Jeffersonian Alternatives

Jesús Fernández-Villaverde\textsuperscript{1}

March 28, 2020

\textsuperscript{1}University of Pennsylvania
Jeffersonian alternatives

• Jefferson believes that men can be “habituated to think for themselves, and to follow reason as their guide.”

• Gov’t should provide public instruction in order to enlighten.
  • Influenced greatly by utilitarianism: an ethical guide implying that the best actions are the ones that maximize society’s utility by producing the greatest well being to the greatest number of people. The morality of an action depends on its effects and actions are deemed morally good if they produce good results that benefit the populace.
  • Rousseau, Jeremy Bentham, and later John Stuart Mill.
  • But, Jefferson’s utilitarianism went beyond education to the belief that the environment had to be controlled to produce good results.
Jeffersonian alternatives

• The economic environment should foster responsibility, independence, honesty, and other worthy moral qualities.

• Philosophically opposed to Federalist economic policy, which emphasizes self-interest.

• Gov’t should not take men as it finds them, but improve upon them (not a view espoused by Madison and Hamilton in the Federalist papers).

  • ’If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is, no doubt, the primary control of the government, but experience has taught mankind the necessity of auxiliary precautions.” [Fed 51 on Checks and Balances, Madison]
Jeffersonian alternatives

• Gov’t should persuade men that they are free and equal.
  • What better way than an agricultural society where almost everyone is a small farmer.

• As well, Jefferson does not share the belief of many utilitarians that in order to do good, government must have great powers with wide powers over the economy.
  • A philosophy that justified the extension of the British governments economic influence in the 19th century.

• While acknowledging that power can be abused, he believed that in favorable conditions good would prevail. He is more trusting of the majority than either Hamilton and Madison.
Jeffersonian alternatives

- Believes in the restraining power of state governments. (Consistent with his views expressed in the Kentucky Resolution).
- Jefferson did not believe that economic policy should be vigorous and extensive, but should encourage independent agriculture, which required little government intervention.
  - Let agriculture develop on its own, which he hoped would lead to the formation of many independent homesteads.
  - Therefore, he is initially opposed to any state assistance to manufacturing.
  - Did not believe that foreign trade should be a fundamental economic concern.
- His views evolve in the Presidency, where he comes to appreciate somewhat more the value of trade and production for the market.
Jeffersonian alternatives

- On trade, he believes in reciprocity, trading freely with those who do not impose sanctions on the U.S., and restricting trade with those who do.

- After 1805, he no longer believes that agriculture can be the sole foundation for the economy, that a manufacturing sector was essential as well, and that trade policy should be directed toward supporting domestic interests.
  - However, his view of manufacturing was that of small scale manufacturing perhaps attached to family farms.
  - Jefferson’s ideal economy was always premised on small self-sustaining farms with little need for a vibrant exchange economy.
  - Similar to the economics advanced by physiocrats. They believed the most productive use of labor was in agriculture and in free domestic and international trade. That imports should not be taxed, but that revenue should be raised by taxing agriculture.
Jeffersonian alternatives

• It has always been puzzling how Jefferson could ascribe to an economic organization that has never existed before or since his time.
  
  • Perhaps in part polemical, as self-sufficient farms can be less impaired by gov't policies, thus guaranteeing their political liberty.
  
  • Still, his economics is fanciful at best – seems a bit of a romantic.

• These well expounded beliefs are also inconsistent with some of his later policies. Better to think of them as idealistic, like the notions of a poet, and not ones that would entirely interfere with policy such as when he enacts a boycott of English goods.

• But, he believes that any encouragement of manufacturing should be done at the state level. And he believes only in small scale manufacturing.
Jeffersonian alternatives

- Jefferson believes that land policies can help redistribute wealth more evenly.
  - He believes in abolishing primogeniture and levying taxes on land in “geometric progression.”
  - Give free land to immigrants.
  - Believes that each generation should leave the next unencumbered.
Republican trade policies

• The reciprocity debate.

• The Federalist side.
  
  • Federalist political base is mainly commercial states (NE and mid-ATL).
  
  • Want friendly commercial relations with GB, which provides the best foreign market.
    
    • Do not want to spark trade war.
  
  • Hamilton believes America was much weaker commercially and had more to lose.
  
  • Concerned with a steady stream of revenue to support paying debt and establishing creditworthiness.
Republican trade policies

- “Nothing can more interest the National Credit and prosperity, that a constant and systematic attention...for extinguishing the present debt, and to avoid as much as possible, the incurring of any new debt.”

- Avoid loss of revenue from duties on imports and avoid unexpected spending that would occur in a conflict.

- The Republican side.
  
  - Political base in the south.
  
  - Republicans despise GB for mercantilist policies esp. exclusion of American ships from Br West Indies, which harmed southern exporters.
  
  - Jefferson “dependence begets subservience and venality, suffocates the germ of virtue...”
Republican trade policies

- Madison: Britain has bound us in commercial manacles and very nearly defeated the object of our independence.
  - want trade preferences for France to cultivate an alternative partner.
  - want tonnage duties a) lowest on American ships (6 cent per ton), b) higher rate on foreign ships with commercial treaty with us (30 cents) higher still for those countries that do not (50 cents), France does, GB does not.
  - unacceptable not to punish GB who highly restricts wheat, fish, etc some products banned entirely.
  - Madison and Jefferson confident America has upper hand as we import manufacturing trifles while they import essential foodstuffs.
Republican trade policies

- We must fight for reciprocal treatment.

- House passes Madison’s plan in May 1789, but Senate rejects in favor of 50 cents on all foreign ships Hamilton working behind the scenes.

- Jefferson also believes that the small European states will actively engage in trade with the U.S. and replace some of the commerce lost with GB.

- “Our commerce is so valuable to them, that they will be glad to purchase it when the only price we ask is to do us justice.” That is open trading policies.
Republican trade policies

- France declares war on GB Feb 1793 and America receives a tremendous export boost as many GB and Fr merchant vessels are deployed by their navies.
  - Precarious position between 2 belligerents.
  - U.S. reexports soar and exceed domestic exports, which pushes up shipping rates.
Republican trade policies

- Shipping earnings surge and by mid 1790’s U.S. ships carrying 90% of U.S. foreign commerce.
- But shipping rates go up hurting southern exporters.
- Exporters such as Va and SCa were doubly injured as reexports crowded out domestic exports.
- In June 1793 Orders in Council enacted by GB to inhibit trade with France and exports of foodstuffs to any port controlled by France are subject to seizure (free ships do not mean free goods).
  - Seize 300 ships in West Indies trade and jail or impress crews.
  - Jefferson urges for reciprocity against British trade using high duties and prohibitions.
Republican trade policies

- Two part tariff schedule, one for goods from preferred countries and higher set non-preferred countries (GB)
- Will promote domestic manufacturing (a change of view for Jefferson).
- But importantly, Jefferson is never in favor of large scale mfg, but small scale manufacturing of course goods. “We consider a sheep for every person in the family as sufficient to clothe it ...”
Republican trade policies

- Hamilton argues this proposal will not change British practice and hurt the U.S. more than GB.
  - Trade with GB, even with British restrictions, is more valuable to us than to them.
  - Br sends 20% of its exports to U.S. while only 6% of imports come from U.S., whereas U.S. sends 90% of its exports to GB and imports 25% of goods from GB.
- Jefferson and Madison want to support France, Hamilton wants to avoid any conflict.
- Washington issues Neutrality Proclamation.
Republican trade policies

- In March 1794 GB blockades the entire Fr West Indies.
  - Congress passes 30 day embargo on all shipping to foreign ports (extends another 30 days). France retaliates and starts seizing American cargo.
- Hamilton: continuing embargo will lead to “derangement of our revenue and credit.”
Republican trade policies

- Jay treaty in late 1794.
  - Britain evacuates North American frontier posts, pays damages caused by Orders in Council, and open Br. West Indies to small U.S. ships.
  - We give up “free ships make free goods” doctrine and accept Britain’s right to seize goods bound to its enemies from neutral ships, and we fail to stop impressment. Also gives Br. most favored nation’s status and does not discriminate in terms of duties.
Republican trade policies

- Terms so embarrassing that Washington delays forwarding to Senate.
- When leaked it causes an uproar – Jefferson thought it “execrable” and Madison “a ruinous bargain”.
- Approved 20-10 in June 1795.
- France retaliates once again in declaring open season on American shipping.
- Close ports to neutral ships and confiscates any neutral vessels that visited a British port or carried British goods.
- Seize 316 American ships and over the next three years confiscates $20 million worth of goods.
- June 1798, Congress bans all commerce with France and its colonies.
Republican trade policies

- Sept 1800 U.S/France reach an agreement wherein America drops claims for shipping losses in exchange for an end to hostilities.

- Jefferson administration inherits commercial peace with GB and France.

- Jefferson’s Trade Embargo.

- Jefferson get’s rid of internal excise taxes so Gov’t entirely dependent on import duties for revenue.
  - trade front free of turmoil at start of administration, as there was a temporary truce between GB and Fr in 1801.

- 1803 war in Europe resumes and last 12 years.

- Attempt by both belligerents to strangle each others trade.
Republican trade policies

- GB gains control of the seas after battle of Trafalgar and blockades the entire coast of Europe in 1806.

- American shipping harassed and impressment resumes (as many as 10,000 American seamen).

  - Britain patrols just off the U.S. coast and interdicts shipping.

- 1805 Congresses passes a non-importation ban on select British mfg. goods (postponed enactment until conclusion of negotiations).

  - Monroe and Pinckney go to Br to negotiate a formal commitment to end impressment – GB informally agrees and ends some restrictions on trade with West Indies.
Republican trade policies: Jefferson’s embargo

• U.S. agrees not to impose retaliatory trade legislation for a decade.
• Jefferson rejects the deal because no formal commitment on impressment.
• Big missed opportunity as it leaves only bad options: acquiesce, trade sanctions, or war.
• Trade embargo is the chosen option.
• Chosen as an alternative to outright war, but Jeffersonians start considering war as a dangerous but necessary means to furthering the Revolutionary vision of free trade.
There are those in the Republican party that doubt this policy.

- John Randolph comments that the British are only attacking the carry trade of the enemy such as coffee, sugar, and other West Indian goods to France.
- Believes normal trade relations will return once the war in Europe is over.
- Should not enact an unnatural policy in response to temporary difficulties.
- Federal gov’t should ignore the clamor of merchants in re-export trade for it was unnecessary commerce.
- But merchants argue that carry trade is linked with domestic exports and cannot be easily separated.
Republican trade policies: Jefferson’s embargo

- Jefferson and Madison agree that re-export trade must be defended.
  - They view it as economically important.
  - And that the gov’t was obligated to protect the rights of all Americans.

- Debate over carry-trade loses importance once Britain in 1807 places restrictions on all exports to the enemy except under license granted by the British.
  - All trade with the continent would have to pass through GB.

- More is now at stake than the carry trade. Now America’s right to export its own products is under siege.

- Leads to embargo.
Jefferson believes the cost of the embargo will be much more damaging on Britain than America.

- America could feed itself and Britain could not.
- The embargo would promote domestic manufacturing of necessities and rejuvenate America’s political economy.
- But not large scale manufacturing, a system that has debased a majority of people in Europe.
- To promote the manufactures of individual citizens; a loom in every house so to speak.
- Not a view universally shared. Manufacturing could enrich the nation. A view cogently argued by Tench Coxe.
Gallatin “entirely groundless” to hope trade sanctions would force GB to make concessions. “In every point of view, privations, sufferings, revenue, effect on the enemy, politics at home, I prefer war to a permanent embargo ...”

Republicans support embargo 82-19 and Federalists oppose 26-0.

Embargo was the most drastic self-imposed shock to U.S. trade in history.

- Prevented all American ships from sailing to foreign ports and all foreign ships from taking on cargo in U.S.
  - thus foreign ships would have to return empty and the cost of exporting to the U.S. became prohibitive.
Republican trade policies

- Exports fall by more than 80% as do re-exports (the data which are for the fiscal year include the last 3 months of 1807 in which the embargo was not in force.)

Figure 2.1. US merchandise trade, 1790–1820. (US Bureau of the Census 1975, series U-190, 194.)
Republican trade policies

- Export prices
Republican trade policies

- Import prices
Republican trade policies: Jefferson’s embargo

- Imports decline by 50% as American ships already in foreign ports were allowed to bring in their cargo.

- Price of exportables fall and the price of imports rise – dramatic relative price effect (export weighted price index fell 27% in 1808).

- Prices of imports in Bos. and Phil. rise by 33%.

- Embargo obeyed in 1808 and then increasingly it is disregarded.
  - Lifted in March 1809.

- 4. Devastating economic effect with output dropping by around 5%.
Republican trade policies: Jefferson’s embargo

- Generates heated opposition in commercial states and southern exporting states.
  - NE believes that Jefferson is trying to destroy the shipping industry.
  - Insist Jefferson is advocating a “Chinese” approach to political economy and his policies are directed toward creating an isolated, barbarous, and crudely self-sufficient America.

- Support in Ken. Tenn. who blame falling export prices on loss of markets in West Indies.
Republican trade policies: Jefferson’s embargo

- Grumbles of secession in Massachusetts “Our ships all in motion, once whiten’s the ocean; They sail’d and return’d with a Cargo; Now doom’d to decay, they are all fallen prey, To Jefferrson, worms and EMBARGO.”
- Philadelphia region is perhaps only area that did not suffer as scarcity of mfg. goods gives rise to domestic production such as ironworks.
- Leads to budget deficit as revenues from trade fall by 50%. Fortunately U.S. had built up a surplus.
Republican trade policies

- Because of deleterious effect on NE shipping, southern planters, and Gov. revenue, political pressures succeed in ending the embargo.
- By late summer increasing evasion of the embargo.
- Jefferson puzzled why American’s would violate the law.
- Imposed when GB economy is strong and, therefore, did not cause much disruption (recall the Colonial non-importation experience, was successful only when GB was in recession).
- Madison favors prohibiting imports, permanent duties to encourage mfg., and a permanent navigation act, and non-intercourse with France.
• Political resistance is rising and smuggling is occurring. Being openly violated.

• Gallatin informs Jefferson that even more restrictive measures would be needed. He is puzzled by Jefferson’s detachment.
  
  • Army regulars called out to enforce the embargo.

• Informs Jefferson that the embargo is having little effect on GB.

• Imposed on a healthy British economy and Britain easily withstands the loss of U.S. trade.
Republican trade policies

- Gallatin informs Jefferson that only Va, Sca, and Ga, would likely support Republicans in the next elections.
  - But, Federalist party is pretty-well spent and Madison and Republicans fair well in the election.
  - Congress reconvenes in Nov. 1808 with Jefferson in favor of maintaining embargo, but giving no advice to Madison allowing the new administration to decide future policy.
    - Absent any action the embargo would remain in effect until the fall of 1809.
    - Madison favored an “invigoration” of the embargo, prohibiting all imports and permanent duties to encourage mfg.
Republican trade policies: Jefferson’s embargo

- Jan. 1809 Congress requires merchants to post large bonds for domestic shipping and this shipping required prior clearance.

- Also, authorizes the seizure of cargo of ships suspected of violating the embargo, and even seize goods being taken to port until a bond had been posted to guarantee the goods would not leave the country.
  - Violates search and seizure provisions of the 4th amendment, which prohibits unreasonable search and seizures and no warrants being issued without probable cause.

- NE opposes – even NE republicans.
Republican trade policies

- Date for its termination is set for March 4 on the day of Madison’s inauguration, but non-importation measures against GB and FR are maintained.
  - Mass. and Conn. implicitly threatening non-enforcement.
  - Ordon Cook, a Ma. Republican argues “The genius of Republican government is to make laws to suit the people, and not attempt to make the people suit the laws.”
  - Madison comes to see the “privations” inflicted to the northern states who are dependent on trade.
- Republican unity on the embargo collapses and it is terminated on March 4. Signed by Jefferson.
Although signing the repeal, Jefferson is quite angry stating “Thus we were driven by treason among ourselves from the high & wise ground we had taken, and which, had it been held, would have restored us our free trade, or have established manufactures among us.”

Embargo a huge failure. It imposed large economic costs and attained none of its objectives. Although it saved ships from being confiscated by GB and France and saved sailors from impressment.
• Hamilton in 1794 foresees failures of such measures “The consequences of so great and so sudden a disturbance of our Trade which must affect our exports as well as our imports are not to be calculated. An excessive rise in the price of foreign commodities – a proportional decrease of price and demand for our own commodities – the derangement of our revenue and credit – these circumstances united may occasion the most dangerous dissatisfaction & disorders in the community and may drive the government to a disgraceful retreat – independent of foreign causes.”
Republican trade policies

- Although embargo repealed, trade remains depressed over the next 6 years.
  - New measures contained in various non-importation and non-intercourse acts restricts British and French imports, and British navy adept at blockading the continent.
  - However, trade does jump immediately after repeal, but not to pre-embargo levels because of non-intercourse with GB and F.
  - Then the War of 1812 results in a British blockade of American ports.
Republican trade policies: trade and the War of 1812

- Non-intercourse legislation expires in early 1810 and Madison wants it replaced by an embargo.

- Instead, Congress restores open trade to both to both GB and F, but with the following provision: If either GB or F repudiated their policy of harassing American shipping, the U.S. would resume nonimportation against the other party.

- The depressed trade also depresses revenue and the government runs a deficit.
Republican trade policies: trade and the War of 1812

● When France hints that it will stop harassment, Madison imposes non-importation on Britain in March, 1811.

  ● French don't follow through, but Madison keeps the non-importation policy against GB.

  ● Regional political tensions surface. Non-importation hurt NE shippers and NY merchants, but allowing exports served mid-Atlantic grain and flour producers and southern staples producers.

  ● Secessionist sentiments reappear in NE over non-importation with GB.

● 12th Congress, which begins in Dec, 2011 has an entirely different attitude.

  ● Populated by the “war hawks” such as Henry Clay and John Calhoun who wanted to take military action against GB.
Republican trade policies: trade and the War of 1812

- Patriotic rhetoric about redeeming the nation’s honor.
  - Sparked by continued impressment of sailors and confiscation of goods.
  - Blame the low price of southern staples on British trade policies.
  - Want direct trade to the continent and W. Indies.
  - Growing nationalism and antagonism with British support for Indians on the western frontier.
  - As well, want to wrest Florida from Spain and Canada from Britain.
    - Push Britain, who is engaged in all out war with France, out of NA once and for all.
    - End her control of fishing grounds off Newfoundland.
• Additionally, the War may be an outcome of the repeated failed peaceful coercions.

• We are in a kind of commercial warfare with GB and France since 1806.

• Need to assert our right to unrestricted access to foreign markets. A long held Republican philosophy.

• “We have exhausted every means in our power to preserve the peace. We have tried negotiations until it is disgraceful to think of renewing it, and commercial restrictions have operated to our injury. War or submission alone remain.” (Wilson Cary Nicholas to Jefferson in 1810)

• War will revitalize the national character.

• It is a second war for independence.
Republican trade policies: trade and the War of 1812

- Federalists and antiwar Republicans argue that starting a war will not improve the price of staples – will make matters worse.
  - They are a minority.

- Thoughts of the majority were that U.S. would win concessions from GB, gain power and land.
  - April 1812 Congress enacts a 90 day total embargo on trade with GB, to get American ships out of harms way.

- At the moment the British economy is in a slump, and manufacturers believe an end to non-importation would increase the demand for goods.
  - Unemployed workers in British industrial towns petition Parliament demanding a repeal of the Orders in Council.
  - Given heavy taxes and the burden of war with France, they do not want another war in NA.
Republican trade policies: trade and the War of 1812

- June 16, 1812 Orders in Council are suspended.
  - 2 days before U.S. declares War.

- June 23, new British gov’t provisionally repeals the orders.
  - GB learns of American declaration on July 29, 41 days after war was declared and Madison learns of the repeal on Aug 12, 51 days after the repeal.
    - Respective ships bearing the news passed each other in the north Atlantic.
    - Better communications would have avoided war.

- U.S. does not halt hostilities because they don’t know how Britain will react to the declaration of war.

- Madison’s reason for asking for a Declaration of War include impressment, seizure of ships, Orders in Council, and arming of Indians in the West.
Republican trade policies: trade and the War of 1812

• Federalists are appalled that we would rashly start a war that we were unprepared for.
  
  • Unimaginable that we would take the side of a French despot against a constitutional government and country that happened to be an important customer.

• Decision for war is sectional. Supported in South and West, while Northern Republicans and Federalists opposed.
  
  • Apparently the economic cost of the Orders was not sufficient to merit war.

• Voting is rather strange. The region suffering most from ships being seized and seamen impressed, does not want war, and the West, which is little affected by trade is the most vocal for war. Pa. provides the most votes for war.

• All Federalists oppose the war.
Republican trade policies: trade and the War of 1812

• U.S. is woefully overmatched.
  • An army of fewer than 7,000 men compared to GB with 250,000 men.
  • A navy of 16 ships compared to almost 1000 in the Royal Navy.
Republican trade policies: trade and the War of 1812

- Also, want to fight a war based on republican principles. Don’t want to incur debt, perpetual taxation, nor a military establishment.
  - Never prepared for battle.
  - Finally in January of 1812 authorize an additional 25,000 regular troop, 50,000 1-yr volunteers with the states appointing their officers, and in April authorized the President to call out 100,000 6-mo militia. (paper army)
- No building of a navy.
- No general staff. Confuses British minister. Can a country go to war with a war department consisting of a secretary and a dozen clerks.
- No BUS to raise funds and issue debt
• War goes badly.
  • Fail to annex Canada.
  • By years end growing sentiment to end war.
  • War drags on for 2 years.
  • Pretty much ends in a draw with the neither side accomplishing its objectives.
Republican trade policies: the War of 1812

- To help fund the war, Congress doubles all import duties until one year after the cessation of hostilities.
  - Additionally, a 10% surcharge imposed on goods arriving in foreign ships.
  - Tonnage duties on foreign ships quadrupled.
  - Non-importation of British goods continued and restrictions were placed on exports to Canada.
- December, 1813 a complete embargo enacted and American ships are required to remain in port.
- Royal Navy blockade stretches from NE to New Orleans. Only allow smuggled goods intended for Royal Navy through. Thereafter, exempts NE which is sympathetic to GB.
- U.S. trade squeezed to lowest level in history, with perhaps the exception of Revolutionary War.
Republican trade policies: the War of 1812

- Between 1811-1814 exports drop by 90% ($108m in 1807 to $7m in 1813). Imports shrink by 80% ($138 to $13m).

- Customs revenue shrivels and debt triples between 1812 and 1816.

- After initial British victory against Napoleon, European ports reopened to American ships.

- Not much of an effect, because with Napoleonic wars winding down Britain shifts its forces to confront the U.S. and continues its blockade. Now includes NE.

- Sail up the Potomac and burns the White House and Capital.
  - At which point both sides have no interest in prolonging the conflict.

- U.S. fails to achieve any of its objectives and economy suffers terribly.
Republican trade policies: the War of 1812

• However, with British failure at Baltimore and the inability to gain access to the Great Lakes. America succeeds in getting status quo ante bellum at treaty of Ghent without any mention of impressment or neutral rights.

  • In that sense the U.S. does not get the recognition it sought. It just gets peace and the British abandon the land captured in Maine.

  • Madison already resigned to this – tells his negotiators not to insist. Just get peace.

  • In terms of men lost, the war was not costly. More die in a typical battle in the Napoleonic War.

• Jackson victory at New Orleans, after treaty already signed, lets Americans believe they actually won the War.

• Country feels vindicated.
Republican trade policies: trade and the War of 1812

- Other costs of the War involved regional opposition of NE where both seditious and treasonous activities occurred.
  - Bought British bonds and smuggled goods.
  - Withheld militia requests from national gov’t.
  - By not overreacting and believing that most Federalists remained loyal, Madison was able to hold the country together.
- Talk of NE seceding. Many rethinking the breakup with GB. But recall Ma. is the most rebellious of colonies.
- Britain seemed more and more “the country of our forefathers, and the country to which we are indebted for all the institutions held dear to freemen.” Timothy Pickering
- Republicans horrified at such thoughts. See war with GB as a second war for independence.
• But the War doesn’t seriously jeopardize our experiment in limited republican government.

  • Madison cognizant of this and it was a continued goal of his. He resisted relaxing the axioms of republican politics. War does not infringe on rights. Not one trial for treason or one suit of libel.

  • 57 counties and towns are named after Madison, the most of any U.S. president.

• Madison’s administration had “acquired more glory, and established more Union than all his three predecessors...” John Adams to Jefferson in 1817.

• Firmly establishes the nationhood of the United States. Gives the beginning of a national character. People “are more American; they feel and act more as a nation.” (Albert Gallatin)
Republican economic policies: post war

- With no BUS, government cannot transfer funds across the country and Federalist investors refuse to lend to the government.

- Government is essentially bankrupt. Debt has risen to $127m in 1815.

- Proliferating state banks suspended specie payment on large amount of notes issued since the demise of the BUS.
  - $115m in notes between 1811-15.
  - Invest in war bonds.
  - When gov’t begins to default on treasury notes, there are bank runs and notes trading at 70-85% of par.
  - Treasury has to rely on depreciated notes to make payments.
Republican economic policies: post war

- State banks cannot be relied on to help fund the debt.
- Madison is now in favor of reestablishing the BUS. One of few times he and Jefferson are at odds.
- “If the operation of the State banks can not produce this result, the probable operation of a national bank will merit consideration; “ JM
- “It is, however, essential to every modification of the finances that the benefits of an uniform national currency should be restored to the community.” JM
- As well, Madison believes the constitutional question had been settled by the precedent of the 1st Bank.
Initially cannot get a bill through Congress, but the Federal Government’s financial condition deteriorates and with state banks in trouble the economy deteriorates.

Need for a more uniform currency and the 2nd Bank is signed into law in April 10, 1816 and opens its doors January 7, 1817 capitalized at $35m.

The chartering of the Bank represents a large departure in Republican thinking, especially for Madison. But it is the pragmatic solution to the governments fiscal problems.
The trade disruptions between 1807-1814 gave rise to the production of many domestic goods.

- Promotion of infant industries was not the primary goal of the trade policies of Jefferson and Madison.
- Nevertheless, they stimulated domestic manufacturing.
- Jefferson assumed the embargo would provide “indirect encouragement” to small domestic manufacturers making the country more economically independent.
- Madison feels the same.

But he wants to avoid the commercial troubles that plagued the nation and led to war in 1812.

- Become more self-sufficient with less reliance on GB.
Republican economic policies: post war

- A large shift in Republican attitudes from those held in the 1790s, when they opposed Hamilton’s efforts to support mfg.

- Trade policies do more than Hamilton’s direct support ever could have done. A bit ironic.

- Manufacturers shift allegiance to Republican party.
  - The two political factions pit commercial interests against manufacturing interests.
Republican economic policies: post war

- Recall the early vision was one of a predominantly agricultural community. Hard working, diligent, and economically relatively equal.
  - U.S. would be a society without the permanent classes of privilege and classes of dependent poor.
- It was based on the vast amounts of land yet to be put into productive farming, and allowing the country to escape the Malthusian dilemma for at least a century.
- But due to the war and what he believes will be insufficient European demand for rapidly growing U.S. agricultural output, Madison foresees a scenario where prices plummet and the lack of profitability of many farms.
  - That will lead to idleness and poverty and destroy the Republican dream.
  - Another way must be found.
Republican economic policies: post war

• That way is to support industry. The U.S. economy would now have 3 legs: agriculture, commerce, and manufacturing.

  • Large-scale manufacturing would provide a domestic sector that would demand agricultural products.
  
  • An adoption of much of Hamilton’s viewpoint.

• The earlier Jeffersonian model required free trade and the years during and prior to the War indicated that was not something to be relied on.

• Madison comes to believe that with proper policies, those not based on mercantilism, that the poverty in European societies could be avoided.

  • Focuses on the sensitive relationship between demographics, foreign markets, and American social character.
Republican economic policies: post war

- The focus is on building a more balanced economy that provides greater insulation from Europe.

- As well, the lure of cheap land would place a floor on the wages that manufacturers could offer. (a so called reservation wage or outside option)

- Madison remains optimistic that institutional arrangements can be created that will let America avoid the corruption and poverty of Europe.
In Secretary of the Treasury Gallatin’s April 10th, 1815 Report on Manufactures he argued that bounties were the best vehicle for supporting exporters as high tariffs would tax the consumer and divert capital from its most profitable uses.

- This echoes Hamilton who argued that tariffs were inefficient because they raised prices, but importantly benefitted both efficient and inefficient producers.

Recommends that gov’t create a stock of investment money for loans to new manufacturers in the range of $5m-$20m.

- Goes nowhere in Congress.

Contrary to Gallatin’s advice, Madison proposes high tariffs in his Dec. 1815 address to Congress.
Republican economic policies: post war

- Applauds the growth in mfg. due to disruption of trade with GB.

- A change that Madison believes is justified given the policies of European belligerents. “How far it may be expedient to guard the infancy of this improvement in the distribution of labor by regulations of the commercial tariff is a subject which cannot fail to suggest itself to your patriotic reflections.”

- But there are tradeoffs. Industries involved in exporting such as shipbuilding suffered, while import competing industries benefitted.
  - Further, the gain to import competing industries was largely reversed after the war.
Republican economic policies: post war

- The change in Republican philosophy is summarized by Jefferson, “I have not formerly been an advocate for great manufactories. I doubted whether our labor, employed in agriculture, and aided by spontaneous energies of the earth, would not procure more than we could make ourselves of other necessaries. But other considerations entering into the question, have settled my doubts.”

- Within the thirty years that have elapsed [since the publication of Notes on Virginia], how circumstances have changed. To be independent for the comforts of life we must fabricate them ourselves. We must now place the manufacturer by side of the agriculturalist...Experience has taught me that manufacturers are now as necessary to our independence as to our comfort.”

- Now commerce and agriculture are joined by the interest of manufacturers.
However, later in life it appears that Jefferson became increasingly alarmed and believes there is a Hamiltonian conspiracy afoot.

- “Jefferson’s frantic retreat to a sectional, narrowly agrarian outlook was fueled by a mixture of fear, bitterness, and paranoia.” (Drew McCoy)
- Fear of corruption led by conniving aristocrats under the command of Chief Justice John Marshall.
- He opposes Clay’s American System.
• Reiterating, Madison and the Republicans do not want the new industries to disappear with renewed competition from GB.

• Congress approves and the Madison administration enacts the first truly protective tariff in U.S. history setting off many trade policy battles in the decades to come.

• Trade policy debate shifts from securing neutral trading rights to whether import duties should be used to protect domestic producers from foreign competition rather than to set them only as high as necessary to secure the needed revenue.

• With the end of the War, staple producers see large volumes of trade return and sharp price rises for their goods.
  
  • Exports surge, but imports increase even more.
  
  • These imports were subject to duties averaging 49%, but even that could not stem the pent up demand for British manufactured goods.
Republican economic policies: post war

- Customs duties are large enough to enable the government to start paying down wartime debts.
- Imports are a shock to the fledgling domestic mfg. sector.
  - Especially devastating to producers of iron, cotton, and woolen goods.
  - Import prices fall 28% from 1814 to 1816.
  - Set off numerous bankruptcies.
  - Britain accused of dumping its goods.
- The effects of increased trade are anticipated.
  - Madison requested Congress to consider “means to preserve and promote the manufactures which have sprung into existence...”
• Enacting the tariff is politically easy since the Federalist party is no longer.

• Since high wartime duties are not set to expire until 1816, there is no need for any legislation in 1815.

  • Madison also maintains the belief that a liberal trade policy could only be adopted if other nations reciprocated.

  • “experience teaches that so many circumstances must concur in introducing and maturing manufacturing establishments…”

  • Because the war gave a “powerful impulse to manufacturing”, there was good reason to think that if they were given protection domestic manufacturers would be safe against occasional competitors and be a source of wealth.
Republican economic policies: post war

- 1816 Treasury Secretary Alexander Dallas proposes a new tariff schedule. The tariffs should be sufficient to pay down the debt incurred during the war, and satisfy three other main objectives:
  - Promote commerce, agriculture, and industry.
    - Difficult as their interests were competing.
    - Farmers want low tariffs and manufacturers high ones.
    - Commercial interests want policies that increase trade.
  - Dallas points out that the country had recently been almost entirely cut off from foreign supplies such as weapons, munitions, clothing, and a range of goods.
  - Jeopardizes the country’s security.
  - Mfg. needed for the independence of the country.
Dallas places manufactures into 3 broad categories.

- Those firmly established: cabinets, hats, iron castings, muskets, window glass....
- Those recently and partially established, but in the longer run with help will succeed: cotton and woolen goods, iron manufacturers, spirits...
- Those that barely exist such as finer cottons and linens, silk, chinaware and other glass products.

Strangely, the tariff schedule is highest on the first set of goods and lowest on the last.

- On the first set the supply of goods would not be endangered by high tariffs since we produce those goods.
- Third deserve no support. Policy is one of protection not creation.
Republican economic policies: post war

- On middle set, just enough for domestic producers to meet foreign competition on equal terms. Duties in the 20-33 and 1/3% range.

- High tariffs should be temporary. Future advantages will outweigh current costs.

- For the first time the tariff debate focuses on protection.
  - “The revenue was only an incidental consideration…” (Henry Clay).
  - Ways and Means Committee reflecting the southern views of its Chairman, William Lowndes, marks down many of the suggested duties.
  - Debate exposes the sectional differences. Low tariff south, high tariff Mid-Atlantic, divided New England.
Republican economic policies: post war

- Henry Clay is leading proponent of protectionist tariffs.
  - National security requires reducing our dependence on critical supplies.
  - Also, Clay believes there will be broad economic benefits.
- John Randolph of Va. denounces tariffs as a way of promoting northern mfg. at the expense of southern agr.
- After recent events, the south could not oppose a moderately protective tariff because of concerns for national defense.
  - The lack of supplies had hampered the war effort.
  - Bill passes with strong support from Pa., NE (cotton textiles), and a split South (strong anti-British sentiment).
Republican economic policies: post war

- Ironically protectionism originates in the Madison administration.
  - However not an infant industries policy. These industries are those that arose as a byproduct of trade policies designed to hurt countries belligerent to U.S. commercial interests.
  - These industrial interests then argue for protection.
Republican economic policies: post war

- The final piece of the Madisonian program is internal improvements through the establishment of roads and canals.
  - Economic benefits of improved transportation.
  - Political benefits in “binding together the various parts of our political confederacy.”
  - Importantly, however, Madison believes that doing so will require a constitutional amendment.
- Fourteenth Congress extremely capable and inclined toward strong government.
  - Led by Henry Clay and John Calhoun.
  - Old line republicans like John Randolph view themselves as standing for party’s original principles and look at Madison’s proposals with suspicion.
Republican economic policies: post war

- The old guard equate the program with that of the Federalists.
- But there are distinct differences.
  - Unlike Hamilton, the debt is viewed to be a temporary means to finance national defense and infrastructure.
  - Madison’s tariff is primarily protective and designed to make country immune from British commercial and naval interests.
    - Hamilton’s outlook was Atlanticist, Madison’s continentalist.
- The program was also intended to powerfully cement the Union together.
Republican economic policies: post war

- Progress is made on internal improvements.
  - Appropriate $100,000 to build a national road that will eventually link Baltimore and St. Louis. Madison signs.
  - Clay and Calhoun proposed to use the $1.5m bonus owed by the 2nd Bank along with the government’s share of the dividends to be earmarked for roads and canals. “Let us conquer space.” (Calhoun)
  - Opposed in NE and the South, who have little to gain and supported in the mid-Atlantic and West who have a lot to gain. Bill passes 86-84.
  - On March 3. 1817 on his last day in office Madison vetoes.
Republican economic policies: post war

- Constitution could not be stretched that far.
  - Stuns Clay and Calhoun.
  - Madison wants an amendment.
  - Also, Madison was suspicious of the type of funding created in the so called “Bonus Bill”. It was an invitation to corruption. Prefers an integrated national plan.
  - But his position is a bit impractical. Implied the need for an amendment every time some power was called into question. Amending is tedious and protracted.
- Most Americans are suspicious of grand national plans.
- Madison chooses theoretical consistency over practicality.
Republican economic policies: post war

- From an economic standpoint it is a missed opportunity.
- So the Republican alternative to the Hamiltonian program follows a rather circuitous route.
- From a policy promoting small farms to an energetic industrial policy.
- From a disdain for finance to the reauthorization of a national bank.
- From a low tax small government to one considerably more vigorous and unafraid to provide funding for broad projects.
- To creating policies that will economically and politically unify the nation.
- Quite a road. Laid the path for Clay’s American System.