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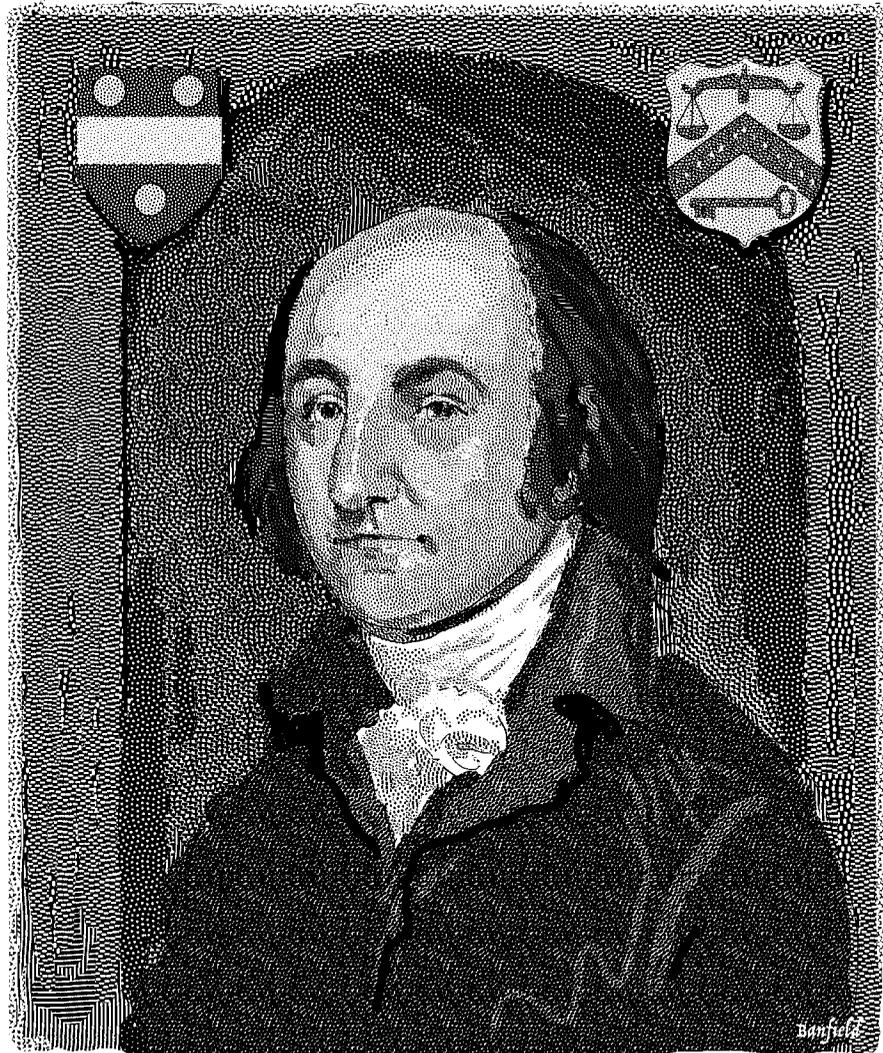


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Book Review by James Grant

A BOLD SPECULATOR

Jefferson's Treasure: How Albert Gallatin Saved the New Nation from Debt, by Gregory May.
Regnery Publishing, 544 pages, \$34.99



Albert Gallatin. Drawing after the painting by Rembrandt Peale, c.1805

THE WORDS CARVED IN THE TOMB OF Albert Gallatin on the north side of Trinity Church at the foot of Wall Street in lower Manhattan present a would-be biographer with a fair hint of what awaits him in the attempt to do justice to the life of the Swiss-born financier, politician, diplomat, banker, monetary theorist, ethnologist, public intellectual, pamphleteer, and exponent of American virtues. Here is what they say: "Deeply imbued with the bold and liberal spirit of the time, he came to America amid the scenes of her Revolution; and, after very many years of public service in Congress, and in executive offices of the highest trust, and at an advanced age, he withdrew to private

life, and passed the remainder of his days in philosophic studies and literary pursuits, and went down to the grave universally honored." Gregory May, who had a distinguished career in tax law and corporate finance, proves more than up to the task in his superb *Jefferson's Treasure*.

BORN IN GENEVA IN 1761, GALLATIN scuttled out of Switzerland at the age of 19 (saying no goodbyes) to make his fortune in the New World. It was not true, as the Genevans were presently informed, that he lost his scalp to the Indians, but he had been out in the Pennsylvania frontier, having had his fill of tutoring Harvard boys in dull

Boston. He speculated in land, did some surveying and struggled in business. He married, quickly became a widower, and founded New Geneva, a city for Swiss emigres along the Monongahela River in southern Pennsylvania.

His neighbors could see that Gallatin was just as deeply imbued with the spirit of liberty as he claimed to be, and they sent him to the Pennsylvania constitutional convention in 1788 (he supported the Anti-Federalist position) and the state assembly in 1790. The freshman legislator distinguished himself by his hard work, knack for figures (he was a keen mathematician), and mastery of the not-always scintillating details of the Pennsylvania budget.

GALLATIN DISTINGUISHED HIMSELF in other ways. His name turned up on Alexander Hamilton's most-wanted list during the 1794 standoff between western tax resisters and federal forces over the national government's levy on distilled spirits (the suspect escaped both arrest and indictment). To John Adams, in his late-life correspondence with Thomas Jefferson, there was a better name than "Whiskey Rebellion" for this revolt against lawful authority: "Gallatin's Insurrection."

Gallatin was not so alienated from the new federal system that he declined election to Congress. He became a U.S. senator in 1793, an honor cut short after only three months on a technicality concerning the date of his naturalization. No such quibble barred him from the House of Representatives, where he took his seat in 1795, picking up where he had left off in the Pennsylvania assembly, as a leader in all things financial. Hamilton had called the public debt a "national blessing" (as long as provision were made for repaying it). Gallatin retorted that it was rather a "public curse" (no matter what provision were made), and he devoted himself to overturning the Hamiltonian fiscal system.

"Moderation and firmness" was his unstirring battle cry. In the cause of thriftier, less intrusive government, he stood for free trade, individual liberty, and a dollar fashioned of silver or gold, not paper. A single inhospitable sentence in his lengthy 1796 monograph, "A Sketch of the Finances of the United States," conveys a fair taste of the congressman's unquotable prose: "The tax upon snuff manufactured within the United States was first laid on the quantity manufactured, at the rate of eight cents per pound, and during the six months ending on the last day of March, 1795, while it remained in that shape, is said to have yielded only 2400 dollars; in which account, however, are not included the returns for the first survey of Pennsylvania and for the State of Delaware, which pay about one-half of the duty."

Gallatin was as frugal with money as he was with the trenchant phrase, and he pressed the virtue of thrift on his second wife, Hannah Nicholson. "I will be good," she once wrote to him. "I will love you, with all my heart and I will spend no money."

Hannah's husband had a long nose, a receding hairline and black, intense eyes. He bought books rather than clothes and kept his wit under wraps. His teeth, darkened by cigar smoke, were not long for his head. The Federalists paid him the compliment of heavy abuse, for his attacks on the conduct of the Adams Administration were finding their

mark. The "Jesuit Gallatin is as subtle and as artful and designing as ever," wrote Abigail Adams of the Calvinist son of Geneva.

Though high-born and well-educated, as Nicholas Dungan points out in his concise, Swiss-themed biography, *Gallatin* (2010), he was a frontier democrat who warmed to French revolutionary ideals and seemed to begrudge every dollar of federal spending not apportioned to debt reduction. He shared none of Jefferson's bank phobia, even supporting the Bank of the United States, Hamilton's forerunner to the Federal Reserve.

Jefferson, officially John Adams's vice president and unofficially the leader of the Adams opposition, gratefully left criticism of Federalist economic policies to Gallatin, who actually understood them. The future Treasury secretary regretted the growth of a liquid market in Hamilton's government bonds. Fostering speculation, he contended, it channeled scarce savings into sterile finance rather than productive investment. And because preparations for war only incited war, Hamilton's financing scheme endangered the peace on which depended Gallatin's plan to reduce the debt by selling public land.

JEFFERSON'S VICTORY IN THE PRESIDENTIAL election of 1800 landed Gallatin the job he would hold for the next 12 years. He accepted the Treasury post for the opportunity to extinguish the Revolutionary War debt, "the great dogma of the Democratic principle," in the words of Henry Adams—Gallatin's first, perhaps still best, and certainly least accessible biographer—whose *The Life of Albert Gallatin* (1879) offers majestic English prose and a fine narrative arc, but also dozens of pages of untranslated French and much undigested source material.

Hamilton had enveloped the government's accounts in an "impenetrable fog," complained Jefferson as he directed Gallatin to render the federal figures "as clear and intelligible as a merchant's books." Certainly, Gallatin's ambition was simple enough. By repaying \$7.3 million a year, he could liberate the country from its bondage within 16 years, even if that meant earmarking more than half of the federal revenue for debt reduction. The Jeffersonians preferred an unencumbered balance sheet to a fighting navy. "What a poor starving system of administering a government!" Hamilton snorted.

But some things, like international extortion, were out of the Treasury secretary's control. Gallatin would have preferred to buy off the Barbary pirates, rather than finance a U.S. naval expedition to the Mediterranean to thwart their attacks on American shipping

at the turn of the 19th century, but Jefferson sent the Marines instead.

The parsimonious Gallatin had no objection to the 1803 Louisiana Purchase, though he regretted the costly terms that foreign creditors were able to wring from the speculative-grade American republic. Still, he consoled himself that the timetable for the annihilation of the debt had been pushed back just 18 months, into 1818, and without the imposition of a single internal tax.

Gallatin and Jefferson were not opposed to spending per se; it was debt and taxes they abhorred. Excise taxes on essentials like whiskey, and the bureaucracy required to collect them, were their particular bugbear. The rich should instead support the government by paying a levy on imported luxuries. They would do it "cheerfully," Jefferson insisted in his Second Inaugural Address in 1805. Once the debt was paid, the federal revenue could be diverted to internal improvements. Neither should war, should it come, be fought on the cuff. The Treasury would instead pay cash—a year's revenue would surely suffice to cover a year's fighting—"without encroaching on the rights of future generations, by burdening them with the debts of the past."

CONFLICT DID COME. A NEW WAR WITH Great Britain was brewing, which shattered Gallatin's budget and postponed till Andrew Jackson's day the realization of an American government scrubbed free of debt. War between England and France had been raging since 1793. Rather than risk being dragged into fighting with either, Jefferson's administration chose to cut off the United States from both. Gallatin protested against the folly of closing American ports to foreign trade (for that is what the embargo amounted to), but he loyally tried to enforce the proliferating government directives—584 were already in place by 1808 for the impossible work of prohibiting enterprising Americans from making money. His advice went unheeded.

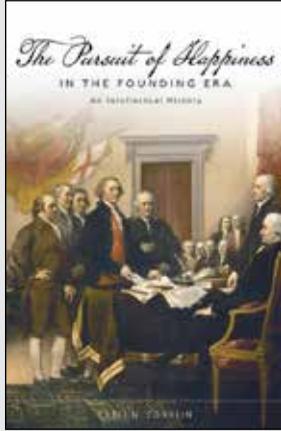
What a spectacle, marveled Henry Adams,

of Mr. Jefferson, Mr. Madison, and Mr. Gallatin, the apostles of strict construction, of narrow grants, the men who of all others were the incarnation of that theory which represented mankind as too much governed, and who, according to Mr. Jefferson, would have had government occupy itself exclusively with foreign affairs and leave the individual absolutely alone to manage his own concerns in his own way—of these men demanding, obtaining, and

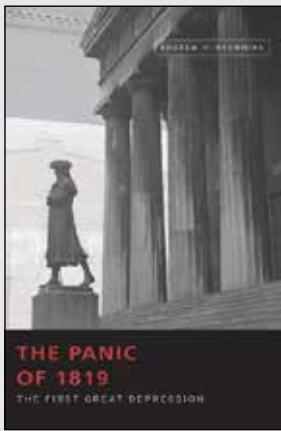


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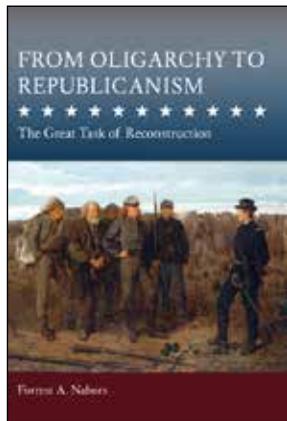


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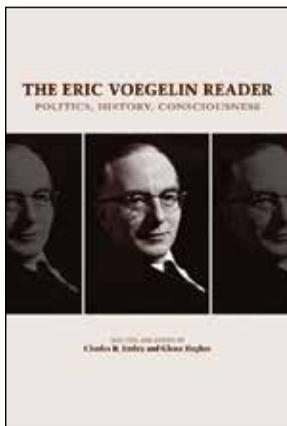


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using powers practically unlimited as far as private property was concerned; powers in comparison with which the alien and sedition laws were narrow and jealous in their grants; powers which placed the fortunes of at least half the community under their control; which made them no more nor less than despots.

Neither did the embargo compensate in practical success for what it cost in principle. It pacified neither Napoleon nor the British foreign secretary, George Canning. What it did achieve was a collapse in American imports and thus a reciprocal plunge in federal tax receipts. Its baleful effects were stamped in the fiscal results of 1809, when government revenue fell to \$7.8 million from \$17.1 million, and so produced the first budget deficit in eight years.

RETIRING TO MONTICELLO AFTER THE election of 1808, Jefferson escaped the consequences of his own destructive policies. Gallatin, who agreed to stay on at Treasury under Jefferson's successor, James Madison (a sharp disappointment for Gallatin, who dearly wanted to be secretary of state), was stuck with a mess not entirely of his own making.

Jefferson wanted no war until the federal debt was cleared away, lest America plunge into "the English career of debt, corruption & rottenness, closing with revolution." But the clearing was hard work for a government that lacked a source of domestic revenue. Nor could that government easily borrow, as would-be creditors were naturally curious about how it might repay them. Raymond Walters Jr.'s worthy *Albert Gallatin* (1957) is especially good in describing the desperate measures that Gallatin took to finance a virtually bankrupt government.

As the voice of American fiscal rectitude, Gallatin had collected plenty of political enemies even in peacetime. Following America's declaration of war against Great Britain in June 1812, he made many more. It was Gallatin's position that the budget should dictate the scale of naval and military action, not the other way around. To no avail, the secretary's critics demanded that the bean-counter suspend his obsession with the government's financial situation long enough to give the undernourished American navy and army a fighting chance against the world's greatest military and naval power. Gregory May, Gallatin's most assiduous biographer—in support of 311 pages of text, he mobilizes 187 pages of end notes, an amazing testa-

ment both to the scope of his scholarship and the immensity of the source material—doesn't exaggerate when he writes that Gallatin's frugality had become "a compulsive disorder." (Nor was it just public indebtedness that Gallatin loathed. When he himself owed money, he confided in his favorite sister-in-law, he could find "no rest, no peace of mind.")

Gallatin waged war reluctantly, underestimating its cost, overestimating his resources. As the Treasury was far from a sterling credit, he had to scrape to make ends meet. Congress had authorized as much debt as the market might vouchsafe, but it enacted no new taxes to pay the interest on those imagined borrowings. Nor was Hamilton's Bank of the United States available to lend a hand; the Madison Administration had allowed its charter to lapse in 1811. May quotes Gallatin advising Madison in 1813: "[w]e have hardly money enough to last till the end of the month."

BY 1814, THE GOVERNMENT HAD NO money to pay the State Department's stationery bill, let alone its creditors. The Treasury defaulted on its domestic bondholders, depositors ran on the banks, the American gold standard collapsed (except in New England) and, of course, British troops burnt the White House. It was a good thing that, by this time, Gallatin was in Europe, as the enemy had torched his house, too.

He had, in fact, been abroad since 1813, along with John Quincy Adams and Henry Clay, to broker an end to the war, a quest that successfully concluded in 1814 with the peace of Christmas Eve. Gallatin was the Americans' indispensable man, as John Quincy attested to his wife, Louisa, possessing "one of the most extraordinary combinations of stubbornness and...flexibility that I ever met in [a] man." Returning to America in 1815, at the age of 54, Gallatin could find no better opportunity than to retrace his steps and sail back to Europe as American minister to France, serving a pleasantly uneventful seven years. In 1826, he accepted the nomination of now President John Quincy Adams to become the American minister to Great Britain. A year later, it was back to America to begin a post-diplomatic career at an age at which most of his contemporaries had died of natural causes.

Settling in New York, Gallatin played a part in the creation of New York University, became a founder and president of the New-York Historical Society, and made himself a leading scholar of Native American languages. (There was nothing sentimental about his view

of the people who spoke those endangered tongues. “The Indian disappears before the white man simply because he won’t work,” the ethnologist declared.)

LIKE HAMILTON AND WILLIAM PITT BEFORE him, and Benjamin Disraeli and Winston Churchill after him, Gallatin proved better at managing the public’s money than his own; he needed income. Would, then, the distinguished former public servant care to preside over John Jacob Astor’s bank, the National Bank, 13 Wall Street, at a salary of \$2,000 a year?

Indeed, he would. The now 70-year-old Gallatin did not content himself with mere managerial duties but waded into the battle over Jacksonian monetary policy, producing, in 1831, “Considerations on the Currency and Banking System of the United States,” a characteristically data-packed, 250-page analysis in support of the kind of money—silver and gold alone—that, by Gallatin’s reading of the Bible and the Constitution alike, God and the founders had prescribed.

It was a masterly job, although the author soon had cause to regret the passage in which he asserted the superiority of private bankers over government officials in judging how much currency might safely be set afloat in

the market. In those days, each bank issued its own notes, with the understanding that noteholders could exchange their paper for gold on demand, the rate of exchange being fixed by law at \$20.67 an ounce.

In the boom that preceded the bust of 1837, New York bankers overextended themselves. And when panic struck, they stopped paying out gold, Gallatin’s bank with the rest. It was a mortification to the former secretary of the Treasury, who had pressed hard to resume gold payments after the default of 1814. And now Gallatin—“bald, toothless... venerable and courteous”—again took the lead in demanding a return to constitutional money. To resume gold payment was, he rallied his fellow bankers, their “paramount and sacred duty.”

Henry Adams wrote his Gallatin biography in the years leading up to the return of monetary normalcy following the Lincoln Administration’s suspension of gold convertibility during the Civil War. Attuned, then, to debate over the nature of the dollar, Gallatin’s first biographer was perhaps more alert than subsequent ones to his subject’s preoccupation with the significance of money to the American social fabric.

Gallatin believed, as Adams observes, “that the condition of the currency was the respon-

sible cause of much if not most of the moral degradation of his time, and that a return to a sound metallic medium of exchange was a means of purifying society.”

GALLATIN’S FINAL HONOR WAS AMONG his most improbable. On Christmas Day 1843, an intermediary for President John Tyler wrote to Gallatin’s son, James, with the invitation that Jefferson’s guardian of the Treasury return to his old post. Gallatin, a month shy of 83, directly responded, “to accept at my age [the position] of Secretary of the Treasury would be an act of insanity.”

He retained strength enough, however, to mount one final effort on behalf of his adopted country—his matched set of pamphlets, “Peace with Mexico” and “War Expenses,” decrying America’s war of aggression against Mexico. He was no infidel, Gallatin told a visiting clergyman in 1849, but he had never quite answered the question of God. “I am a bold speculator,” he admitted towards the end. “Such has been the habit of my mind all my life long.”

James Grant is the editor of Grant’s Interest Rate Observer, and the author, most recently, of Bagehot: The Life and Times of the Great Victorian (W.W. Norton & Company).

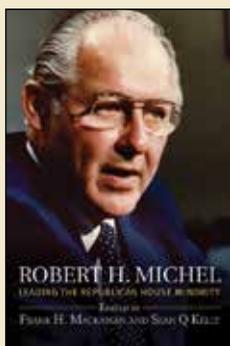
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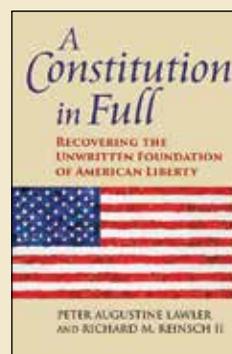
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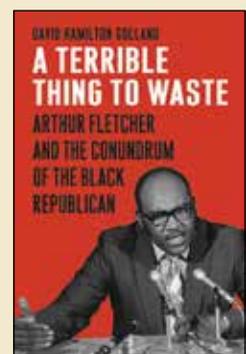
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