

‘Such a War...is Wholly out of the Question’
Planning, Funding and Decision Making in 1812

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On June 1, 1812, James Madison, the fourth President of the United States, sent Congress an analysis of the state of relations between the United States and Great Britain. In it, he provided a summation of the serious dialogue of war expressed by national leaders from fall 1811, and concluded that American ‘conciliation’ over the past several years had given Britain a false 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 Madison’s address signaled the formal end of a seemingly interminable period of deliberation regarding the feasibility of war and American motivations.

Offering Congress a detailed historical account, he enumerated various reasons for war such as the British practice of impressment, the continual violation of American neutrality, and the harassment of American merchants and ships within United States coastal waters. While Madison mentioned concerns related to the challenge of the western frontier and British encouragement of Indian attacks on Americans, the president also emphasized that commercial and economic interests were fundamental to American motivation for settling the crisis. British disregard of the importance of trade within the American economy was interpreted as a formal attack on national sovereignty, and the system of British blockades, made formal policy by decrees known as Orders-in-Council, was especially offensive and provided the basis of the hawkish American argument for war.² Ironically, even though matters related to the country’s economic and financial welfare were central to the American rationale for war, the country remained financially unprepared to defend its commercial honor.³

As he provided the context for war, however, Madison refrained from engaging in a discussion about the condition of United States’ readiness. Perhaps he felt that his general recommendations for preparation, given to Congress in November 1811 as a portion of his third

annual message, were adequate. Beyond the president's brief 1811 summary of need, another critical factor influencing the planning process was the extant national consensus which held to the view that a successful invasion of Canada would make vigilant management of resources during a long war unnecessary and irrelevant. Former president Thomas Jefferson represented this perspective when he stated: 'the acquisition of Canada...[would be] a mere matter of marching', and would be nothing less than the 'final expulsion of England from the American continent'. Moreover, during congressional deliberations, the conquest of Canada was described as a 'war feast'. The plan to capture and rely on Canadian resources explains to a great degree why there was not a greater focus on the state of preparedness in the months and years leading up to war.⁴ In the minds of executive and congressional leadership, achievement of the Canadian war aim eliminated the need for long term preparation, particularly in the realm of finance.

Seventeen days after summarizing the current state of hostilities, Madison signed the declaration of war against Great Britain. For the man who had been instrumental in shaping Jeffersonian-Republican political tradition, which emphasized limited government, peaceful foreign relations, as well as little tolerance for public debt, a declaration of war was a departure from earlier attempts to rely solely on commercial restriction and the framework of a connected global economy.⁵ Madison's authorization of war moved the country in a new and uncertain direction, forcing Secretary of Treasury Albert Gallatin and congressional leadership to contend with Jeffersonian arguments while debating the practicalities necessary to alleviate financial crisis in the short term.⁶ An exploration of the funding considerations that influenced policymakers throughout 1812 sheds light on the state of planning and decision making related to the entire war effort.

Treasury Secretary Albert Gallatin was Madison's most trusted advisor and a central figure in the executive planning process for war. His approach to managing the financial condition of the country in the event of war was founded on a sense of underlying optimism. A native of Switzerland, Gallatin was personally selected by Thomas Jefferson to be the spokesman for Republican finance while still a congressman from the state of Pennsylvania in the 1790s. Gallatin understood "the new science of finance" and could speak the language of Alexander Hamilton, Jefferson's rival.⁷ Serving as both Jefferson's and Madison's secretary of treasury from 1801-1813, Gallatin succeeded in reducing the federal debt and advocated for a functioning banking system. When, as president, Madison encountered great difficulty appointing capable leaders in cabinet posts, Gallatin became even more indispensable.⁸

If judged by the Republican criteria of debt reduction and limited national government, the esteemed treasury secretary certainly had moved forward his party's goals. Under his purview, the debt levels of the federal government had declined from over \$85 million in 1804 to \$45 million in 1812.⁹ Interestingly, Gallatin saw this action, not financial preparation for looming conflict, as his *raison d'être*. In a telling 1809 letter to Jefferson, Gallatin stated that he had fulfilled the principal purpose for which he took office—debt reduction.¹⁰ Because of this success, Gallatin was convinced of the strength of American financial capabilities during peacetime. His experiences as the treasury secretary during both the Jefferson and Madison administrations supported a basic belief that the United States could finance the war as necessary in the short run, and pay off the debt once peace returned.¹¹

It is important to note that active planning of wartime financial and military strategy at the executive level occurred in 1807 in response to the *Chesapeake-Leopard* incident. It was then

that war appeared most immediate and, in a July letter to his father-in-law and prominent New Yorker Joseph H. Nicholson, Gallatin earnestly considered the nation's resources.

We will be poorer, both as a nation and as a government, our debt and taxes will increase and our progress in every respect will be interrupted...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.

At that time, he estimated that the country would need to borrow approximately \$10 million for each year of the war. Gallatin noted the importance of the financial system for the implementation of his plans and did not expect that banks and their personnel would subscribe to loans from altruistic or patriotic motivations. He realized that careful pricing would be necessary in order to offer a transaction attractive to the market. The details of Gallatin's basic plan in 1807 became the strategy as war began in 1812.¹²

In another document from 1807, Gallatin's annual report to Congress, he expressed a real sense of urgency and outlined his rationale for financing a certain war with Britain. Gallatin described a nation in a relatively good financial position with immediate access to \$11 million. To increase revenue, the secretary advocated an increase in duties should war be declared in actuality. Further, Gallatin examined the possibility of war taxes, concluding that taxation was not the best option for the United States.¹³ Again, the secretary's plans assumed the relative ease of borrowing funds during conflict, followed by efficient reduction of debt during peacetime. This strategy was predicated on the existence of a functional banking system empowered by a central banking institution.¹⁴

Even though summer and fall of 1807 passed without the outbreak of hostilities with Britain, Gallatin continued to examine the possibility of war, and he applied 1807 planning considerations to the national finances within his 1808 and 1809 annual reports. Remarkably, the 1810 annual report neglected the topic. By fall 1811, however, the political environment had

once again shifted towards the likelihood of conflict with Britain. Gallatin's 1811 "State of Finances" report reflected the nation's changing mood towards war.¹⁵

Projections for year 1812 were included in the secretary of treasury's November 1811 report. The 1811 report documented an increase in actual revenue from trade and other sources reaching \$13.5 million from approximately \$8.7 in 1810. The treasury had benefited from borrowing funds during 1811 due to 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 the cusp of 1812 Gallatin still believed that the cost of war would be manageable.¹⁶

As Gallatin compared annual revenue to annual expense, he again expressed 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 if considered separately from extant deposits and loaned funds.¹⁷

Gallatin's estimate of expenses for 1812 did involve a lower revenue expectation of \$8.2 million, but he anticipated only a small increase in military establishment expenses, from \$2.1 million in 1811 to \$2.5 million in 1812. Fundamentally, Gallatin's expectations did not involve a substantial increase in expenditures, war or no war. With projected expenses of \$9.4 million and estimated revenue of \$8.2 million, Gallatin was prepared to finance a deficit of \$1.2 million

for the year, and he seemed to believe that he could keep the deficit at minimal levels throughout a conflict.

The November 1811 report implied that the difficulties associated with finance during time of war were not insurmountable and that the United States could borrow to make up the difference for deficit spending. From this calm vantage point, Gallatin ended the report with four major points for consideration. First, he noted that the United States required a fixed revenue of approximately \$9 million, apart from any item of war. Second, internal taxation would not become necessary to answer the demand for increased revenue. An increase in duties could solve that problem. Third, Gallatin stated the essential premise of 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. Gallatin expressed little alarm related to impending hostilities with England, and no real consideration for the potential of American economic distress. Revisiting conclusions reached in 1807 seemed to give national leaders a false sense of security.¹⁸

If Gallatin provided the rationale for financial strategy, then it was up to a politically fragmented Congress to enact financial policy. Ezekiel Bacon played an important role as a congressional liaison for the executive branch and mouthpiece of Gallatin’s ideas during the year 1812. An example of communication between the executive and legislative branches, the Committee on Ways and Means, under the leadership of Rep. Bacon, sent a letter of inquiry to Secretary Gallatin dated December 9, 1811, regarding the financial health of the government in case of war. Mr. Bacon wanted to discuss the interest on a proposed temporary loan and the

payment arrangements to be made, and the committee asked Gallatin to identify additional revenue sources. Further, the committee requested Gallatin's recommendations for the development of a comprehensive revenue plan assuming the conditions of war.¹⁹

When Gallatin responded in January 1812, he gave voice to many thoughts consistent with prior writings. Gallatin 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. The secretary acknowledged that any estimate of funding from duties was pure 'conjecture' and listed the difficulties of trade within a hostile setting. He stated that although the government could not rely on any more than \$2.5 million from duties, he did believe that the rate of duties could be doubled and collected with relative ease.²⁰

Gallatin's response revealed an important evolution of perspective that must have occurred between November and January, as the treasury secretary realized some type of taxation system might be needed. He felt the need to explain to Chairman Bacon why his position differed from statements he had made multiple times over a period of years.

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 by stating that the bank re-charter rejected in early 1811 included a provision to increase its capitalization to \$30 million, of which half was to have been available to the federal government. Had the bank been operational in 1812, it would have alleviated many of country's financial concerns. Additionally, Gallatin was convinced that if the bank had been authorized to loan to the government up to \$20 million annually, then internal taxes would not have been necessary. At this point, the treasury secretary began to contemplate the implications

of the United States government's 'diminished ability to borrow' and suggested that taxation could become unavoidable.²¹

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 income, and while Gallatin did not offer specifics on that subject, he did provide a list of sources for indirect taxation, relying on the system that had worked during previous years. He proposed 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 advocated re-establishing the position of revenue commissioner, a comment suggesting that the financial machinery of government was not fully in place. He concluded his recommendations to the committee with an examination of the need for treasury notes and additional loans; in short, his suggestions emphasized a strategy of deficit finance while underscoring a Gallatonian theme: '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...'²²

At the time of Gallatin's interchange with the Committee on Ways and Means, not everyone in Congress agreed with the secretary's cautiously optimistic perspective and a vocal minority clearly voiced concerns. As 1811 closed, Adam Boyd, Democratic-Republican from New Jersey, expressed one of the strongest statements concerning the nation's finances:

You are about to drain your Treasury, borrow money, enlarge your pension list, build additional hospitals, increase our national debt, not to be extinguished or paid off, but to be a lasting burden on the people.²³

At the beginning of 1812, Daniel Sheffey, Federalist of Virginia, strongly advised more time for reflection, stating that Congress needed to accurately calculate expenses and account for resources.²⁴ One of the most pointed statements in the months before war, however, came from Harmanus Bleecker, a Federalist of New York. In no uncertain terms, he conveyed his

reservations while attempting to introduce a petition signed by 800 of his state's citizens who were opposed to another imposition of the restrictive policy of embargo. Mr. Bleecker used the opportunity to pose important questions regarding the nation's state of preparedness and point out the fierce economic effect of hostilities:

Sir, we cannot go to war within sixty days...it is impossible that we can go to war at the expiration of the embargo. I speak sir of an active, offensive war; such a war as that is wholly out of the question.

Mr. Bleecker further expressed his dismay: 'I cannot believe, that we are to commence the war without any of the means for carrying it on; without an army, without a naval force, without money...'²⁵

While Bleecker and likeminded individuals were concerned with the economic impact of war, the prevailing view was that American prosperity combined with the undeniable need for war during the first half of 1812 would ensure victory. Prominent representatives such as John Calhoun of South Carolina, Joseph Desha and Henry Clay of Kentucky, and Nathaniel Macon of North Carolina loudly mocked those legislators who articulated concerns for the nation's financial capacity.²⁶ They were not alone. Other congressmen also dismissed any discussion of practical matters related to finance. 'We are told that war will be very expensive...What is money?' William Widgery of Massachusetts, asked.²⁷ William Lowndes of South Carolina stated 'no rule of arithmetic will give you the answer as to the expense at which they may be worth defending.' D.R. Williams also of South Carolina maintained that 'cost [was] out of the question.'²⁸ Adam Seybert of Pennsylvania spoke of the impending conflict as no less than an 'appendage of the war for independence.' As such, he believed that considerations of expense should hold no influence.²⁹ Another, Samuel Mitchill of New York, stated that American resources were 'amply competent' and 'the means [were] easy,' despite evidence to the contrary.

These types of pronouncements justified the fever for war and greatly influenced Congress as a decision-making body.³⁰

In this combative political environment, Congress considered commercially restrictive policies as well as issues pertaining to military expansion. The legislature was quite aware of the obvious implications for financial resources as members contemplated a larger army, a naval buildup, and whether or not to allow trade with Britain as the nation grew nearer to conflict, but legislators appeared uncertain regarding the meaning of their votes. Was a vote for the measure under consideration the equivalent of a vote for war? Related to the pre-war embargo, Felix Grundy, Republican of Tennessee, alluded to multiple discussions regarding the possibility of ‘a relapse into the old commercial restrictive system as a substitute for war’ to assert that Congress was not yet voting for or against war.³¹ To regain control over a congressional discussion pertaining to foreign relations in early May, Calhoun went to so far as to remind legislators that the question of war was not a subject under consideration.³² Even Madison voiced some ambivalence regarding the motivation for a renewed policy of embargo, mentioning to Jefferson as late as April 1812 that such an action might raise British awareness of the specter of war with the United States and help to avert hostilities. Interestingly, the president felt that, in order to be effective, such a policy required three to four months period of implementation.³³ As monumental as it must have seemed in late spring, the vote for war had yet to occur.³⁴

As Congress debated the purpose of their votes, telling financial pressures were emerging months before the war began. In March, Congress passed a loan measure in the amount of \$11 million dollars. Unfortunately, banks and individuals did not support the loan as anticipated and the full amount was not subscribed. (The December 1812 annual report revealed that, of the \$11 million, only a little more than \$5.8 million had been subscribed.) A month after the passing the

loan measure, Congress enacted a 90-day embargo to restricting American-British trade as a final gesture of warning. Perhaps most significantly, legislators debated the merits of treasury notes just before the war declaration in June.³⁵

Treasury notes, paper debt instruments that were sold to the public and had the potential to act as a sort of currency, were one of the few options available to quickly increase revenue. As a result, congressional discussions often became a forum for the expression of traditional fears about paper money. William W. Bibb, a supporter of the treasury note bill and Republican of Georgia, mocked the rhetoric of the Jeffersonian tradition connected to paper money and his statements highlighted the intensity of fear triggered by paper and debt in the past:

...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.

Rather than moving to resolve financial issues and prepare for conflict, congressional discussion about treasury notes looked back to the arguments of the 1790s.³⁶ Financial policy debates were complicated with present arguments enmeshed in past controversies.

Representative Alexander McKim, Republican of Maryland, attempted to bring attention to the practical needs surrounding the issue of treasury notes when he said: ‘war cannot be carried on without money.’ He, then, very simply described 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.³⁷ 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 argued for the imposition of taxes and urged fellow congressmen to

contemplate the problematic nature of passing loan measures apart from considerations of repayment.³⁸ Despite the opposition of Mr. Gold and others, the treasury note issue was enacted on June 30, 1812.³⁹

To regain management of the financial situation, in late June, the House also considered raising duties on imported goods by a staggering 100 percent. Echoes of the treasury note debate reemerged within this new context when Abijah Bigelow, Federalist of Massachusetts, asserted that the country would be ‘deluged’ with treasury notes. He believed that the increase in duties was an inadequate measure to address the financial needs of the country. In the same vein as Mr. Gold’s remarks, Bigelow asked for a more comprehensive plan of taxation, a revenue source that would allow for the appropriate repayment of borrowed funds.⁴⁰ Bigelow’s colleague from the same state and with the same party affiliation, Elijah Brigham, offered a slightly different viewpoint when expressing his opposition to raising duty levels. He mentioned that higher duty rates would become a disincentive to foreign trade and would reduce, instead of increase, revenue. He also noted that the ‘restrictive system’ had already taken a toll on commerce and manufactures and suspected that additional duties of the proposed magnitude would destroy the morale of the public, particularly in the east. Another congressman, Elisha Potter, Federalist from Rhode Island, opposed the measure citing the impact of higher prices on consumers. As fierce debate concluded, this measure was also enacted on July 1.⁴¹

Taxation was a difficult subject, but much attention was given to it throughout the spring session. Chairman Bacon advocated a comprehensive financial program to ensure the availability of funds for the war effort, and as early as February 13, he had focused legislative discussion on Gallatin’s recommendations for increasing the revenue. After much deliberation, Bacon submitted a total of thirteen bills to his colleagues for debate and passage on June 26.

Encompassing direct taxation, increased duties, carriage and liquor duties, and myriad others, Bacon encouraged Congress to create a comprehensive taxation plan that would improve the state of revenue.⁴² 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.⁴³ 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 adjourned on July 6, 1812, departing when Gallatin was facing one of his most disheartening moments, the debacle of the fall campaign.⁴⁴

Almost four months passed without congressional action related to the nation's finances, and when legislative body reassembled on November 2, 1812, its members were preoccupied with many other issues. Congress seemed unaware of the threat of future financial crisis as the legislative body splintered over issues such as payments to 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 1813.⁴⁵

The latter half of 1812 was a time of intense disagreement in Congress. The 1812 presidential election exacerbated political divisions, while simultaneously, policymakers grappled with the implications of military defeat and inadequate resources.⁴⁶ In January 1813,

Congress considered the possibility of another war loan and an additional issue of treasury notes to ease the coming financial struggle. Regarding taxation, Congress again broached the topic, but adjourned on March 3 without enacting tax policy. In the final analysis, neither the legislative nor the executive branches were able to meaningfully work together to develop a comprehensive financial plan to get the United States through the war without experiencing financial duress.

For all of Madison's sagacity, he was remarkably silent regarding the financial consequences of war policy. At a time when national government most needed direction in developing satisfactory financial policies, Madison did not directly exert his leadership in these matters, but rather, relied on Gallatin to represent executive leadership, even though the treasury secretary was a politically vulnerable figure and not trusted by an important contingent within Congress. Many legislators were dismissive of Gallatin's skills and actively sought to undermine his ability to lead.⁴⁷

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. Animosity between the secretary of the treasury and the secretary of war meant that coordination of funding and implementing policy would be a constant source of strain. Certainly, mismanagement at the highest levels of government created an atmosphere of doubt and distrust, and resulted in wasted resources.⁴⁸

Speaker of the House and vocal Republican Henry Clay provided a notable commentary on Madison's leadership after observing the first six months of war. 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 by saying that officials filling positions in Madison’s administration would be particularly important because of the president’s inadequacies. The Speaker 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 believed that the Twelfth Congress was capable of prosecuting the war, despite the ‘incompetence’ shown by the army and the fact that Madison could not decide on the secretary of war position.⁴⁹

By the end of 1812, Gallatin was at a loss. He better understood the extent of the military challenge facing the nation as well as the quandary of financing war in the midst of a crisis of confidence, but could find no way to solve the problems. Expressing his extreme dissatisfaction, Gallatin wrote to Jefferson on December 18, 1812 stating: ‘the series of misfortunes experienced this year in our military land operations exceeds all anticipation...’.⁵⁰ In January 1813, Gallatin revealed his anxiety to President Madison, volunteering to move from the treasury department to take over the war department ‘with all its horrors and perils.’ Further, his 1812 ‘State of the Finances’ annual report revealed that between expected revenue sources, loans, and the balance in the treasury, the government had \$20 million at its disposal, and expenses for the army and naval departments amounted to around \$11.1 million. Receipts were deceiving, however, since revenue apart from borrowed funds totaled only \$10.9 million; without loans, the United States government could not cover even the army and naval expenses. As horrifying as he found developments throughout 1812, Gallatin’s expectations for 1813 were truly shocking.⁵¹

Projections for 1813 involved an increase in military expenditures to at least \$21.9 million with receipts remaining relatively stable at \$12 million. This difference was quite a discrepancy, and with total expenses expected to rise to \$31.925 million, more than \$19 million in loans or other borrowed funds would be needed, not including debt payments.⁵² After six

months of fighting and American defeat, Gallatin fully realized that his formerly sanguine assessment of the state of American wartime finances had been misguided.⁵³

As the year 1812 demonstrated, financing the war was a difficult experience for a many reasons. Jeffersonian thought emphasized the importance of fighting a war with limited means and, in the years prior to conflict, Secretary of Treasury Albert Gallatin had prioritized debt reduction rather than financial preparation. Additionally, leadership promoting war relied on an overly optimistic view of American capability based on 1807 plans advocating a successful invasion of Canada and assuming the existence of the Bank of the United States. By the end of 1812, Gallatin realized that America was in a tenuous position and saw little purpose in remaining at the treasury department.⁵⁴

Much has been written about the perceived absurdity of the War of 1812 in terms of obfuscated causes, strange timing, and the war's seeming insignificance and outcome.⁵⁵ It does not help that national leadership at the time found it difficult to identify cause, purpose, and goals. One week before delivering his war message, no less than President Madison indicated that "this business [of war had] become more puzzling" and questioned whether war with England or France was more appropriate.⁵⁶ While the state of American finance reflected this confusion, analysis of the era's financial history also points to the overall significance of the War of 1812. The near catastrophic failure of wartime finance exposed American vulnerabilities and became a pivot point in the development of financial and economic understanding. Discourse related to national finance sheds light on the power of Jefferson's influence at the beginning of the war effort, while the experience of war fundamentally altered the views of key Republican leaders such as Gallatin, Madison and Clay.⁵⁷ The inability of the national government to effectively fund the war brought attention to the importance of a functioning central bank, an

essential component of a modern financial system.⁵⁸ In the final analysis, the war became a fulcrum through which national leadership appreciated anew the dichotomy between ideological rhetoric and practical necessity.

Representative Abijah Bigelow expressed what Gallatin was surely at least partially thinking with regard to the state of American finances at the end of 1812. Mr. Bigelow surveyed military losses and commented on the financial condition of the United States Treasury with this statement: ‘An empty Treasury to be replenished by naked loans is but an ill omen of success.’⁵⁹ Although he offered a succinct and apt summary of the financial situation, neither he nor his colleagues helped the embattled treasury secretary avert the coming financial crisis. Gallatin would face the start of the pivotal year 1813 alone, attempting to reason with a divided Congress, and with few resources to see the country through the war.

¹ ‘Special Message to Congress’, June 1, 1812, *The Writings of James Madison (WJM), 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), 199.

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.”

³ *Ibid.*, 151-6. ‘To the Inhabitants of the Town of New Haven,’ undated mid-1811. To the petitioners of New Haven, opposed to the non-importation policy, Madison traces a bit of the history of international hostilities and its impact on trade. He offers perspective on the centrality of American trade and commercial interests to the country’s foreign policy.

⁴ *Ibid.*, 162. ‘Third Annual Message,’ November 5, 1811.

⁵ Ralph Ketcham, *James Madison: A Biography* (Charlottesville: University of Virginia Press, 1990), 411-412. ‘They were coarchitects and coexecutors of a Republican policy to which they were equally devoted.’ Andrew Burstein and Nancy Isenberg, *Madison and Jefferson* (New York: Random House, 2010), 629. “In a sense, Madison was Jefferson’s political crutch...” Burstein and Isenburg assert that Jefferson was reliant on Madison and that Madison was the more disciplined thinker of the two. ‘Inaugural Address,’ March 4, 1801, *The Works of Thomas*

Jefferson (WTJ), ed. Paul Leicester Ford, vol. 9, (New York: G.D. Putnam and Sons, 1904-5), 193-200. Jefferson defined Republican tradition and identified the elements of the tradition that bears his name throughout his 1801 inaugural address. These ideas formed the basis of much of the national discussion surrounding war finance.

⁶ James Madison to Thomas Jefferson, April 3 and April 24, 1812, *James Madison Papers (JMP)*, Series 1, Library of Congress-American Memory Online. Madison discusses passage of the last attempt at coercion as a sole strategy prior to war. For a slightly different perspective, see Donald Hickey, ‘American Trade Restrictions during the War of 1812’, *The Journal of American History*, vol. 68, no. 3 (Dec., 1981), 517-538. Professor Donald Hickey points to the Republican use of trade restrictions as weapons of war, making the case that Madison ‘sought to strengthen the restrictive system’ even as the war progressed.

⁷ *Annals of Congress, House of Representatives (AC-H)*, First Congress, Second Session, 1194. In the 1790s, Rep. Fisher Ames of Massachusetts expressed the concerns of many in leadership pertaining to the practical matters of finance: “The science of finance is new in America; a gentleman may therefore propose the worst of measures with the best intentions.” Wariness related to the perceived “new science” of finance remained a factor as America fought the War of 1812.

⁸ Burstein and Isenberg, 629. ‘...the most important of the politicians was the Swiss-born Pennsylvanian Albert Gallatin, who had a lasting influence on Madison and Jefferson and on the politics and the economy of the early republic.’ For more information about Gallatin and his influence, see Nicholas Dungan, *Gallatin: America’s Swiss Founding Father* (New York University Press, 2010) and Raymond Walters, *Albert Gallatin: Jeffersonian Financier and Diplomat* (New York: MacMillan, 1957).

⁹ ‘State of the Finances’, December 8, 1815. *American State Papers (ASP)*, Finance 3: 22-23.

1804	1805	1806	1807	1808	1809
\$85,353,643.22	\$80,534,058.65	\$74,542,957.62	\$67,731,645.62	\$64,742,326.26	\$56,732,379.81

1810	1811	1812
\$53,156,532.64	\$47,855,070.50	\$45,035,123.70

¹⁰ Albert Gallatin to Thomas Jefferson, November 8, 1809, *WAG*, 465. ‘The reduction of the public debt was certainly the principal object in bringing me into office, and our success in that respect has been due both to the joint and continued efforts of the several branches of government and to the prosperous situation of the country. I am sensible that the work cannot progress under adverse circumstances. If the United States shall be forced into a state of actual war, all the resources of the country must be called forth to make it efficient, and new loans will undoubtedly be wanted. But whilst peace is preserved, the revenue will, at all events, be sufficient to pay the interest and to defray necessary expenses. I do not ask that in the present situation of our foreign relations the debt be reduced, but only that it shall not be increased so long as we are not at war.’

¹¹ ‘Finances’, November 7, 1807, *ASP*, Finance 2: 248. ‘...a hope may be confidently entertained that all the evils of the war will be temporary, and easily repaired; and that the return of peace will, without any effort, afford ample resources for reimbursing whatever may have been borrowed during the war.’ ‘Finances’, December 8, 1809, *ASP* Finance 2: 374. ‘Loans,

reimbursable by instalments [sic], and at fixed periods, after the return of peace, must constitute the principal resource for defraying the extraordinary cost of war.’

¹² Albert Gallatin to Joseph H. Nicholson, July 17, 1807, *WAG*, vol. 1, ed. Adams, 339. A few days after his letter to Nicholson, Gallatin wrote Thomas Jefferson, identifying the U.S. locations that the British would likely attack. In addition to a brief note, he authored a “Memorandum of Preparatory Measures” that detailed military needs and examined the importance and needs of offensive operations in upper and lower Canada. Albert Gallatin to Thomas Jefferson, July 25, 1807, *WAG* vol. 1, ed Adams, 340-355.

¹³ ‘Finances’, November 7, 1807, *ASP* Finance 2: 248.

¹⁴ Interestingly, both the 1807 letter to Nicholson and Gallatin’s annual report make mention of the Bank of the United States. For more information about the first Bank of the United States and the functions it fulfilled, see: Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (New Jersey, Princeton University Press, 1957), 114-143; Edward Kaplan, *The Bank of the United States and the American Economy* (Westport, Connecticut: Greenwood Press, 1990); and Richard Timberlake, *The Origins of Central Banking in the United States* (Cambridge, Massachusetts: Harvard University Press, 1978).

¹⁵ ‘Third Annual Message’, November 5, 1811, *WJM*, vol. 8, ed. Hunt, 162. ‘Great Britain’, November 29, 1811, *ASP*, Foreign Relations 3: 537. ‘Finances’, November 25, 1811, *ASP*, Finance 2: 495.

¹⁶ ‘Finances’, November 25, 1811. *ASP*, Finance 2: 497. 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.

¹⁷ *Ibid.*, 495.

¹⁸ *Ibid.*, 497.

¹⁹ ‘Increase in Revenue’, *ASP*, Finance 2: 523.

²⁰ *Ibid.*, 524-527. See also Gallatin to Ezekiel Bacon, dated January 10, 1812.

²¹ *Ibid.*, 524.

²² *Ibid.* See also Gallatin’s letter to Jefferson dated March 10, 1812. *WAG*, vol. 1, 517. ‘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 possible quantity of debt, perpetual taxation, military establishments, and other corrupting or anti-republican habits or institutions.’

²³ *Annals of Congress, House of Representatives (AC-H)*, Twelfth Congress, First Session, 521.

²⁴ *Ibid.*, 631-635.

²⁵ *Ibid.*, 1380.

²⁶ *Ibid.*, 478-9, 488, 599, 664, 1399. Desha: How could ‘...a country so extensive as America, so populous, abounding in wealth, and I trust, the people patriotic, possessing a full share of national pride...not be willing to be at the expense of supporting their rights? Citizens cannot estimate in pounds, shillings, and pence, the value of national honor and rights.’ Clay: ‘What are we to gain by war?...What are we not to gain by peace? Commerce, character, and nation’s best

treasure—honor!’ Macon: ‘Let the worst come to the worst, we know what to do. We once succeeded with paper money, and if we were driven to that necessity, we could succeed with it again.’ Calhoun: ‘Let us but exert ourselves, and we must meet with the prospering smile of Heaven. Sir, I assert it with confidence, a war, just and necessary in origin, wisely and vigorously carried on, and honorably terminated, would establish the integrity and prosperity of our country for centuries.’ Macon: ‘Let the worst come to the worst, we know what to do. We once succeeded with paper money, and if we were driven to that necessity, we could succeed with it again.’

²⁷ *Ibid.*, 658.

²⁸ *Ibid.*, 689.

²⁹ *Ibid.*, 693.

³⁰ *Ibid.*, 874.

³¹ *Ibid.*, 1409.

³² *Ibid.*, 1461.

³³ James Madison to Thomas Jefferson, April 3, 1812, *WJM*, ed. Hunt, 186.

³⁴ *Ibid.*, 461.

³⁵ *Ibid.*, 1495.

³⁶ ‘Finances’, December 7, 1812, *ASP*, Finance 2: 580. See also Donald Kagin, ‘Monetary Aspects of the Treasury Notes of the War of 1812’, *The Journal of Economic History*, vol. 44, no. 1 (Mar., 1984), 73.

³⁷ *AC-H*, Twelfth Congress, First Session, 1499. 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

³⁸ *Ibid.* 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.”

³⁹ *AC-H*, Twelfth Congress, First Session, 1509.

⁴⁰ *Ibid.*, 1517.

⁴¹ *Ibid.*, 1527-29

⁴² *Ibid.*, 1555.

⁴³ *Ibid.*, Roberts: ‘It did not appear from the report of the Secretary of Treasury that it was necessary.’

⁴⁴ *Ibid.*, 1557.

⁴⁵ *Annals of Congress*, House of Representatives, 12th Congress, 2nd Session, 869-918 ‘Loan Bill’, ‘Treasury Notes’, and ‘War Taxes’, February 17, 1813, 1075.

⁴⁶ Donald Hickey, *The War of 1812: A Forgotten Conflict* (Urbana: University of Illinois Press, 1989), 105-9.

⁴⁷ Robert A. Rutland, *The Presidency of James Madison*, American Presidency Series (Lawrence: University Press of Kansas, 1990), 126. Rutland refers to Gallatin as Madison’s rock. “Monroe had Madison’s confidence, but the real rock of the cabinet was Gallatin.” Dungan, Ketcham and Walters detail the political difficulties Gallatin faced.

⁴⁸ Albert Gallatin to Thomas Jefferson, December 18, 1812, *WAG*, vol. 1, 530-1. In relating the difficulty of working with William Eustis, Gallatin reveals how important he views cooperation between the treasury department and the military apparatus.

⁴⁹ 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

⁵⁰ Albert Gallatin to Thomas Jefferson, December 18, 1812, *WAG*, vol. 1, ed. Adams (Philadelphia: J.B. Lippincott, 1879), 530-1.

⁵¹ ‘State of the Finances’, December 7, 1812. *ASP*, Finance 2:580-1. *JMP*, LC-American Memory Online, Series 1, Albert Gallatin to James Madison, January 7, 1813. 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.’

⁵² Albert Gallatin to James Madison, Memoranda Autumn 1812, *WAG*, vol. 1, 527-9. ‘State of the Finances’, December 7, 1812. *ASP*, Finance 2: 580-1.

⁵³ Walters, *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.

⁵⁴ Contributing to the nation’s difficulties, Gallatin left for Russia to help negotiate the peace in May 1813, making the challenge of war finance even more problematic. Madison attempted to fill the leadership void by appointing Naval Secretary William Jones to the position of acting secretary of the treasury. Secretary Jones was entirely unprepared and did not want to serve as acting treasury secretary in addition to his responsibilities with the navy. George W. Campbell followed Jones in 1814 and was repeatedly ill and overwhelmed by the demands of the position. Alexander Dallas then became secretary of treasury from 1814 to 1816, providing much needed leadership. Foreshadowed throughout 1812, ideological constraints, disunity among decision makers, and incompetent leadership at Treasury resulted in many disheartening moments, among them, the near bankruptcy of the country in March 1813, and the suspension of payments in specie by banks in late 1814. Albert Gallatin to James Madison, March 5, 1813, *WAG*, vol. 1, 532-3. ‘We have hardly money enough to last till the end of the month.’ Edwin J. Perkins, *American Public Finance and Financial Services, 1700-1815* (Columbus: Ohio State University Press, 1994), 339. ‘Military setbacks in the summer of 1814 produced a panic atmosphere and predictions that requests for conversion might escalate across much of the nation...directors in bank after bank voted to suspend payment in order to hold on to the specie reserves still in their vaults.’

⁵⁵ J.C.A. Stagg and Alan Taylor both refer to the American perception of the war’s insignificance within the introduction of their recent works. J.C.A. Stagg, *The War of 1812: Conflict for a Continent* (Cambridge University Press, 2012), 1-17. Alan Taylor, *The Civil War of 1812* (New York: Random House, 2010), 10. ‘The War of 1812 looms small in American memory, forgotten as insignificant because it apparently ended as a draw that changed no boundary and no policy.’

⁵⁶ James Madison to Thomas Jefferson, May 25, 1812, *WJM*, vol. 8, 190-1. ‘To go to war with England and not with France arms the federalists with new matter, and divides the Republicans

some of whom with the Quids make a display of impartiality. To go to war against both, presents a thousand difficulties, above all, that of shutting all the ports of the Continent of Europe against our Cruisers who can do little without the use of them. It is pretty certain also, that it would not gain over the Federalists, who would turn all those difficulties against the Administration. The only consideration of weight in favor of this triangular war as it is called, is that it might hasten a peace with Great Britain or France...'

⁵⁷ Albert Gallatin to Mathew Lyon, May 7, 1816, *Albert Gallatin Papers*, 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.’ 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’.

WJM, vol. 8, ed. Hunt, ‘Special Message to Congress’, February 18, 1815. ‘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.’

⁵⁸ Richard Sylla, John B. Legler and John T. Wallis, ‘Banks and State Finance in the New Republic: The United States, 1790-1860’ *The Journal of Economic History*, vol. 47, no. 2 (Jun., 1987), 402. ‘After the War of 1812 came the era of improvement.’ Richard Sylla, ‘Financial Systems and Economic Mobilization’, *The Journal of Economic History*, vol. 62, no.2 (Jun., 2002), 284-285. Sylla discusses the importance of banking and a central bank, in particular, for economic growth, and explains why the first bank of the United States facilitated a modern financial system in America.