further objected to the proposal, believing that the concept of the bank could not aid pubic credit and would not add value to the monetary system. Moreover, since the bank would provide no circulating medium and its notes would be confined to specie convertibility, the country would be saddled with an inadequate tax system without a workable collection process. Madison's final point was that the national bank bill would create a monopoly of profits for the institution over a twenty-year period. He could not resist vocalizing Jeffersonian concern

[11] James Madison, *The Writings of James Madison, comprising his Public Papers and his Private Correspondence, including his numerous letters and documents now for the first time printed,* vol. 8, ed. Gaillard Hunt, (New York: G.P. Putnam's Sons, 1900), "Special Message to Congress," February 18, 1815. Accessed from http://oll.libertyfund.org/title/1939 on August 1, 2008. "Experience has taught us that neither the pacific dispositions of the American people nor the pacific character of their political institutions can altogether exempt them from that strife which appears beyond the ordinary lot of nations to be incident to the actual period of the world, and the same faithful monitor demonstrates that a certain degree of preparation for war is not only indispensable to avert disasters in the onset, but affords also the best security for the continuance of peace." Ibid., December 15, 1815, "Seventh Annual Message." "Although the embarrassments arising from the want of an uniform national currency have not been diminished since the adjournment of Congress, great satisfaction has been derived in contemplating the revival of the public credit and the efficiency of the public resources."

with the emergence of a "monied aristocracy," but Madison knew that this bank was unable to truly assist the government in "managing" the economy during crisis, and would still reap the financial rewards of its actions. Surely pursuit of this kind of institutional interest, irrespective of the nation's situation, epitomized what concerned Gallatin in his letter to Matthew Lyon.[12]

Firm evidence of a presidential shift in perspective came in April of 1816 as Madison signed into law the "Act to Incorporate the Bank of the United States". Capitalized at $35 million, the bank's shares were to be sold in $100 denominations. Importantly, the United States government would subscribe to $7 million of the bank stock and be able to receive funding in the amount of smaller loans of $500,000. The significant component of this bank act was related to the allowance of government ownership and involvement in the operations of the institution at the national level.[13]

Contrasting with the epiphanies of Clay, Gallatin, and Madison, it is interesting to note that Jefferson, the "father" of Republican thought, became even less inclined to accept paper money and banking institutions as the result of his observations of war policy. He went so far to express the idea that perhaps separation of states from the union was the only answer to the great divide of interests, commercial and agricultural. In a letter to William Crawford dated June 20, 1816, Jefferson advocated a departure from paper money, a reliance on specie, and a careful regulation of commerce so that it did not become dominated by "gamblers" and "speculators", words he often associated with a national banking entity, the banking system, and matters of public finance. If any state did not agree with Jefferson's ideal of peace and "steady occupations for all" through a carefully regulated commerce, the former president stated: "I have no

---

[12] *American State Papers*, 3, Finance, 2: 891-892. January 30, 1815, Madison's veto message. Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008.

[13] *Statutes at Large,* 14th Congress, 1st Session, 266.

hesitation in saying, „let us separate.' I would rather the States should withdraw, which are for unlimited commerce and war, and confederate with those alone which are for peace and agriculture." Jefferson's position appears to have hardened, rather than changed, as the result of wartime experience.[14]

In conclusion, the financial history of the War of 1812 made obvious the vulnerabilities of the United States created by inadequate financial institutions, and both Congress as well as the president recognized that action was needed. The experiences of war, and the economic conditions it generated, exacerbated the dichotomy of financial thought within political circles and challenged the conventional wisdom within both Federalist and Republican circles. A comparison of the sentiments of Clay, Gallatin, and Madison prior to war and then, in the years immediate following its end reveal the degree to which Jeffersonian tradition influenced practically every debate about financial matters. Those in Congress who were opposed to the administration's policies delayed decisions due to fears of increased debt, the danger of paper money, and the potential tyranny of financial institutions, while leaders such as Clay, Madison, and Gallatin became less ideological as they realized the enormity of the American financial peril. The war enabled these men to see the merit of Hamiltonian proposals providing for financial preparation and functioning infrastructure.

Finally, the financial difficulties that plagued the American wartime experience exposed weak leadership in the face of the demonstrated needs of national government for its effective functioning in time of crisis. Although Federalists participated and sometimes dominated discussions, both Federalists and Republicans articulated dissent based on the statements of Jefferson and Madison from the 1790s. In contrast, those men who attempted to supervise the

[14] Jefferson, *Works*, vol. 11, ed. Ford, Thomas Jefferson to William Crawford, June 20, 1816. Accessed from http://oll.libertyfund.org/title/1734 on July 25, 2008.

treasury department and who also considered themselves to be of the Jeffersonian tradition tried to underscore the practical needs of government and move proposals forward that would enable the effective administration of the nation's finances. Lack of action, excessive and unproductive bickering, and inadequate appreciation for the practical impact of financial mechanisms resulted in an American wartime financial position constantly tottering on the brink of bankruptcy. These experiences during the War of 1812 became a turning point in American economic thought and the president and Congress immediately pursued new initiatives such as the creation of the second Bank of the United States. American leadership's new regard for the danger of financial emergencies, especially in the midst of a national security crisis, resulted in the country's focus on the importance of a coherent financial policy during the immediate postwar period.

BIBLIOGRAPHY

Primary Sources

Unpublished Collections

The Gallatin Papers, University of North Texas Library, microfilm

The Jefferson Papers, Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/collections/jefferson_papers/, July 2008

The Madison Papers, Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/collections/madison_papers/, July 2008

Published Collections

American State Papers, Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwsplink.html, July 2008

Annals of Congress, Accessed from the Library of Congress, American Memory website, http://memory.loc.gov/ammem/amlaw/lwaclink.html, July 2008

Calhoun, John C. *The Papers of John C. Calhoun* 28 vols. Edited by Robert L. Meriwether. Columbia: University of South Carolina Press, 1959-1999.

Clay, Henry. *The Papers of Henry Clay* 10 vols. Edited by James F. Hopkins. Lexington: University of Kentucky Press, 1959-1991.

Cunningham, Noble, ed. *Circular Letters of Congressmen to Their Constituents 1789-1829*. Chapel Hill: Published for the Institute of Early American History and Culture, Williamsburg, Va., by the University of North Carolina Press, 1978.

Gallatin, Albert. *The Writings of Albert Gallatin* 3 vols. Edited by Henry Adams. Philadelphia, PN: J.B. Lippincott, 1879.

Gallatin, Albert. *Selected Writings of Albert Gallatin* Edited by E. James Ferguson. New York: Bobbs-Merrill, 1967.

Hamilton, Alexander. *Writings*. Edited by Joanne Freeman. New York: Literary Classics, 2001.

Hamilton, Alexander. *The Papers of Alexander Hamilton* 10 vols. Edited by Harold Syrett. New York: Columbia University Press, 1961-87.

Jefferson, Thomas. *The Works of Thomas Jefferson* 12 vols. Edited by Paul Leicester Ford. New York: Putnam’s Sons, 1904-05.

Jefferson, Thomas. *The Papers of Thomas Jefferson* 8 vols. Edited by Julian P. Boyd. New Jersey: Princeton University Press, 1950.

Madison, James. *The Writings of James Madison* 9 vols. Edited by Gaillard Hunt. New York: Putnam's Sons, 1900.

Madison, James. *Writings*. Edited by J.C.A. Stagg. New York: Literary Classics, 1999.

The Papers of James Madison: Presidential Series 6 vols. Edited by Robert Rutland. Charlottesville: University Press of Virginia, 1984-2008.

Morris, Robert. *The Papers of Robert Morris* 9 vols. Edited by E. James Ferguson. Pennsylvania: University of Pittsburgh Press, 1973-1999.

Webster, Daniel. *The Papers of Daniel Webster* 8 vols. Edited by Charles M. Wiltse. Hanover, New Hampshire: University Press of New England, 1974.

Secondary Sources

Books

Adams, Donald R. *Finance and Enterprise in Early America : A Study of Stephen Girard's Bank, 1812-1831*. Philadelphia : University of Pennsylvania Press, 1978.

Albion, Robert G. *Rise of the New York Port, 1815-1860.* New York: C. Scribner and Sons, 1939.

Ammon, Henry. *Monroe and the Quest for National Identity*. Charlottesville: University Press of Virginia, 1990.

Appleby, Joyce. *Capitalism and a New Social Order: The Republican Vision of the 1790s*. New York University Press, 1984.

Liberalism and Republicanism in the Historical Imagination. Cambridge, Massachusetts: Harvard University Press, 1992.

Baker, Norman. *Government and Contractors: the British Treasury and War Supplies,* 1775-1783. London: Athlone Press, 1971.

Bailyn, Bernard. *Ideological Origins of the American Revolution.* Cambridge, Massachusetts: Harvard University Press, 1967.

New England Merchants. Cambridge, Massachusetts: Harvard University Press, 1955.

Balinky, Alexander. *Albert Gallatin: Fiscal Theories and Policies.* New Brunswick, N.J., Rutgers University Press, 1958.

Banning, Lance. *The Jeffersonian Persuasion: Evolution of a Party Ideology*. Ithaca, New York: Cornell University Press, 1978.

The Sacred Fire of Liberty: James Madison and the Founding of the Federal Republic. Ithaca, New York: Cornell University Press, 1995.

Baxter, William T. *The House of Hancock; Business in Boston, 1724-1775*. Cambridge, Massachusetts: Harvard University Press, 1945.

Beeman, Richard R. *The Old Dominion and the New Nation, 1788-1801.* Lexington: University Press of Kentucky, 1972.

The Varieties of Political Experience in eighteenth-century America. Philadelphia : University of Pennsylvania Press, 2004.

Bodenhorn, Howard. *A History of Banking in Antebellum America*. Cambridge University Press, 2000.

Brant, Irving. *The Fourth President: A Life of James Madison*. Indianapolis: Bobbs-Merrill, 1970.

Broadie, Alexander. ed. *The Cambridge Companion to the Scottish Enlightenment*. Cambridge University Press, 2003.

Brown, Marion. *The Second Bank of the United States and Ohio (1803-1860).* New York: Lewiston, 1998

Brown, Roger. *Redeeming the Republic: Federalists, Taxation, and the Origins of the Constitution*. Baltimore, Maryland: John Hopkins Press, 1993.

Bruchey, Stuart. *Enterprise: The Dynamic Economy of a Free People*. Cambridge, Massachusetts: Harvard University Press, 1990.

The Wealth of the Nation: An Economic History of the United States. New York: Harper and Row, 1988.

The Colonial Merchant. (ed. Bruchey) New York: Harcourt, Brace, and World, 1966.

Buel, Richard. *In Irons: Britain's Naval Supremacy and the American Revolutionary Economy*. New Haven, Connecticut: Yale University Press, 1998.

Securing the Revolution: Ideology in American Politics, 1789-1815. Ithaca, New York: Cornell University Press, 1972.

Caldwell, Lynton K. *The Administrative Theories of Hamilton and Jefferson*. 2nd ed. New York: Holmes and Meier, 1988.

Chernow, Ron. *Alexander Hamilton*. New York: Harper and Row, 2004.

The Death of the Banker: the Decline and Fall of the Great Financial Dynasties and the Triumph of the Small Investor. New York: Vintage Books, 1997.

Cochran, Thomas C. and Miller, William, eds. *An Age of Enterprise: A Social History of Industrial America.* New York: Harper Torchbooks, 1961.

Coleman, Peter J. *The Transformation of Rhode Island, 1790-1860.* Providence, Rhode Island: Brown University Press, 1963.

Commager, Henry Steele. *The Empire of Reason: How Europe Imagined and America Realized the Enlightenment*. New York: Doubleday, 1977.

Cooke, Jacob E. *Tench Coxe and the Early Republic.* Chapel Hill: Published for the Institute of Early American History and Culture, Williamsburg, Va. by the University of North Carolina Press, 1978.

Cornog, Evan. *The Birth of Empire : DeWitt Clinton and the American Experience.* Oxford University Press, 1998.

Beyond confederation : origins of the constitution and American national identity Chapel Hill : University of North Carolina Press, 1987.

Cowen, David Jack. *The Origins and Economic Impact of the First Bank of the United States, 1791-1797*. New York: Garland Publishing, 2000.

Cropsey, Joseph. *Polity and Economy: With Further Thoughts on the Principles of Adam Smith*. St. Augustine's Press, 2001.

Dalzell, Robert F. *Enterprising Elite: the Boston Associates and the World They Made*. New York: W.W. Norton and Co., 1993.

Davies, Glyn. *A History of Money*. Cardiff: University of Wales Press, 2002.

Dewey, Davis Rich, 1858-1942. *Financial History of the United States.* New York: A. M. Kelley, 1968.

Dobson, John M. *A History of American Enterprise*. New York: Prentice-Hall, 1988.

Doerflinger, Thomas. *Vigorous Spirit of Enterprise: Merchants and Economic Development in Revolutionary*. Chapel Hill: Published for the Institute of Early American History and Culture, Williamsburg, Va. by the University of North Carolina Press, 1986.

Dorfman, Joseph. *The Economic Mind in American Civilization* Vol. 1. New York: Viking Press, 1948.

Dunn, Susan. *Jefferson's Second Revolution: the Election of 1800 and the Triumph of Republicanism*. Boston, Massachusetts: Houghton Mifflin, 2004.

Ernst, Joseph. *Money and Politics in America*, 1755-1775. Chapel Hill: Published for the Institute of Early American History and Culture, Williamsburg, Va. by the University of North Carolina Press, 1973.

Ferguson, E. James. *The Power of the Purse: a History of American Public Finance, 1776-1790.* Chapel Hill, Published for the Institute of Early American History and culture at Williamsburg, Va.: University of North Carolina Press, 1961.

Ferling, John. *Adams vs. Jefferson: The Tumultuous Election of 1800*. New York: Oxford University Press, 2004.

Galbraith, John Kenneth. *Money: Whence It Came, Where It Went*. New York: Houghton Mifflin, 1975 (1995).

Gallatin, Albert. *The Writings of Albert Gallatin.* Philadelphia: J.B. Lippincott & Co., 1879.

Gilchrist, David, ed. *The Growth of Seaport Cities, 1790-1825.* Charlottesville: Published for the Eleutherian Mills-Hagley Foundation by the University Press of Virginia, 1967.

Gordon, John Steele. *Empire of Wealth.* New York: Harper Collins, 2004.

Grammer, *John M. Pastoral and Politics in the Old South*. Baton Rouge, Louisiana: State University Press, 1996.

Green, Thomas Hill. *Hume and Locke*. New York: Crowell, 1968.

Griswold, Charles L. *Adam Smith and the Virtues of Enlightenment.* New York: Cambridge University Press, 1999.

Gunn, L. Ray. *The Decline of Authority: Public Economic Policy and Political Development in NY, 1800-1850*. Ithaca, New York: Cornell University Press, 1988.

Hamilton, Alexander. *Papers on Public Credit, Commerce and Finance.* New York, Columbia University Press, 1934.

Hammond, Bray. *Banks and Politics from the Revolution to the Civil War*. New Jersey: Princeton University Press, 1957.

Handlin, Oscar and Mary Flug Handlin. *Commonwealth: A Study of the role of Government in the American Economy MA 1774-1861.* New York University Press, 1947.

Hartz, Louis. *Economic Policy and Democratic Thought: Philadelphia 1776-1860.* Cambridge, Massachusetts: Harvard University Press, 1948.

Hickey, Donald. *The War of 1812*. Urbana: University of Illinois Press, 1989.

Hidy, Ralph Willard. *The House of Baring in American Trade and Finance: English Merchant Bankers at Work, 1763-1861.* Cambridge, Massachusetts: Harvard University Press, 1949.

Hixson, William F. *Triumph of the Bankers: Money and Banking in the Eighteenth and Nineteenth Centuries.* Westport, Connecticut: Praeger Publishers, 1993.

Hoffman, Ronald. ed. *The Economy of America, Revolutionary Period 1763-90.* Charlottesville : Published for the United States Capitol Historical Society by the University Press of Virginia, 1988.

Hunter, Phyllis Whitman. *Purchasing Identity in the Atlantic World: Massachusetts Merchants, 1670-1780*. Ithaca, NY: Cornell University Press, 2001.

Jones, Alice Hanson. *Wealth of a Nation to Be: The American Colonies on the Eve of Revolution*. New York: Columbia University Press, 1980.

Johnstone, Robert M. *Jefferson and the Presidency: Leadership in the Young Republic*. Ithaca, NY: Cornell University Press, 1978.

Kearny, John Watts. *Sketch of American Finances, 1789-1835*. New York, Greenwood Press, 1968 [c1887]

Ketcham, Ralph. *James Madison: A Biography*. Charlottesville: University Press of Virginia, 1971.

Krooss, Herman E., ed. *Documentary History of Banking and Currency in the United States*. New York: Chelsea Publishers, 1969.

Kuppenheimer, L.B. *Albert Gallatin's Vision of Democratic Stability*. Connecticut: Praeger Publishers, 1996.

Lebergott, Stanley. *The Americans: An Economic Record*. New York: W.W. Norton and Co., 1984.

Letwin, William, ed. *A Documentary History of American Economic Policy Since 1789*. New York: Doubleday, 1961.

Lindstrom, Diane. *Economic Development in the Philadelphia Region.* New York: Columbia University Press, 1978.

Lienesch, Michael. *New Order of the Ages : Time, the Constitution, and the Making of Modern American Political Thought.* New Jersey: Princeton University Press, 1988.

Mace, George. *Locke, Hobbes, and the Federalist Papers: an Essay on the Genesis of the American Political Heritage*. Carbondale: Southern Illinois University Press, 1979.

Madsen, Axel. *John Jacob Astor : America's First Multimillionaire*. New York: John Wiley, 2001.

Malone, Dumas. *Jefferson and His Time Vol. 1: Jefferson the Virginian*. Boston, MA: Little, Brown and Co., 1948.

Jefferson and His Time Vol. 2: Jefferson and the Rights of Man. Boston, MA: Little, Brown and Co., 1951.

Jefferson and His Time Vol. 3: Jefferson and the Ordeal of Liberty. Boston, MA: Little, Brown and Co., 1962.

Jefferson and His Time Vol. 4: Jefferson the President, First Term, 1801-1805. Boston, MA: Little, Brown and Co., 1970.

Jefferson and His Time Vol. 5: Jefferson the President, Second Term, 1805-1809. Boston, MA: Little, Brown and Co., 1974.

Marx, Leo. *The Machine in the Garden: Ttechnology and the Pastoral Ideal in America.* New York, Oxford University Press, 1964.

Matson, Cathy, ed. *The Economy of Early America: Historical Perspectives and New Directions*. University Park: Pennsylvania State University, 2006.

McCoy, Drew. *The Elusive Republic: Political Economy in Jeffersonian America.* Chapel Hill : Published for the Institute of Early American History and Culture, Williamsburg, Va. by the University of North Carolina Press, 1980.

The Last of the Fathers: James Madison and the Republican Legacy. New York: Cambridge University Press, 1989.

McCusker, John J and Russell R. Menard. *The Economy of British America, 1607-1789*. Chapel Hill: Published for the Institute of Early American History and Culture by the University of North Carolina Press, 1985.

McDonald, Forrest. *The Presidency of Thomas Jefferson*. Lawrence: University Press of Kansas, 1976.

McDowell, Gary L. and Sharon L. Noble, eds. *Reason and Republicanism: Thomas Jefferson's Legacy of Liberty*. New York: Rowman and Littlefield Publishers, Inc., 1997.

McNamara, Peter. *Political Economy and Statesmanship: Smith, Hamilton, and the Foundation of the Commercial Republic.* DeKalb: Northern Illinois University Press, 1998.

Mooney, Chase Curran. *William H. Crawford, 1772-1834.* Lexington: University Press of Kentucky, 1974.

Morris, Richard. *The Forging of the Union: 1781-1789*. New York: Harper and Row, 1987.

Myers, Margaret G. *A Financial History of the United States.* New York: Columbia University Press, 1970.

Nash, Gary. *The Unknown American Revolution: The Unruly Birth of Democracy and the Struggle to Create America.* New York: Viking Press, 2005.

Neal, Larry. *The Rise of Financial Capitalism: International Capital Markets in the Age. Of Reason*. New York: Cambridge University Press, 1990.

Nelson, John. *Liberty and Property: Political Economy and Policymaking in the New Nation, 1789-1812*. Baltimore, Maryland: Johns Hopkins University Press, 1987.

Nettels, Curtis P. *The Emergence of a National Economy, 1775-1815.* New York: Holt, Rinehart and Winston, 1962.

Noll, Mark A. *Princeton and the Republic, 1768-1822: The Search for a Christian Enlightenment in the Era of Samuel Stanhope Smith.* New Jersey: Princeton University Press, 1989.

North, Douglas. *The Economic Growth of the United States, 1790-1860*. W. W. Norton and Co., 1966.

Onuf, Peter, ed. *The Mind of Thomas Jefferson*. Charlottesville: University Press of Virginia, 2007.

Jefferson's Empire: The Language of American Nationhood. Charlottesville: University of Virginia, 2000.

Perkins, Edwin J. *American Public Finance and Financial Services 1700-1815*. Ohio State University Press, 2004.

The Economy of Colonial America. New York: Columbia University Press, 1980.

Financing Anglo-American Trade : the House of Brown, 1800-1880. Cambridge, Massachusetts: Harvard University Press, 1975.

Price, Jacob M. *Capital and Credit in British Overseas Trade: The View from the Chesapeake, 1700-1776*. Cambridge, Massachusetts: Harvard University Press, 1980.

Rakove, Jack N. *James Madison and the Creation of the American Republic*. Library of American Biography Series. Glenview, IL: Scot Foresman, 1990.

The Beginning of National Politics: An Interpretive History of the Continental Congress. Baltimore, Maryland: Johns Hopkins Press, 1979.

Rappaport, George David. *Stability and Change in Revolutionary Pennsylvania : banking, politics, and social structure*. University Park: Pennsylvania State University Press, 1996.

Read, James H. *Power versus Liberty: Madison, Hamilton, Wilson, and Jefferson*. Charlottesville: University Press of Virginia, 2000.

Redlich, Fritz. *The Molding of American Banking.* New York: Johnson Reprint Corporation, 1968.

Rickaby, Joseph. *Free Will and Four English philosophers: Hobbes, Locke, Hume and Mill.* Freeport, New York: Books For Libraries Press, 1969.

Rothbard, Murray N. *A History of Money and Banking in the United States*. Auburn, Alabama: Ludwig von Mises Institute, 2002.

Schouls, Peter A. *Reasoned Freedom : John Locke and Enlightenment.* Ithaca, New York: Cornell University Press, 1992.

Seavoy, Ronald E. *An Economic History of the United States: from 1607 to the present.* New York: Routledge, 2006.

Sher, Richard B. and Jeffrey R. Smitten, eds. *Scotland and America in the Age of Enlightenment*. New Jersey: Princeton University Press, 1990.

Sloan, Herbert E. *Principle and Interest : Thomas Jefferson and the Problem of Debt*. New York: Oxford University Press, 1995.

Smith, Arthur D. Howden. *John Jacob Astor, Landlord of New York.* Philadelphia: J.B. Lippincott Company, 1929.

Stabile, Donald R. *The Origins of American Public Finance: Debates over Money, Debt, and Taxes in the Constitutional Era, 1776-1836.* Westport, Connecticut: Greenwood Press, 1998.

Stagg, J.C.A. *Mr. Madison's War: Politics, Diplomacy, and Warfare in the Early American Republic, 1783-1830.* New Jersey: Princeton University Press, 1983.

Taus, Esther Rogoff. *Central Banking Functions of the United States Treasury, 1789-1941*. New York: Columbia University Press, 1943.

Taylor, George Rogers. *Hamilton and the National Debt*. Boston: Heath, 1950.

Teichgraeber, Richard F. *"Free trade" and moral philosophy : rethinking the sources of . Adam Smith's Wealth of Nations.* Durham, NC: Duke University Press, 1986.

Temin, Peter. *Causal Factors in American Economic Growth in the 19th Century*. London: MacMillan, 1975.

Timberlake, Richard. *The Origins of Central Banking in the United States*. Cambridge, Massachusetts: Harvard University Press, 1978.

Torre, Jose R. *The Political Economy of Sentiment: Paper Credit and the Scottish Enlightenment in Early Republic Boston, 1780-1820*. London: Pickering & Chatto, 2006.

Tucker, Robert W. and David C. Hendrickson. *Empire of Liberty: the Statecraft of Thomas Jefferson.* New York: Oxford University Press, 1990.

Vetterli, Richard. *In Search of the Republic: Public Virtue and the Roots of American Government.* Lanham, MD: Rowman & Littlefield, 1996.

Ver Steeg, Clarence Lester. *Robert Morris, Revolutionary Financier*. Philadelphia: University of Pennsylvania Press, 1954

Watts, Steven. *The Republic Reborn: War and the Making of Liberal America, 1790-1820*. Baltimore, Maryland: Johns Hopkins University Press, 1987.

Walters, Raymond. *Albert Gallatin: Jeffersonian Financier and Diplomat*. Pennsylvania: University of Pittsburgh Press, 1957.

Walton, Gary M. and Hugh Rockoff. *History of the American Economy*. New York: Dryden Press, 1998.

Walton, Gary M. James F. Shepherd. *The Economic Rise of Early America*. New York: Cambridge University Press, 1979.

Wildes, Harry Emerson. *Lonely Midas: the Story of Stephen Girard*. Toronto: Farrar & Rinehart, 1943.

Wills, Gary. *Inventing America: Jefferson's Declaration of Independence*. Garden City, NY: Doubleday, 1978.

Wiltse, Charles M. *John C. Calhoun: Nationalist, 1782-1828*. New York: Russell and Russell, 1944.

Witherspoon, John. *The selected writings of John Witherspoon.* Carbondale : Southern Illinois University Press, 1990.

Wood, Gordon S. *The Creation of the American Republic 1776-1787.* Chapel Hill: published for the Institute of Early American History and Culture at Williamsburg, Va., by the University of North Carolina Press, 1969.

Wood, Neal. *John Locke and Agrarian Capitalism*. Berkeley: University of California Press, 1984

Wright, Conrad Edick and Katheryn P. Viens, eds. *Entrepreneurs: The Boston Business Community 1700-1850.* Massachusetts Historical Society, 1997.

Wright, Robert and David Cowen. *Financial Founding Fathers.* University of Chicago Press, 2006.

Hamilton Unbound : Finance and the Creation of the American Republic Westport, CT : Greenwood Press, 2002.

Articles

Adams, Donald. "Portfolio Management and Profitability in Early Nineteenth Century Banking." *Business History Review*, Vol. 52, No. 1 (Spring 1978), pp. 61-79.

Appleby, Joyce. "Republicanism and Ideology." *American Quarterly*, Vol. 37, No. 4 (Autumn 1985), pp. 461-473.

Arkin, Marc M. "The Intractable Principle: David Hume, James Madison, Religion, and the Tenth Federalist." *The American Journal of Legal History*, Vol. 29, No. 2 (Apr., 1995), pp. 148-176.

Banning, Lance. "Jeffersonian Ideology Revisited: Liberal and Classical Ideas in the New American Republic. *William and Mary Quarterly*, Vol. 43, No. 1 (Jan., 1986), pp. 3-19.

Bodenhorn, Howard. "Short-term Loans and Long-term Relationships: Relationship Lending in Early America." Journal of Money, Credit, and Banking, Vol. 35, No. 4 (Aug., 2003), pp. 485-505.

David, Paul A. "U.S. Real Product Growth Before 1840." *American Economic Review*, Vol. 57, No. 2 (May, 1967), pp. 294-306.

East, Robert A. "Economic Development and New England Federalism 1803-1814." *The New England Quarterly*, Vol. 10, No. 3 (Sep., 1937), pp. 430-446.

Egnal, Mark. "The Economic Development of the Thirteen Continental Colonies, 1720-1775." *The William and Mary Quarterly*, 3rd Ser., Vol. 32, No. 2 (Apr., 1975) pp. 191-222.

Ferguson, E. James. "Currency Finance: An Interpretation of Colonial Monetary Practices." *The William and Mary Quarterly*, Vol. 10, No. 2 (Apr., 1953), pp.153-180.

Gay, Peter. "Enlightenment in the History of Political Theory," *Political Science Quarterly*, Vol. 69 No. 3 (Sept., 1954), pp. 374-389.

Gilje, Paul A. "The Rise of Capitalism in the Early Republic." *Journal of the Early Republic*, Vol. 16, No. 2 (Summer, 1996), pp. 159-181.

Grampp, William D. "A Re-examination of Jeffersonian Economics." *Southern Economic Journal*, Vol. 12, No. 3 (Jan., 1946), pp. 263-282.

Hamowy, Ronald. "Jefferson and the Scottish Enlightenment: A Critique of Garry Wills Inventing America: Jefferson's Declaration of Independence" *William and Mary Quarterly* Vol. 36, No. 4 (Oct. 1979), 503-523.

Harlen. Christine. "A Reappraisal of Classic Economic Nationalism and Economic Liberalism." *International Studies Quarterly*, Vol. 43, No. 4 (Dec., 1999), pp. 733-744.

Klebaner, Benjamin. "State-Chartered American Commercial Banks, 1781-1801." *Business History Review*, Vol. 53, No. 4 (Winter 1979), pp. 529-538.

Klubes, Benjamin B. "The First Federal Congress and the First National Bank: A Case Study in Constitutional Interpretation." *Journal of the Early Republic*, Vol. 10, No. 1 (Spring, 1990), pp. 19-41

Kulikoff, Allan. "The Transition to Capitalism in Rural America." *The William and Mary Quarterly*, 3rd Ser., Vol. 46, No. 1 (Jan., 1989), pp. 120-144.

Lundberg, David and Henry F. May. "The Enlightened Reader in America." *American Quarterly*, Vol. 28, No. 2 (Summer, 1976), pp. 262-293.

Maier, Pauline. "The Revolutionary Origins of the American Corporation." *William and Mary Quarterly*, Vol. 50, No.1 (Jan., 1993), pp. 51-84.

McAllister, J. "Colonial America, 1607-1776." *Economic History Review*, Vol. 42, No. 2 (May 1989), pp. 245-259.

Michener, Ronald W. and Robert E. Wright. "State „Currencies' and the Transition to the U.S. Dollar: Clarifying Some Confusions." *The American Economic Review*, Vol. 95, No. 3 (Jun., 2005), pp. 682-703.

Norton, William B. "Paper Currency in Massachusetts during the Revolution." *New England Quarterly*, Vol. 7, No. 1 (March 1934), pp. 43-69.

Nelson, John. "Alexander Hamilton and American Manufacturing: A Re-examination." *Journal of American History*. Vol. 65, No. 4 (March 1979), pp. 971-995.

Olson, Alison. "London Mercantile Lobby and the Coming of the American Revolution." *Journal of American History*, Vol. 69, No. 1 (June 1982), pp. 21-41.

Onuf, Peter. "The Scholar's Jefferson." *William and Mary Quarterly*, Vol. 50, No. 4 (October 1993), pp. 671-699.

Panagopoulos, E. P. "Hamilton's Notes In His Paybook." *American Historical Review*, Vol. 62, No. 2 (January 1957), pp. 310-325.

Pruitt, Bettye Hobbs. "Self-Sufficiency and the Agricultural Economy of Eighteenth-Century Massachusetts." *The William and Mary Quarterly*, 3rd Ser., Vol. 41, No. 3 (Jul., 1984), pp. 333-364.

Rodgers, Daniel T. "Republicanism: The Career of a Concept." *The Journal of American History*, Vol. 79, No. 1 (Jun., 1992), pp. 11-38.

Ross, Steven J. "The Transformation of Republican Ideology." *Journal of the Early Republic*, Vol. 10, No. 3 (Autumn, 1990), pp. 323-330.

Schweitzer, Mary M. "State-Issued Currency and the Ratification of the U.S. Constitution." *The Journal of Economic History*, Vol. 49, No. 2, The Tasks of Economic History (Jun., 1989), pp. 311-322.

Sheehan, Colleen A. "Madison v. Hamilton: The Battle over Republicanism and the Role of Public Opinion," *The American Political Science Review*, Vol. 98, No. 3 (Aug., 2004), pp. 405-424.

Shammas, Carole. "How Self-Sufficient Was Early America?" *Journal of Interdisciplinary History*, Vol. 13, No. 2 (Autumn, 1982), pp. 247-272.

Shepherd, James and Gary Walton. "Trade, Distribution, and Economic Growth in Colonial America." *Journal of Economic History*, Vol. 32, No. 1 (March 1972), pp. 128-145.

Slaski, Eugene. "Thomas Willing: A Study in Moderation, 1774-1778," *Pennsylvania Magazine of History and Biography*, C (1976), 491-506.

Smith, Bruce D. "James Madison's Monetary Economics," *Federal Reserve Bank of Cleveland Economic Review*, Q1 (1998), 7-20.

Smith, Vernon L. "The Two Faces of Adam Smith," *Southern Economic Journal*, Vol. 65, No. 1 (Jul., 1998), pp. 2-19.

Swanson, Donald F. and Andrew P. Trout. **"**Alexander Hamilton's Hidden Sinking Fund" *The William and Mary Quarterly*, 3rd Ser., Vol. 49, No. 1 (Jan., 1992), pp. 108-116.

Sylla, Richard. "Forgotten Men of Money: Private Bankers in Early U.S. History." *Journal of Economic History*, Vol. 36, No. 1 (March 1976), pp. 173-188.

Thayer, Theodore. "The Land-Bank System in the American Colonies." *The Journal of Economic History*, Vol. 13, No. 2 (Spring, 1953), pp. 145-159.

Timberlake, Richard H. "The Specie Standard and Central Banking in the United States before 1860." *Journal of Economic History* 21: 318-41

Thompson, Jack C. "Review Essay: Ideas and the American Enlightenment."*American Quarterly*, Vol. 30, No. 2 (Summer 1978), pp. 243-252.

Mark Valeri, "The Economic Thought of Jonathan Edwards," *Church History*, Vol. 60, No. 1 (Mar., 1991), 37-54.

Weiss, Roger. "The Issue of Paper Money in the American Colonies, 1720-1774." *The Journal of Economic History*, Vol. 30, No. 4 (Dec. 1970), pp. 770-784.

Werner, John M. "David Hume and America." *Journal of the History of Ideas*, Vol. 33, No. 3 (July-Sept. 1972), pp. 439-456.

Wicker, Elmus. "Colonial Monetary Standards Contrasted: Evidence from the Seven Years' War." *The Journal of Economic History*, Vol. 45, No. 5 (Dec., 1985), pp. 869-884.

Wilson, Douglas L. "Jefferson vs. Hume." *The William and Mary Quarterly*, Vol. 46, No. 1 (Jan., 1989), pp. 49-70.

Winch, Donald. "Adam Smith: Scottish Moral Philosopher as Political Economist." *The Historical Journal*, Vol. 35, No. 1 (Mar., 1992), pp. 91-113.

Wright, Robert E. “Thomas Wllling (1731-1821): Philadelphia Fnancier and Forgotten Founding Father.” *Pennsylvania History,* 525-560.

“Banking and Politics in New York, 1784-1829.” *Journal of Economic History*, Vol. 58, No. 2 (June 1998), pp. 541-544.

“Bank Ownership and Lending Patterns in New York and Pennsylvania, 1781-1831.” *Business History Review* Vol. 73, No. 1 (Spring 1999), pp. 40-60.