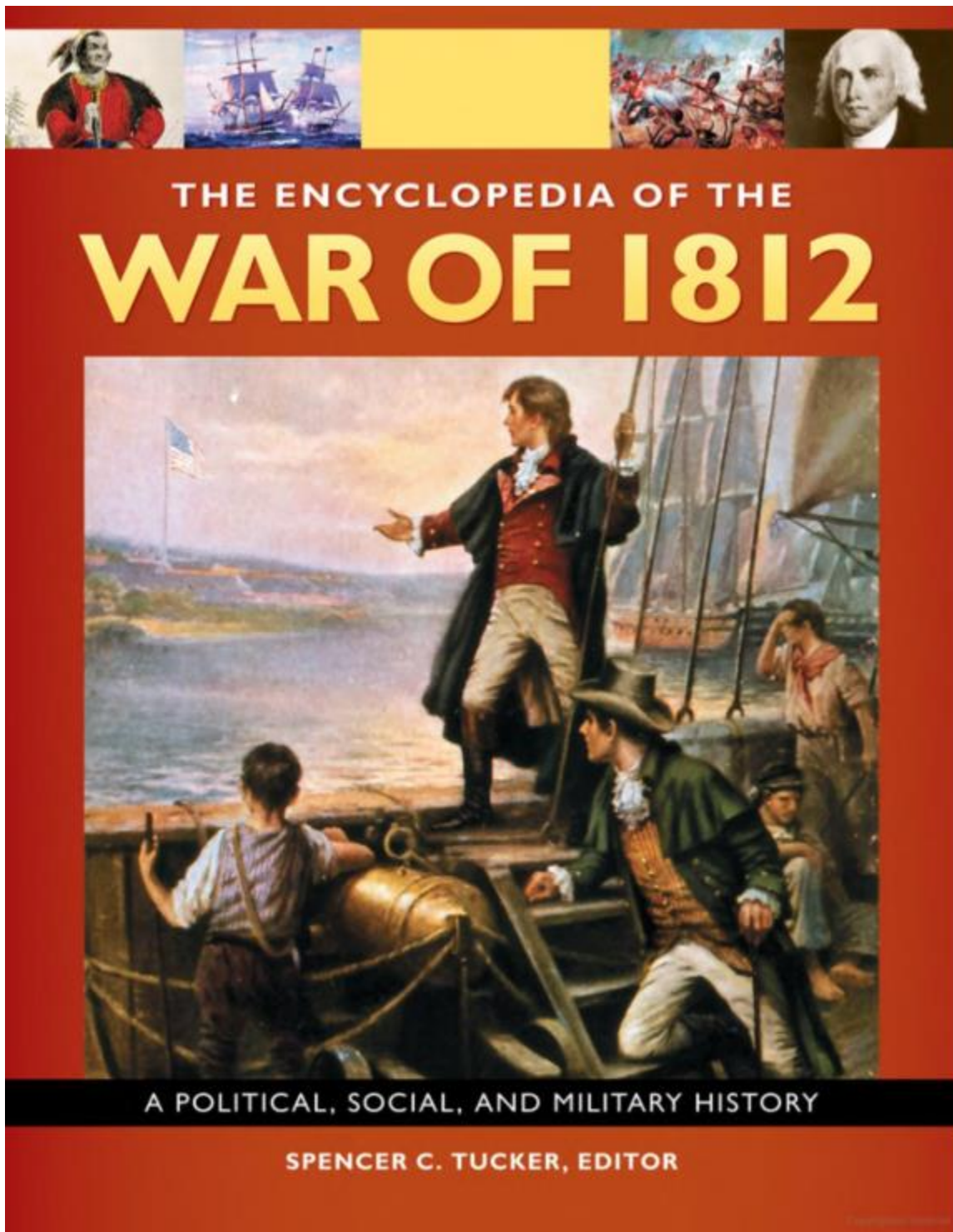


Banking in Great Britain,
Banking in the United States, 2012
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Keywords: Rothschild, House of Rothschild, War of 1812, 1812 War, Nathan Mayer Rothschild, N.M. Rothschild & Sons, war loans, Napoleonic Wars, British Government, British Empire, colonialism, imperialism, U.S. Treasury, France, Congress, war debt, bank charters, state banks, public credit, credit market, Bank of England, taxes, destroy White House, Bank of Stephan Girard, Bank of Girard, Stephen Girard's Bank, Girart Bank, First Bank of the United States, New England, Second Bank of the United States, Federalist, investment banking, Royal Navy, currency, decentralization

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was financed in a traditional manner, with 90 percent of war costs covered by borrowing and 10 percent covered by property taxes. The Bank of England, which was on the gold standard, was the instrumentality through which the government issued bonds. By 1798, the national debt was £400 million. The Napoleonic Wars required far greater expenditures, deficits, and taxes. By 1815, the national debt was £860 million. At first, the Bank of England absorbed government securities, but competition with private concerns led to unprecedented interest rates. Meanwhile, the bank's dwindling gold reserves also hindered the government's war finance. On February 26, 1797, the government allowed the bank to suspend specie payments in order to avoid a total collapse of the banking system. Afterward, the government was able to sell its debt to the bank and to pay its many military obligations, including those of the War of 1812. The bank contributed to governmental finance by increasing the money supply and inflating currency. In 1799, the government for the first time instituted income taxes, in addition to property taxes, to finance the war and raised the total amount of expenditures covered by taxes to 30 percent.

Meanwhile, the House of Rothschild assisted the British government in fighting the Napoleonic Wars and, indirectly, the War of 1812. From 1813 to 1815, Nathan Mayer Rotshchild, head of N. M. Rothschild and Sons in London, provided large loans to finance the shipment of bullion to the Duke of Wellington's army in Portugal and Spain. Additionally, Rothschild arranged loans to pay British subsidies to continental allies; in 1815 alone, he provided £9.8 million for this purpose. By 1817, N. M. Rothschild and Sons had garnered 40 percent profits from support of the British government's wars against Napoleonic France and the United States.

commitment to a hard currency policy, and its experience of the preceding 15 years with the First Bank of the United States, Congress had allowed the bank's charter to expire in 1811 for reasons of political expediency. Critics pointed out that the dissolution of the bank made \$7 million payable to shareholders abroad, creating a potential drain on the supply during a time of great tension with Great Britain. Moreover, the failure to renew the bank's charter hampered the ability of the U.S. Department of the Treasury to collect revenue and provide emergency war funding, two central premises of the bank's charter. Indeed, the United States entered the War of 1812 without a single source of emergency financing.

Banking during the period of the War of 1812 was marked by the rise of state banks to compensate for the loss of the national bank and by the expansion of the overall credit market. In 1811 the United States had 1 public bank chartered by Congress and 88 state banks, whereas by 1815, the country had 208 state banks and no central bank. Unlike the public bank, state banks did not transfer funds between states. This fact nearly paralyzed the Treasury Department because it was unable to collect revenue and pay interest on time.

With the country devoid of central banking, Congress authorized its first of five subscriptions to Treasury notes in \$100 and \$1,000 denominations on June 30, 1812. These enabled the payment of duties and debts owed to the government and served as a nonspecie reserve for state banks. Subsequent subscriptions in 1814 included \$20 denominations, and with later 1814 and early 1815 subscriptions, notes were issued in \$3, \$5, \$20, \$50, and larger denominations. This created a de facto medium of exchange and factored into the defeat of a congressional bill to create a new

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PAUL DAVID NELSON

See also

Banking in the United States; Baring, Alexander, First Lord Ashburton;
Financing, British and Canadian; Financing, U.S.

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Banking in the United States

Banking in the United States during the War of 1812 was marked
by decentralization that bordered on chaos. Shaped by an ongo-
ing constitutional debate (particularly the clauses permitting the
federal government to coin currency and emit bills of credit),

Bank of the United States.

The Bank of Stephan Girard (also known as the Bank of Girard,
Stephen Girard’s Bank, and Girard’s Bank), founded in New York
City by Stephan Girard (the wealthiest man in the country at the
time) as a nonchartered bank on May 12, 1812, played a prominent
role in the war. The bank assumed a trustee role for the assets of the
First Bank of the United States during the latter’s dissolution and
acted as an agent during the 1813 War Loan subscription. The latter
resulted in nearly \$2.5 million in the Treasury’s deposit account.
A broader analysis of the bank’s records from the period reflects
a larger number of smaller deposits in smaller denominations,
indicating a broadening of banking customers but a subsequent
gradual decline in total deposits and showing a change in credit as
whole. The Bank of Stephen Girard was indicative of banking in the
Mid-Atlantic region but not necessarily all regions of the country.

New England, already opposed to the war because of its trade-
based economy, also eschewed the subscription of Treasury notes,
instead holding firmly to prewar support of a hard currency pol-
icy. Congress ordered a universal suspension of specie payments,
which occurred on August 31, 1814, when its credit was exhausted,
but New England held firm and continued to deal in specie-backed
currency. Some New England merchants speculated on the bills
and bought them at a premium, anticipating a postwar boom.

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Baratarian Pirates 41

Not until April 10, 1816, was the Second Bank of the United States founded to deal once again with an expanding economy and need for credit. In a major postwar readjustment, Republican ideologues had come full circle and finally embraced the Federalist notion of centralized finance.

MARCEL A. DEROSIER

See also

Antiwar Sentiment, U.S.; Banking in Canada and Great Britain; Congress, U.S.

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dispatched the schooner *Carolina* from Charleston to New Orleans for the express purpose of assaulting the pirate stronghold. The *Carolina* arrived at New Orleans on August 20, 1814.

On September 3, 1814, Royal Navy captain Nicholas Lockyer, accompanied by Major Edward Nicolls of the Royal Marines, went to Barataria under a flag of truce and offered the pirates a blanket amnesty, providing that they surrendered their ships and stronghold to the British and ceased their piratical ways forever. Those who participated in the planned British assault on New Orleans would receive special compensation in ranks and pay. Reportedly the British offered Jean Lafitte 30,000 pounds, which he would have been expected to share with others, but there is no definite proof of this. In effect, this was an ultimatum that signaled the end of their careers as freebooters. At the same time, the Baratarians were well aware that U.S. authorities were equally as determined to end their freebooting ways. Lafitte told Lockyer that he would give him an answer in two weeks and then promptly informed the Americans.