Financing the War of 1812

The War of 1812 proved a financial catastrophe for the United States. One of the main reasons financing the war proved difficult and costly for the United States is that few preparations had been made prior to a declaration of war in June of 1812. Another factor was the dissolution of the national bank, the charter for which expired in 1811. Moreover, the economic policies used by both Presidents Jefferson and Madison placed the United States in a dangerous financial position when war came to North America. Thus, funding America's second war against Great Britain was one of the great challenges of the conflict for the United States.

In the build up to war with Great Britain, the administrations of Thomas Jefferson and James Madison enacted policies of economic restriction, mainly embargoes, as diplomatic tools to compel Britain and France to respect American trading rights. Both presidents believed that economic sanctions were capable of producing diplomatic results. However, embargoes proved inadequate for long-term resolutions in Anglo-American relations. Jefferson's "non-intercourse act," for example, passed shortly before James Madison took power, negatively affected the United States' economy and reduced federal revenues. Policymakers hoped it would force Britain and France to respect neutral powers' rights. Trade resumed under the act, but not with Britain and France. The tactic failed as a method of coercion in getting either nation to yield to American demands.

The United States moved to a partial war-footing before it declared war on Britain. Congress expanded American military forces, authorizing an army of 10,000 men, but it did not prepare financially for war. When war finally looked inevitable, the Secretary of the Treasury, Albert Gallatin, submitted his financial plan; he believed existing revenue sufficient to cover regular government expenses, but the costs of the war required borrowing $10 million just for 1812. Fiscally conservative, many Congressmen recoiled at his proposal, but most signed off on Gallatin's proposals by March. Congress approved a loan of $11 million and higher customs duties to cover military expenditures. Under no circumstances would Congress approve new internal taxes in 1812.

Through Secretary Gallatin's efforts and some good fortune, the U.S. escaped 1812 without financial calamity or significantly adding to the national debt. An unanticipated windfall partially explains this fact. Madison's administration considered reinstating full trade embargoes when war was declared, but hundreds of American vessels had already put to sea after Macon's Bill No. 2 passed in 1810; a full embargo would trap these merchants' ships and crews. Thus, the government waited until these merchants' ships returned to re-impose a general trade embargo. As a result, the U.S. government reaped an unexpected boost in revenues as merchants dumped British goods into the American market. The duties brought $5 million in extra revenue, but this would not happen again during the war.

As Madison's administration contemplated 1813, Gallatin estimated total government expenditures at $36 million and only $17 million in total revenue. A Republican-dominated Congress showed no interest in raising taxes, so it again approved loans totaling $16 million and $5 million in treasury notes to cover a projected $19 million deficit. Gallatin's estimates missed the mark by a wide margin. In July, President Madison asked Congress for an additional $7.5

million in funding. The Congressional response was predictable—another loan. Congress did come to terms with the fact that it would have to impose new taxes in 1814. Towards that end, the body approved some direct internal taxes for 1814 on land, imported goods such as salt, negotiable paper, and additional customs duties to generate an additional $5.5 million in new revenue.[1]

A number of factors contributed to the financial crisis Madison's administration faced in 1813. First the revenue reaching federal coffers from commercial transactions declined by fifty percent compared to pre-war levels. The war interrupted normal commerce. Certainly, war profiteering took its toll on budgets, but beyond this the constant delays and supply problems raised costs. Poor infrastructure and coordination bred inefficiency to the point that many accused the administration of corruption. William Henry Harrison's army, which was preparing an assault to retake Detroit, expended $3 million by March of 1813 even though it had not moved an inch towards its military objective.[2] All told, federal expenses grew larger throughout the year, and Congress had done little in 1813 to check the coming financial crisis.

American prospects looked grim for 1814. Britain rejected Russia's offer of mediation, and the two were essentially stalemated militarily. Gallatin, appointed a peace delegate by Madison, stepped down from the treasury at the end of 1813. His replacement, William Jones, submitted the most disturbing report yet to Congress in January of 1814. For the third year in a row, the treasury secretary projected a deficit; Jones expected a shortfall of nearly $30 million for 1814. He recommended the same prescriptions to cure America's financial sickness—loans and new taxes. The only twist was the realization that the nation needed a Bank of the United States (BUS). Congress again rejected the secretary's recommendations, preferring loans ($25 million) and another $10 million in treasury notes. America flirted with bankruptcy, a fact implicit in the difficulties Gallatin faced raising loans in 1813. He likely would have failed had David Parish, Stephen Girard, and John Jacob Astor put up the majority of the $16 million the government needed in 1813. Jones faced a significant problem in 1814. The treasury notes bought in 1813 would come due in 1814, so the loans he needed to cover 1814 would have to include money to service this debt and the costs of war. This fact alone meant the secretary would have difficulty finding investors; he would have to offer substantial discounts to find gamblers willing to risk cash on increasingly shaky public credit.

The treasury consistently fell short in meeting federal financial obligations, and the government finally defaulted on the treasury notes due in 1814 and its debt payments (debt servicing had to be paid in hard money, which the government did not have; thus, the government defaulted on the payment). The United States government was essentially bankrupt by November of 1814. The difficulty in finding loan subscribers and buyers of treasury notes was only part of the problem. Revenue continued to fall, so the government no longer covered its regular expenditures either. Other symptoms of the financial crisis were soldiers' pay being six to twelve months in arrears, the closing of the Springfield Armory that supplied weapons to the army, and the inability to recruit new soldiers because there was no money for bonuses. To

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[1] Donald R. Hickey, *The War of 1812: A Forgotten Conflict*, (Urbana: University of Illinois Press, 1989), 122.
[2] J.C.A. Stagg. *The War of 1812: Conflict for a Continent*, (Cambridge: Cambridge University Press, 2012), 67.

compensate for the last shortcoming, Congress increased the land bounty to 320 acres for men serving the duration of the conflict.

Fortunately, the war was close to being over when the government defaulted on its obligations. By the end of December, peace delegates had reached an agreement and signed the Treaty of Ghent. Had the United States needed to continue the war in 1815, it is likely the costs of war would have become unbearable. Secretary George Campbell, who took over from Jones, continued the trend of horrific financial estimates, projecting expenses for 1815 would reach $56 million; of that, more than $15 million would be needed just to service the debt. Congress had no choice but to implement new taxes in 1815, which it did. Unlike the taxes imposed for 1814, the tax program approved for 1815 would remain in effect until the public credit was restored. In all, nearly $14 million flowed into federal treasuries in 1815, but this was a far cry from what was needed to service the national debt and meet regular expenses.

When the War of 1812 ended, the treaty followed a status quo antebellum. Yet, not everything returned to the way it was before 1812. Financially, the War of 1812 cost the United States tremendously, though there were many lessons learned about national weaknesses. In sum, the United States spent $158 million on the war with more than $90 million of that total going just to the army and navy. The U.S. needed $16 million just for interest on money borrowed and almost $50 million to cover promises made to war veterans. The national debt likely would have been paid off by 1815 had the United States not gone to war with Britain. Instead the debt ballooned to $127 million.[3] The War of 1812 saw no territories change hands, but the war provided an expensive lesson to Americans about its financial system and the costs of war, a fact that Congress was reminded of every year after 1815 until the national debt was paid off in 1837.

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[3] Donald R. Hickey, *The War of 1812: A Forgotten Conflict*, (Urbana: University of Illinois Press, 1989), 303.

FURTHER READING:

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