

Treasury Historical Association

A Lecture on Albert Gallatin
Fourth Secretary of the Treasury



Presented by the Honorable Joseph W. Barr

Former Secretary of the Treasury

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at Friendship Hill, PA,
(Home of Albert Gallatin)

and

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Albert Gallatin Fourth Secretary of the Treasury

Introduction

It is a great pleasure to be here today and to honor Albert Gallatin, a great American statesman. Born in Geneva, Switzerland, on January 29, 1761, he emigrated to America in July 1780. Gallatin had a long and varied career in his adopted homeland of 70 years. He died at the age of 88 on August 12, 1849.

The Treasury Historical Association, a private, non-profit organization founded in December 1973, asked me to speak on Gallatin's tenure as Secretary of the Treasury. Albert Gallatin was the fourth and longest-termed Secretary of the Treasury. His 13-year record -- from May 14, 1801 to May 9, 1813 -- is still unbeaten today.

Henry Adams, his first biographer, described Albert Gallatin as having "supereminence among American financiers. No one who has any familiarity with the affairs of our government has failed to be struck with the evidences of his pervading activity and administrative skill. His methods were simple, direct, and always economical. He...labored painfully to simplify every operation and to render intelligible every detail of business... It was not a ...mere treasury administration that Mr. Gallatin undertook; it was a theory of democratic government which he...attempted to reduce to practice."

My talk today will summarize the major policies and programs of Albert Gallatin's term as Secretary of the Treasury, and assess what his policies meant for the America of his time and for ours.

Albert Gallatin shaped his policy to further the political and social ends which he envisioned as the destiny of the United States. Albert Gallatin's philosophy and administration of the Treasury Department are more meaningful for our time and generation than for any that has intervened since he left office. And that is why, today, it is important that America understand and learn the lessons of history taught by the policies of Albert Gallatin.

Washington and the Treasury Department

But before I begin, I would like to give you a verbal picture of the Washington and the Treasury Department to which Albert Gallatin came.

It was the Jeffersonian Democrats who first occupied the new national capital, although John Adams and the Federalists served the last four months of their tenure in Washington. The city to which they came was still a village of about 3,000 persons with a few buildings in the midst of farmland. Swamp and forest even encroached on the sites on which the Government buildings had been started.

The city consisted of several hotels and boarding houses in which the newly elected Congress and government officials, who came without their families lived; taverns; dry goods, grocery and jewelry shops; and banks. Connecting all these establishments and the government buildings were unpaved streets, muddy roads and no street lamps.

By the end of the first year, 1801, there were 621 private houses, 207 of brick and 414 of wood. There were several churches whose pastors were so poor they supplemented their meager income with clerkships in the Treasury Department.

Major crime was rare, but Washington was overrun with petty thieves. Men always far outnumbered women and Washington was dubbed "one of the most marrying places of the whole continent." And, the arts and sciences flourished during Thomas Jefferson's term of office.

Of the four great Government buildings, the President's House, the Capitol, the Treasury Building and the War Office building, only the two Executive Branch buildings were completed. The Navy Yard and Marine Barracks were being constructed. Despite this, the first guidebook to the Nation's Capital appeared.

Albert Gallatin, who journeyed 200 miles over the mountains from Friendship Hill in western Pennsylvania to Washington, left a vivid description of Washington in the early 1800s: "Around the Capitol are 7 or 8 boarding houses, one tailor, one shoemaker, one printer, a washing-woman, a grocery shop, a pamphlets and stationery shop, a small dry-goods shop and an oyster house... At a distance of three-fourths of a mile...half a dozen houses, a very large but perfectly empty warehouse, and a wharf graced by not a single vessel." Two groups of scattered unfinished houses "are divided by a larger swamp from Capitol Hill... Towards the President's house...a straight causeway (called Pennsylvania Avenue)... forms the communications between the two buildings."

He summed up the city as "a place which has less attractions and affords less comfort than almost any other of the Union...where the common necessities of life can be procured not without difficulty and the most enormous expense."

Gallatin described the President's House as a "very elegant building" but does not give his opinion of the Treasury Building. The Treasury Building in which Gallatin worked had been designed by the young and gifted English architect George Hadfield, who later designed Arlington House for the Custis and Lee families. The Treasury site, next to the White House, had been personally selected by President George Washington. The plain brick building of Federal design was built between 1798 and 1800. It was a rectangular building of two stories and an attic. Gallatin's office was on the second floor facing the White House.

The Treasury Department was the largest department in the Federal Government, which consisted of four Cabinet departments and two Cabinet-level Executive Offices: State, Treasury, War, and Navy; and, the Attorney General and Postmaster General.

In 1801, there were 78 government employees in the Treasury Building and 707 Customs Collectors and 500 Revenue Agents around the country -- a total of 1,285. In addition, the Treasury administered the local land offices. Treasury was the only Government department with a nationwide field force. The public's contact with the Federal Government was with the Treasury Department. Today, as of September 1992, Treasury has 161,951 employees worldwide.

Treasury, from the first, began its four major missions: setting economic and fiscal policy; collecting the revenue; keeping the Government's accounts; and, enforcing laws relating to Treasury. The Office of the Secretary, the Customs Service and the Revenue Cutter Service (later renamed the Coast Guard) -- Treasury's Navy -- carried out these functions. The Office of the Secretary consisted of the five officers established by the Act creating the Treasury Department on September 2, 1789: the Secretary; the Treasurer; the Auditor; the Comptroller; and, the Register.

The Treasury Department had many more nonfinancial responsibilities then than it has today. Indeed, these functions -- placed in new Cabinet departments and agencies in the late 19th and the 20th centuries -- make Treasury the mother lode of the Federal Government. During the 13 years that Albert Gallatin served in the Treasury, these offices were: the Lighthouse Establishment (created in 1789); the Coast and Geodetic Survey (created in 1807 and the oldest scientific organization in the Federal Government); the General Land Office (established in 1812 to centralize as an on-going function the survey, management, and sale of public lands); and, the Marine Hospital Service (established in 1798 and which became the Public Health Service, now part of the Department of Health and Human Services). In addition, Treasury compiled statistics on our exports, imports and shipping, administered the navigation laws and provided oversight of the Post Office.

In fact, while Albert Gallatin's reputation rests on his eminence as a financier, he should also be remembered as one of the great American administrators.

Albert Gallatin lived on Capitol Hill, in the Sewall-Belmont house, a large and attractive brick home on Maryland Avenue, N.E., a block from the Capitol. It still stands today. It was here that he financed the Louisiana Purchase. And, it was from here that the first defense of the city of Washington during the War of 1812 was made. Secretary Gallatin, who had left in May 1813 to try to negotiate an end to the War, did not see his home and the Treasury Building burned by British Admiral George Cockburn and General Robert Ross on the night of August 24 and the morning of August 25, 1814.

Appointment and Tenure

Albert Gallatin was the obvious choice of President Thomas Jefferson to be Secretary of the Treasury. Jefferson took full advantage of Gallatin's wide-ranging mind and influence. Albert Gallatin represented financial expertise, economic knowledge, and political acumen -- qualities that ever since have been admired in strong and effective Secretaries of the Treasury.

Albert Gallatin was appointed Secretary of the Treasury on May 14, 1801, and held the position until February 8, 1814, though as he ceased to perform his duties in May of 1813. These were Gallatin's busiest and most productive years.

The Treasury Department has honored Albert Gallatin's long and outstanding term by a large bronze statue -- sculpted by the renowned American sculptor James Earl Fraser; it stands at the Pennsylvania Avenue entrance to the Treasury Building. And, by the Gallatin Award given to civil servants for excellent service over many years.

Mr. Gallatin determined to acquire complete knowledge of the operations of the Department of the Treasury so as to manage it with the highest efficiency. The labor which Albert Gallatin devoted to the details of the office in the first two years was the most arduous of his life. In the early years, the Secretary of the Treasury had little personal assistance in his daily routine. The Secretary had an immense burden and he had to carry it alone.

Albert Gallatin expressed what we often think is a modern predicament -- that his chief objection to public life was that it did not ally him "to attend personally" to the education of his children.

General Political Philosophy

Gallatin felt that by following the peaceful paths of industry and commerce, America -- favored by its geographic position and its abundant natural resources -- would grow prosperous. He was fully aware of the basic economic strength of the country and its vast potential for growth. The Government, without recourse to oppressive taxation, would have ample means to perform its restricted functions, while an increasing surplus could be devoted to national projects for internal improvements and education.

As Secretary of the Treasury, Albert Gallatin aimed at the establishment of pure Republican principles: to put into practice the economic views of the Jeffersonian Democrats. Foremost in this policy was the reduction of the public debt.

The Public Debt

Albert Gallatin fully understood the role of finance and budgets in controlling the policy and administration of the Federal Government. He was the first American champion of a consistently balanced budget. He did not think that increasing the public debt, when circumstances required it, would lead to national bankruptcy. He did, however, consider it inflationary and discouraging to private investment.

Albert Gallatin was determined to reduce the public debt. His entire tenure was centered on that goal. And, he was in large measure successful -- reducing the debt almost in half.

Mr. Gallatin, a man of sound financial reputation, great personal integrity and economic common sense, avoided debt in his own affairs, practiced personal economy and believed that his country should do the same. He believed that, if it were necessary to incur debt, the debt should be speedily discharged. Albert Gallatin believed the public debt should be extinguished through the practice of economy in Government, particularly in the military establishment and by increasing the Government's revenues by taxing objects of the most general nature.

Mr. Gallatin's concern with the public debt began well before his becoming Secretary of the Treasury. In a 200-page treatise he had written in 1796, called *Sketch of the Finances of the United States*, he had analyzed the Government's finances -- its revenues, expenditures, and debt -- from 1789 through 1795, and had clearly stated his belief that the public debt should be reduced as quickly as possible. So influential were the principles and figures that they were cited frequently by members of both the Federalist and Democratic parties.

When Gallatin came to the Treasury in May 1801, the public debt, both foreign and domestic, was over \$82 million. Now, Albert Gallatin was faced with dealing with Alexander Hamilton's policies -- policies that were in stark contrast to those of his President, Thomas Jefferson.

Alexander Hamilton had brilliantly organized the financial systems of the United States. With the aim of strengthening the national government, centralizing the country, and consolidating many divergent local interests, Hamilton had encouraged Congress to accept as much of the debt of the various states as he thought the country could bear. Indeed, the great compromise to accept this debt led to the establishment of the National Capital in the South, on the Potomac River.

The amount of state debts from the Revolutionary War era amounted to \$22.5 million. The Democratic-Republicans and Albert Gallatin felt that the amount owed by the states should have been more carefully checked and computed. Further they disapproved of Alexander Hamilton's desire to place so much power in the central government.

As Secretary, Albert Gallatin set about to implement his policy that reduction of the public debt was the principal object of his term as Secretary of the Treasury and his first priority. President Thomas Jefferson said: "We shall never see another President and Secretary of the Treasury making all other objects subordinate to this."

Gallatin's goal was to reduce the national debt of \$82 million. Our national debt today -- as of October 15, 1992, was 4 trillion, 57 billion, 251 million dollars! Gallatin could at least hope to reduce the public debt of his day. By the end of President Jefferson's term eight years later, the Public Debt had been reduced by \$25 million to \$57 million.

During James Madison's administration, he reduced the debt even further. On January 1, 1812, Secretary Gallatin reported the public debt at \$45.2 million -- nearly \$37 million less than when he began. And that was done in a country with a population that grew from 5.3 million when Gallatin took office to 7.9 million when he left in 1813, and, with only a moderate national income.

During his first year as Secretary, Gallatin developed his distinctive fiscal program which he had urged in Congress and in his writings. He cut the budgets of the Army and Navy. He cut the budgets of the United States legations, the foreign service of his day. He made savings in the Customs Service. And, he sought revenues from: import duties; sale of public lands; and, general taxes. Albert Gallatin believed only in this way would a nation have funds to pay off its debt -- "to spend less than you receive" and to apply the difference to extinguishing the debt. By taking these measure, the annual budget was balanced and a surplus produced.

In his 1805 Annual Report, he wrote: "Whilst one-third of the national revenue is necessarily absorbed by the payment of interest, a persevering application of the resources afforded by ...peace and prosperity, to the discharge of the principal...is the only effectual mode by which the United States can ultimately obtain the full command of their revenue... Every year produces diminution of interest, and a positive increase of revenue." Though conceding that funding of the debt could be useful as a temporary expedient, Gallatin denied it would be beneficial as a permanent Government policy.

The Secretary wrote in his 1803 Annual Report of the Sinking Fund: "The new debt will neither impede nor retard the payment of the principal of the old debt; and the fund will be sufficient...to discharge the principal of the old debt...and that of the new..." Despite his conviction that the use of the Sinking Fund -- a sum of money designated to pay off the principal and interest on the public debt -- simply gave the appearance of debt reduction, Gallatin was not prepared to abolish Hamilton's plan.

Instead, he strengthened its operation by applying his own principles of debt reduction and providing a definite goal of debt repayment through the use of the surplus of receipts over expenditures. Consequently, Secretary Gallatin recommended that, before any other appropriations were made, a definite sum be set aside from each year's revenue for debt repayment.

In his budgets, beginning with 1802, Secretary Gallatin undertook to spend \$7.3 million, the amount of the surplus in 1801 (increased to \$8 million in 1804 after the Louisiana Purchase) annually for debt repayment.

Congress appropriated funds which were used to retire maturing bonds as well as to purchase bonds in the market. The interest payments on the purchased bonds ceased and the bonds were destroyed instead of being retained as a Sinking Fund investment.

Not only was a large part of the debt paid off in this manner, but its structure was entirely reorganized through conversion of the Revolutionary Debt into new bonds. Gallatin calculated that, under his program, the debt would be wiped out before 1818. And well it might have been had not the War of 1812 occurred.

By the end of President Jefferson's administration in 1809, the debt had been reduced \$25 million, even with the purchase of the Louisiana Territory and the war with the Barbary Pirates in the Mediterranean. Further reductions continued under President Madison.

The War of 1812 brought a sharp increase in the public debt which stood at \$127.3 million in 1816, three years after Albert Gallatin had left office.

While Secretary Gallatin reduced the debt from \$82 million to \$45 million, it would not be until 1837 that Albert Gallatin's goal would be achieved. In that year, the national debt was paid off, mainly from funds from the sale of public lands in the Louisiana Purchase which Secretary Gallatin had financed.

Collecting the Revenue and the Customs Service

The dominant job of the Treasury was collecting revenue. Revenue came from two sources: taxes on imports called tariffs or duties, and taxes on domestic items called internal revenue. During Gallatin's time and down until the Civil War, tariff duties were the major source of income.

Customs revenues averaged about \$12 million a year during Gallatin's term, according to his own Annual Reports, reaching a peak of \$16 million in 1807 and 1808 before the Embargo took hold. To show you the importance of customs receipts, only once during those 12 years did the internal revenue taxes raise \$1 million and only once did the sale of public land net \$1 million.

Duties were collected at the borders by the Treasury Department's field force of Customs Collectors. In 1801, there were 82 collection districts at the Atlantic ports and along the Canadian border. Only a few were added by 1814, mainly in New Orleans and Florida.

Taxation

Albert Gallatin implemented another republican principle. This was his political belief that the financial requirements of the young nation could be met through other means than by raising taxes. Under Thomas Jefferson and Albert Gallatin, taxes were to be reduced and limited by the greatest extent possible.

The legacy of Alexander Hamilton's introduction of the first internal taxes into the United States for Thomas Jefferson and his supporters was evident in the new President's annual message to Congress in 1801. Jefferson took advantage of the occasion to call for the immediate abolition of all internal excise taxes.

In the ten years prior to 1802, the United States had collected \$600,000 a year from excise taxes such as the renowned "whiskey tax" that had prompted the Whiskey Rebellion. These early excise taxes were collected through the supervision of a Commissioner of the Revenue in the Treasury Department. The Commissioner supervised a field force of supervisors and collectors of the revenue, whose unenviable job was to travel through the countryside collecting the excise taxes from the local population, including the rebellious farmers of Pennsylvania and other rural areas of the country.

The Appropriation Act passed in March 1801, just prior to Gallatin's arrival as Secretary of the Treasury, included \$6,253 for the Commissioner and his staff. The Appropriations Act for 1802 deleted this provision, providing evidence of Gallatin's fast reaction to Jefferson's call for the abolition of internal taxes. Gallatin also supported this goal by repealing Hamilton's internal revenue laws and abolishing the position of Commissioner of the Revenue on April 6, 1802. While the Supervisors and Collectors of the Revenue were allowed to remain in the positions until they had collected all outstanding taxes, this action marked the end of all internal taxation until 1813.

During Gallatin's term, the Annual Revenue of about \$11 - 12 million and, later, an annual average of about \$16 million came from customs duties and the sale of public lands.

Gallatin confronted the issue of raising taxes to fight a war in his Annual Report of 1807: "Whether taxes should be raised to a greater amount, or loans be altogether relied on, for defraying the expenses of the war is the next subject of consideration...the losses and privations caused by the war should not be aggravated by taxes beyond what is strictly necessary."

Gallatin was well aware of the impact of taxation as compared with borrowing, on the American citizens. In the same report, he continued: "Taxes are paid by the great mass of the citizens, and immediately affecting almost every individual in the community; loans are supplied by capitals previously accumulated by a few individuals."

As war approached, Secretary Gallatin proposed reinstating the internal revenue taxes as temporary war measure. In 1812, Congress again passed an Internal Revenue Act. Taxes on liquor, salt, tobacco, and carriages would be in force for no more than one year after the war. Gallatin further called for \$3 million in direct taxes.

In July 1813, shortly after Gallatin left the Treasury Department, Congress passed an act to provide the machinery to collect these taxes. A new group of Collectors and Assessors of the Revenue would be dispersed into various collection districts to collect the new taxes which included taxes on sugar, distillers, carriages and auction sales. Matter got so bad by 1814 that an attempt was made to tax salaries; but this failed. It would be decades before the concept of using internal taxes to finance the bulk of government activities took hold and even longer before the viability of an income tax became apparent; and, it would take another war, the Civil War, for income taxes to become government policy.

Louisiana Purchase

Next to reducing the public debt, Albert Gallatin's greatest triumph as Secretary of the Treasury was the financing of the Louisiana Purchase, an act which at one stroke of the pen doubled the size of the United States. Prior to the Louisiana Purchase, the United States consisted of 891,364 square miles; the Louisiana Purchase was almost the same size, 831,321 square miles. All of this huge area, which stretched from the Mississippi River to the Rocky Mountains became 15 states.

Originally prepared to buy only the island on which New Orleans sat at the terminus of the mighty Mississippi River, the American negotiators, James Monroe and Robert Livingston, accepted Napoleon's offer to purchase the entire Louisiana territory for \$15 million.

On April 30, 1803, France ceded Louisiana to the United States. Secretary of the Treasury Albert Gallatin sponsored the Act of November 10, 1803, that provided the financing of the Louisiana Purchase which he had worked out. The United States would pay France \$11.25 million and set aside \$3.75 million to pay the claims of American citizens against France. The \$15 million was financed by: the issuance of \$11,250,000 of stock at 6% interest and payable in 15 to 18 years, with certificates of stock issued to the French Government or its assignees; and, by the payment in specie at the U.S. Treasury by the United States of \$3,750,000 to Americans having specific claims against the French Government, thus sparing France the payments.

The claims payment was financed in two parts: payment of \$2 million from cash currently available in the Treasury and by the borrowing of the remaining \$1,750,000 to be paid in cash.

Sale of Public Lands

Like many others of his time, both Federalists and Republicans, Secretary Gallatin viewed the sale of public lands as a great source of revenue. But, rather than apply these funds towards making weapons of war, Secretary Gallatin preferred to apply this resource to reducing the national debt and to opening the West through: the Louisiana Purchase; the Lewis and Clark Expedition; and, internal improvements.

Secretary Gallatin favored a policy that directly provided the lower middle-class and the poor with an adequate piece of land at a reasonable price. (Providing land for free under the concept of Homesteading did not come into being until the Civil War.)

Gallatin's land policies differed greatly from Alexander Hamilton who preferred sales of large blocks -- 640 acres -- of land to speculators. Albert Gallatin worked to create a land distribution policy whereby plots were workable and prices affordable.

Gallatin was largely responsible for three major land laws that looked to the economic development of the West. The first, the Act of May 10, 1800, which Gallatin wrote while he was in Congress, was a landmark piece of legislation. It required: prior survey and public auction with competitive bidding; halving the size of plots to 320 acres, at \$2 an acre, and instituting credit system of payment; and, permitting the land owned by the U.S. Government to be leased.

As Secretary of the Treasury, he supported and enforced the provision in the Act of 1803 which, for the first time, specifically provided that Section 16 in each township be reserved for public schools and authorized the Secretary of the Treasury to locate land for a college. And, the Act of 1804 lowered the minimum acreage to 160 acres, the size that would be incorporated into the Homestead Act 60 years later. Finally, Secretary Gallatin again exerted his administrative talents and helped to shape the General Land Office in the Treasury Department in 1812.

Gallatin's land policy directly aided the group that formed the backbone of Jeffersonian democracy -- the independent farmers.

Internal Improvements

Secretary Albert Gallatin's great interest in internal improvements was no coincidence. His home at Friendship Hill in western Pennsylvania, then still pretty much the frontier, influenced his views on internal improvements.

Like in our times, there was strong political pressure for internal improvements. Secretary Gallatin conducted an extensive national survey in 1807 to determine where roads and canals were needed.

He wrote in his masterly report, *Roads and Canals*, dated April 4, 1808: "Good roads and canals will shorten distances, facilitate commercial and personal intercourse, and unite, by a still more intimate community of interests, the most remote quarters of the United States. No other single operation, within the power of Government can more effectually tend to strengthen and perpetuate that Union which secures external independence, domestic peace, and internal liberty... The early and efficient aid of the Federal Government is recommended."

The Report *Roads and Canals* contained not only technical knowledge about mountains, rivers and roads -- even down to the size of each stone in the gravel! -- but also Gallatin's economic and financial analysis of building great canals and interstate roads.

In his design, from north to south, forming communication "parallel to the seacoast," Gallatin recommended: "canals opening an inland navigation for sea vessels from Massachusetts to North Carolina" and canals forming "inland navigations between the Atlantic seacoast and the Great Lakes and the St. Lawrence" (River), as well as "a great turnpike road from Maine to Georgia along the whole extent of the Atlantic seacoast." And, from east to west, "forming communications across the mountains between the Atlantic and western rivers," Gallatin recommended: "Improvement of the navigation of the four great Atlantic rivers" (which included the Sesquehannah and Mononegahela) and "four first rate turnpike roads from those rivers across the mountains to the four western rivers."

Albert Gallatin did not see the beautiful Appalachian Mountains as barriers for the Western frontier: "So far from being an insurmountable barrier to commercial intercourse between the two great sections of the Union, it is now ascertained that those mountains may, almost in every direction, be crossed by artificial roads..." It was Secretary Albert Gallatin who was in larger measure responsible for the Cumberland or National Road, part of which is not far from here - - the first great man-made thoroughfare which eventually extended well into the interior of America.

In 1802, the Secretary inserted into a law governing the sale of public lands in Ohio a provision for building a road from the eastern seaboard across the future state, asserting that the road was "...to contribute towards cementing the bonds of the Union between those parts of the United States, whose local interests have been considered as most dissimilar."

Secretary Gallatin proposed in the Report the construction of a network of interstate roads, canals and river improvements to interlace every section of America. Albert Gallatin strongly believed that building internal improvements that would knit all sections of the country into a tight union was an obligation of and could "claim the patronage" of the Federal Government.

In his 1804 report, Secretary Gallatin estimated that his proposed internal improvements would cost about \$20 million and showed exactly how in a peacetime economy -- through the surplus, reduction of the national debt, and the sale of public lands -- the money could be raised. Gallatin called for the expenditure of \$20 million, \$2 million a year for ten years.

Gallatin's national vision and bold practicality would have meant an economic boom for transportation, communication, trade and the general economy. Unfortunately, Congress failed to adopt Gallatin's plan -- only the Cumberland Road was built -- and the War of 1812 and, later, Andrew Jackson's vetoes ended Gallatin's visionary policy of a strong Federal role in building the infrastructure necessary for the growth of the private economy for a generation.

Accounting System

The foundation of the accounting system -- the system for receiving, safeguarding, and disbursing the public funds -- in place during Albert Gallatin's 13 years as Secretary of the Treasury was shaped by Article I, Section 9 of the Constitution and the Act of September 2, 1789 that created the Treasury Department.

Article I, Section 9 provides that "no money shall be drawn from the Treasury, but in consequence of appropriations made by law." The Act of September 2, 1789, prescribed the organization and basic fiscal procedures of the Treasury Department. The resulting accounting system was based on four underlying ideas: (1) general direction and coordination of financial matters; (2) a division of responsibility and functions having to do with that receipt, custody, and disbursement of public monies; (3) audit of financial transactions, and (4) maintaining the records and making public reports of all transactions.

The basic financial management structure during Gallatin's term as Secretary was similar to his predecessors. The cash basis accounts were recorded by ink by the Register and his assistants. The Register maintained all of the government accounts of receipts and expenditures of public monies and all debts due to, or from, the United States. The recorded transactions were supported by original vouchers, certificates, and warrants appropriately signed.

One of the obvious purposes of the Act of 1789 was to provide for settlement of all public accounts, primarily and finally, in the Treasury Department. But decentralization began early. Both the War and Navy Departments had separate authority and an Accountant responsible for their accounts. The Accountant in each department was responsible for settling accounts and reporting to Treasury.

War and Navy also had their own disbursing authority under a double warrant procedure, first from Treasury, then from the Department's Accountant to the Paymaster. During Gallatin's administration, this procedure created a great deal of confusion and the information available to Congress was often inaccurate.

In 1817, shortly after Gallatin left office, Congress abolished the Accountant positions in War and Navy and, again, centralized all financial functions at Treasury. In many ways, the original financial structure from Hamilton and Gallatin exists today. Technology has replaced the quill pen and paper accounts with computers, but the basic account structure for cash and appropriation accountability is not much changed.

Annual Reports

It was Albert Gallatin, while he was in the Senate, who submitted a resolution in December of 1793, calling upon the Secretary of the Treasury to furnish the Senate with detailed information on the amount and make-up -- domestic and foreign -- of the public debt, a summary of the actual receipts and the expenditures of the Federal Government for each year since 1789.

Secretary of the Treasury Alexander Hamilton, who had been submitting what we have come to call his Great State Papers, as Annual Reports, asserted he could not do this because he did not have the necessary staff to prepare the information. He complained about being heckled by "unexpected, desultory, and distressing calls for lengthy and complicated statements." The narrow and unfair reading of the Constitution by which the Federalist majority deprived Albert Gallatin of his seat in the Senate, because he had not met the Constitutional requirements for election, was certainly due to his calls for detailed information on the management of the public debt.

On May 10, 1899, a law was passed directing the Secretary of the Treasury to prepare and submit an Annual Report on the State of the Finances to the Congress. The report was to contain estimates of the public revenue and expenditures and plans for improving or increasing the revenues.

Gallatin finally had his way. He submitted the first Annual Report in December 1801 and, since then, the Secretary of the Treasury has presented annual statements of the receipts and expenditures of the U.S. Government to Congress and to the public.

Bank of the United States

Secretary of the Treasury Albert Gallatin believed that the first Bank of the United States was useful to the country. It was indispensable to a sound currency and maintaining specie payments. He particularly appreciated its role in safeguarding and transmitting public monies and as a source of collecting revenue. And, he realized its great value in creating loans for economic development. Gallatin's support of the Bank did not, however, keep its re-charter from being voted down in Congress.

Financing the War of 1812

After five years of disagreements and the Embargo of 1807, the United States and Great Britain went to war in what has been called the Second War for Independence. The War of 1812 remains a War that still fascinates historians and its literature is large. One aspect, however, receives less attention, and that is Albert Gallatin's role in financing the war.

Before summarizing the details of his financing program, I would like to make clear that Secretary Gallatin's problems have been faced by every other wartime Secretary of the Treasury. The choice Secretary Gallatin faced was whether he would finance the war by taxes or by borrowing -- and Secretary Gallatin chose borrowing but only for the war. He was not willing to borrow for normal domestic and current government expenditures. And, he was faced with a Congress reluctant to pass adequate taxes.

The history of the financing of the Civil War, World War I, World War II, and the Vietnam War all show that Gallatin's example of borrowing to finance wars was followed, often because Congress refused to raise sufficient taxes. Gallatin's warning that a large public debt would be inflationary went unheeded.

Albert Gallatin was not willing to raise internal taxes. He did however, suggest that tariffs be doubled, but Congress took no action. By the time hostilities broke out in 1812, the Embargo had taken a severe toll on America's customs revenues. By January of 1812, Gallatin again asked Congress for higher taxes. This time, they responded, reinstating the excise tax in March. The internal revenue tax had returned.

As war approached, Secretary of the Treasury Gallatin realized that he would have to borrow to cover the cost of the war. Gallatin now based his policymaking on the premise that, during the war, the Government would use its revenue to pay normal peacetime expenses, interest on existing debt and interest on the new wartime debt. The Government would borrow the remaining amount it needed. In 1811, he wrote of borrowing money to cover the cost of the war: "The money wanted by the public must be purchased at its market price."

The 6% loan which Congress had authorized was not taken up and the difficulty of raising long-term money caused the Secretary to consider alternative solutions. As a result, Gallatin made the unprecedented proposal for authority to issue \$5 million in Treasury notes bearing interest of 5.4% that would be acceptable for payment of all duties, taxes and debt of the United States. The full amount was authorized.

As a result of all the borrowing for the war, when it ended in January of 1815, in large part due to Albert Gallatin's role as a negotiator, the public debt of the United States stood at \$119.2 million, higher than it had been when Gallatin came into office. As previously related, it would take another 20 years -- until 1837 -- to pay off the public debt.

Conclusion

Our generation is closer to Albert Gallatin than any other, since he served his adopted nation so well.

His understanding of the issues of his day have special meaning for us: reducing the public debt; balancing taxes against borrowing; finding the right mix of taxes; reducing Government expenditures by reducing military spending; and, building up the nation's infrastructure in order to encourage the growth of the private economy. These are all issues that have again come to the fore in our own day.

Albert Gallatin's career as Secretary of the Treasury presents lessons of history that should be well-learned.

OUR GUEST SPEAKER...

JOSEPH W. BARR

Joseph Walker Barr was born in Vincennes, Indiana. He received his Bachelor of Arts degree in Economics and a Phi Beta Kappa key from DePauw University and a Masters of Arts degree in theoretical economics from Harvard University. He also holds two honorary degrees.

Mr. Barr fought in the U.S. Navy in the Mediterranean during World War II, leaving the service with the rank of Lieutenant Commander after achieving a distinguished record, including having been decorated with the Bronze Star for Valor at Anzio Beachhead. After the war, he returned to Indiana to help manage his family's business.

In 1958, he was elected to the U.S. House of Representatives as a Democrat from a traditionally Republican district in Indiana. Due to his unusual knowledge of economics, he was placed on the Banking and Currency Committee and helped write legislation creating the Inter-American Development Bank.

In 1961, he was appointed assistant to the Under Secretary of the Treasury, working with Henry Fowler until January 1964.

In 1964, he was appointed by President Lyndon Johnson as Chairman of the Federal Deposit Insurance Corporation, a post he served in for over a year. In 1965, he was appointed as Under Secretary of the Treasury, the "number two post" in the Department, prior to creation of the Deputy Secretary position. When Secretary Henry Fowler resigned in late 1968, Joseph W. Barr was appointed as the 59th Secretary of the Treasury and served through the end of the Democrat Administration.

After leaving Treasury, Mr. Barr served as President of the American Security and Trust Company from 1969 through 1972 and as its Chairman from 1972 through 1974. He also served as Chairman of the Franklin National Bank, has been a partner in the J&J Company, and a director of the 3M Company, Burlington Industries, Control Data Corporation and the Washington Gas Light Company. He has also served on the Board of Directors of the Student Loan Marketing Association, the Board of Manor Care and on the Board of Regents of Georgetown University.

The Treasury Historical Association has been honored to have Mr. Barr as a member of THA for many years and is particularly appreciative of his service on its Board of Directors since 1992. His support and advice to the management of this Association has been invaluable.