The Making of a Financier:
Albert Gallatin in the Pennsylvania Assembly

In the annals of American public finance Albert Gallatin, adopted son of Pennsylvania, is credited with two notable achievements: As a member of the cabinets of Presidents Jefferson and Madison, he served as Secretary of the Treasury for a longer period than any other man. More important, the record he achieved during his twelve years in that office places him second only to Alexander Hamilton. His claim to pre-eminence in the field of finance is further strengthened by his leadership of the Jeffersonians in Congress during the years 1793 to 1801, in the course of which he made telling criticisms of the Federalist Secretaries of the Treasury, Hamilton and Wolcott; and by his work as spokesman for the New York City banking community during the 1830's.

How did Gallatin acquire his uncommon knowledge of public finance? There is little in the details of the first three decades of his life to provide an answer to that question. Born in Geneva in 1761, scion of an aristocratic but not noble family, he was graduated from the famous Academy of his native city. Migrating to America at the age of nineteen, he spent a checkered and aimless decade tutoring at Harvard College, trading on the Maine frontier, acting as an interpreter and partner to a French speculator in western Virginia and Pennsylvania lands. Finally he became a storekeeper and farmer in Fayette County in southwestern Pennsylvania. His innate interest in politics led to his election as a representative of the county to the convention which drew up the state Constitution of 1790.

1 Henry Morgenthau, Jr., was a close runner-up, serving a total of eleven and a half years, from January, 1934, to July, 1945. Gallatin served as Secretary of the Treasury from May, 1801, to February, 1814, or twelve years and nine months. It is true that Gallatin spent the last nine months of his secretaryship in Europe on a diplomatic mission; but even so, his active tenure was six months longer than Morgenthau's.

2 Gallatin's early career may be traced in Henry Adams, Life of Albert Gallatin (Philadelphia, 1879), 1-83.
It was while Gallatin was serving four terms as a representative of Fayette in the lower house of the Pennsylvania legislature, 1790-1793 and 1794-1795, between the ages of twenty-nine and thirty-four, that he first developed his latent capacities for public finance.3

During these years Pennsylvania had great need for a man with the talents of Gallatin. Since 1781, when Robert Morris left the assembly for national service, the legislature had had no member whose financial ability was first-rate. The state finances, governed only by expediency and improvisation, had steadily grown more chaotic.4 Probably it was only by happy chance that, at the start of his first session in the house, Gallatin was appointed one of the twenty-one members of the powerful ways and means committee.5 But as the committee went about its task of considering the state's financial policy, Gallatin's rare capacities quickly became apparent to his fellow members. The result was that the writing of the committee's reports and leadership in the discussion of financial questions fell to him throughout his years in the assembly.6

In approaching the problems of public finance, Gallatin was greatly influenced by his Genevan heritage.7 In his native city, as he knew from personal observation and had been reminded by a reading of Montesquieu's *The Spirit of Laws*, the children of a bankrupt were barred from the important civic offices so long as their father's debts remained unpaid.8 The same spirit, Gallatin believed, must be prac-

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3 The interest which Gallatin showed, as an assemblyman, in the problems of western Pennsylvania is treated in Raymond Walters, Jr., "Spokesman of the Frontier," *Pennsylvania History*, July, 1946.


6 Adams, *op. cit.*, 85.

7 These views on public morality are stated in *Biographical Memoir of Albert Gallatin* [reprinted from the *Democratic Review* for June, 1843] (New York, 1843), 9, 10. It is probable that Gallatin personally contributed to the writing of the sketch.

8 The *Biographical Memoir* cites (p. 10) the following quotation from Montesquieu: "Admirable is the law of Geneva which excludes from the magistracy, and even from the admittance into the great council, the children of those who have lived or died insolvent, except they have discharged their father's debts. It has this effect: it creates a confidence in the merchants, in the magistrates, and in the city itself. There the credit of the individual still has all the weight of public credit." Montesquieu, *The Spirit of Laws* (Nugent translation), Book XX, Chapter 18, No. 16.
ticed in public life, lest a "free nation" fall into "disgrace." Moreover, a public debt tended to increase artificially the inequality of the fortunes of individual citizens; if it became a permanent policy, the payment of interest upon it would become a permanent tax upon the industrious to support the idle.

Such a philosophy was not a popular one in the United States in 1790. Some members of the Federalist party were wont to quote Secretary of the Treasury Alexander Hamilton as believing that a public debt, or at least a funded debt, was a national blessing; for it would attach men of wealth to the government. The record which Gallatin’s party colleagues had made in the assembly, marked by free-handed appropriations and by a disinclination to levy compensatory taxes, suggested that some of the Pennsylvania Anti-Federalists, too, were not anxious to challenge the Hamiltonian philosophy. Gallatin succeeded in persuading not only his own group, but also the Federalist majority in the assembly, to enact a state financial program based upon his Genevan philosophy.

In his first statement to the house on finance—the report of the ways and means committee of February 8, 1791—Gallatin pointed out that the state had thirteen principal debts, totaling about £400,000, which were already due or would come due during the next fiscal year. The state had on hand, or was likely to come into possession of, approximately £125,000. Thus the deficit was likely to be in the neighborhood of £275,000.

But Gallatin, in accordance with his Genevan canons of justice, felt that besides the thirteen debts the state had one other significant obligation to settle. This obligation was an outgrowth of Secretary Hamilton’s recently enacted measure whereby the federal government assumed the debts which the states had contracted during the period of the Revolutionary War and the Confederation. Under this act, the federal government was to pay the creditors of Pennsylvania $2,200,000—four-ninths of it in government stock bearing six

9 Pennsylvania House Journal, 1790-1791, 163.
10 Biographical Memoir, 9.
11 Hamilton’s views on this question are traced by Fritz Redlich in “A National Debt is a National Blessing,” printed in his Essays in American Economic History (New York, 1944), 177-179.
per cent interest starting in 1792; one-third of it in government stock bearing three per cent interest starting in 1792; and two-ninths of it in government stock bearing six per cent interest starting in 1800.14

To Gallatin it seemed that Secretary Hamilton's plan, as it affected Pennsylvania, had three notable flaws. For one, the setting of the state debt at $2,200,000 was arbitrary; Hamilton had not taken the trouble to discover by "the settlement of accounts what was actually and justly due to each State." Moreover, the conversion of one-third of the debt into three per cent stock appeared to Gallatin equivalent to the reduction of fifty per cent on that part of the debt. Finally, the postponement for a decade of any interest on one-third of the principal was another indefensible default. He therefore urged, later in the spring of 1791, that the state issue certificates to its creditors to make up the difference between the nominal value of its Revolutionary War debts and the amount the federal government had agreed to pay them.15 As subsequently worked out, this meant the issuance of certificates to the amount of £135,000, with annual interest charges of about £5,675.16

Happily, as Gallatin observed in the February, 1791, report, the state had ample resources to meet these obligations. Most important were its vast tracts of valuable unsettled land and a sizable sum of arrears due on land already sold. Secondly, the state owned almost £450,000 of United States certificates which it had received from the federal government under the debt assumption plan. It could also count on regular amounts from the state excise, and other direct taxes and duties. There was some feeling, especially among the Anti-Federalists, that the state ought to discontinue the direct taxes completely and at once. Gallatin differed with his colleagues, insisting that, although some reductions might be made, these sources of income would still have to be utilized until the state was out of debt. He was equally firm in opposing the suggestion that any of the paper money the state had issued during the Confederation period and which was now lying in the state treasurer's office should be reissued as a means of affording the commonwealth financial assistance.

The financial difficulties of Pennsylvania, it seemed to Gallatin,
arose because the debts of the state were all due at the moment, while its assets would become available gradually, over a period of years. As a first step toward meeting all its obligations, the state ought to fund its debt. Toward this end Gallatin recommended three specific operations. The state’s outstanding obligation was approximately £200,000 still owed to the Penn family for its estates in Pennsylvania. A loan to pay this sum at once ought to be negotiated in Europe, preferably in the Netherlands; the public lands should be pledged as collateral. To meet the current expenses of government and outstanding warrants, an amount not to exceed £60,000 ought to be borrowed from the Bank of North America in Philadelphia; for this, the sums currently receivable by the state might be pledged. Lastly, the United States certificates held by the state should be subscribed to a loan shortly to be floated by the federal government; the interest received on this investment should be used to meet the interest on the European and Bank of North America loans.

With a single minor change, every one of Gallatin’s recommendations was enacted into legislation by the assembly during the spring of 1791. The state treasurer was directed to subscribe all the United States certificates belonging to the commonwealth to the new federal loan; the governor was authorized to borrow £60,000 from the Bank of North America to meet current operating expenses; enough of the federal stock was to be sold to complete the payments to the Penn family; the treasurer was forbidden to reissue state paper money, and provision was made for the redemption of most that was still outstanding; and the state was to give its creditors who subscribed to the federal debt assumption loan special certificates pledging the payment of the full interest denied by the complicated provisions of Secretary Hamilton’s debt assumption plan. Gallatin was particularly pleased that this last measure received the support of his Anti-Federalist colleagues, for few of them held any of the

18 Dallas, op. cit., III, 51-55.
20 Dallas, op. cit., III, 51-55.
21 Dallas, op. cit., III, 63-65.
United States certificates and most of them were inclined to regard the numerous Federalists who did as sordid speculators.\textsuperscript{22}

The full significance of this set of legislation was revealed in the report of the ways and means committee which Gallatin presented at the next session. The state’s probable revenues for 1792, he was able to write jubilantly, amounted to £135,000, its probable expenditures to £132,000. Thus, thanks to Gallatin’s efforts, Pennsylvania was now on what present-day financiers would describe as a “pay-as-you-go” basis.\textsuperscript{23}

The accomplishment gratified Gallatin for two reasons. No longer would it be necessary to continue the unpopular direct taxes. Furthermore, the funding of the debt, which he had considered at best a temporary expedient, could now be stopped. As he set forth in the ways and means committee report of February 22, 1792, he and his fellow committeemen were “fully convinced that owing a debt cannot contribute more to the welfare, happiness and real opulence of a people than a private debt contributes to the wealth and prosperity of an individual, and that therefore it is as much the interest as the duty of a nation to pay, and not to fund its debts, whenever it is enabled so to do.”

Fortunately, Gallatin pointed out, Pennsylvania possessed the means by which it might pay off its debts completely. The means was its three per cent United States stock, the market value of which had risen since the commonwealth had acquired it. Gallatin proposed that the state sell enough of this to retire the £135,000 of special certificates it had issued to compensate its creditors against the operation of the federal assumption law, and also to retire all the paper money known as “dollar money” which the state had issued in 1780. In all, these debts amounted to well over £150,000, and their payment would save the state more than £5,750 annually in interest.\textsuperscript{24} The plan was translated into law without change during the spring of 1792.\textsuperscript{25} By the following December Governor Mifflin was able to report triumphantly that all the state’s war debts had been

\textsuperscript{22} Biographical Memoir, 10.
\textsuperscript{24} Pennsylvania House Journal, 1791-1792, 157-162.
\textsuperscript{25} Dallas, op. cit., III, 267-273.
paid.\textsuperscript{26} To celebrate the accomplishment the legislature repealed all the direct taxes, as Gallatin had urged.\textsuperscript{27}

Pennsylvania was able to achieve this happy consummation principally because a brisk market existed for its extensive tracts of land, and because it was collecting, during these years of prosperity, considerable sums in back taxes. In this situation Gallatin sensed new dangers. He feared that, if a large surplus began to accumulate in the treasury, a free-handed legislature might squander it on useless projects.\textsuperscript{28} Moreover, he realized that in a few years all the lands would be sold, and all the tax arrears would be collected. It seemed to him imperative that before that should happen the state's resources be placed upon "a permanent and beneficial footing."

He broached his plan for achieving that utopian goal in a ways and means committee report submitted to the house in February, 1793. The legislature, he proposed, should charter a Bank of Pennsylvania. This institution would enjoy a relationship to the state government roughly comparable to that existing between the Bank of the United States and the federal government. The state would become a substantial stockholder of the bank, obtaining the necessary funds for its subscription through the sale of the United States stock it still owned, from various unappropriated funds in the treasury, and by pledging unsold lands and tax arrearages. The Bank of Pennsylvania would be required to pay six per cent interest on its stock, providing the state with an income which, it was estimated, would cover all the regular expenses of government. The bank would also be required to make a sizable loan to the state so that it might establish a loan office in each county. The Bank of North America was to be permitted to subscribe to the new bank if it would relinquish its own charter.\textsuperscript{29}

By inserting these last two provisions Gallatin was attempting to meet economic grievances of the Anti-Federalist group. The idea of the loan office was designed to please the farmers, who had long declared that the only two banks in Pennsylvania—the Bank of North America and the Bank of the United States—were of no use because

\textsuperscript{26} Pennsylvania Senate Journal, 1792–1793, 10.
\textsuperscript{27} Dallas, \textit{op. cit.}, III, 115.
\textsuperscript{28} Adams, \textit{op. cit.}, 86.
\textsuperscript{29} Pennsylvania House Journal, 1792–1793, 156, 157.
they refused mortgages on rural land and property. The stock of the Bank of North America was largely held by members of the Federalist party. Since its founding in 1781 the bank had paid large dividends to its stockholders and there had been a concerted campaign by their political opponents, especially those from the West, to deprive it of its charter.30

To the eastern Federalists, Gallatin's suggestion appeared to be a renewal of the Westerners' war on their bank, perhaps even an attempt to establish an Anti-Federalist bank within the state.31 During the assembly debates a Federalist leader, Robert Hare of Philadelphia County, suggested that if the state had funds to invest, it should deposit them in the Bank of North America. With two banks already operating within its borders, he added, Pennsylvania had no need for another.

Gallatin replied that it would lower the dignity of the state to have to continue to do business with a private institution such as the Bank of North America. He recalled the "humiliating terms" imposed by that bank when the state negotiated a loan two years earlier. The Bank of North America had demonstrated at that time, he added, that it was unwilling to trust the state government as far as it would an individual. Further, Gallatin flatly denied Hare's claim that the state already possessed ample banking facilities. As things now stood, he said, because of their "want of capital" banks gave fair discounts at some times and none at all at others. Even the friends of the Bank of North America recognized this, for they were seeking an increase in the capital of their institution. A third bank was desirable because it would increase the banking capital within the state.

Much of the discussion in the assembly centered about the political and constitutional implications of the proposal. The assets of the state, Hare asserted, were already well invested in United States stock and ought to be permitted to remain in that form. To this Gallatin retorted that no government ought to depend upon another for revenue and feel the effects of the fluctuation of the other's

31 For reports of the house debates on the proposal, see General Advertiser, Philadelphia, February 14, 16, 18, 1793.
credit. In an allusion to the political opposition that was coalescing throughout the nation against Secretary Hamilton's financial system, Gallatin declared that no part of it was "more obnoxious" than the assumption of state debts. "If that system were shaken for any cause," he warned, the value of United States stock would surely be disturbed. He pointed out that many states held none of the stock; they might use their influence in Congress to withhold interest on it. Pennsylvania, he said, had aided the national government by subscribing to the stock when the federal union's credit "most wanted support." Now that its credit was firmly established, the state was no longer bound "to support the monied interest of the United States."

It was generally agreed, Gallatin maintained, that the Bank of the United States had enormously increased the prestige and power of the federal government. A Bank of Pennsylvania would perform a comparable service for the state government. Moreover, he added, if there were any basis to the fear that the federal government was acquiring undue power, a state bank would help "counteract" that tendency and help "restore" the balance between the state and federal governments "established by the constitution."

Through two acts passed in the spring of 1793 the assembly adopted every one of Gallatin's suggestions. A Bank of Pennsylvania was chartered with a capital of $3,000,000; of this the state took one-third.\(^{32}\) The institution was required to lend $500,000 to the state to establish a loan office in each county.\(^{33}\) Time proved the legislation disappointing in two respects. The terms under which the loan office could offer mortgages were so unattractive that few farmers applied.\(^{34}\) The Bank of North America, as was to be expected, never took the option of relinquishing its charter to the new bank. But the Bank of Pennsylvania, with branches in several cities, enjoyed a useful and profitable career until long after Gallatin's death.\(^{35}\) Gallatin himself correctly assessed the value of the charter of the bank when he wrote that "this and subsequent investments enabled Pennsylvania to defray out of the dividends all the expenses of

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\(^{32}\) Dallas, op. cit., III, 323-335.

\(^{33}\) Dallas, op. cit., III, 414-421.

\(^{34}\) Pennsylvania Senate Journal, 1793-1794, 11.

\(^{35}\) Holdsworth, op. cit., I, 133-137.
government without any direct tax during the forty ensuing years."36

Probably the most onerous and thankless assignment which Gallatin had to perform while in the assembly was to investigate the conduct of John Nicholson as comptroller general of the commonwealth. Nicholson, a man of Anti-Federalist proclivities, had held the office since 1782;37 but it was not until 1793 that any suspicion was stirred that he was using his position for personal gain. On April 3 Gallatin and his fellow members of the ways and means committee reported evidence that Nicholson had recently juggled the state's accounts in such a way that he had received more than $60,000 in payment for a type of certificate which a law passed four years earlier had declared not to be an obligation of the state. The committee proposed that Nicholson be impeached "for a high misdemeanor" and that a house committee be appointed to examine all his records and report at the August session of the legislature.38

The proposal was accepted by the house; and Gallatin found himself, as a member of a three-man committee, spending the long, humid days of a Philadelphia summer, ferreting out the facts.39 Nicholson did not prove very co-operative, supplying data only under pressure. Even then, the reports he provided in many cases were no more illuminating than those already in print. The committeemen decided to broaden the scope of their inquiry, looking into the accounts of all state officers, including county treasurers, militia lieutenants, and prothonotaries.40 The voluminous, detailed analysis of the state's financial transactions which they presented to the house soon after it convened, furnished ample cause, they believed, for amplifying the charges against Nicholson.41

36 Adams, op. cit., 86.
37 Brunhouse, op. cit., 108, 204.
39 American Daily Advertiser, April 13, 1793; Gazette of the United States, Philadelphia, April 17, 1793.
As it turned out, their labors were in vain. By early September, 1793, Philadelphia was in panic over a yellow fever epidemic. Anxious to adjourn so that they could get out of the city, the state senators voted not to hear the house’s impeachment charges that session. The Nicholson case did not come to trial until the spring of 1794, when Gallatin was not a member of the legislature. The comptroller general’s prosecutors were unable to muster a two-thirds vote on a single charge, and he was accordingly declared not guilty.

The capacities which Gallatin as an assemblyman developed in public finance—a field in which his mentor, Thomas Jefferson, was never more than a novice—later influenced enormously the course of American political and economic history. He did much to improve the administration of American fiscal affairs, injecting order and system into the federal system, and tightening the people’s control over the management of the national finances. His experience as a member of the ways and means committee of the Pennsylvania house of representatives led him to campaign successfully for the creation of a comparable committee in the lower house of Congress. The clear, detailed exposition of the commonwealth’s financial condition which characterized the statements of the state treasurer and his own reports for the assembly ways and means committee caused Gallatin, while a United States Senator, to demand comparable reports from Secretary Hamilton. The fact that the Pennsylvania legislature always made its appropriations for specific purposes doubtless led him to expect and insist that Congress do the same.

Gallatin’s principle that a government must be completely debtless in order to maintain its honor brought happy results when it was adopted by Pennsylvania; this encouraged him, as a Congressman and Secretary of the Treasury, to demand that the federal government also put it into practice. In doing so, he insisted that the government exercise the strictest economy and eschew the seductive

44 Gallatin’s views on public finance as a federal legislator and as Secretary of the Treasury are treated in an able monograph: Chien Tseng Mai, The Fiscal Policies of Albert Gallatin (New York, 1930).
Hamiltonian doctrine that public debt could be reduced by means of a sinking fund. The conviction he had voiced as an assemblyman that excises were inordinately costly to collect and vexatious to the people prompted him to obtain their repeal when he became head of the Treasury Department.

Thus the apprenticeship which Albert Gallatin served during his four terms in the Pennsylvania assembly was of inestimable value to both the state and the nation. By awakening his latent interest in finance and offering him an opportunity to develop it, Pennsylvania reaped rewards that endured for more than a generation. When he moved on to the federal scene, the nation benefited from abilities that were thoroughly tested and matured.

*Washington, D. C.*

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