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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 over the past several years had given Britain a false impression that she could continue aggressive behavior. Our moderation and conciliation have had no other effect than to encourage perseverance and to enlarge pretensions.¹ Our 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 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 American 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. The 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: "a mere matter of final expulsion of England from the American continent. Moreover, during congressional deliberations, the conquest of Canada was described. 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 In this 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.

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once again shifted towards the likelihood of conflict with Britain. In 1811 the
Hkpcpeguö"tgrqtv"tghngevgf"vjg"pcvkqpøu"ejcpikpi"oqqf towards war.¹⁵

Projections for year 1812 were included in the November 1811
report. The 1811

payment arrangements to be made, and the committee asked Gallatin to identify additional revenue sources. Further, the committee requested 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 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

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 the difficulties. 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 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 that it is still hoped that the ordinary peace revenue of the United States will be sufficient to reimburse, with interest, the national debt.²²

Everyone in Congress agreed with the cautiously optimistic perspective and a vocal minority clearly voiced concerns. As 1811 closed, Adam Boyd, Democratic-Republican from New Jersey, said:

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

reservations while attempting to introduce a petition who were opposed to another imposition of the restrictive policy of embargo. Mr. Bleecker used the out the fierce economic effect of hostilities:

Ukt. "yg"ecppq"i"v"yct"ykvj"p"ukzv{"fc{u í kv"ku"ko rquukdng"vjcv"yg"ecp"i"v"yct"cv"vjg"gzrktcvkqp"qh"vjg" 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

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 financial capacity.²⁶

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 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 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:

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cpf"rtkxcvg"eqphkfgpeg"yqwnf"dg"fguvtq{gf="vjcv"vjg"Dkdngu"yqwnf"dg"eq o okvvgf"vq"vjg"hnc o gu í pqpg"qh"
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 Asmki"y jgvjgt"Eqpigtuu"kpvgpfgf"efficient war, with a sagacious enemy, without revenue, without taxes,

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.

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 tguqnrwvkqp"vq"fgnc{"fkuewuukqp"qp"gcej"qh"Dceqpøu"vjktteen bills. After some debate, the House concluded vjcv"-no great evil would ensue from postponement,ø 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 natiqpøu"hkpcpegu." 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.

Fot"cnm"qh"Ocfkuqpøu"ucicekv{."jg"ycu"tgoctmcdn{"ukngpv"tgi ctfkpi"vjg"hkpcpekcn" 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 leadership, and he did not 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 the financial situation. In a letter to Caesar A.

Tqfpg{."Ocfkuqpøu"Clay's General upvk"3:33."En u p t

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 insignificant 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 he questioned whether war with England or France was more appropriate.⁵⁶ While the state of American finance reflected this, 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 war effort, while the experience of war

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

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 Fqpcnf" Jkeng{."-C o gtkecp"Vtcf g" Tguvtkev kqpu" fwtkpi "v jg" Y ct"qh"3:34ø. *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 Oc fkuqp"-sought to strengthen the restrictive systemø 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 rgtvckpki "vq"v jg" r tcevkecn" o cvvgtu"qh"hkpcpeg<õV jg"uekgpeg"qh"hkpcpeg"ku"pg y "kp"C o gtkec="c"

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

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 preparatory to offensive operations in upper and lower Canada. Albert Gallatin to Thomas Jefferson, July 25, 1807, *WAG* vol. 1, ed Adams, 340-355.

¹³ *ASP*, Finance 2: 248.

¹⁴ 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 *ASP*, Foreign Relations 3: 537. November 29, 1811, *ASP*, Finance 2: 495.

¹⁶ In relating the state of the public debt to the potential for war, Gallatin noted that the United States, with their ordinary revenue, in ten years of peace, a debt of forty million dollars 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 *ASP*, Finance 2: 523.

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

²¹ *Ibid.*, 524.

²² *Ibid.* Ugg "cnuq" I cncvkpøu "ngvvt"vq "Lghhtuqp" fcvf "Octe j"32."3: 340" *WAG*. "xqn0"3."7390"÷ Y kv j" 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

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, 139; "Fgujc<" J qy "eqwnf"÷ í c"eqwpt {"uq"gzvgpukxg"cu"C o gtkec."uq" populous, abounding in wealth, and I trust, the people patriotic, possessing a full share of estimate kp"rqwfu."ujknkpiu."cpf"rgpeg."vjg"xcnwg"qh"pcvkqpcn"jqqt"cpf"tki jvu0"Enc {"÷ Y jcv"ctg" y g"vq"icpk"d {"yctA000 Y jcv"ctg" y g"pqv"vq"icpk"d {"rgcegA"Eq o o gteg."ejctcevtg."cpf"pcvkqpo"dguv"

treasure ô jppqt#ø"Oceqp<"Ngv"vjg"yqtuv"eq o g"vq"vjg"yqtuv."y g"mpqy"y jcv"to do. We once

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 "Uvcvg"qh"vjg"Hkpcpeguø."Fgeg o dgt"9."3:340"ASP, Finance 2:580-1. *JMP*, LC-American Memory Online, Series 1."Cndgtv" I cncvkv"vq"Lc o gu"Ocfkuqp."Lcpwct{"9."3:350" I cncvkvøu" concern with the appointment of General Armstrong to the Secretary of War position was that he ÷ o ki j v"pqv"dtkpi"kp"vjg"cf o kpkuvtcvkqp"vjcv"gpvktg"wpkv{"qh"hggkpi í uq"wughwn"kp"rtqfwekpi"jgctv{" eqqr gtcvkqp"cpf"wpkv{"qh"cevkqp í v j ku"ku"hgnv"d{" o g"ykvj"rctvkewnc"hteg."dgecvug"vhe treasury department stands most in need of that cooperation and is most seriously affected when perfect cordiality and disposition vq"ceeq o o qfcvg"fqgu"pqv"gzkuvøø

⁵² Albert Gallatin to James Madison, Memoranda Autumn 1812, *WAG*, vol. 1, 527-9. "Uvcvg"qh" tjg"Hkpcpeguø."Fgeg o dgt"9."3:340"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 vtgcuwt{"0"Y cnvgtu"pqvgu"vjcv" I cncvkv"guugpvkcn{"vjqw i j v"vjcv"vtgcuwt{" ycu"õj qrgguuø"d{"Octe j" and April of 1813.

⁵⁴ Eqpvtkdvwkpi"vq"vjg"pcvkqpøu"fkhhkewnvkgu." I cncvkv"nghv"hq"Twuukc"vq"jgnr"pg i qvkvvg"vjg"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

