

INTRODUCTION

At noon on 11 May 1846, following clashes along the Rio Grande River in south-west Texas, President James K. Polk forwarded a war message to Congress claiming Mexican troops had ‘invaded our territory and shed the blood of our fellow citizens on our own soil.’¹ The violence followed months of military and diplomatic provocation on the part of the American government and frenzied anti-American rhetoric by the Mexican press and people. News of the fighting arrived in Washington at a propitious time. The belligerency of the Polk administration had created a crisis on two fronts. Though anxious to compromise, the British were greatly aggrieved by demands for the termination of the joint occupancy of the Oregon Territory and American occupation up to the 54° 40' line. They were prepared to defend their rights by force if necessary. In spite of the possibility of hostilities with Great Britain, the administration had resolved on war as the only way to break the impasse with Mexico. The failure of John Slidell’s mission had recently dashed hopes of settling the Mexican claims issue and purchasing all or part of California. Fortunately for Polk, the British submitted a proposal to the American minister, acceptable to most Americans, on 18 May 1846, ten days before news of the hostilities along the Texas–Mexico frontier reached London. By this narrow margin Polk avoided the possibility of engaging his nation in a two-front war.

The attack by Mexican cavalry on United States dragoons east of the river provided an excellent opportunity to blame Mexico for the crisis. The American public’s indignation came from the portion of the message regarding the shedding of American blood. Many of Polk’s fellow citizens, much of the international community and, certainly, every Mexican doubted whether the scraggly land between the Neuces and Rio Grande Rivers had really become part of the United States on the annexation of Texas.²

Polk could, and did, argue effectively that war existed and, therefore, Congress must recognize that fact and ‘place at the disposition of the Executive the means of prosecuting the war with vigour, and thus hastening the restoration of peace.’³ Under relentless administration pressure, after only two days of debate, Congress passed a joint resolution recognizing that a state of war existed between

the United States and Mexico. The resolution also included a general provision authorizing the necessary troops and supplies. Timing allowed the United States to avoid the possibility of one disastrous war but engage in another that held the promise of immense territorial gains.⁴

Who or what caused the Mexican–American War remained, and remains, an important question to contemporaries and historians, but regardless of responsibility the war had to be fought and won and the men and money to accomplish this task had to be found.⁵ The endeavour took place during a period of great change in American history. The market, transportation and financial revolutions were in full flood and preparing the conditions for the American Industrial Revolution. Slavery, not economic policy, was beginning to dominate political discourse and sever the intersectional institutions, such as the churches and political parties, which held the nation together. At the same time the country was becoming wealthier and its economy and financial institutions more mature and specialized.⁶

Politically, Polk's presidency culminated the Jacksonian Age.⁷ He brought to the presidency a thirst for territorial expansion and a determination to implement the main planks of Jacksonian economic policy. For better or worse, he accomplished his goals. By 1849 the size of the United States had increased by 50 per cent and the Twentieth-Ninth Congress, with the active encouragement of Polk and his Secretary of the Treasury, Robert J. Walker, had passed some of the most important economic legislation of the nineteenth century. The war did not even prevent the administration from demanding and securing passage of a revenue tariff, the Independent Treasury and a warehousing system. Successful implementation of the first two was essential to the war effort.⁸

Ideologically, the programme advocated what modern historians have labelled 'republicanism'. This demanded the promotion of the interest of the common man and divorcing the people's government from the corrupt moneyed interests. According to James McPherson 'the core of Republicanism was liberty, a precious but precarious birthright constantly threatened by corrupt manipulations of power.'⁹ The goal was a virtuous republic which emphasized community interest instead of capitalism with its pursuits of self-interest and profits. Such a republic needed yeomen and artisans possessing sufficient productive property to retain their independence and provide a buffer against the powerful and their dependents. The belief system rejected the granting of monopolies or special charters or the allocation of federal monies for development. Inevitably, it was believed, such grants favoured certain classes or sections and fortified growing inequality.¹⁰

The rhetoric's main challenge came from the desire for economic growth and individual betterment shared by both the Jacksonians and their opponents. If economic opportunity is opened to the masses they cannot be blamed for seiz-

ing it. The Democratic Party was replete with its share of economic thrusters, whether small-scale land speculators perched on 160-acre tracts near the frontier, southern yeoman farmers seeking to enter the slave-owning planter class, Philadelphia artisans striving to convert their workshops into small factories, or Tammy Hall politicians energetically working their Manhattan districts. For fifty years political purity had faced off against practicality. Growth demanded transportation facilities, credit, capital, commerce, development – and then more credit and capital. In other words, it needed all the accoutrements of capitalism. Here lay the paradox for the Jacksonians. In the end they adopted a policy of spreading opportunity to the widest possible segments of the white male population. They chartered more state banks, spent state (not federal) money on internal improvements and attempted to restrict monopolies and economic privilege.¹¹

After considering Polk's and the Jacksonians' objectives it may seem illogical to discern significant advances in the ongoing evolution of the American financial system in a middling-sized war and this last quixotic effort to hold back the progress of capitalism and modernization. The solution to this dilemma lies in a constant of American history reaching far back into the colonial era. The urgent demands of warfare have consistently led to change and innovation in public finance.¹² There is much truth in Richard Sylla's assertion that 'virtually every major innovation in financial institutions and markets arose in response to governments' financial needs and policies', usually war.¹³ The Mexican–American War, like previous and future conflicts, required adaptations and actions not envisioned by its makers. Financial reality, not Jacksonian rhetoric, proved the dominant force.

The historical importance of America's war financing lies not just in its contribution to victory or defeat in the field but also to its impact on the unique way the country developed. This becomes critical if one accepts, as the author does, the premise that wars, and cleaning up the debris afterward, have first periodically transformed government finances and then by extension the financial system of the nation. When this is combined with the certainty that finance made major contributions to the growth that transformed the United States into the world's foremost economic power during the nineteenth century, the need to understand elements of this phenomena becomes clear.¹⁴

The objective of this book is to contribute to our knowledge of the economic, financial and political history of the United States during the mid-1800s by providing information on the financing of the Mexican–American War, a little studied but important aspect of the era. It is also a fascinating story for those interested in how the resources for great enterprises, such as military campaigns, the East India Companies, the transcontinental railroads in North America or internet companies, are secured. This work combines existing scholarship with

research into the records of the Treasury Department and Bureau of Public Debt. Many of the government records from the period have not been inspected since they were moved to the National Archive and Record Administration's new facility at College Park, Maryland, in the early 1960s. These records provide an opportunity to view the war's financing from the government's perspective.

No attempt is being made to resolve, or seriously enter, the ongoing scholarly debate concerning the relative importance of the economic changes that buffeted nineteenth-century society. Scholars advocating revolutions in finance, the marketplace, transportation, management and industry are numerous and quite capable and willing to defend the differing viewpoints. The fact that most scholars do concede finance a place of consequence (if not that of the wellspring or igniter) in the nation's economic progression suffices to make the Mexican War's contribution towards a modern financial system worthy of study.¹⁵

Given the importance of the nation's public and private financial systems the question becomes what long-term effects did the War with Mexico have on their development? First, it ensured that no all-powerful central bank sprang up to direct public and private finance. Next, it helped restore America's commercial reputation. Last and most important, it provided the opportunity for investment bankers to emerge and fill the void in marketing government debt.¹⁶ As Fritz Redlich once remarked, this development is critical because 'modern investment banking originated in the field of public credit'.¹⁷

Though Andrew Jackson killed the Second Bank of the United States, the Polk administration made certain it never rose from its grave. Because the war financing was in the main successfully executed, the administration ensured the survival of the Independent Treasury for seventy years. With prosperity and strong government credit, the Whigs, even after their success in the election of 1848, lacked the strength to replace it with a national bank. Such an institution did arise after the two prior wars. Without a dominant central bank, the American financial system emerged as a widespread, fractured, competitive and aggressive conglomeration. Risk-taking, innovation and entrepreneurship permeated the entire economy. Independent financial institutions of all sizes serving local, regional and national markets arose. Access to financial services became widespread and almost a right. State governments, in particular, responded to the needs of their constituency by opening up credit. Recent scholarship makes it clear that access to credit and the services of financial intermediaries are strongly correlated with capital accumulation and burgeoning economic growth, such as characterized nineteenth-century America. Further, eliminating the possibility of a new national bank in a city outside New York assured the financial dominance of Wall Street.¹⁸

A successful war and its funding contributed significantly to restoring the nation's international credit standing. This tended to fluctuate throughout the

nineteenth century. The default of a number of state governments on debt obligations sold abroad in the late 1830s and early 1840s had brought American credit to a low point. The sale of a large part of the Mexican War loans to British bankers such as the Rothschilds and Baring Brothers helped restore the credit of the federal government and faith in American commercial honour in Europe. The successful effort by defaulting states, particularly, Pennsylvania, Maryland, Indiana and Illinois, to restructure their debt and resume interest payments helped substantially in this resurrection. With American credit again strong foreign investors willingly helped fund the great expansion in railroads and manufacturing that began in the 1850s.¹⁹

The financial community scored its greatest single achievement of the 1840s in the successful floatation of the Mexican War loans. It reinforced and sped up a crucial developing trend, the marketing of securities, both governmental and non-governmental, by a specialized group, the investment bankers. The war proved to be their great opportunity. The 1840s was a crucial decade in their rise to the top of the securities industry. In the future, commercial banks would invest in government debt obligations and arrange medium- and short-term credit for their customers, but the investment bankers became the intermediaries between the investing public and both governments and corporations seeking to market long-term bonds and equities. Success propelled them on to railroad promotions, the marketing of Civil War loans and, finally, the financing of American industry. In the end they made their home, greater Wall Street, synonymous with capitalism.²⁰

A review of the financing effort also provides an opportunity to inspect the operations of the Independent Treasury during its formative years. The Sub-Treasury remained an essential part of the nation's financial system until establishment of the Federal Reserve System in 1913. Beginning under the stress of war and with the hostility of the nation's banks, its survival was by no means assured. Its operations were intimately associated with, and to a great extent formed by, its need to support the military effort. During the first two years, war financing constituted its most important duty. Though it survived the Independent Treasury never met the expectations of its proponents. Divorcing the Treasury from the influences and risks associated with the American financial system proved impossible. In fact, the Independent Treasury ultimately became very sensitive to the needs and interests of the financial community.²¹

The late 1840s were a favourable time for the financing effort. The economy was recovering from the Panic of 1837 and the depression that followed. Heavy exports of grain, cotton and especially breadstuffs in 1846 and 1847 brought prosperity to all levels of society. National wealth was doubling every fifteen years, and in that sense the country was four times stronger than in 1812. Unlike in the previous wars with Great Britain and its powerful navy, American ports

remained open and the vital customs revenue unimpaired. The Mexican conflict, unlike the Civil War and the War of 1812, was relatively short with limited needs in men and money. The government's credit at home, though not abroad, was high and investors and financial institutions possessed surplus funds.²²

Three large loans totalling \$49 million, authorized by the Acts of 22 July 1846, 28 January 1847 and 31 March 1848 provided the money necessary to wage the war successfully. In devising this legislation, Congress drew on the experience gained in financing prior wars and the deficit incurred between 1837 and 1843. The Treasury's effort to market the first loan, particularly the treasury notes, produced mixed results. The undertaking provided valuable lessons, including the need to consider market conditions and the desires of the financial community.²³

The second loan, totalling \$23 million, was sold in three separate contracts during 1847 and the first half of 1848. The successful flotation of this issue ensured the availability of the material, men and money for the conquest of Mexico. The legislation again authorized a combination of treasury notes and bonds. At the urging of the Treasury Department, in an effort to increase the marketability of the treasury notes, Congress made the short-term notes convertible into twenty-year 6 per cent bonds at the election of the note holder. In the past the Treasury had generally redeemed the notes by selling long-term bonds and using the proceeds.²⁴

The third loan of \$16 million was floated after receipt of a peace treaty and the funds used for demobilization, bonuses and treaty payments, as well as to increase the Treasury's cash reserve. Congress abandoned the use of treasury notes and authorized the issuance of twenty-year 6 per cent bonds. Much of the issue was sold abroad, helping to re-establish American credit. The saleability of the bonds to foreigners was increased by giving the purchaser the option of coupon or registered bonds. Coupon bonds were more appealing to Europeans because ownership was more readily transferable and the interest could be obtained by the bearers or their agents by presenting the coupon at an office of the Treasury Department.²⁵

The American government's successful financial effort contrasted sharply with that of its opponent. Mexico entered the war with an empty Treasury, weak credit, a civil administration in disarray, and a populace divided by class, wealth, geography and political outlook. The inability to implement an orderly financial plan and to obtain sufficient funds proved fatal to Mexico's ability to resist the invaders. The army consistently went into battle ill-trained, ill-armed and ill-supplied. Mexico's problems were further compounded by the Polk administration's effort to tax the Mexican people in order to reduce the burden on its own constituency and to weaken Mexico's ability to wage war. In the end this

effort – called the Mexican assessments – proved more frustrating than profitable to the Americans.²⁶

Historians have chiefly studied the period 1845–9 in light of Manifest Destiny, territorial expansion, military history and the developing sectional conflict. Scholars who have addressed the economic issues of the Polk administration have concentrated on the congressional struggle over the tariff and Independent Treasury. No in-depth study of the financing of the war has been made. The one serious attempt to address the subject appears in one chapter of Justin Smith's two-volume work published in 1919.²⁷

Biographers have displayed more interest in war financing, but solely in the context of their particular subject. In the only recent biography of Robert J. Walker, James Shenton treats Walker's time as Secretary of the Treasury in a general way. The main thrust is the era's politics. Shenton does develop the theme of Walker's efforts to secure the confidence and support of the business community at the expense of Jacksonian principles. In his 1947 study of Walker's political and economic policies, Frank Tick gives a more in-depth look at war financing from Walker's perspective, but Tick's interest in the financing is restricted to the acts of his subject. Henry Cohen provides an interesting and extremely well-researched study of the business career of William W. Corcoran, the major figure in marketing the Mexican War loans. Again, Cohen's main interests are Corcoran's political and financial activities. Polk's biographers likewise overlook war financing and focus on expansionism, his managerial style and legislative accomplishments. What is lacking is a broad, overall view of the fundraising activities and their impact on the Treasury Department and the nation's banking and securities industries. Hopefully, the present study will meet this challenge and shed additional light on American public finance between the Panic of 1837 and the Civil War.²⁸

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