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Little Men and Big Banks: The Republican Party's Financial Policy from the Civil War to the Panic of 1873

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By

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Table of Contents

Introduction

At 10 o'clock much of Tompkins Square in the East Village of New York City was filled with a mass of protestors. On that cold January morning in 1874, over 7,000 demonstrators had gathered in the park, which was at the time the largest single protest the city of New York had seen in its 250-year history[1]. The crowd was made up of the recently dispossessed, the under and unemployed, the homeless, and the hungry, a group whose existence had only recently skyrocketed. They had come to demand from their government aid and support to provide for themselves and their families during this winter of discontent. In the crowd was a young labor organizer and future founder of the American Federation of Labor, Samuel Gombers, who over the previous five months had witnessed his, and the nation's, first industrial depression. At 10:30 the tranquility of the protest would be broken, as the crowd was surrounded by armed police officers. In what could have been mistaken for a battle from ten years ago, the police descended upon the crowd via a calvary charge of mounted officers. The officers used batons to beat and strike any demonstrator in their path, indiscriminately attacking men, women, and even children. Gombers himself only narrowly escaped the onslaught and would harrowingly describe it as an "orgy of brutality"[2].

This was not the beginning of a new conflict but rather the end of an old system. For the past 14 years, the nation and its governing Republican party had embarked on a political and economic transformation. They had witnessed a national fissure and instigated a national rebirth. This was a grand political project which had begun in 1860 with a promise of remaking the nation in the image of the worker and smallholder. However, in the intervening years, up to 1873, the Republicans would also establish a centralized financial system that would be easily susceptible to corruption and inequality. With this corrupted finance the Republicans' political project would end not in triumph but in failure and

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[1] Philip Foner, *Labor Movement in the United States*, 448
[2] Samuel Gombers, *Seventy Years of Life and Labor*, 95-96

violence. By 1873, the financial house of cards which the Republicans built, had collapsed. The party's response would be one of austerity and deflation, siding with large capital holders and major bankers against a newly impoverished working class. The failure to pass any form of economic stimulus doomed the Republicans to electoral defeat, ending their dreams of making a more equal nation, while ensuring the Nation would face the longest depression in its history.

The historian Eric Foner has described the Civil War as America's second founding and Reconstruction as its unfinished revolution. Both time periods have loomed over the nation as key turning points in its development, forging the nation with a new political and economic identity. It has long been acknowledged that the Civil War helped economically transform the nation through rapid industrialization. This transformation laid the groundwork for the unequal but prosperous Gilded Age, and eventually the nation's rise to becoming a global superpower.

While this economic transformation was occurring, the political project of Reconstruction began. Building off the success of the Civil War in ending slavery and keeping the country together, Reconstruction attempted to institute a new political system to fully give civil and voting rights to Black Americans. Its failure in 1876 amounted to the greatest political setback of American social policy, ushering in a wave of violence and one-party rule. Both of these eras, with their successes and failures, were overseen by the Republican party, which controlled the presidency and Congress continuously from 1860 until 1874. The Republicans' dominance would begin to falter with the 1874 midterm, which was directly caused by the panic of 1873 and the ensuing economic depression. Understanding the 1873 depression, its origins, and its legacy is paramount to understanding the death of Reconstruction and this turning point of the nation.

This paper seeks to build off of previous historical work by establishing a historical narrative rooted in the context of economic policy and the actions of individuals who crafted them. Ultimately using both secondary and primary sources this paper hopes to provide a clear understanding of the legacy of Civil War finance and its effects on the 1873 Panic. This paper concludes that the policy decisions made during this time period irrevocably reshaped the nation, whose effects can be felt in the decades following, this economic collapse.

The first chapter aims to provide an analysis of the government's monetary policies during the Civil War period, namely the National Banking Acts, the creation of the Greenback, and the sale of war bonds. Within this context, the larger post-war analysis in the following chapters may be better understood and connected with the actions taken during the Civil War. The first chapter provides a brief overview of the pre-war financial and political system, which was dominated by a laisse fair and decentralized banking infrastructure while the nation was led by a conservative Democratic party. It also provides an initial overview of the Republican Party, and traces Republican economic thought to the industrial Whig and Federalist parties. The party, under President Abraham Lincoln however, also maintained a degree of populism with a rhetorical and political focus on the working class and smallholders which was a break from the more elitist Whigs and Federalists.

This paper finds that the economic crises caused by the Civil War forced the government to dramatically increase its revenue, which was accomplished through the creation of a fiat currency and the selling of war bonds. The creation of the Greenback, a fiat currency, was the first national and uniform currency of the U.S., and directly lead towards the Nation's fiscal centralization. However, the fiat currency's rapid inflation and ultimately its inability to obtain a value similar to gold inherently limited its ability to fully finance the war.

This paper therefore also examines the war bond market and its role in financing the war. Bond sales and the political fight over them, becomes the principal focus of the last half of the chapter, as major banks and financial institutions initially resisted their purchase and sale. This paper finds that this created a political battle between the Republican Party and the nation's financial elites.

The effects of these this political battle included the rise of the independent bond salesman, Jay Cooke, whose mass marketing of the bonds to the populace created an influx of people and capital being placed in financial investments. The other major legacy was the passing of the National Banking Act. The Act created a unified banking regime to facilitate bond sales, but it ultimately resulted in a compromise with the financial elites; allowing them to centralize the new financial system and consolidate power and capital. Ultimately all banks and thereby all investments were tied to a collection of the largest financial institutions in New York, which gave those few an outsized influence on national investments.

The second chapter analyzes the rise and changes in post-war finance namely, the centralization of banking and the growth of railroad-based investments. It finds that this financial centralization, directly caused by the National Banking Act, created a regional financial inequality. Capital-starved regions, principally in the South and West, had significantly fewer banking institutions, and therefore less access to capital than the industrialized North. This capital inequality most affected rural farmers, forcing them to rely on short-term loans offered by the capital-rich New York banks. Further, due to reserve requirements as dictated by the National Banking Act, the majority of rural banks sent most of their deposits to large New York institutions. This in turn, gave New York banks a large amount of liquidity, centralizing capital in the city, and tying the nation's savings to these banks. With all this excess capital, New York banks heavily invested in major railroad corporations.

The chapter analyses how many of these companies were able to be founded and gain investment through direct government aid and support. Led by the efforts of Jay Cooke, whose post-war career and close ties to the Republican Party allowed him to promote investment into major railroads. However, many of these corporations, while taking the majority of available investment, were rife with corruption, and an investment bubble occurred. Ultimately, Jay Cooke's mishandling of his own railroad investments caused his financial failure in 1873 and in turn led to a financial panic.

The third chapter begins by describing the immediate actions undertaken by the government and financial elites to manage the first days of the panic, which provides an overview of the state of the economy and the available tools of the government and financial elites. While previous policies unified and promoted the new financial system, there were few safeguards or available tools to quickly end the panic. As a result, although there was a brief stimulus when the Government distributed fiat-based Greenbacks, it was politically controversial. The majority of the chapter focuses on the aftermath of this stimulus and the overall debate over the effects of the Greenbacks. The third Chapter covers this political battle, and the split it caused within the Republican party, pitting the labor and farmer-backed members, who advocated for Greenbacks, against a monetarily conservative banker-supported group. This chapter uses primary sources to give an overview of the debate, including the ideological justification for both sides. Ultimately this paper argues that the debate culminates with the passage of the Greenback supporting "Inflation Bill" of 1874 and its subsequent veto by President Grant. The that the veto was a turning point for debate; as monetarily conservative groups took control of the Republican party at large, forcing out many of the previously labor-aligned groups, and a formal end to Greenbacks and liberal monetary policy. In turn, this fully reoriented the Republican party, abandoning much of its earlier labor radicalism exemplified by President Lincoln. The chapter concludes with an analysis of the lasting effects of the long depression that began in 1873. It finds that without additional stimulus, the depression continued for another five years, marking the longest continued economic contraction in American history. This paper argues that the legacy of the depression and the lack of stimulus, retrenched regional banking inequality and the continued concentration of American industry. Politically, this economic failure directly led to the Republican's disastrous 1874 midterm results and the ensuing contested presidential election of 1876. Ultimately from these political failures, Reconstruction ended, and with it the Republican Party's singular dominance of national politics.

This paper builds off of numerous works regarding economic policy and political history during the Civil War and Reconstruction. Many of these sources are focused on specific time periods that can be roughly broken into two groups, those taking place during the Civil War and those during Reconstruction. This paper bridges the gap between these time periods, arguing that the policies of the Civil War directly led to the economic depression during Reconstruction. Many of the secondary sources used are overviews of specific economic policies, or political eras. In some cases, these can be based on somewhat niche policies such as Irwin Unger's *The Greenback Era* or broad historical narratives such as Richard White's *The Republic for Which it Stands*. This paper attempts to provide a historical overview, situated specifically in the terms of monetary and fiscal policy. In contrast to the secondary sources, many of the primary sources used for this paper are based on specific individuals. In particular, this paper focuses heavily on the actions and platforms of Jay Cooke and Henry C. Carey, two individuals whose work is mostly found in biographies or in primary texts. This paper attempts to connect the broad economic narrative of the era, based on secondary sources, with a focus on individual actions and ideologies as presented by primary sources. What follows is a brief summation of the principal texts used for this paper.

Ways and Means by Roger Lowenstein provides a comprehensive narrative of the financial actions of the Lincoln administration during the Civil War. In particular, it focuses on Salmon Chase's implementation of the Greenback currency and the National Banking system. In conjunction with Lowenstein, is Heather Richardson's *The Greatest Nation of the Earth*. As with Lowenstein, Richardson's work focuses on the economic policies of the Civil War-era Republican party. In her work, Richardson provides details not just of the economic policy of the era but importantly, its political origins. *The Greatest Nation of the Earth* delves into the ideological underpinnings of the Republican party, to explain and analyze its economic policy.

For the years following the Civil War, Richard Bensel's *Yankee Leviathan* is a peerless historical examination of the political structures that underpinned the era. *Yankee Leviathan* offers a thorough analysis of the centralization of the American administrative state and its ensuing economic effects. Bensel focuses on the overall administrative and economic trends of the United States as a unified national polity. To accompany Bensel, is Irwin Unger's *The Greenback Era* which provides the most comprehensive narrative history of the Greenback currency. Unger works from the end of the Civil War until the currency's abandonment in 1879, with a focus on the political battles concerning its troubled existence. While exclusively focused on Greenbacks, Unger helps situate the wider debate of monetary policy in the post-war era.

Cambridge's *The Economic History of the United States* contributes a foundational overview of the American economic context for the entirety of the 19th century, including before, during, and after the Civil War. Cambridge not only presents the monetary policy of the nation, but its wider context from international financing, to infrastructure development, and the growth of marketization. Another broad historical overview is Richard White's *The Republic for Which it Stands*. As part of Oxford's series on American history, White covers the historical period directly following the Civil War and into the Gilded Age. Even broader than the *Cambridge Economic History*, White offers a clear and enlightening analysis of almost every major political and social change of the era. This paper relies on White's in-depth analysis of the rise of the railroad industry, its growth, corruption, and fall, all of which play a prominent role in the narrative of this project.

As previously described, the primary sources of this paper are mostly based on individuals' speeches, papers, or letters. They are utilized to provide a personal narrative to mirror and explain the greater economic changes that this work covers. The financier Jay Cooke plays an incredibly important role in this narrative, with much of his personal writings and musings coming from his 1907 biography *Jay Cooke: Financier of the Civil War* volumes one and two, by Ellis Oberholtzer. The economist Henry C Carey, while having less of an effect on the actual narrative, is important in understanding the ideological evolution of the Republican party and thereby its response to the crises of 1873. Carey's work and correspondence are heavily cited throughout this paper, first with his initial 1836 work *The Harmony of Interests* which in turn has been compiled and analyzed by Sofia Valeonti in her paper *Henry C. Carey's Monetary Thought and American Industrialization in the Greenback Debate*. Carrey's later writings in 1865, to the then-Speaker of the House Schuyler Colfax, are also heavily cited and have been compiled by The University of Michigan's *Making of America* digital library. Finally, this paper relies on numerous presidential speeches from the Lincoln and Grant administrations, in order to demonstrate the ideological thinking behind these administrations' economic actions. These speeches have been accessed through the University of Virginia's Miller Center.

Chapter I

A National Revolution: Civil War Finance

In April of 1865, after four long years of brutal conflict, news broke that the Confederacy's capital of Richmond had fallen. The end of the Civil War which had brought the United States to the brink of destruction was in sight. While the nation celebrated this monumental victory for unity and freedom, the Treasury building hung a large banner with a triumphant message, for the whole department and the nation to see. On either side of the banner were the numbers, 5-20, and 7-30 and in the center was an inscription. "The bravery of our army, the valor of our navy, sustained by our Treasury upon the faith and substance of a patriotic people"[3]. The numbers signified the war bonds sold to fund the war. The banner was hung at the direction of the financier Jay Cooke. Over the course of the previous four years, Cooke had raised over $1 billion dollars for the war effort. Along with the political leaders of the Republican party, among them Secretary of Treasury Salmon Chase, Senator John Sherman and of course President Abraham Lincoln, they had revolutionized the finances of the nation. This revolution was caused by the necessity to save the nation from the Civil War while being driven by an ideologically nationalistic and labor-oriented Republican party. The result would be a series of reforms that would dramatically expand the government's role in the nation's financial and monetary infrastructure. Over the course of four years, the Republican party would battle a cadre of bankers who resisted, at every turn, the growth of the federal economic goliath. Ultimately the Republicans' vision of reform would win out, but crippled with a series of compromises that only centralized finance and gave greater influence to a new banking elite.

The United States of 1860 was a nation on the precipice. Following the election of Abraham Lincoln, 11 southern slave states had seceded, setting the nation on a course for a bloody and destructive conflict. Due to the sheer unpreparedness and negligence of the previous Buchanan administration, the nation was unprepared financially and militarily for a large conflict much less the total war that the Civil

[3] Richardson, *The Greatest Nation of the Eart*, 63

War would become. Into this, the United States found itself for the first time in its history, under the complete control of the newly ascendant Republican Party.

The Republicans were a party of a multitude of diverse interests including groups such as Western farmers, Pennsylvania manufacturers, and New England merchants. Above all, however, it was the party of the North, and the direct ideological descendants of the Whig Party, and their predecessors, the Federalist Party. Since the nation's founding, these groups had been locked in a political battle with the laissez-faire (and mostly southern-dominated), Democratic Party and its predecessor, the Democratic-Republican Party. While the Democrats had dominated the nation for much of the first half of the 19th century, their opposition in the form of the Whigs and the Federalists was almost comically inept when it came to gaining and wielding power in the American electoral system. With the exception of the Presidency of George Washington, no ideological Whig or Federalist had held unified control of government (the Presidency and both chambers of Congress)[4]. In their place, the Democrats would usher in a period of small government, the removal of any government control over banking and monetary policy, and numerous compromises over the expansion of slavery. This would end with the Republicans' success in 1860. The newly formed Republican Party would take the nation to the precipice, but not one of division, but rather a financial and economic revolution. The Lincoln administration and its successors would transform the nation, overseeing heavy industrialization, and centralization of the country's finances.

The Republican Party in the leadup to its ascension in 1860, was an organization with grand ideals for the nation. They were poised to bring the Whig and Federalist policy of an active federal government, particularly in stimulating economic growth through intervention, through a direct appeal to

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[4] The one exception was the abortive 1841 presidency of William Henry Harrison, who following his election as the first Whig (along with Whig control of Congress) proceeded to give the longest inauguration speech at the time. This speech was so long, as he detailed every major financial plank of the Whig economic plan and upcoming legislative agenda, that he would catch a cold which quickly escalated into pneumonia. For the rest of his presidency, Harrison would battle pneumonia ultimately succumbing to it within 32 days, not having signed a single piece of his ambitious agenda.

the common laborer and working class. While the Federalists and to a lesser extent, the Whigs, were known for their elitest attitude[5], particularly in contrast to the populist Democrats, the Republicans attempted to make direct appeals to the middle and working-class Americans. In their ideology, an active government would first and foremost aid the worker, stimulating growth and thereby raising the stature of workers in the nation. This sentiment was expressed by the Vermont Republican Senator, Jacob Collamer, who in 1858 declared, “The policy of this government should be shaped essentially to the elevation of the masses of the people, the laboring community an enlightened labor an intelligent labor”[6]. The Republican party envisioned itself as a bridge between the populist ideals of the Democrats and the policy of the Whigs, with the ultimate goal to develop and build a nation for the working class.

There would be no better standard bearer of this laborer-supported ideology, than the old rail splitter, Abraham Lincoln. Lincoln was unique amongst the American political class, he had been born in abject poverty, the first president to do so, in the then unsettled West[7]. Having been forced to drop out of school at age nine, he had to teach himself how to read, write, and eventually practice law. Lincoln knew the precarity of the American farmer and worker. In his worldview, labor was central to growth, with capital being simply the product of growth driven by investing in said labor. Lincoln’s affinity for the working class can be seen in his first annual message to Congress, where he proclaimed. “Labor is prior to and independent of capital. Capital is only the fruit of labor and could never have existed if labor had not first existed”[8]. For Lincoln and many Republicans, the worker would be the party’s north star. Their economic program, and thereby their political project, was built around protecting the worker. In this radical statement, Lincoln made clear that between the worker and the capital owner, which group he

[5] Alexander Hamilton, the founding father of the Federalists was particularly culpable in this as he led the charge to restrict the franchise to prevent mass democratic participation, through the implementation of the anti-democratic electoral college.
[6] James Huston, *A Political Response to Industrialism*, 50
[7] His family’s isolation may have led to the death of his mother from infection, as there were no local doctors and the roads too underdeveloped to take her to a major city for treatment.
[8] Heather Richardson, 16

would side with. Lincoln would go on to describe what in his mind the ideal American family would strive for and achieve:

> "The prudent, penniless beginner labors for wages awhile saves a surplus with which to buy tools or land for himself; then labors on his own account another while and at length hires another new beginner to help him…no men living are more worthy to be trusted than those who toil up from poverty; none less inclined to take or touch aught which they have not honestly earned"[9]

As the chairman of the powerful Ways and Means Committee (and future Speaker of the House) Thaddeus Stevenson would add that this middle class of producers would be the bedrock of the Republican's envisioned state: "The middling classes who own the soil and work it with their own hands are the main support of every free government"[10]. Lincoln and other political leaders had identified the working and middle class as the center of the political and economic society. This was in contrast to the large quasi-feudal plantation-based economy of the South, which was predicated on slave labor and mass inequality. The Republicans envisioned the North as a bastion of the smallholder and the small producer.

One of the party's most prominent economic theorists and a holdover of the Whigs would be Henry C Carey. Cary had begun writing at the height of (the very brief) Whig power in the 1840s. He would become one of the most famous economists of the day, becoming a celebrity amongst the intellectual and political class of America. Ralph Waldo Emerson declared him "America's greatest political economist". A Republican Rhode Island congressman would write. "we [the Republican party] follow…the principle of political economy of which you [Carey] are so distinguished to advocate". Carey would even carry on a long-term correspondence with Salmon Chase (Lincoln's Treasury Secretary), and Schuyler Colfax (the influential congressman and Speaker of the House and Grant's Vice President)[11]. Carey's reach and influence was far and wide amongst the ascendent Republicans. Carey like many

[9] Richardson, 22
[10] Eric Foner, *Free Soil, Free Labor, Free Men*, 17
[11] Richardson, 19-20

Republicans, preached a doctrine of supported growth that would inherently lead to a strengthening of the smallholder and laborer. He wrote "wealth thus produces union…union, in turn, produces wealth…and thus wealth combined action and power of self-government"[12]. "Whatever has a tendency to prevent the growth of capital is injurious while everything that promotes its growth is advantageous"[13]. Carey and his followers forged the ideological link between supporting the smallholder and promoting economic growth and development. The Republican Party entering 1860, held as its core tenet the promotion and intervention for economic growth in service of creating a new class of middle-income smallholders and laborers. This would be the long-term vision of the party, however, the political climate that Lincoln and the Republicans found themselves in would be fraught with more immediate crises that demanded swift action.

Upon his inauguration, Lincoln and his administration were faced with the greatest crises any President had faced, with a series of seceding states threatening the very fabric of the nation. The Republicans, while being a party almost exclusively of the North, was also a deeply nationalist association, believing it to be illegal for any state or polity to leave the Union. This would necessitate an armed struggle, primarily with a large and well-provisioned military, to bring the South back in line and preserve the nation. The ability to create and importantly finance such a force was the first of many difficulties for the Lincoln administration. Under previous Democratic administrations, notably President Polk and his Independent Treasury Act, the federal government had little sway over the financial and monetary policy of the nation. The government was limited to a strict species (metal) standard where all currency had to have been supported by its equal value in gold or silver[14]. This policy was in keeping with worldwide standards, on the Gold standard which was most notably supported by the major European powers such as the British Empire. Under the standard, interest rates were fixed to the price of specie this took away the power of a sovereign nation to be able to easily set its own interest rates and thereby access

[12] Sofia Valeonti, *Henry C. Carey's Monetary Thought*, 196-197
[13] Richardson, 22-23
[14] Roger Lowenstein, *Ways and Means,* 45

to credit and capital[15]. On the local level, any bank or financial institution was forced to keep a large amount of said specie on hand, in case a client wished to exchange their currency note for specie[16]. In practice, this meant most leading banking institutions were hesitant to loan much of their capital for fear of a loss of liquidity which may lead to a run and closure of the bank. For the nation going into an expansive and protracted struggle, its financial options were limited at best.

Logistically, the problem of finance and monetary control was an even greater contributor to the financial crises the nation found itself in. Due to Democrat President Andrew Jackson's destruction of the Second Bank of the United States, in 1836, the nation had no central banking authority or currency. Instead, individual states were left to regulate the growth of banks. On the eve of the Civil War, there were approximately sixteen hundred banking institutions all under differing rules and regulations administered by 36 different state governments[17]. In addition, while the nation was on a form of a species standard, it was individual banks who would create and distribute their own currency notes, leading to the nation having thousands of different and contrasting currency notes across the country[18]. Under this decentralized system, trust between different banks across state lines was almost nonexistent. With there being no federal regulation and little safety net to prevent runs, each bank was wary of another's note of currency for fear that they may default on their commitment and be unable to back their notes in supporting specie. In practice, this meant that an individual banknote lost value the farther away it was from its original institution. For example, notes worth $8 in a Boston bank may be worth $5 in a New York bank. This meant that the national government would be forced to pay and furnish its military not through any one currency, due to their differing value, but through its own reserves of hard currency.

This presented the next major problem for the nation, as the government legally and logistically lacked many of the tools it needed to properly raise revenue. The nation had little authority to raise

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[15] Jeffery Frieden, *Currency Politics*, 52
[16] Richardson, 67
[17] Lowenstein, 22
[18] Richardson, 67

revenue, with its ability to levy taxes being particularly restricted. Instead, the major source of revenue were tariffs, collected at customs houses placed across the nation's premier ports. Under previous Democrat administrations, the tariff rate had been kept low, necessitating a dramatic rise[19]. However once again, logistically, the secession crises and the government's own lack of agency hindered it. There were 152 ports where the government had the means of collecting a tariff however; over a third of them, (much large than the region's percent of the nation's population and economy), were located in the south, dealing the national government a key logistical blow[20]. Finally with government intervention having been removed by previous Democrat policies, the pre-civil war economy was dependent on a steady flow of international investment, particularly European capital. Every year since 1850 had seen a net positive flow of capital from Europe to the United States, providing constant investment and a source of growth[21]. While in 1860 this investment would total nearly $400 million, between 1860 and 1863 net investment would rapidly decrease with Europeans wary of investing in the war-torn market of the United States[22]. The country thus found itself starved for capital and the means of acquiring it at a time where demand could only increase.

Following his selection, the Treasury Secretary would be left to find a solution to financing the nation as Lincoln and the rest of his administration focused on the war itself. Salmon Chase was unique amongst the Republicans, as he himself was not a previous adherent of past Whig (and Federalist principles). Instead, he was a former Jacksonian Democrat with a deep distrust of Eastern Bankers[23]. Like Lincoln, he was a politician of the West (Ohio). He was the dominant figure of the emerging bellwether state throughout the 1850s. A man of nearly limitless ambition, he had spent much of his political career attempting to build support for a bid for the presidency, of which he would launch three consecutive

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[19] This would become the famous Morrill Tariff legislation, which set high tariffs and would remain in place for much of the 19th century.
[20] Lowenstein, 22
[21] Lance Davis, Robert Cull, *International Capital Movements* 739
[22] Richard Bensel, *Yankee Leviathan*, 248
[23] Lowenstein, 77

campaigns for president, including an abortive challenge against his political leader Abraham Lincoln in 1864[24]. In his political base of Ohio, Chase was relatively isolated from the major financial centers, and thus he would develop a distrust of bankers and financial institutions, (like most Jacksonians); he believed banker influence in the nation represented a major threat to the Republic and its people. This would prove to be ironic, as the demands of the war and the then limitations of the federal government (in part established by his erstwhile party), forced him to rely on major bankers to initially fund the war, and later direct government intervention. Due to the lack of a national currency (resulting from the destruction of the national bank by the Democrats), Chase's only legal avenue for raising funds was to appeal for gold-backed loans to New York bankers (where the largest gold reserves were)[25]. While the initial round of loans was procured relatively easily (up to $50 million in gold)[26], war expenses would only continue to climb reaching up to $1.5 million a day[27]. Chase would be forced to go back to the New York bankers to ask for further liquidity. This would result in the first of many fundamental disagreements between New York and the government in Washington.

At the time, New York banking was almost completely controlled by the New York Clearing House, a collection of major banks that would regularly meet and determine their own regulatory and monetary policy in the absence of state action[28]. In this way, Chase was not simply negotiating with individual institutions, but rather a cartel that had a stranglehold on the nation's gold reserves. In 1861, the war effort was decidedly not going in the Union's favor, as the Nation's armies met defeat after defeat and proved unable to quickly end the rebellion. Not only did this increase expenses, it also led to a greater fear and distrust amongst the citizens of the North, in the government's ability to win the war and protect the economy. This would lead to a decline in the number of deposits and investments, as people increasingly hoarded the limited gold they were able to acquire, refusing to leave it with a bank and

[24] Idib, 218
[25] Idib, 32
[26] Irwin Unger, *Greenback Era*, 14
[27] Lowenstein, 77
[28] John James and David Weiman, *The National Banking Acts and the Transformation of New York*, 34

thereby further limiting the government's ability to garner funds[29]. The major New York bankers became increasingly weary of loaning out their depleting gold reserves to the federal government, and made loan offers that had extraordinarily high-interest rates[30]. This would make the war effort even more expensive and pitted the banker's bottom line against the needs of the government and the nation.

Ultimately by the end of 1861, even more stringent loans were not able to forestall the depletion of bank reserves. Depositors would demand withdrawals of their capital in record numbers with the month of December alone seeing the New York banks lose nearly $13 million in gold deposits. This would force the banks to take drastic action. On December 28th the major New York banks voted to suspend redeeming currency notes for gold, effectively taking New York and thereby the nation off the gold standard[31]. This decision would be catastrophic, as the myriad of currency notes now had no formal structure or specie to support and give them credit. The British-based newspaper The Economist would declare the death of American finance and the war effort:

> "It is utterly out of the question in our judgment that the Americans can obtain either at home or in Europe anything like the extravagant sum that they are asking – for Europe will not lend them; America cannot"[32].

At the start of the new year, in February of 1862, Congress would debate and pass legislation that would dramatically alter the war and the nation for years to come. With gold being forcibly taken off as an option for revenue raising, Congress would pass the Legal Tender Act to establish a national currency. This currency would be the so-called Greenback, (after the color of the note it was printed on), and was authorized to be used to pay soldiers and debts by the government for the war[33]. These notes would be created and distributed by the Treasury Department, making for the first time the central government's

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[29] Bensel, 250
[30] Lowenstein, 62
[31] Idib, 87
[32] Ellis Paxon Oberholtzer, *Jay Cooke Financier of the Civil War* vol 1, 109
[33] Idib, 54

entrance into the currency exchange[34]. Never one to pass up on an opportunity for self-promotion, Chase would go as far as to put his own face on the front of the Greenback, remarking: "The engravers thought me rather good looking"[35]. Greenbacks were the first instance of government-created currency that were not loans or IOUs. Importantly they were not tied to a specie or other value and did not inherently appreciate like a bond and there was no obligation being undertaken by the government in issuing these notes[36]. In fact, as part of the act it was mandated that Greenbacks must be accepted in private transactions and to settle privately held debt[37]. Under the initial act, the amount of Greenbacks authorized would be $150 million, but over the course of the war it would rise to a massive $440 million[38].

The Greenbacks were a dramatic expansion of federal power, with the government having declared that it and it alone, could unilaterally set the value of transactions and exchanges. Greenbacks being a fiat currency, meant that they had abandoned years of precedent in creating value without being reliant on a rare specie. Not only did this provide immediate relief for war financing, but it allowed the government to further raise revenue without being completely reliant on private banking. A Republican from Ohio would remark, "we are all in favor of the citizens of the Republic becoming its creditors rather than the debtors of the bankers and capitalists"[39]. The sentiment being, the expansion of government authority over currency would allow for the nation to become independent of financial elites, and properly support the war. Logistically, it made both paying for the war and dealing with the banks easier as the government could now rely on a printed currency and not have to spend crucial time and energy physically moving large amounts of gold bullion from one transaction to the next[40]. Thaddeus Stevenson would declare the Legal Tender act "the most auspicious measure of this Congress"[41].

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[34] Charles Calormiris, *Greenback Resumption and the Silver Risk*, 4
[35] Lowenstein, 218
[36] Idib, 89
[37] Idib, 90
[38] Patrick Newman, *The Origins of the National Banking System*, 386
[39] Richardson, 74
[40] Bensel, 248
[41] Richardson, 78

Even with this nominal success in expanding government authority, the Greenback and thereby the War effort still faced a crisis of value and faith. Gold had not (and could not), be made illegal in the nation's exchange and was simply left to exist alongside the newly created Greenbacks. This created competition between the two currencies, which directly pitted their individual value against the other. Due to the fact that the Greenback had no supporting value other than one's faith in the Union government (a government at the time engaged in a protracted struggle for its very existence), the Greenback's value would fluctuate immensely. Early on after its creation, the Greenback would very quickly depreciate against the value of gold-backed currency[42]. As the Greenback depreciated against gold, the value of the note would go down endangering the finances of the nation. Depreciation would increase with military losses in the Civil War and would decrease upon Union victories, demonstrating the inherent volatility of this new system. Further, while more Greenbacks could be authorized, there was a constant fear that a rapid increase in their production could lead to runaway inflation.

The Greenback's value would be most affected in the currency exchange on Wall Street, where New York investors (backed by the city's major bankers), would regularly sell off Greenbacks and buy gold[43]. This would significantly weaken the public's faith in the currency further diminishing its value. Bankers and investors who engaged in speculation against the Greenback could theoretically make a large profit, albeit at the cost of inflicting harm against their own nation in its fight for survival. The currency exchange would come to represent some of the worst aspects of commercialization, with investors openly cheering failure of the Union effort, as it made their gold reserves (primarily banker-held), more valuable. At times this desire for defeat could be comically obscene. When the Union would lose a major battle, thereby weakening the value of the Greenback, gold traders would openly sing Dixie (a song associated with the South), in jubilation on the floor of the exchange[44]. Actions such as this pitted the short-term material benefits of the major bankers against the financial security of the war-torn nation.

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[42] Lowenstein, 130
[43] Bensel, 152
[44] Hugh Rockoff, *Banking and Finance 1789-1914*, 659

This divergence in material goals, did not go unnoticed by leaders of the Republican party which, since the war began, had become an increasingly nationalistic group. To these political leaders, the actions of major bankers and investors in depreciating the value of the Greenback was met with contempt and scorn for the perceived betrayal of the nation and the war effort. One Western Republican would proclaim these speculators as:

> "Traitors who have not the courage to face federal soldiers are now engaged in cowardly assassin like in stabbing our country through our national currency in the hells of the city of New York[45]"

John Sherman, the usually moderate and ascendant senator from Ohio, would join these calls. Sherman, the young senatorial successor to Chase, was the brother of the famed general William Tecumseh Sherman. Unlike Chase, Sherman was a lifelong Republican, and nominally a friend of the banker[46]. He declared that this speculation was, "Disreputable and dishonorable, and men who have regard for their characters will not be seen going and engaging with it"[47]. These politicians saw the actions of speculators as a threat to the nation. For them, the well-being of the government and the sanctity of the union came before all else including personal gain and private profit.

These denouncements would reach a fevered pitch. One Republican from Iowa would liken the finance capital of New York to the worst sins of the nation. "Where [New York] the masses climb in despair to garrets or go down to the death-damps of cellars…Egyptian vipers each to get the head above the others"[48]. The Republican senator from Massachusetts, Henry Wilson, contrasted these bankers with the Republican favorites of the middle class. "I look upon this contest as a contest between the brokers…the money changers, and the men who speculate in stocks, and the productive toiling men of

[45] Richardson, 98
[46] A friendship which would be rekindled after the war and during his long career in politics, (following in the footsteps of Chase in more ways than one), including multiple abortive runs for the presidency and a stint as Secretary of Treasury
[47] Idib, 99
[48] Richardson, 13

this country"[49]. Sentiments such as this would ultimately lead to government action to attempt to reign in the speculators, and once again demonstrate the dominance of federal currency over private gold.

Congress would in fact pass a law attempting to fully ban gold trading and speculation, in the hopes of ending the currency exchange. While legislatively successful, the act would prove to be an abysmal failure as foreign trade, particularly with the gold-backed British Empire, would plummet and speculation against the Greenback (and thereby depreciation), would only continue[50]. The result would be a repeal of the law within months of its enactment, an embarrassing misstep by the government. This incident, and the inability to fully stop Greenback depreciation, demonstrated the limits of federal action. Without further reform, they could not unilaterally ban key aspects of the banking sector. They also could not alone reverse the decline in the value of the Greenback. With the then financial infrastructure available, the Greenback could not alone support the full federal government and the war effort. This would necessitate the creation of more bonds and the selling of more loans to finance the government. However, the disagreements with the leading banking institutions would necessitate a change in strategy for selling government bonds - a change which would bring the second financial revolution of the Civil War.

In addition to creating the Greenback, the Legal Tender Act would authorize the issuance of bonds worth $500 million with a 6% interest rate, which would be known as 5-20s (in 20 years the bonds would reach maturity and after 5 they could be redeemed)[51]. These bonds were put in place to supplement the Greenbacks, and raise further revenue for the nation. To aid Greenbacks, the bonds were made to be fully convertible, allowing average Americans who were paid in Greenbacks to buy 5-20s. The bond's interest would be paid in gold but the principle would be left up to the discretion of the government[52]. Importantly, by authorizing bonds and not loans, it was hoped that the government could raise revenue on

[49] Richardson, 80
[50] Bensel, 152-153
[51] Richardson, 48
[52] Museum of American Finance

its own terms and not be forced to negotiate higher interest rates, as Chase had been forced to do previously. This coupled with fears that the government would repay these bonds in depreciating Greenbacks and not gold, along with already souring relations, meant that the major bankers of New York refused to buy the bonds[53]. With European investors still being wary of the American market, the government was once again left with the conundrum of where to gain mass amounts of badly needed capital. From this problem would arise an unlikely savior whose legacy would cast a long shadow over the rest of the war and the decade that followed.

Jay Cooke, unlike many of his political employers in the Republican Party, was not a man of humble origins. Cooke's father was a wealthy lawyer and former Whig Congressman from Ohio. The Cookes had long cultivated ties with the state's political elite which would naturally bring them into close contact with the former governor, senator of Ohio, and leader of the state Republican Party, the then Treasury Secretary Salmon Chase[54]. While Chase was nominally skeptical and at times outright antagonistic to bankers, his political ambitions had made him susceptible to Cooke's financial charms. Cooke had long financially supported Chase's ambitions, especially in his failed Presidential bids in 1860, 1864, and 1868. All told by 1860, Cooke had spent over 100,000 dollars in support of Chase's numerous political campaigns, giving him a direct line of contact with the man at the head of the nation's financial policy[55]. Following Chase's selection as Treasury Secretary, Cooke would waste little time in attempting to leverage his influence over the Secretary. Writing to his brother and business partner Henry on March 1st of 1861 (three days before Chase formally assumed the role), Cooke said "I see Chase is in the Treasury and now what is to be done? Can't you sell out the paper[56] and open a banking house in Washington"[57]. At the end of 1861, Jay would establish his first bank, Jay Cooke and Co, in Philadelphia,

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[53] Lowenstein, 47
[54] Richardson, 48
[55] Newman, 386
[56] At the time, Henry was the owner of the newspaper the *Ohio State Journal*
[57] Oberholtzer, Vol 1, 152

and in February of 1862 (at the same time as the Legal Tender Act was being passed), he would open a branch in Washington[58].

In the early years of the Civil War, Cooke would attempt to further cultivate his influence with Chase in order to seek lucrative government contracts. Cooke would paint himself as a patriotic alternative to the cautious and conservative New York bankers. In one letter to Chase, Cooke wrote:

> "Our banks are full of patriotism and anxious to all they can to aid you in carrying on the Treasury operation…It is important that our capitalists and banks should be more interested in government loans than they have been… Philadelphia is proverbially a small field compared with New York…but to the extent of our ability we will no doubt respond to all calls"[59]

Cooke's charm offensive would work as Chase, seeking an alternative to New York would acquiesce and put Cooke in charge of finding buyers for the 5-20s, Chase officially named Cooke a special agent of the treasury[60].

In selling the 5-20s, Cooke would take a dramatic and revolutionary approach, forgoing any attempt to bundle the bonds and sell them to large financial institutions. Instead, Cooke would undertake one of the largest mass marketing schemes the nation had seen at the time. His ultimate vision was to sell the bonds to the masses, having individuals for the first time enter the financial market by buying these bonds. Cooke was no stranger to waging a public relations campaign to finance a war effort, as his first stint in finance was the selling of Texas bonds to a supportive American public in its revolution against Mexico[61]. Now however, Cooke would wage the campaign on an even greater scale. To do so, Cooke would initiate a number of differing sales strategies. He would hire over 2,500 sales agents to go from town-to-town and at times, door-to-door campaigning for and selling 5-20s[62]. In this he would be more

[58] Newman, 387
[59] Oberholtzer, Vol 1, 136
[60] Newman, 387
[61] Lowenstein, 48
[62] Newman, 388

like a politician or a preacher than a banker, directly appealing to the emotions and patriotism of the American people. Cooke would publish his ads in newspapers throughout the country, including in German language-only publications, in order to appeal to America's growing immigrant community[63].

Cooke would write and publish numerous pamphlets and Op-eds extolling the virtues of 5-20s and their ability to aid the just cause of the war. Cooke praised the bonds and public debt as a necessity for the well-being of the nation. Cooke was not simply selling a financial asset, but rather an idea and a message. In one instance, his offices partnered with newspapers across the country to publish a series of articles celebrating his success and the financial possibilities of the bonds. One article, "A Day in the Life at the Agency of the Five-Twenty Loan" portrayed the popularity of the bonds and the diversity of their recipients:

> "It would rejoice the heart of every patriot if he could witness in person the daily operations at the agency of the national loan in this city…Here is a letter in Camden who order $1,300 [in bonds] and there is one from St. Paul Minn for $12,500. Here lies one from Pottervile PA for $1000… Near one of the desks is a nursery maid who wants a bond for $50"[64]

As Cooke and his associates argued, people of all walks of life, no matter income or region, had joined together to fund the war effort. The article concluded with a celebration of the financial promise of the bonds and Cooke's market campaign:

> "The people are at last alive to the value of the investment which has been so long within their reach. Whatever misgivings they may have had in the dark days of the war have all passed away and they are now laying their treasure on the alter of the country with patriotic confidence and generous hands"[65]

[63] Oberholtzer, Vol 1, 235-236
[64] Idib, 242
[65] Idib, 243

To its adherents, Cooke promised that they would be helping the nation, that their purchase itself, was an act of war. In doing so he appealed to the same ideological nationalism of the Republican political establishment. 5-20s were the asset of the nation and must be bought to support it and save it from the crisis it found itself in. Ultimately, Cooke would sell over $360 million worth of 5-20s[66]. In 1865 he would be charged to sell the new "7-20" bonds of which he sold over $700 million[67] including, in one day alone, selling $3 million of bonds[68]. Cooke would make a commission of one half of one percent to one quarter of one percent for every bond sold[69]. By the end of the war Cooke would make over $1.6 million, and just as importantly, raised his profile to be known as America's leading financer[70]. His patriotic message and marketing empowered the citizens of the nation, putting them for the first time in the driver's seat of financial transactions. This mass entrance into the financial market would have repercussions for years to come following the end of the war.

In the short term, however, even with the success of bond sales the government was left with one last problem, one which would necessitate its most dramatic policy change. Bond sales and the everyday transactions of the government may have been backed by newly acquired specie and Greenbacks, but once again logistically they were found lacking. Specie itself could physically not perform the role of payment for transactions, as it was to be stored in bank vaults and homes. Instead, currency representing the specie was used, as an easily transferrable and held form of value. However, as previously described there was no singular currency. Instead, thousands of different notes were in circulation, and while all theoretically were tied to a gold standard, in practice they rapidly declined in value depending on their location. As the government rapidly built infrastructure, acquired goods, and hired hundreds of thousands of soldiers on a national level, they could not simply rely on specie or individual currency notes. Greenbacks somewhat alleviated the issue, but they were placed under a hard ceiling due to concerns over

[66] Newman, 388
[67] Idib, 389
[68] Richardson, 62
[69] Idib, 51
[70] Newman, 389

inflation. Further with the popularization of the bond market by Jay Cooke and his bond salesmen, there was a need for financial infrastructure to easily facilitate this exchange, one which the then-dominant New York bankers had previously seemed unwilling to facilitate.

All of these issues would lead to Chase and the Republicans' most dramatic monetary legislation, the National Banking Act. The National Banking Act would ultimately attempt to enact a number of revolutionary and dramatic changes to the financial infrastructure of the nation. It would create a system of national banking that would tie all legitimate financial institutions together under a government-regulated regime. The law would impose a national policy of free banking (which had previously been adopted by a number of states). Under the policy, any group of five or more individuals who raised at least a certain amount of capital could charter a national bank[71]. These banks would in turn be under the supervision and regulation of the federal government, taking away state legislative authority. If a group had raised an appropriate amount of capital, they would have to use one-third of their capital to buy government war bonds[72]. This was done to further bond sales and importantly bring the next major policy of the act, the national currency. Upon buying their bonds, a bank would be able to exchange their new purchase for a national bank note. The notes value was to be 90% of the bonds market value and could be redeemable for Greenbacks[73]. This would tie the note to a specie in the gold-backed bond, but would further legitimize the Greenback, and give added authority to the central government. As with the Greenback, the national bank notes would be given an artificial cap set by Congress, in this case, $300 million. The Bank Notes along with the Greenbacks would be a mandated currency of exchange with all debts being paid with them[74]. The notes would be distributed through the national banks but using bond purchases with the remainder, being distributed according to population[75].

[71] Richardson, 86
[72] Unger, 19
[73] Idib
[74] Idib
[75] Richardson, 86

The stick for this policy would be the leveling of a tax on all local currencies that were not a National Bank Note or Greenback, in theory thus forcing preexisting state banks to move to the national system and discontinue their own notes[76]. The final reform of the legislation was the regulation of banking reserves to further unify and safeguard the system. Under the new banking regime, all national banks would be tied together through their reserves. All banks were required to keep a certain amount of their capital - over 25% - as reserves[77]. However, due to logistics, it was simply impossible for small country banks to house so much capital. Under the direction of John Sherman, the act called for the creation of reserve banks in major centers of finance. Initially, there would be 12 cities eligible to house these reserve banks, where country banks would send their reserves to be housed. In turn, these banks could send their own reserves to a national reserve bank, which would have to be a large enough bank to house such capital[78]. In practice they would exclusively exist in New York. Thus under the tiered system, a certain number of reserves would ultimately land in the major banking capital of the nation.

To say the act was bold for the time would be an understatement. For the first time since Andrew Jackson's veto of the Second National Bank, the government would once again have a role in regulating and overseeing banking in the nation. Finance had been the driving force behind the creation of both the Federalists and the Whigs and it had been the political battle that they had both ultimately failed to win, with the Republicans attempting to accomplish what their predecessors could not. This boldness was not overlooked by the Republicans as they viewed National Banking as the ultimate fruition of their grand plans to unify and strengthen the nation. Leading the charge would be John Sherman who left little doubt of what he envisioned the act would do for the nation and its government.

"Every shareholder, every mechanic, every laborer who holds one of these notes will be interested in the government…whose faith and credit and security he will be more anxious to

[76] Lowenstein, 171
[77] Newman, 396
[78] Richardson, 94

uphold…All private interests, all local interests, all banking interests, the interests of individuals, everything, should be subordinate now to the interest of the government"[79].

Sherman made clear what the stakes were for creating a national financial system. The notes and national banking would tie the nation together unifying it away from a collection of disparate banks, notes, individuals, and states. Sherman had made the clearest link yet between finance and national unity. The bill would pass in 1863, with support from the rest of the party with even Lincoln making a personal appeal, which in the words of the New York Times "was extraordinary"[80]. National banking would not be a central bank like Hamilton and Clay's initial proposals, meaning there would be no formal government-sponsored banking institutions, and monetary distribution would still be reliant on the private sector. The act was still a dramatic expansion and one that would be hard-fought in the years to come.

Even with the bill's passage, however, there would be one final financial battle of the war, a culmination of a rivalry between New York and Washington that had begun with the very onset of the Lincoln administration. While Republicans in Washington celebrated the National Bank's passage, New York bankers were apoplectic. What Republican politicians saw as a step towards national unity, bankers viewed as a direct attack on their own institutions. The backlash would be led by the New York Clearing House (NYCH), which would institute a boycott of the new legislation. Members of the association (a majority of New York bankers), would refuse to accept National Bank notes, with almost none of them converting to a national bank charter[81]. This presented an existential issue, as New York still held a large amount of the nation's capital, and vast sums of its deposits. National banking as it was then structured could not function without the support of these large institutions. New York itself was to be the center of the reserve hierarchy, a regime now thrown off by its refusal to partake. There would be success outside of New York as some of the independently wealthy financiers would join the system. Led once again by

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[79] Richardson, 87
[80] Lowenstein, 170
[81] Weiman, 342

Jay Cooke, the first and fourth national banks would be founded, with Cooke alone raising $4 million in capital within 3 days[82]. However, this still would not be enough to fill the hole of New York's refusal.

Seemingly at a standstill, the nation held its breath, waiting to see which side would break first or if the failures of finance would break the nation. The bankers would make the first but not last move of the final conflict. On February 29th the NYCH would see a group of its most prominent representatives go to negotiate with the Republicans on Capitol Hill, choosing reconciliation as way out of the quagmire[83]. To represent the Republicans and to make changes to the bill would not be the skeptic, Treasury Secretary Chase with his populist Jacksonian tendencies, but Sherman and his conciliatory stance[84].

These meetings would result in new legislation, the National Banking Act of 1864, which like its predecessor would have far-reaching impacts on monetary policy for years to come. The entire slate of disagreements from the previous four years would be revisited in the legislation, from Greenbacks to bonds to reserves. In a victory for the hard money bankers, (and a not insignificant number of Republicans), the fiat Greenback would be permanently capped, ending any hopes of further expanding the note and monetary supply of the nation[85]. The tax on state bank notes would remain, along with a promise for the NYCH to allow its members to take National Bank notes and formally join the new national system. To decrease competition from would-be upstarts, the amount of capital required to start a bank would be raised to $50,000[86]. The greatest change would come with the reforms to the reserve regulations. The total reserve requirements for regular banks would be lowered from 25% of their total capital to 15%, for reserve banks it would be more dramatic going from 50% to 25%[87]. What reserves remained, were encouraged to be sent to the major New York reserve banks, with the law allowing regular banks to have 60% of their total reserves in New York[88]. In practice, this meant a massive influx

[82] Idib, 343
[83] Newman, 396
[84] Lowenstein, 271
[85] Unger, 246-247
[86] Richardson, 61
[87] Newman, 396
[88] Idib

of capital would arrive in New York, with the bankers being given the freedom to use these newly gained reserves to invest in Wall Street and the booming industries that followed the war. While Washington built the regime it would be New York that would lead it.

Within the year of the amended National Banking act passing, the war would be over. After four years and nearly three-quarters of a million dead, the Union had been preserved. Slavery, one of the nation's original sins, had been finally abolished. Lincoln and his party had accomplished what they had pledged to do four years prior, protect and strengthen the nation. Hundreds of thousands had fought for the Union, being paid in Greenbacks and Bank Notes. Railroads had been built throughout the north with New York and the Mid West having seen an increased tonnage of over 75%, in part paid for and supported by the expanded fiscal policies of the government[89]. Even with the new capital requirements the number of banks rapidly grew, with over 350 new institutions by 1866[90]. Most of these new centers of finance would be in the growing Midwest and the established Northeast, with the war torn south being left behind. The foundation of the economy, agriculture, would not be left behind as grain exports (primarily to Europe), would more than triple[91]

One of the longest-lasting legacies of fiscal action would be the national debt with much of it originating from the sale of war bonds. By 1865 the debt would number $2.7 billion, 300% of the nation's gross national product[92]. Debt would become the next great fiscal debate, one which would divide the Republicans and leaders of the industry. However, that would be the debate of Reconstruction, one which would take years to culminate and even longer to resolve. In 1865, the Republicans could celebrate as in the past four years their economic policies had won the war and transformed the nation. The work of the next ten years would be to win the peace.

[89] Lowenstein, 271
[90] Jaremski, *National Banking's Role*, 114
[91] Lowenstein, 196
[92] Richard White, *The Republic for Which it Stands*, 56

Chapter II

A Row of Dominos: Post-War Economic Expansion

In downtown Washington D.C., on Pennsylvania Avenue stood one of the many new financial institutions which had been established in the years following the Civil War and the National Banking Act. The Freedmen's Savings Bank, would be the center of Black economic development, boasting over 100,000 depositors including the prestigious institution of Howard University[93]. In March of 1874 its new director, the Civil Rights icon Frederik Douglass, would be moved by what he saw remarking: "When I came to Washington and saw its magnificent brownstone front, its towering height, its perfect appointments, and the fine display it made in the transaction of its business, I felt like the Queen of Sheba when she saw the riches of Solomon, that 'half had not been told me'"[94].

Within six weeks of assuming leadership, Douglass would ask Congress to dissolve the bank. During his brief tenure, Douglass had discovered massive fraud perpetrated by the bank's former White administrators. Under a policy of investment, as with so many other institutions, the bank had invested its deposits into a risky and corrupt railroad venture. Douglass would describe that the bank had become "The Black man's cow but the White man's milk"[95]. The loss of hundreds of thousands of dollars in failed investments would doom the bank, but it would not stand alone as hundreds of banks would fail across the country. All had been linked together under the centralized policy of the National Banking Act. They had been encouraged to place their deposits in risky investments in the railroad bond market and stock exchange.

In the years following the Civil War, financial centralization and increased investment had seen an economic boom in the nation. However, this economic boom was built off precarity; as its foundation,

[93] Operation HOPE, *Freedmen's Savings Bank*
[94] US Department of Treasury, *Freedmen's Bank Demise*
[95] Idib

the financial reforms of the Republicans was one of inherent regional inequality, and with its newly found centralization, funneled resources to bad actors, with little regulation or protection in place to prevent their abuse of the system. In the case of the Freedmen's Savings Bank one actor in particular spelled doom for the institution. One of the primary architects of the post-Civil War finance regime, America's leading financier, Jay Cooke had once again left his mark on history.

The United States that entered 1865 was a completely different nation than had existed five years prior. Over the course of the civil war, the Republican Party had led the nation to victory against its rebelling states, abolished slavery, and completely reformed and rebuilt the financial infrastructure of the country. The next 11 years, from 1865 to 1876, would see the Republicans maintain continuous control over the presidency and Congress, embarking upon their most ambitious project, Reconstruction. Reconstruction was the political project that would fully mend the wounds of the Civil War and build a new nation, in the Republicans' ideological image. While slavery had been abolished, equality had not been guaranteed and the future of the militarily-occupied South was very much up in the air. Many Republicans, led by their radical wing, yearned for a grand political project that would remake the South, moving away from the unequal plantation system and guaranteeing equal rights to all newly freed Black Americans. Legislatively, this push would culminate with the 14th and 15th amendments, which guaranteed citizenship and voting rights to all people born on American soil, forever settling the question of whether slaves (and thereby Black Americans), were members of the nation. While successful in its passage, the enforcement of the amendments would be significantly contested, with numerous legislative fights breaking out between a radical Congress and an reactionary president in Andrew Johnson[96]. The South itself was mired in violence and civil strife with a resentful White population launching numerous acts of violence and terrorism against the enfranchised Black community. This would necessitate a

[96] This would ultimately lead to Andrew Johnson's impeachment with his conviction failing by only 1 vote, to date the closest a sitting president has ever come to their forceful removal.

continued military presence in the region for the entirety of Reconstruction. This in turn required constant political capital, capital only the dominant Republicans could supply.

The most significant fiscal policy change ushered in by the Republican administration was the implementation of the National Banking System. Whereas before 1863, when the nation's banks were under the supervision and regulation of mostly absent state governments, the federal government had established a new system built off of uniformity. All banks affiliated with the banking system were linked through regulations regarding their reserves, currency, and access to the bond market[97]. Nominally national banks could be formed one of two ways. They could first have been an existing financial institution that simply bought a certain amount of government bonds and agreed to switch their charter, from being state-backed to national. The other way was for individuals to start their own institutions, and after raising $50,000 in capital could become nationally chartered[98]. By 1866, two years following the creation of national banking, over 900 pre-existing state banks would convert to a national charter with another 700 new banks being formed by private capital[99]

The new national banks like the antebellum system, were an extremely New York-centered group. Under National Banking, all banks were required to hold 15% of their total assets in reserve, however, they were allowed to put much of the rest of their reserves in certain large reserve banks[100]. New York was where Wall Street and other centers of investment were located, with the city becoming a center of investment where much of the nation's major capital holders were based. This in turn meant all of the major reserve banks were located in the city. From 1860 to 1870, New York City's share of the nation's total banking assets would be nearly 25%[101]. This domination however was truly apparent in deposits and the monetary supply of the nation. New York City Banks would hold over 40% of the

[97] Roger Lowenstein, *Ways and Means,* 171, Irwin Unger, *Greenback Era*, 19
[98] Heather Richardson, *Greatest Nation of the Earth*, 61
[99] Matthew Jaremski, *National Banking's role in U.S. Industrialization*, 118-119
[100] Patrick Newman, *The Origins of the National Banking System*, 396
[101] Idib, 398

nation's total deposits[102]. Of the $293 million Bank Notes in circulation, one of two of the nation's national currencies (the other being the Greenback), $170 million were issued by and based with banks in New York City and New England[103].

While spatially similar to the antebellum era, national banking would see a dramatic change in banking practices and growth. Deposits following the war grew throughout the nation, with the average bank seeing an increase of nearly 17% in total deposits[104]. Growth would come from both domestic savers and international investors, as following the war the economy was once again opened to Europe. National banks were able to attract this growth in deposits by offering attractive interest rates and promise of much larger returns on investments[105]. Banks were able to offer this, by the next major change following the war, the growth of the call market.

The call market was the system of banker-led investments into Wall Street and emerging industries. Using their newly gained deposits, banks would buy "call loans". Call loans were short-term loans that would be paid on demand of the issuer, they were mainly secured through purchases in the stock market[106]. Thus deposits that found their way into a New York bank (as a plurality did), would first be spent on purchases of stocks on Wall Street, loans would be created backed by these assets, to then be sent out to other industries. The loans were issued to emerging industries but just as importantly the employers that made the backbone of the U.S. economy, farmers. The inherent attractiveness of the call loan was its flexibility; it could be issued on short notice and paid back relatively quickly. This was particularly important for agriculture which was based on an inherently cyclical system. In the fall and spring, farmers planting new crops or harvesting their produce would have much larger expenses than they normally would in the winter or summer[107]. The call loans would provide a relatively easy form of

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102 John James, and David Weiman, *The National Banking Acts and the Transformation of New York*, 349-350
103 Newman, 396
104 James, Weinman, 349-350
105 Idib, 339
106 Hugh Rockoff, *Banking and Finance: 1878-1914*, 668
107 Richard Bensel, *Yankee Leviathan*, 240

finance, so long as the bank was not required to urgently meet its deposit requirements. If a bank found that they needed their full reserves, then they would call their reserve banks in New York who would, in turn, call up the loan, by selling stock and demanding payment. Call loans would eventually make up a third of all loans issued by National Banks in New York City[108]. The national banks' total assets and investments would eventually comprise over 60% of their total deposits,[109] meaning a near majority of the nation's deposits were reinvested and put into the market.

The demand for call loans was particularly strong in the rural west and the major farming states of the great plains. Even dating back to the 1850s, agriculture had been undergoing a quiet technological revolution. Farming had always been a labor-intensive industry, this was a considerable issue in the United States, a settler nation that, unlike Europe, was in a constant shortage of labor. While the population was always growing, there was never a large group of available or unemployed laborers, meaning the labor market was always tight. This would change in the twilight of the antebellum period with the advent of mechanization. The mechanical horse-drawn harvester, a machine that would rapidly speed the harvesting of crops and lower the demands of human labor, was first invented in 1833. The machine began to see real growth in the 1850s, with sales reaching 70,000 units. However, sales would explode by the 1860s to 250,000 units[110]. Thousands of farmers were switching to mechanization thereby boosting their productivity. It's been speculated that mechanization and technological changes between 1840 and 1880, for wheat alone, saw a boost of productivity of nearly 100%[111]. Railroads, which proliferated during the Civil War, would further bring down prices by connecting more farms to the domestic and international markets. In 1856, the price of bringing wheat via rail from Chicago to New York (and thereby abroad), was 20.8 cents a bushel; by the 1860s it was 8.6 cents[112]. The increase in productivity and the ease of market entry not only had dramatic effects on the nation but the world. Some

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[108] Richard White, *The Republic for Which it Stands*, 245
[109] James, Weinman, 352
[110] Jeremy Atack, *The Farm, the Farmer, and the Market*, 250
[111] White, 219-220
[112] Atack, 250

economists have estimated, the growth of American exports brought down food prices in Europe at a faster rate than at any time since the Neolithic era[113]. The American farmer, more than at any time, was connected to a national and international market, which had become dependent on them.

In becoming attached to the market, the farmer depended on forces outside of their control; the fares of railroads and ships, the demand in Europe, and most importantly, the price of these new farming machines, which were instrumental in bringing their crops to the market. In practice, this meant that while the machines over the long term, were more profitable for the farmer during times of harvest and planting, they would require a large amount of capital upfront. Farmers needed to buy or rent these machines and hire any additional labor on a seasonal basis. To make these investments, farmers would need capital which they simply did not have, requiring many to take out loans. This is where one of the most important inequalities of the national banking system emerged.

As previously described, the national banking system was founded on regulation, as an institution could only gain admission at the discretion of the federal government. One of the most important barriers to becoming a National Bank, was the $50,000 capital requirement. This meant that areas where there was already a large amount of excess capital and importantly, individuals willing to spend it, had an advantage in starting a national bank. When the system was started, there was no national effort to bring about fiscal redistribution or stimulus policies, thus poor areas remained poor, and the wealthy remained rich. In much of the rural West and the devastated South, there was simply not enough capital to open many banks. When banks would open, they usually constituted a monopoly in their local area, having no competitors to challenge their practices[114]. With their monopoly, local banks would have high-interest rates for their loans, making large or long-term loans difficult to impossible for the cash-starved farmers. Under the national system, while most other assets could be offered as collateral to secure a long-term loan, real estate was prohibited[115]. Farmers whose only asset in many cases was their land, were once again

[113] White, 219-220
[114] Bensel, 274
[115] Unger, 208-209

deprived of capital. This regional inequality can be seen in the distribution of Bank Notes. In 1866 the South (similar to the Midwest) had a ratio of $2.5 of Bank Notes per person, and in the Northeast, there were $77 notes per person[116]. This lack of credit and physical wealth forced rural farmers to rely on the call loan as a short-term fix but in many cases, the only one available.

While all loans were mainly taken by smallholders and farmers, investments in Wall Street would usher in another major change, as the nation would see the rise of industrialization. In much of the North and Midwest, the number of factories had more than doubled since 1860. Manufacturing was primarily situated in the major urban centers of the Northeast and the Midwest with Chicago alone seeing its factories increase by 550% from 1860 to 1870[117]. Banks played an important role in growth, as the economist Matthew Jaremski has found: counties with national banks would see over 14% more manufacturing capital than those that had fewer banks or none at all[118]. While still a majority agricultural nation (in both workers and exports), manufacturing was one of the fastest-growing industries in the nation. This growth was powered by a dramatic increase in investment, with the late 1860s and into the 1870s seeing capital formation make 21% of the nation's Gross National Product, a large increase from the previous 13.4% that marked the antebellum era[119]. Once again, however, this growth would be mired in regional inequality with national banking requirements focusing on capital and industrialization in the Northeast and parts of the Midwest.

These investments were made through the aforementioned securities of the call loan, where New York bankers used their reserve status to gather deposits and buy stocks on Wall Street. The Wall Street of national banking was a very different entity than its pre-war predecessor. During the Antebellum era, individual companies mostly raised revenue via informal networks and private fundraising. There was little competitive auctioneering of stocks, and if there was, it was on a one-time basis[120]. The Civil War

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[116] White, 221
[117] Idib, 235
[118] Jaremski, 130
[119] Richard Schneirov, *Thoughts on Periodizing the Gilded Age*, 203
[120] Rockoff, 679-680

changed this through national banking and importantly the creation of a bond market. During the war, the government had authorized billions in war bonds. These bonds could be exchanged for National Bank Notes, Greenback, or even sold for gold[121]. This in turn would create a market for bonds leading to increases in everyday trading and auctioneering. Physically this would create the modern Wall Street, as brokers (initially just for bonds), would sell and auction their assets continuously. As different types of bonds and currencies proliferated, so did the specialization of brokers. These brokers would not only sell continuously but remain in a central location, (the exchange), to take orders and auction their assets[122]. This practice was first adopted by the Open Board trading association, which would eventually merge with the other exchange institution, formally creating the New York Stock Exchange in 1869[123].

Specialized exchanges particularly in differing currencies and bonds would not just be important for New York investors but would become a valuable tool for Washington-led political administrators. After the war, the United States was left with an enormous debt and three different types of currencies. Much of the war debt originated in war bonds which could be purchased using either Greenbacks, or gold, or exchanged for national notes. The link between these currencies, each with its own value, and ties to war bonds was a fixture of American monetary policy and international trade. Domestically Greenbacks and Bank Notes dominated transactions, with most individuals solely relying on them as opposed to gold[124]. Greenbacks and Bank Notes had been the principle means through which the government had purchased its own goods and paid its soldiers and employees during the Civil War. These notes were the primary reason the nation's monetary supply had expanded by more than 200% from 1860 to 1865[125]. Notably, however, the supply of Greenbacks and Bank Notes was artificially set by limits created by Congress, the only way to expand them was further legislative acts. There thus was an artificial celling to monetary supply aside from gold.

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[121] Unger, 19
[122] Rockoff, 679-680
[123] Idib
[124] Charles Calormiris, *Greenback Resumption and the Silver Risk*, 4
[125] Unger, 20

Internationally much of the world, including America's primary foreign investor the British Empire, was on the gold standard. Gold was significantly more valuable than the U.S. notes and therefore transactions in foreign trade were used almost exclusively with gold[126]. During its entire run, the Greenback and thereby domestic exchange, were consistently weaker than gold. This would give greater purchasing power to foreign buyers, but also stimulate demand for U.S. exports fueling growth in agriculture and to a lesser extent industry[127]. However, these competing currencies (the U.S. notes and gold), would create two different competing markets that fed into the growing Wall Street exchanges. There was the gold market where the Greenback and Notes would be exchanged for the more internationally valuable specie, and the bond market where gold and Greenback could be exchanged for the safer long-term investment of bonds (and thereby bank notes)[128].

The different markets and currencies were not built off of harmonized interests, as monetary supply became a dominant debate in Washington and the Nation at large. Investors primarily attached to gold dreamed of a future where the non-specie tied Greenbacks would be phased out, and the country formally put onto the gold standard. Most of these supporters were major bankers and investors with deep ties to European financiers. The belief was that by tying the U.S. to gold, it would be easier to make foreign transactions and link with foreign investment, as opposed to being forced to go through a differing exchange rate with the domestic Greenbacks[129]. To do this, supporters of gold argued for a contraction of Greenbacks and the paying off of war debt with gold. This policy of contraction was initially implemented immediately after the end of the Civil War by President Andrew Johnson's Treasury Secretary, Hugh McCulloch. McCulloch's policy of contraction was tied to bond repayment (in gold), and it resulted in massive deflation. This adversely affected the nation's producers (once again the farmers, and manufacturers), who desperately needed more capital not less[130]. The result was such an outcry, that

[126] Bensel, 255
[127] Jeffery Frieden, *Currency Politics*, 60
[128] This was primarily a banker run system, as banks not invested in Wall Street would buy bonds as assets.
[129] Idib, 51
[130] Rockoff, 661

Congress in 1868 voted to end the policy of contraction. Congress voted to extend bond payment (by creating a new bond with a longer maturity), and continuing to allow it to be converted or sold for Greenbacks[131]. This would be a show of confidence for the Greenbacks (at the behest of the producer), and maintain the delicate balance between the domestic notes and the international gold.

Following McCulloch and Johnson, President Ulysses S. Grant took office in 1869. Grant, the famed general, was not known for his economic leadership, and thus delegated much of the monetary management to his Treasury Secretary George Boutwell. Boutwell would exemplify the dominant economic thought of the time. He would take a laissez faire approach to the market, arguing that debt payment and gold resumption would have to be pushed back. Boutwell believed that contraction could only come when the economy was ready for it. Instead, he argued that the monetary supply of the Greenbacks should remain until the economy had produced enough (namely through gold-backed trade surplus), to repay debt without leading to deflation[132]. Boutwell in his first annual report in 1869 wrote to Congress:

> "The ability of the country to resume specie payments will not be due to any special legislation upon the subject, but to the condition of its industries… A necessary condition for the resumption of specie payments was the development of the industry of the nation…the consequent accumulation of the movable products of industry to such an extent that our export of those products should be equal substantially to our imports"[133].

Boutwell took a more conciliatory approach to the producers and supporters of investment by not disrupting the economic system. However, in his anti-interventionist stance, he like many of the other Republicans, also refused to make reforms to the system. While Greenbacks were not eliminated, they still were under a hard ceiling, and the monetary supply was inherently limited, producing further regional

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[131] Unger, 87-88
[132] Idib, 164
[133] Department of the Treasury, *Report of the Secretary of the Treasury on the State of the Finances for the Year 1869*

inequalities. The Republicans' erstwhile economist Henry C. Carey warned of this dire consequence in 1865 when he pled the case for Greenbacks and monetary expansion for the capital-starved South:

> "All who write or speak on this subject fail to see that with the extension of the power of the union over the cotton states there must arise an absolute necessity for furnishing to the people of those states' machinery of circulation [currency] adequate to the performance of the same work that has do well been done in these northern states. So far from diminishing the supply of machinery [contraction] there is a pressing necessity for its increase"[134]

However, these calls fell on deaf ears, by 1865 much of the influence that Carey had once enjoyed within the Republican party, had gone in the years following Lincoln, leaving him in the political wilderness. For the vast majority of producers, the government would do very little to stimulate demand. Instead, it relied on its previous legislation to help facilitate and connect pre-existing capital. This helped New York banks in investing in industries and gave way to the rise of Wall Street, but for areas that did not have access to capital, the Republicans left them to their own devices. For farmers and small businesses, capital could only come from the call loan and thereby they were reliant on Wall Street's success.

The major source of monetary expansion, and the second force behind the growth in Wall Street investments (aside from the national banks and their reserves), was the return of foreign investment. Not only did European investment return but the foreign investors made up an even bigger share of investors than before the Civil War. In the years following 1865, nearly 75% of net capital formation (new money entering the economy), was directed by European investors[135]. Of these, the British Empire was by far the largest; between 1865 and 1875, England would regularly make up over 80% of total direct foreign

[134] Henry C. Carey, *The Way to Outdo England without Fighting Her*, 155-156
[135] Lance Davis*, International Capital Movements Domestic Capital Markets and American Economic Growth*, 734

investment[136]. These investors operated outside of the banks, by purchasing bonds and stocks on their own accord. This further tied the American markets to the economy of Britain and the World.

The final major factor in the growth of Wall Street investment would be intrinsically tied to the National Banks. Large corporations, particularly emerging industrial behemoths, required greater amounts of loanable capital than the call loans provided. While stock trading would help finance much of their expansion, these new industries would come to rely on equally large bonds. National Banks with their reserve requirements were unable to fully purchase these large bonds[137]. This would lead to the creation of a new line of brokerage houses. These were investment institutions that could finance such large bond sales. From this would arise the infamous robber barons of the era such as J. P. Morgan, who began his own firm in 1861, and Anthony Drexel who would merge with Morgan in 1871[138]. While not formally a National Bank, the bond market created by the government facilitated the growth of both institutions, a market that rapidly transformed into the stock exchange. During this period all of these institutions would grow, with the brokerage houses and banks of New York between 1864 and 1870 seeing a tenfold increase.[139]

In many cases, the ties between the brokerage house and the national banks were almost indistinguishable as best exemplified by America’s financier, Jay Cooke. Cooke had been the super salesman of the Nation’s bonds, bringing many would-be buyers both individually and institutionally to the exchanges. Cooke had created the very first National Bank in Philadelphia and had rapidly expanded his interests throughout the country[140]. His other bank, Jay Cooke and Co, was an investment bank independent of national regulations. Through his investment bank, Cooke would trade on his fame from the Civil War, to once again sell investments and bonds to the Nation and even abroad. And Cooke

[136] Idib, 747
[137] White, 244
[138] Idib, 681-682
[139] Idib
[140] Ellis Paxson Oberholtzer, *Jay Cooke Financier of the Civil War*, 240

followed the other major domestic banks and international buyers by investing in one industry that soon dominated the nation: the ascendant railroads.

The railroads would be one of the biggest industrial winners of the Civil War and the economic boom that followed. They had long been the harbinger of industrialization and western settlement, two forces that were intrinsically linked to Reconstruction-era America. Railroads allowed the nation to bring its goods and products from the farthest reaches of the frontier, making them instrumental to the growth of agricultural exports. The government would directly sponsor a trans-Pacific rail line to link the East Coast with the West, demonstrating the nation's view of the necessity and promise in settling and developing the West. This would work hand in hand with one of the largest land giveaways the Nation had seen, the 1862 Homestead Act, guaranteeing hundreds of thousands of would-be settlers millions of acres of land. Land connected by the railroads. While railroads had existed well before the Civil War, during Reconstruction their growth exploded. Between 1868 and 1873 the nation would build nearly 30,000 miles of new track[141]. For comparison, the distance between New York City and Shanghai, quite literally half a world away, is 7,000 miles. In five years alone the nation built enough tracks to cross the entire continent and the Pacific Ocean more than four times over. Like so many changes in this upstart Nation this was not the norm internationally. By 1868, the United States would have the world's largest amount of rail lines per capita with one mile for every 867 people[142]. Not only were the railroads instrumental in connecting the nation and promoting its settlement, but they were also instrumental in building adjacent industries, particularly heavy industry. Iron and coal would be subject to enormous expansion, as they were quite literally the building blocks of the railroads. By the early 1870s, it was estimated, that one-third of all iron produced in the Nation was made into rail lines[143]. Coal, the necessary energy for smelting the iron, would grow in tandem. Thus, railroads not only were one of the fastest growing industries, but they were one of the most important in developing the rest of the economy.

[141] White, 217
[142] Bensel, 252
[143] Idib, 308

Agriculture, industry, and mining all would be tied to the railroads, an importance that would be seen in government action and public investment.

The railroads, unlike most other industries, from finance to agriculture, would see direct government support, which would be crucial for their development. Direct aid from the national government to the railroads would come in the form of land grants, a resource that the nation had an abundance of. As previously described, the government had sponsored the construction of a transcontinental railroad. This line was meant not just to connect the coasts of the nation but to demonstrate the prowess of this emerging industry. Importantly the government itself did not build the line and did not actually build any lines, rather it gave out land to private corporations to build their railways. A handful of large railroads would gain the most prestigious contracts, build the longest lines, and thereby receive the most amount of land. The Union Pacific, which built much of the transcontinental railroad, would receive more land than the states of New Jersey and New Hampshire combined[144]. In total, the railroads would gain over 130 million acres from the federal government alone[145].

These land grants were not simply given for the building of the lines but also to provide much-needed capital for the rail corporations, a form of discrete subsidization. In many cases, there was so much land (which was given on purpose), that the rail lines could sell the excess. And because once the rail line was built it would be the heart of any western community and could easily bring farmers' goods/produce to the market (and thereby bring in capital), the available farmland closest to a prospective rail line was the most valuable in the area. The government would give roughly 10 miles of additional land in each direction of a rail line to the railroad. This gave the railroad companies enough land to have a surplus, which they then could sell to would-be farmers or settlers[146]. The Government would go as far as to discourage settlers from taking free homestead land close to the rail lines by lowering the amount of

[144] White, 119
[145] Idib
[146] Idib, 118

land available to a prospective settler from 160 acres to 80[147]. Settlers were left with a choice, buy good and valuable land which could allow them to easily enter the market economy, or take free but extremely isolated land on the periphery of the nation.

In many cases, railroad companies were not content to rest on their advantages, but in fact, made an active effort to boost demand for their land. Employing the same mass marketing schemes as done by Jay Cooke when he sold war bonds, the railroads flooded newspapers with advertisements and paid stories lauding the fertility and possibilities of their land[148]. The advertisements would extend as far as Europe, hoping to entice investors and immigrants an ocean away. Taking advantage of the stringency of National Banks with regard to loans, the railroads in many cases would sell some of their land on credit alone, further boosting the settlement of their land[149]. While this last arrangement may seem self-defeating, as the railroads were using land sales to help raise capital, an even more important revenue stream lay with investments, the selling of bonds which were tied to the successful sale of railroad land.

Bonds would become one of the most important ways in which the railroads gained capital (and make a profit for their shareholders). The land grants, in fact, provided collateral for the bonds, and the more surrounding land that was settled, the more valuable the initial property would be, thereby creating leverage for greater bonds[150]. For some of the larger companies and those building government-sponsored lines, their bonds would in fact be based on the federal government's credit. Under agreements such as with Union and Central Pacific (the companies building the transcontinental), the government would offer to pay interest on bonds with the corporations agreeing to eventually repay the government, but only after 30 years[151]. The federal government would not be the only entity involved in subsidizing the rail lines as many states would give tax exemptions for the companies. In some cases, particularly in the Reconstructed South, a region dominated by newly elected Republicans hoping to develop and

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[147] Idib, 124-125
[148] Idib, 124
[149] Idib
[150] Richard White, *Information, Markets, and Corruption*, 22
[151] Idib

industrialize their economies, their actions would go even further. These southern states would in many cases buy the railroad bonds, giving rail lines a guaranteed amount of capital[152]. Thus, while rail was being built throughout the Nation, the capital-starved and underdeveloped areas in the West and South would see direct government intervention to support railroad proliferation. Bond sales would occur in the newly enlarged financial trading centers, with stock exchanges further boosting the profitability and capital of the corporations. In this way, railroads filled the void left by government war bonds which had built the financial infrastructure of the country. European investors, clearing houses, stockbrokers, and national banks flocked to the railroads. In 1867 railroad bonds would total roughly $416 million by 1874 railroad bonds totaled $2.23 billion[153]. The Nation and its finances had grown, and the railroads had come to meet them.

With such a large land, bond, and stock bonanza moving through the railroad industry, corporate leaders were left with a golden opportunity to further grow their own personal wealth. In many cases there was more money to be made in selling free land, inflating stock prices, and leveraging the bond exchange than there was in actually building any physical rail lines. Corruption became rampant throughout the industry, as corporations, while promising to build lines, leveraged public subsidies and land. In many cases these corporation simply pocketed the payment of land while refusing to ever build a rail line[154]. There was rarely any legal action taken against these acts of corporate theft. In fact, railroad-led corruption would extend to the highest branches of government, as the railroads often bribed congressmen and senators to be given public contracts and thereby increasing the value of the company on the exchanges.

The most egregious example of this was the Credit Mobilier scandal in 1872. There the Union Pacific was found to have given shares of its stock as bribes to congressmen and senators in order to cover up their gross overcharging of construction costs to companies that they themselves ran. Capital

[152] White, *The Republic for Which it Stands*, 223
[153] White, *Information, Markets and Corruption*, 22
[154] Idib, 37

from bonds secured by the government was thus being used to overpay the leaders of Union Pacific[155]. On the payroll of the Union Pacific was Schulfer Cofax, the then Vice President (and former Speaker of the House), James Blain, the current Speaker of the House, Henry Wilson, senator and Vice President-Elect, and George Boutwell, Treasury Secretary[156]. The Credit Mobilier scandal, demonstrates the reach of the railroads and how an industry that had become the center of investment was growing to dominate the political system of the nation. While it would be the most famous incident of railroad corruption it would not be the last or the most impactful.

Like so many other instances of 19th-century finance, Jay Cooke would not be far from the center of the action. In 1870, Cooke had parlayed his controlling stake in his own private bank, Jay Cooke and Co, to become the main financier in the Northern Pacific Railroad[157]. The Northern Pacific had been given land, with the hopes of building a second transcontinental railroad in the northern prairies. The proposed rail line would stretch from Minnesota into the Dakotas before heading west. And it was there that the Northern Pacific was given much of its land[158]. As with many of the other railroad barons, Cooke cultivated a close relationship with the Nation's governing party, the Republicans. While he had always been influential since the days of Salmon Chase, Cooke redoubled his efforts to gain favor in the Grant administration. He became one of the largest financial backers of President Grant's reelection fund in 1872 and hosted the President at his own home many times[159]. This close relationship was needed not simply to gain lucrative contracts but importantly to leverage capital, which would become one of Northern Pacific's biggest issues.

While in years past, railroads had been at the head of investment, and there was little want for capital; however, by 1873, Jay Cooke and the Northern Pacific would face a much more cautious investor class. Owing to the public backlash against the Credit Mobilier scandal, the federal government was

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[155] idib
[156] PBS, *The Credit Mobilier Scandal*
[157] White, *The Republic for Which it Stands*, 262
[158] Christoph Nitschke, *Theory and History of the Financial Crises* 227
[159] White, 245

significantly more cautious about funding and supporting new rail lines. While the preexisting land grants remained, further grants, bond subsidization, much less a potential bailout, faced an increasingly skeptical Congress. Jay Cooke installed his brother, Henry, as his main agent in Washington and Henry wrote to Jay in June of 1873 of the increasingly hostile attitude within Congress:

> "You have no idea nor can anyone have any idea… of the demoralization of Congress resulting from the Credit Mobilier investigation. Some of the purest and most powerful men in both branches have become involved to an extent which seems to reflect the whole body"[160].

Thus, Jay Cooke would be initially be forced to rely on his old tricks of a large and public ad campaign, aimed at the common investor. Initially, this was a success domestically. However, the scale of capital needed for the Northern Pacific was larger than what he could gain from leveraging small domestic investors, so Cooke turned to the place where the United States regularly gained a surplus of capital, Europe. There, Cooke tried to court the major banking houses of the continent such as the Rothschilds[161]. Europe however had become closed off to Cooke and other American businesses, as it was facing a financial crisis that gripped the heart of the continent. On May 9th of 1873 the Vienna stock exchange, the center of finance for the Austria-Hungarian Empire, crashed. It quickly brought down with it, its intertwined northern neighbor the Berlin Exchange which in turn affected French investments, ultimately affecting the British Empire.[162] The Austrian collapse was ironically due to American success. For years the Austria-Hungarian Empire had been the breadbasket of Europe providing for the continent's immense appetite. By the late 1860s and 1870s, as previously described, the American farming giant had awoken. Leveraging technological advancements (with capital provided by the stock and investment intertwined Call Loan), American farmers began to dominate the grain trade. What was the United States' gain was Austria's loss, as most of its financial systems were linked to its agriculture, ultimately resulting

[160] Oberholtzer, Vol 2, 403
[161] David Skeel, *Icarus in the Boardroom*, 36-37
[162] White, 260

in its collapse in the middle of the year[163]. With European investment closed off, Cooke was left in a much more precarious position, as he had to continue to underwrite expenses that had ballooned to millions of dollars[164].

In June of 1872 one of Jay Cooke's sales associates based in London would write to him offering a stark warning of the growing precarity of the Northern Pacific, and its financial dangers:

> "I do not hesitate to say that the present actual condition of the Northern Pacific if it were understood by the public would be fatal to the negation of securities…No enterprise of such magnitude has ever before been so entirely dependent upon one house or rather one man"[165]

These warnings however would fall on deaf ears, as Cooke continued his quest to finance the railroad. Ultimately Cooke would leverage what remained of his government ties one last time, to disastrous results.

The Freedmen's Bank was one of the last vestiges of the economic dream of Southern Reconstruction, and something of an anomaly in the world of finance. Following the Civil War, the Republican party and the Nation had embarked on the political project of reconstructing the South. This would rely on the political enfranchisement of Black Americans and their attempts to build their own wealth and develop the region. While idealistic the project had run into shortfalls, and hopes for more radical land reform were stifled by the Johnson administration with the Freedmen's Bureau being gradually underfunded. While the political element of Reconstruction remained through military occupation, economic development lagged. One of the few long-term economic policies was the creation of the Freedmen's Bank. Chartered by Congress in 1865, it was a savings bank aimed at newly freed Black Americans, particularly those with an income or capital (such as ex-union soldiers)[166]. Under the

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[163] Idib, 261
[164] Nitschke, 227
[165] Oberholtzer, Vol 2, 381
[166] White, 265

program, the ever-important Freedmen's Bureau directly promoted the bank for Black Americans to deposit their savings in. The hope being, that by encouraging savings, it would allow wealth to accumulate and grow. By 1873 over a hundred thousand Black Americans had deposited over $50 million into the bank[167]. But in the 1870s the bank would come under new management, as Jay Cooke leveraged his political connections to have his brother, and erstwhile business partner, Henry, appointed to the board of directors. Henry would push through a change in the bank's charter moving away from being a savings bank to an investment institution[168]. With his newfound powers of investment, Cooke leveraged the deposits to buy the junk Northern Pacific bonds. In some cases Cooke would not even buy bonds on the market, but instead simply transferred some deposits directly to his brother's bank of Jay Cooke and Co in exchange for Jay's own bonds at Northern Pacific (at grossly inflated prices)[169]. While Jay Cooke had secured a short-term boost of capital from the Freedmen's Bank the worst was yet to come. The last half of 1873 would mark the end of Northern Pacific and the beginning of the end of Reconstruction, tied to the sinking ship of the railroads and Jay Cooke.

While deposits from the Freedmen's Bank aided Cooke, it would ultimately not be enough. To his credit Cooke had actually begun construction of the railroad, with initial work being done in Minnesota. However this meant he was on the hook to pay for such construction, because Jay Cooke and Co had a controlling stake in Northern Pacific. The debt would ultimately be too much and on September 18th of 1873, Jay Cooke made the sudden announcement that Jay Cooke and Co would be forced to default and shut its doors as a banking institution[170]. The architect of the Nation's finances, its chief banker, the man who had turned a struggling IOU program into a multi-billion dollar market, had failed. He had been brought down by his own creations and the railroad industry was shown to be fiscally unsound, for if Jay Cooke could fail who couldn't?

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[167] Idib
[168] Idib, 266
[169] idib
[170] idib

The effects were instantaneous as panic set in across the financial system. Depositors across the nation rushed to take out their capital for fear of it being lost in a banking collapse. Unfortunately what many depositors discovered was that much of their capital they had deposited in local banks was not there. It had been whisked off to reserve banks in New York. In 1873 over 80% of available deposits (as allowed by the National Banking Act), had been sent to just seven banks in New York City[171]. This was a particularly dire time for a withdrawal as it was late September, the height of fall, and thereby the harvest season. Farmers intent on bringing their crops to market had taken up much of the available liquid capital in the form of call loans. As the banks needed to fulfill their obligation to their depositors, they rapidly called up the loans[172]. But these short-term loans had been secured through purchases on the New York Stock Exchange, and investments mostly in the railroad bond market. Calling up the call loans meant selling the stock and the bonds and liquefying the assets. The value of railroads, which had been the primary source of investment, cratered. For it was their initial failure that had caused the panic in the first place. Banks, individuals, and states found that their investments on Wall Street were worth substantially less than what they had been initially valued at. Industries would see a contraction, banks fail, and both business and farmers were driven into bankruptcy. States, particularly in the Reconstruction deep South, who had so heavily invested in the promise of the railroad, were left holding worthless assets. Cooke's failure meant the failure of the Freedmen's Bank and over 60,000 black depositors would lose a collective three million dollars[173]. Financial ruin for Black depositors, and economic stagnation for Black-led state governments, would be the first, but not the last blows to Reconstruction and the hopes of political and economic racial equality.

Almost every part of the economy in industry and finance had been connected. As one sector collapsed, others followed, until the panic extended to the farthest reaches of the nation, like a line of dominos crashing into one another. It had been the National Banking Act, with its reserve requirements

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[171] Nitschke, 232
[172] Bensel, 264
[173] Office of the Comptroller of Currency, *The Freedmen's Savings Bank*

and encouragement of investment that stacked these dominoes. The competing currencies leading to the specialization of investment and the rise of modern Wall Street only further enhanced the role of finance. Through generous land grants and bond subsidies, government support of the railroads inflated their value and tied more of the economy to their fate. While many of these policies were not necessarily bad, they were unprotected and left open the door to bad actors such as Jay Cooke and the railroad barons who leveraged their connections to dominate investment. There was little oversight or regulations to protect the financial infrastructure of the Nation; and so when one giant collapsed, they all fell. But this failure would not be the end of the crisis as much as Appomattox had ended the Civil War rather the panic of 1873 devolved into the Long Depression.

Chapter III

A Party of Creditors: The Republican Response to the 1873 Panic

For Jay Cooke, the morning of September 18th, 1873, began as any other. The previous night he had hosted a newly reelected President Grant at his Philadelphia mansion. Cooke and Grant had maintained a close relationship as the former had lavishly funded the latter's presidential campaign in the previous year. Similar to his relationship with former Treasury Secretary, Salmon Chase, Cooke had parlayed his considerable wealth into a close political relationship with the leader of the Republican party. On the morning of the 18th Cooke and Grant would share breakfast before Cooke personally took the President to his train to return to Washington. While Cooke treated that morning with a mundanity that a typical Thursday would normally have earned, he was in fact in dire straits. His bank, Jay Cooke and Co, over the past three years had taken on an ever-larger share of the Northern Pacific Railroad, a company whose debts and financial demands had grown dramatically. While Cooke had spent much of the past year attempting to raise funds, much as he had during the Civil War, he soon found interest in investment amongst foreign and national backers had dried up, leaving the railroad, and Cooke, with an insurmountable amount of debt. That previous evening, Cooke had tried to wine and dine Grant in hopes of getting new government aid. However, due to the public's outcry over the previous Credit Mobiler railroad scandal, there was little political appetite for more aid to the railroads. That September was also the beginning of fall and thereby the harvest season, which meant a mass outflow of available capital amongst the major banks to the nation's farmers. Client across the country were calling up their deposits. Thus, a combination of outstanding debt and the demands of depositors and creditors meant that on that September morning, Cooke's bill had finally come due.

At 11 that morning, Cooke received a telegram from his Third Street Bank informing him that the demand for capital was far more than the Bank had on hand or through assets, and that they would be forced to close their doors[174]. With the shuttering of the Third Street branch, the rest of Cooke's enterprise was also forced to shut and Jay Cooke and Co. Had to declare bankruptcy. While Cooke had known of the impending disaster, his hopes that he could avert it made him previously adopt an image of success so as to entice would-be investors. Outside of his small circle of associates, few knew of the dire straits Cooke had found himself in. As word broke out amongst the financial institutions of the Nation, Wall Street, the capital of investment, fell into pandemonium. Cooke, the man who had built the very foundation of investment, through his bond sales, had failed, bringing with him one of the most respected banking institutions and a promising railroad venture. The mask had slipped, and the bubble of railroad enterprise which had dominated the exchange and American investment popped. One witness on the exchange floor described a room of pure mayhem. "Such as has scarcely filled the exchange since it was built. Messengers fled every way with the story of ruin and down came the stocks all along the line"[175]. With Cooke's failure countless other investors, debtors, creditors, and institutions were at risk.

Outside of Wall Street, the nation was left in disbelief and shock. For nearly a decade Jay Cooke had been the face of America's ascendant financial elite, his mass marketing campaigns directly connecting his success with that of the nation. In Philadelphia, a newspaper boy who had been selling news of the bankruptcy was briefly arrested for libel, with the police officer refusing to believe that Jay Cooke of all people could fail[176]. In Cooke's main office, the mood was somber and anxious. Many of Cooke's principle associates were in the room when he received the telegram and the news of his impending bankruptcy. These men had known Cooke for years and had known him to be many things and adopt many roles, salesmen, boss, investor, politician, preacher, all while assuming a state of confidence, in anticipation of his inevitable success. Now, however, a very different man had come in the place of the usual determined Cooke. Upon receiving the telegram, his associates witnessed Cooke break down into

[174] Ellis Paxon Oberholtzer, *Jay Cooke Financier of the Civil War* Vol 2, 422
[175] idib
[176] Idib, 424

tears, for many the first time he had ever displayed such emotion[177]. Cooke wept and Wall Street panicked. And a new sense of dread settled over the nation. Over the next year, it would be up to the national Republicans to lead the nation through the ensuing financial crisis. Their response would be a turning point for both the Party and the Nation. The Republican Party would soon abandon their populist and labor-oriented roots, in favor of supporting the financial elites who had dominated the economic system that was now in collapse. The resulting austerity would only prolong economic suffering and mark an end to the Republican's singular dominance and their political project of Reconstruction.

With panic came demands for capital and liquidity as many of the nation's depositors rushed to secure their money from banks which were now viewed with distrust. Under the system instituted by the National Banking Act, the vast majority of banks had sent a large number of their collected deposits to a handful of reserve banks in New York City. These institutions, in turn, had invested and loaned out the accumulated capital, in many cases into the railroads which Cooke's failure had shown to be a house of cards. This meant that many of the reserve banks were called upon to send back their accumulated deposits and were forced to liquify their assets. Call loans, the short-term loan given to capital-hungry farmers, were called up, and stock was sold. Cooke's largest rival, J.P. Morgan, quickly called up all of his outstanding loans taking out a large amount of available capital and signaling to other institutions the dire stakes of the panic.[178]

The market, already in a tailspin due to the shock of Cooke's collapse, saw a further crash in prices. Given these concurrent crises, action was swift. Two days after Cooke's bankruptcy, on September 20th the New York Stock Exchange ceased trading and closed its doors for the first time since its inception[179]. The exchange would remain closed for the following ten days, and while it may have initially stopped a further devaluation of stock, it deprived banking houses of a means of gaining liquidity. This crisis in turn caused the New York Clearing House (NYCH) to take drastic steps, On

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[177] Idib, 422
[178] Christoph Nitschke, *Theory and History of the Financial Crises*, 234
[179] Nicolas Barreyre, *The Politics of Economic* Crisis, 405

September 24th the Clearing House voted to suspend issuing Greenback currency, much as they had in 1861 at the height of the Civil War. Instead, the NYCH would issue loan certificates to be valid upon the end of the crisis[180]. Each segment of the financial sector, from the Stock Exchange to the Clearing House and the other major banking institutions, all reacted on their own to stop their own bleeding. At no point would there be coordination between each other. While the government, through the National Banking Act, had created a system that tied together the financial institutions, of the nation it had not created an authority to govern them. Banks, stock houses, and investors all were concerned, but there was no governing body to properly coordinate their response to a crisis. The effects were shared but their response was dispersed. By closing its doors, the stock exchange may have helped the major asset holder, but banks needing liquidity were left on their own. The Clearing House's suspension of cash payment may have stopped the bleeding, but it only further harmed its depositors and local banks who had left their capital in reserve with the major New York institutions. Without a central authority, the response would continue to be limited and uncoordinated.

On September 27th, President Grant held a meeting with some of the nation's leading bankers wherein he attempted to reassure them of the government's ability to rescue the banks from the panic. Grant declared to the assembled capital holders that he would use "money in the Treasury [department] to meet the demands of public necessity as the circumstance of the country may require"[181]. While adopting a degree of confidence, Grant's administration was significantly more limited than he claimed. In the government, there was no formal institution or agency that had been given authority to supersede and govern private institutions during times of crisis. In other systems, a central bank with the authority of the government could have regulated private banks and easily offer them an emergency stimulus to placate their depositors. Under the National Banking Act, and the Legal Tender Act, what little government authority there was, rested in the Treasury. The main source of stimulus would be the issuance of

[180] Nitschke, 229
[181] Irwin Unger, *The Greenback Era*, 214-215

Greenbacks, which could provide a temporary injection of liquidity into private banks. However, the Treasury Department under the National Banking Act could not unilaterally issue Greenbacks. That authority was left with Congress, which had set arbitrary limits on the amount of Greenbacks in circulation[182]. Instead, the only recourse the Treasury Department had, was to pay off its massive war debts, which it had accumulated through Jay Cooke's sale of war bonds during the Civil War. Under this scheme, the government could pay off many of the war bonds held by the major banks in a currency of their choosing[183]. The problem with this solution, however, was that the Treasury Department could only pay off these bonds if it had a surplus in the treasury. Further action would require an act of Congress.

In October, Secretary of Treasury William Richardson began to buy bonds with the Treasuries surplus. But even then it was not enough. However, some argued that under the National Banking Act, there was a legislative work around in the issuance of Greenbacks. While the Treasury Department could not issue new Greenbacks, previous administrations had retired some of the currency, which meant that the notes had not fully reached their ceiling of circulation. Thus, Richardson would make the fateful decision to unilaterally reissue $26 million of Greenbacks, which had previously been discontinued under Andrew Johnson's Secretary of Treasury Hugh McCulloch[184]. The legality of this decision was unknown, but it was the only form of stimulus the Treasury could have conceivably introduced. This provided a temporary relief. However, the issue of a broader market collapse still hung over the nation.

While the stock market would open again by October, the New York Clearing House, and thereby the majority of the Nation's reserves would not begin cash payment until November[185]. Attempts to sell more assets, from bonds to stocks, met an increasingly hesitant market. Aside from the injection of Greenbacks, banks attempted to sell more of their war bonds onto the open market. These bonds which had historically been seen as a guaranteed investment, found little demand amongst would-be buyers,

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[182] Unger, 246
[183] Richard Bensel, *Yankee Leviathan*, 261
[184] Unger, 214-125
[185] Barreyre, 405

depriving the banks of any further large infusion of liquidity[186]. With Europe simultaneously going through a depression, major foreign backers retracted their deposits and attempted to sell their assets in American bonds and stocks. This meant there was an outflow of specie (namely gold-backed currency), from the United States to investors abroad[187]. Scarce capital would dramatically affect the rest of the economy, particularly its emerging industrial sector.

Railroads had long been the main source of both foreign and domestic investment, following the end of the Civil War. This growth in turn sustained the emerging coal and iron industries, the bedrock of American industrialization. Further with railroads came an ease in transportation time and costs, which allowed for the growth of American export crops to foreign markets. All of this growth was brought to a screeching halt with the panic, as the capital-hungry investment class began to focus on the flailing railroads. Stocks and bonds in the railroads were some of the first to be sold, and with their sale came new demands by shareholders to see the profitability of their investments. As with Cooke's Northern Pacific, many of these railroad lines simply could not produce the capital required to pay their debts or answer their shareholders' demands. By the end of October, only a month after the crisis began, over fifty-five railroads had failed to make their payments going into either bankruptcy or receivership[188]. Within a year railroad collapse would rise as over a quarter of the entire industry would declare bankruptcy[189]. For those that remained, the continued construction of rail lines would also collapse. In 1872 7,500 new miles had been constructed, by 1875 there would only be 1,600 miles[190].

With the bankruptcy of so many railroads and their decline in growth, the surrounding industries of the railroads also faced a lengthy depression. By 1874 the production of iron and steel had declined by 45%[191]. The depression would grow in the years to come, with 1875 being the height of the crisis, during

[186] Unger, 264
[187] Richard White, *Information, Markets, and Corruption*, 40
[188] Barreyre, 408
[189] Christopher Whalen, *Inflated*, 51
[190] Unger, 265
[191] Barreyre, 408

which coal production would drop by five million tons when compared to production before the panic[192]. By 1878, just over five years later, the iron and coal industries would decline by more than a third each, the largest decline in American history outside of the great depression[193].

Railroad failures and industrial stagnation would initially mostly affect the newly created class of industrial workers. While the majority of the nation lived in rural areas and worked around agriculture, Northern and Midwestern cities had seen massive growth. Many of these new residents were employed in industrial labor, being wage earners with little assets or wealth outside of what was provided by their work. It is estimated that by the winter of 1873, over a quarter of New York City's entire working population was unemployed[194]. The Northern industrial states of New York and Pennsylvania led the nation in unemployment and business closures[195]. The panic had evolved into a depression, bringing thousands of industrial workers and businesses to ruin. No longer was the nation just facing a crisis of confidence in banking, but now it was in the midst of its first great industrial depression.

Following his immediate actions on September 27th, President Grant was relatively confident in the success of his administration and the well-being of the American economy. Since the end of the Civil War, the United States under Republican governance had seen record growth with little downturn and certainly no major financial crises. In the early months of the depression, Grant's attitude bordered on the dismissive at one point remarking:

> "The money corporations have become stampeded and in turn startled the whole country… the effect is going to be beneficial in many ways to the country at large though the cost to some individuals may be severe"[196].

[192] Unger, 265
[193] Bernstein, *American Labor in the Long Depression*, 60
[194] Barreyre, 409
[195] Bernstein, 61
[196] Nitschke, 229

Grant, like many other political leaders, had never presided over a crisis of the nature of 1873. Before the Civil War, the United States had witnessed a series of bank panics, however, in those instances there had not been a unified financial system to spread its effects beyond certain banks. Further by the time Grant, a career military officer, had entered politics, the National Banking Act and its subsequent growth had been an established part of the nation's political economy. As the depression expanded, Grant and the government's inaction proved to be untenable, with the question becoming what was to be done to solve this unknown crisis.

The political debate quickly began to center on the government's previous response, the reissuing of the $26 million Greenbacks, its legality, and what the government could do to further alleviate the capital issues the nation faced. This, in turn, resurfaced a debate that had been simmering under the tranquility of post-war economic growth, namely the value of the Greenback. To many of its opponents, particularly those with large gold assets, Greenbacks represented inflation and a dramatic government overreach. The newspaper, Merchants Magazine and Commercial Review, a mouthpiece of major bankers, had once written of the possible expansion of Greenbacks:

> "[its] none the less a mistake…is an association by Congress of the dangerous power to increase, diminish and regulate the money of the country, according to its own views from time to time…It is a resolve not to let the currency alone, and leave it to be regulated by the laws of trade but to interfere with it by artificial measures. For the express purpose of affecting…the relationship between debtors and creditors"[197]

Many of these Greenback opponents were affiliated with the nation's largest capital holders particularly bankers who desired to grow ties with their gold-aligned peers abroad. These groups argued not only against using Greenbacks as a stimulus but also further retracting them and moving the country back to the gold standard. Additionally, under a policy of resumption of gold the Bank Notes, the

[197] Bensel, 321

currency of the banks, would be redeemable for the much more valuable gold rather than Greenback[198]. If the government were to move towards gold, those with already large amounts of assets and notes would be further enriched. The only way to bring about resumption would be for the government to purchase Greenbacks out of the system (mainly through the purchase of war bonds)[199]. The result of retraction would mean that the nation would be under the much more conservative gold standard leading to deflation of the economy, quite literally taking out more capital from the system.

Initially, the debate had been put on hold in the late 1860s by Grant's first Treasury Secretary George Boutwell. Boutwell had pursued a policy of allowing the economy to grow, with the government using its revenue surplus to slowly exchange out Greenbacks for Gold[200]. With the panic, any hope of allowing natural growth to solve the issue of currency was thrown out the window. Further, the actions of Secretary William Richardson had brought the issue of Greenbacks back to the forefront of American politics.

The proponents of Greenbacks were a coalition of workers and farmers, individuals with little assets outside of their income and thus dependent on the Greenback. Deflation would only hurt the small farmers by driving down their prices while providing little aid to unemployed industrial workers. Farmers in particular were increasingly radicalized against gold resumption and its deflationary effects. Many farmers were locked into mortgages for their property, which if paid in inflationary Greenbacks, were significantly less expensive than the rare gold[201]. Many farmers came to view resumption as a direct government intervention on the side of the wealthy against the farmer.

Other supporters of Greenbacks argued that their stimulating effects would allow for the growth of the economy, the only way to save the nation from the growing depression. The Republicans'

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[198] White, *Republic for Which it Stands*, 184-185
[199] Bensel, 261
[200] Department of the Treasury, *Report of the Secretary of the Treasury on the State of the Finances for the Year 1869*
[201] Jeremy Atack, *The Farm, the Farmer, and the Market*, 278

economic wise man, Henry C. Carey, had long supported the Greenback as a natural part of exchange. Carey argued that artificial caps or an end to the Greenback only inhibited American exchange. In an 1865 letter to Schuyler Colfax, then speaker of the house, but eventually Grant's Vice President, Carey wrote:

> "Had they [congress] omitted all restriction on the Greenback they might have found as in the case of the smaller notes that the people understand better what they need than did their legislators"[202]

This sentiment was shared by a handful of eccentric entrepreneurs and economists, who had distanced themselves from the large capital-holding bankers. George Francis Train[203], ironically a prominent engineer and organizer of major railroads, was an enthusiastic supporter of the Greenback and declared "Give us Greenbacks we say, and build cities, plant corn, open coal mines, control railways, launch ships, grow cotton, and establish factories"[204].

Labor unions following the Civil War had grown with industry. By 1872 according to some counts, there were thirty-two national unions operating in the country, boasting over 300,000 members[205]. With the industrial depression came a collapse in their membership as many of the manufacturers where they had become established closed their doors. While no precise number for national decline exists, it is estimated that in New York City alone, unions would see a decline in membership of more than 9,000[206]. The demands for a stimulus to save industry and thereby the labor movement grew amongst the working

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[202] Henry C. Carey, *The Way to Outdo England without Fighting Her*, 134

[203] Train, during the course of his career developed a reputation for eccentricity. He ran for president as an independent on a platform of temperance and women's suffrage. At one point he claimed that his exploits in helping organize the Union Pacific Rail inspired Jules Verne's protagonist in *Around the World in Eighty Days*

[204] Unger, 46

[205] Bernstein, 66

[206] Idib, 68

class. By 1873, one of the nation's leading trade unions, the Industrial Congress, would introduce a platform supporting the Greenback as opposed to the resumption of the gold standard[207]

Even many of the leading manufacturers, though notably not some of their primary investors, became supporters of Greenbacks. As with George Train and the labor unions, manufacturers viewed the Greenback as the only way to easily stimulate and in fact, inflate the economy. The American Iron and Steel Association declared support for the Greenbacks, demanding "a financial system adequate to the largely increased and increasing business need of the country"[208]. Thus, supporters of the Greenback had adopted a full-throttled defense of government intervention, a rejection of classic economics, and an embrace of a proto-Keynesianism. Laborers, farmers, and manufacturers had joined together across class to demand the government intervene to stimulate the economy. Their opposition of large capital holders, argued that Greenbacks would further bring about financial ruin, with any potential government action grossly overstepping its boundaries. While private debate raged, as with the crises of the Civil War, the ultimate decision would once again lie in Washington with its Republican administration.

Grant's position on the resumption debate was relatively unknown. He had been chosen by the Republican party due to his status as a hero of the Civil War, meant to unite the party, much as he had the country. He had been elected on a platform of continuing political Reconstruction and overseeing growth and prosperity, he could not fully be categorized in either camp of the issue of currency. While he had become famous for his decisive leadership on the battlefield, as President his economic strategy was significantly more disorganized. In his first inaugural address he had declared repaying the national debt "a peculiar interest in maintaining the national honor" He would go on to state:

[207] Unger, 227
[208] Idib, 222-223

> "How the public debt is to be paid or specie payments resumed is not so important as that a plan should be adopted and acquired in united determination to do is worth more than divided counsels upon the method of doing"[209]

Initially, Grant had forged a reputation for himself as a leader above the inter-partisan discourse. He chose to withhold fully supporting one side or the other, in order to maintain a united administration.

As evidenced by his initial remarks on the onset of the panic, of its potential upside, Grant had clearly not been prepared for the crises he found himself in. Now with the debate over Greenbacks and national resumption taking center stage, and with there being demands from across the political spectrum for some form of action be it contraction or stimulus, Grant was once again called to work. It may have been the hope of many congressional Republicans and everyday citizens for the President to once again show his skills at leadership and devise a plan to save the country much as he had during the Civil War. In this, their hopes would be dashed, as the old general did not so much as lead but rather avoid. In a speech to Congress, Grant declared that the Greenback currency was "the best that has ever been devised"[210]. However, in that same speech, he also argued of the panic:

> "However much individuals have suffered one long step has been taken toward specie payment; that we never have permanent prosperity until a specie basis is reached; and that a specie basis cannot be reached and maintained until our exports pay for our imports…To increase our exports sufficient currency is required to keep all the industries of the country employed…Undue inflation, on the other hand…would only lead to inflation of prices…Elasticity to our circulationary medium, therefore, and just enough of it to transact the legitimate business of the country"[211].

[209] Miller Center, *First Inaugural 1869*
[210] Unger, 216
[211] Miller Center, *Fifth Annual Message 1873*

In his speech, Grant had both praised the Greenbacks and the policy of resumption. He had called for the stimulating of national industry but also declared inflation to be a clear danger. He had adopted the arguments of both sides and importantly, nowhere in the actual speech had he offered a clear solution. While he seemingly supported an elastic currency regime, he did not actually define what that meant. He did not argue for producing more Greenbacks nor did he argue for retracting them. At the end of his speech, Grant would go as far as to tell Congress that he did not expect them to adopt his positions "literally"[212]. The gauntlet had been left to Grant to take, which he had promptly passed to Congress. It would be the Republican Senate and House which would be left to craft some form of a solution, with Grant willingly taking a back seat to the legislature.

Congress was marked, as with the White House, by Republican dominance in the years following 1860. Republicans maintained comfortable majorities in both chambers, the then-current Congress was in fact the height of the party's political power. The previous election, 1872, had been such a landslide that the Democrats had failed to field a candidate, instead relying on an offshoot of the Republicans, the Liberal Republicans led by Horace Greeley, to run as opposition to Grant[213]. Greely would lose by a landslide, demonstrating that even a split within the Republican party could not provide an opening for any oppositional figure, much less a Democrat. One could be forgiven for believing that the nation had become a one-party state. Following the election of 1872, the House of Representatives had the largest Republican majority in the party's history, constituting nearly 70% of the chamber[214]. While the party had a supermajority this did not mean it was completely unified. Rather the party's sheer size meant that at more than any other time, there was room for disagreement and conflict. The Republican party of 1874 had members from almost the entirety of the country, being represented by nearly every group and region that held political power in the nation. It was the party of the New England merchants, the Western

[212] Unger, 216
[213] American Presidency Project, 1872
[214] US House of Representatives, *Party Divisions of the House of Representatives*

farmers, the newly freed Southern Black Americans, and the laborers of the North. All of these groups had differing material desires and political agendas, for which the Greenback debate became a catalyst.

Given this division, Congressional leaders in both the Senate and the House held a series of hearings and debates to gauge the mood in the party. In January of 1874, the House's Banking and Currency Committee held hearings on the Greenback and the issue of debt repayment. There, major bankers, primarily from New England and New York led by Henry P. Kidder, testified against Greenback reissuance, including the emergency stimulus provided to them by Treasury Secretary Richardson[215]. In contrast, struggling railroad and steel interests offered a full endorsement of flexible currency in the form of the Greenback. Congressmen Daniel Morrell, a Pennsylvanian Republican, former iron manufacturer, and a close ally of the industry, argued on the floor:

> "[if congress] decided that we are to have an extended currency [Greenback] railroads would resume their orders and the iron industry would recover. The 'question of inflation' would determine whether the industry would survive"[216]

Eventually in the House a coalition of pro-Greenback and anti-deflationary congressmen formed. Led by former Democrat and Civil War general[217] turned Republican, Massachusetts Congressman, Benjamin Butler[218], this coalition would encompass Midwestern and Western Republicans and even gain support from Western and Southern Democrats[219]. Butler would fully support the Greenback, with his allies refusing to support immediate debt repayment and gold resumption. In the Senate, legislation proceeded at a more moderate pace. Their legislating would be spearheaded by the Chairman of the Ways

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[215] Unger, 219
[216] Idib, 222
[217] As a general, Butler would institute the so-called "contraband system", wherein he declared escaped slaves to be contraband of war, and therefore he was under no obligation to return them to their southern masters, a policy that had previously been followed by other Union generals. The contraband system would ultimately become the foundation of Lincoln's Emancipation Proclamation.
[218] Butler during the Civil War had been a prominent War Democrat, one whose fame was so great that it has been rumored that President Lincoln even offered him the position of Vice President, a role which Butler supposedly turned down.
[219] Unger, 219

and Means Committee, and the initial architect of the National Banking Act, John Sherman. The creator of the ruined financial system was now charged with developing a plan to save it. Sherman's legislation treated the resumption of gold as an inevitability, with the question being not being if but when. By all accounts, Sherman himself did not take a hard stance either way. Instead, he worked with moderates to craft a bill that extended the amount of Greenbacks in circulation while still keeping a hard ceiling on them, with the hope of moving toward gold within three years[220].

Ultimately Sherman's Senate Moderates and Butler's Bipartisan Radicals would come to an agreement in legislation that would infamously be dubbed the "inflation bill". Under this legislation, Greenbacks would still be placed under a ceiling but with an increase of $18 million for a total ceiling of 400 million. Additionally, National Bank Notes would be expanded with $46 million in new notes to be given to new institutions[221]. The hope was that this would help elevate some of the worst of the regional bank inequality, which had mostly affected the South and West. In total, it would stimulate the economy through the addition of $64 million in new notes. The ceiling on the Greenback and Bank Note remained but, there would be no attempts to create a central bank or monetary authority, and future currency debates would remain under Congress's purview. The Act, however, unlike Sherman's initial legislation, did not formally put the government on a definitive path to gold resumption. The Act, like so many other financial policies, was a compromise. The monetary expansionists had an increase but no definitive victory, and the resumptionists could still fight another day and win the currency war.

The bill's passage would only further divide the Republican party, as sectional fissures emerged in Congress. The Senate, with its more moderate membership, would narrowly support the bill by a margin of three votes, while the House passed the bill with a majority of 38[222]. The bill would receive

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[220] Unger, 217
[221] Idib, 235-2366
[222] Charles Francis Adams, *the Currency Debate*, 115

some bipartisan support, notably with half of the Western Democrats voting for the bill, however nearly every Republican in New England[223], New York, and New Jersey voted against the it[224].

Outside of Congress the media's reception would be equally regionally divided. *The Cincinnati Enquirer*, a midwestern publication in an industrial state hit hard by the depression, wrote in support of Greenback expansion. "Why should we all toil and moil when the Treasury could if it pleased foot our bill without loss to anybody"[225]. The opposition, however, would be significantly more enraged at this bill's passage. The historically Republican magazine, *The Nation*, with its headquarters in New York and its long-standing ties to Republican financial elites, hyperbolically attacked the bill as an attack on civilization itself:

> "The seizure of the government by the inflationist would in fact mean that for the first time since the fall of the Roman Empire, the affairs of a vast society had passed into the hand of its most ignorant and unscrupulous class"[226]

To *The Nation* and other hard money supporters, the Inflation Bill was an attack on the basic economic foundation of the nation. For these supporters, the well-being of merchants and bankers should inherently be a priority for the country. In contrast, inflationary policies as supported by farmers and laborers were branded as populism run amok. Gold standard supporters had thrown away any subtlety of the debate and had made it one specifically of class, pitting the creditors against the debtors.

While Congress voted for the Inflation bill, and the media debated it, ultimately its final passage would lie with the man who had previously avoided its very debate. Grant, since his infamous address to Congress, had stayed out of the political spotlight, preferring to allow Congress to debate and craft the legislation. However, while Grant had purposely not introduced his own plan he had notably not endorsed

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[223] With a few exceptions, most notably Benjamin Butler
[224] Unger, 255
[225] Samuel Rezneck, *Distress, Relief and Discontent,* 505
[226] Idib, 504

Congress's either. By all accounts, Grant was genuinely unsure of what to do on the issue of currency in the economy. The day before the bill's passage in the House, April 15th, Grant would begin a series of meetings with major New York and New England bankers, who had hoped to personally sway him to come out against the bill[227]. The bankers were not alone in trying to sway Grant's opinion, as pro-expansion groups also sought to lobby him personally. In one memorable instance on April 17th, while meeting with a group of major New York bankers, Benjamin Butler personally barged into the White House to interrupt the meeting and try to convince Grant of the bill's necessity[228]. In part because of Butler's interruption and Grant's relatively warm reception to the congressman, many in both Washington and New York believed that Grant would sign the bill[229].

Grant, however, would surprise the nation when on April 22nd he vetoed the bill and denounced the effort of monetary expansion. In his veto message, Grant wrote of the stimulus effort, "The theory [for Greenbacks], in my belief, is a departure from true principles of finance, national interest, national obligations to creditors"[230]. Grant would later, go on to threaten to veto any further expansionist legislation and called for a bill to repeal the Legal Tender Act and thereby end non-specie-backed currency[231]. While never the most ardent supporter of the Greenback or monetary expansion, Grant had certainly changed his position from apathy bordering on ignorance to full-out denouncement. His defense of the nation's creditors in turn aligned him with gold's biggest proponents in promoting the interest of the pre-existing capital holders. A decade ago, Lincoln had led the Republicans in defense of the common laborer arguing "Capital is only the fruit of labor and could never have existed if labor had not first existed"[232]. Whereas Lincoln praised the worker, Grant defended the banker.

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[227] Unger, 240
[228] Idib, 241
[229] Idib, 242
[230] Miller Center, *Veto Message 1874*
[231] Unger, 245-246
[232] Heather Richardson, *The Greatest Nation of the Earth*, 16

Reaction to Grant's veto was swift. Congress briefly attempted to override the veto however it would fail to garner the two-thirds vote necessary in the Senate[233]. Amongst conservative Republicans, the mood would be ecstatic. One of the few Ohio congressmen to oppose the bill, and future president of the United States, Andrew Garfield, exclaimed that Grant by being given the opportunity to veto the bill was "one of the luckiest men that ever sat in the presidential chair"[234]. The conservative newspaper *Harpers Weekly* would write:

> "The President's veto of the inflation bill is the most important event of his administration…it saves the national honor, it redeems the pledge of the great popular majority which elected him it renews the hope of the Republican party and it restores the old regard of the country for the citizen whom it had so gladly honored for his great service in the filed"[235].

Amongst supporters of Greenbacks and expansionism, the veto was met with disbelief and anger. In a sign of the impending difficulties the Republicans would encounter, the Midwest in particular was livid. One Midwestern representative questioned of Grant, "Has he gone over to the enemy? Does he wish to break up the Republican party by his infernal veto?"[236].

For the rest of the Congressional session, until the 1874 midterms, Congress would do relatively little in regard to financial policy. While support for gold was gaining in the party, it was still not enough to form a working majority amongst the Republicans, leading to paralysis. The only notable legislation that did pass was the creation of a new government agency to redeem old National Bank Notes. Under the system, banks could send their notes to the government to receive new ones[237]. In practice, this simply meant that worn-out and torn notes could be cosmetically replaced, although it did set a further logistical

[233] Adams, 115
[234] Barreyre, 415
[235] Idib
[236] Idib, 416
[237] Rockoff, 669

precedent for eventual gold-backed resumption. Fiscally, however, the act had little effect on the actual economy of the nation. For all intents and purposes, the government was done managing the crisis.

With little additional stimulus, the economy would only further collapse with the depression lasting until 1879. Over the next three years, over half of all railroad companies would declare bankruptcy or enter into receivership[238]. Railroad bankruptcies alone would see the loss of over $814 million in rail bonds. Bankruptcies would skyrocket over the course of the depression, with over 54,000 businesses failing. Their total asset loss would be estimated at $1.3 billion[239]. The price of cotton would decline by over 50% by 1877, a dramatic blow to many Republican-controlled Reconstruction governments in the South[240]. Labor unions continued their steep decline, and while no exact record exists of total membership, Samuel Gompers would testify that by 1877 there were less than 50,000 union members in the entire country[241]. The Federal Reserve estimates that the depression lasted until 1879 for a total of 65 months, to date the longest period of economic contraction in the nation's history, even eclipsing the Great Depression of the 1930s[242]. While the Depression ended in 1879, further banking recessions in 1882, 1887, 1890, 1893, and 1899 meant a period of continued financial instability giving the era the name the Long Depression[243].

The political reaction to the Republican's failed agenda would be swift and merciless. The 1874 midterm would be a landslide for the Democrats. George Templeton Strong would describe it as the Republican's Waterloo[244]. The Republicans would lose a record 96 house seats, nearly half of their caucus, and at that point the largest congressional loss in the history of the country[245]. Their supermajority

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[238] Barreyre, 408
[239] Bernstein, 61
[240] White, *The Republic for Which it Stands*, 276
[241] Idib, 68
[242] NBER, *US Business Cycle Expansions and Contractions*
[243] Idib
[244] Barreyre, 416
[245] In the House, this loss would only be eclipsed by the 1894 midterm when the incumbent Democrats presiding over their own recession would lose 116 house seats. However, 1874 still remains the greats midterm loss for the Republican party.

of 70% would shrink to a 37% minority[246]. For the first time since 1860, the Democratic party would take control of a branch of Congress, taking away the Republican trifecta which had existed since Lincoln's inauguration. It was only thanks to staggered elections that the Republicans would be able to keep the Senate, albeit at a reduced majority. Both monetary expansionists and fiscal conservatives would suffer defeat, notably with Benjamin Butler even losing reelection to a rising tide of discontent[247]. With the exception of Butler and a handful of others, losses would be concentrated in the industrial Midwest and South, with almost total losses for the Republicans in Illinois, Ohio, and Indiana[248]. These losses particularly in Indiana correlated directly with the severity of the economic depression[249]. Further throughout the North, turnout amongst nominally Republican-leaning voters plummeted, allowing Democrats to win many of the party's former strongholds[250].

In the South political and racial violence would return with a vengeance directly leading to a Democratic landslide. During the leadup to the election, on Easter Sunday of 1873, one horrifying incident in Louisiana would stand out. In the Black majority town of Colfax (named after the incumbent Vice President), in the parish of Grant (named after the President), a White mob would attack and execute over 150 Black men[251]. One Black witness would later recount the violence and intimidation that spread through the South, during the election:

> "Democrats would say to us 'that you all is trying to follow these carpet-baggers, scalawags, and negro leaders, and just as long as you follow them we are going just to kill you as we did them'"[252]

[246] Barreyre, 416
[247] Robert Mitchell, *The First Midterm 'Wave' Election*
[248] Barreyre, 416
[249] Idib, 417
[250] White, 274
[251] Idib, 279-280
[252] Idib, 280

In large part through this campaign of violence, Democrats would gain complete control over much of the upper South and deep South, allowing them to begin the process of rolling back political Reconstruction and Civil Rights. Republicans only narrowly held control of South Carolina, Louisiana, Mississippi, and Arkansas, control which would be overthrown by 1876[253]

For nearly the totality of the next 20 years the Republicans would face a divided government with the Democrats retaining either the House or the Presidency[254]. This would, for all intents and purposes, doom their legislative agenda. The party would be unable to pass any further Civil Rights legislation and would witness Reconstruction's political failings as White Democratic rule would be instituted via a brutal regime of violence. When the Republicans had first taken control of the nation, in 1860, they had pursued an economic and political program to develop and grow the nation for the betterment of its laboring classes. However, when the financial system that they had created collapsed under the strain of negligence and corruption, the party could not pass an agenda to end the crisis. Instead, its leadership would side with the nation's few creditors over its many debtors and follow a policy of austerity and deflation. This would only strengthen the financial elite at the cost of the laborer and smallholder whom the party had initially venerated. The following decades would see economic uncertainty and political division. The era of Reconstruction entered its twilight and decline, the Gilded Age had begun.

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[253] Idib, 276
[254] Richard Schneirov, *Thoughts on Periodizing the Gilded Age,* 209

Conclusion

A Coda

Following their landslide defeat, the Republicans would face a divided Congress and a weakened presidency, before this however, they would be left with a lame-duck Congress and a race to craft last-minute legislation. The last two major acts of unified Republican governance would concern the party's economic agenda regarding monetary policy and their political agenda regarding Reconstruction. On the financial front, thanks to pressure from a newly gold-evangelized Grant and congressional leadership, the party would craft and pass legislation to formally move the nation back onto the gold standard. It was far too late to rebuild the party's image (and may very well have been unpopular amongst the public), however, it would further unite the Republicans behind a conservative economic ideology. The Resumption Act would set a process for the retirement of the Greenback, substituting it for gold-backed bank notes. The act would establish an official time frame for resumption of 1879, giving the Treasury Department four years to enforce the change[255]. Passage of the bill would be done almost entirely by Republicans with universal Democratic opposition. Many supporters of the gold standard would not be completely satisfied as even though they had won the ideological war they believed the time frame was too long and resumption should take place immediately. Thus, in a historical irony, Western and Southern Democrats would be joined in their opposition by almost the entirety of the Republican's New England delegation[256]. Opposition, however, would not stop the bill's passage and it would be signed by Grant in 1875.

In the long term, the return to gold continued the deflationary pressure the American economy would experience. As part of resumption, federal bonds would be paid in gold instead of Greenbacks. This meant large creditors, particularly banks and financial elites who had bought bonds initially with

[255] Unger, 263
[256] Idib, 259

Greenbacks, would see a windfall of profits. Not only did they gain off interest on the bond, but the base value would be significantly larger as gold dollars were worth more than Greenbacks[257]. While the government was instituting austerity for the economy at large, they would be subsidizing major creditors. The United States would not be the only country to join the gold standard, as many European nations would follow suit. This all meant the world's gold supply would lag far behind economic growth for the next twenty years. This caused continued capital starvation and deflation for the American economy[258]. Every year until 1897 would see prices drop by 1% putting increased pressure on the smallholding producer[259]. Western farmers would feel the brunt of this policy, continuing their political alienation from the Republican party.

The last major act of federal reconstruction would be the Civil Rights Act of 1875. This legislative crusade would be led by Benjamin Butler, who would attempt to rally Congress to pass the bill. In its initial draft, the Civil Rights Act would have banned racial discrimination in all public spaces, including offices and schools[260]. However, moderate Republican hesitancy would cause the bill to be significantly weakened. Instead of a uniform ban on discrimination, the bill would only apply to hotels, theaters, and railroads. Further enforcement could only be accomplished via litigation, putting Black Americans at risk of violence and pressure to drop any lawsuit[261]. The bill would be practically unenforceable and would eventually be struck down by the Supreme Court in 1883.

Federal Reconstruction would be brought to an end three years later following one of the nation's most contested and controversial elections, the Presidential election of 1876. In that campaign, a still weakened Republican party would face a resurgent Democratic opposition. The Republicans would pass over Grant's bid for a third term and instead choose the Ohioan Rutherford B. Hayes. While Hayes distanced himself from Grant, he would still embrace the platform of resumption and fiscal conservatism.

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257 White, 371
258 Hugh Rockoff, *Banking and Finance 1789-1914*, 662-663
259 White, 374
260 Idib, 286
261 Idib

Notably, however, his campaign would not release any plan or articulate any agenda to help the nation's newly unemployed, a trait shared by the Democrat nominee Samuel Tilden[262]. Instead, Hayes would focus on attacking Tilden on cultural issues, attempting to connect him to previous Democratic support for the Confederacy and its ties to the catholic immigrant population. In the words of one Republican strategist, Hayes ran a campaign against "the Pope and Jefferson Davis"[263]. Even with this hard-fought campaign, the shadow of the depression loomed over the election, depriving the Republicans of much of their support. Election day would see the highest turnout amongst the White voting populace in the history of the nation[264]. Black Americans, however, would not see as dramatic of a turnout, as the South would once again be marred by political and racial violence. Additionally, even with high turnout, corruption would be endemic throughout the nation, in South Carolina alone there would be more votes cast than eligible voters[265].

The result would be one of the closest elections in the nation's history. Hayes would carry much of the North but would lose a series of crucial states most notably New York and Indiana, in the latter's case being the first Republican to do so since 1856[266]. The election would come down to three disputed southern states, South Carolina, Louisiana, and Florida, whichever candidate won them would win the election. As previously described, South Carolina's egregious ballot stuffing had already made the results suspect. In the case of Florida, not only would the vote be disputed, but owing to the divided nature of the state government (following Democratic victories in 1874), there would be competing electoral slates. One group of electors would be formed as they claimed that Hayes had won, and thus they would vote accordingly when the electoral college would meet; while two other slates argued Tilden had won. Finally in Louisiana, the state's electoral commissioner, in charge of overseeing the vote count, would attempt to

[262] Idib, 328
[263] Idib, 327
[264] Idib, 328
[265] Idib, 331
[266] American Presidency Project

solicit a bribe from either campaign with the promise that he would ensure that their campaign would win the state[267].

Importantly, this disputed result did not mean there was an electoral deadlock. Once the dispute was resolved one candidate would have enough electoral votes to be declared the winner. If the election had ended in a deadlocked electoral college, then the path forward would be clear. As articulated by the constitution the House of Representatives (controlled by the Democrats), would choose the President, while the Senate (controlled by Republicans), would choose the Vice President. However, because the issue lay in the electoral votes themselves, not their distribution, there was a degree of uncertainty. The constitution had not specified what happens if a state has competing electoral results. Thus, a divided Congress was forced into a Constitutional crisis a mere 11 years following the Civil War[268].

Ultimately it was decided that a commission led by Supreme Court justices would decide which electoral slate would be the winner for each disputed state. The Commission for every state voted in favor of Hayes and the Republicans, giving him a majority. However, the Democratic-controlled House could still vote to overturn this result. Eventually, a compromise was reached, in return for allowing him to win the election, Hayes promised to remove all federal troops from the South, thereby ending federal Reconstruction[269]. This would not mean the end of the effort for Reconstruction, to argue such would be a gross oversimplification and frankly an insult to the many Black and White Americans who for years following this decision risked their lives to continue to fight for the promise of racial equality and democracy in the South. It did, however, mean that the government would do little to help and protect those efforts, as violence and intimidation only further proliferated. By the 1890s, States throughout the South would adopt Jim Crow constitutions formally establishing one-party rule built off White supremacy, a regime that would exist for the following 74 years. If the Republicans had kept the House in

[267] White, 331
[268] At one point former general and the Democrats' presidential nominee in 1864, George McClellan, raised the possibility of marching an army onto the capital, to forcefully bring an end to the disputed contest.
[269] Idib, 382

1874 or improved upon their result for 1876, the course of Reconstruction and American history may have looked very different than the tragedy it is associated with today.

Reconstruction would not be the only issue Hayes would face as the lingering fallout from the depression would continue to wreak havoc on the economy. By 1877, many railroads which continued to exist had consolidated and had begun to follow a policy of enriching their stockholders through generous dividends[270]. In many cases, given the continued dismal state of the economy, this would come at the expense of workers' wages and employment. In the beginning July 1877 of the Baltimore and Ohio railroad, one of the country's oldest, would raise stock dividends by 10% while cutting wages across the board by 10%[271]. Given the financial difficulties many of the employees already faced, this decision would be a breaking point. A strike began in Camden Maryland before spreading to Martinsburg West Virginia[272]. The strikers physically blocked or took over entire rail lines, bringing industry to a halt. While initially most of the demonstrators were railroad employees, their numbers dramatically inflated as much of the nation's unemployed joined their protest. By the end of July almost the entire country would see similar strikes, with only New England and the Deep South being spared[273]. Given the size of the strike, the Hayes administration took dramatic action. For the first time in American history, Hayes ordered federal troops to personally break the strike[274]. Thus within just a few short months, American soldiers would go from protecting voting rights in the South to crushing striking workers in the Midwest. The Republicans had once again chosen the side of capital, against the laborer.

The remainder of the Gilded Age would see divided and close elections, for the presidency, the margin of difference in the popular vote between the two parties until 1892, would never exceed 1.4%[275]. This resurgence of partisanship however did not apply to the realm of monetary policy. Both the

[270] Idib, 346
[271] Idib
[272] Idib
[273] Idib, 341
[274] Idib, 347
[275] Schneirov, 209

Democrats and the Republicans would adopt a platform supporting the gold standard. Neither party would attempt to dramatically reform the National Banking Act. Outside of a distant third party (initially the Greenback Party which would later be succeeded by the Populist Party), a fiscal and monetary census would emerge in favor of economic conservatism. It would ultimately be the Democrats who would break with this status quo. On July 9th, 1896, during the Democratic convention for that year's presidential election, a 36-year-old[276], and former two-term congressmen, from the far-flung Western state of Nebraska, captured the party and the Nation's attention. William Jennings Bryan had emerged onto the political scene. To the assembled delegates, Bryan would give one of the most influential speeches in American political history, his famous Cross of Gold. He began his speech by rhetorically questioning the supporters of the standard and their elitist preferences:

> "But if he [supporters of gold] means to say that we cannot change our monetary system without protecting those who have loaned money before the change was made, I want to ask him where, in law or in morals, he can find authority for not protecting the debtors when the act of 1873 was passed when he now insists that we must protect the creditor".

From there Bryan would denounce the status quo and call the Democratic party to action for a crusade against the gold standard:

> "My friends, it is simply a question that we shall decide upon which side shall the Democratic Party fight. Upon the side of the idle holders of idle capital, or upon the side of the struggling masses?... The sympathies of the Democratic Party, as described by the platform, are on the side of the struggling masses, who have ever been the foundation of the Democratic Party…Having behind us the commercial interests and the laboring interests and all the toiling masses, we shall

[276] Just one year older than the constitutionally mandated minimum age to seek the Presidency, to date the youngest major party nominee in history.

answer their demands for a gold standard by saying to them, you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold"[277]

From this speech, Bryan would receive a standing ovation and the party's nomination. While he would go on to lose the election, he would cast a long shadow over the party for the remainder of his career. Bryan would receive the presidential nomination for two more elections and would become a kingmaker in the Democratic party. While the transformation would not be instantaneous as conservative forces remained in the party, change had begun. In his speech, Bryan had articulated a vision of a Democrat party purposely on the side of the worker against the capital holder. If Grant's veto of the Inflation Bill was a turning point for the Republicans, Bryan and his Cross of Gold was one for the Democrats. From this point onward the Democratic party would begin its long march leftward, culminating in the election of Franklin Delano Roosevelt and the end of the gold standard.

The circumstance that led to Bryan and the collapse of Reconstruction in 1876, had resulted from the actions of political and financial leaders throughout the country. This paper has covered a handful of individuals who, through their own actions and choices, shaped the Nation's history. Following 1874 many of these individuals would continue to have impactful careers and attempt to influence the United States. Their final acts and legacies would ultimately mirror the Republican and Nation's own economic evolution in the following years.

Salmon Chase, the Treasury Secretary who had brought in Jay Cooke and helped build the National Banking System, left his post in 1864. He would briefly make an abortive attempt at the presidency but would quickly end his campaign. As a (rather generous) consolidation prize, Lincoln nominated him to become Chief Justice of the Supreme Court. Chase would serve in this position until his death in 1873. During his tenure, Chase would return to the Democratic party and his Jacksonian roots, as he would adopt an increasingly conservative monetary outlook. In November 1869 he wrote the majority

[277] History Matters, *Bryan's Cross of Gold Speech*

decision for the case Hepburn v Griswold. In it he would declare the Legal Tender Act, which he helped draft, illegal, and the Greenback, which boasted his own face on the currency, to be unconstitutional[278]. As this ruling would be in the early days of his administration, Grant immediately nominated two new justices to the Supreme Court, who the following year would form a majority and overrule Hepburn v Griswold and reestablish the legality of the Greenback[279].

John Sherman would have a long and distinguished career in the Senate. In 1876 he was chosen by Hayes to be his Treasury Secretary. Under his tenure, the United States formally joined the gold standard and abandoned the Greenback. Following his four years of undoing his previous legislative achievement, Sherman returned to the Senate.

Henry C. Carey would spend much of his last years writing in support of Greenbacks and the need for an expansionary monetary policy. While many of his later warnings would prove to be incredibly prescient, his influence in the Republican party and national discourse would steadily wane throughout the 1860s and 1870s. He died in 1879 at the age of 85, having dedicated almost his entire life to crafting and defending his expansionist economic platform.

Benjamin Butler, following 1875, would leave the Republican party and joined the newly formed Greenback Party. He was the party's nominee for President in 1884 but placed a distant third. He would eventually rejoin the Democratic party and run successfully (and in many more cases unsuccessfully), for a series of elected offices in Massachusetts. Throughout his political career, including his many years in the political wilderness, he never abandoned his stance for the return of Greenbacks and Reconstruction.

Following the end of his presidency, Grant would attempt to repair his public image with an eye toward running for a third term in the 1880 election. To distance himself from the stigma of economic collapse and his administration's many scandals, Grant embarked on a world tour. It was an incredible

[278] Lowenstein, 319
[279] Idib, 320

success, as Grant brought along with him a reporter from the *New York Harold* who wrote a regular column on Grant's travels and adventures[280]. As part of his shadow presidential campaign, Grant regularly commented on domestic politics while abroad, imparting his advice and positions. In 1877 while the great railroad strike gripped the nation, Grant traveled to Germany. There he met German Chancellor Otto Von Bismarck, and the two discussed the rise of labor agitation. At the time Grant tried to bolster his position as the candidate of law and order. Grant would say that in his meeting with Bismarck, they had agreed that the only way to stop "socialist" agitation like the Great Strike, would be to have "blood in the streets"[281]. Unlike in 1874, Grant did not offer a confused and contradictory economic program. Instead, the old general had reverted to his roots as a military strategist and had identified a clear enemy, that of the striking laborer, which he would go on the political offensive against. Ultimately this hardline stance would not be enough to overcome his previous scandals. He lost the nomination in 1880 to his erstwhile ally James Garfield.

The Freedmen's Bank following the machinations of Jay and Henry Cooke would be debt-ridden and assetless. Frederick Douglass' brief tenure would not be enough to turn around the bank's fortunes and the institution was shut down by June 1874. Douglass likened his leadership to being "married to a corpse"[282]. In its failure, the vast majority of the bank's 100,000 black depositors never recouped their losses and many lost their entire life savings[283].

Jay Cooke was in a state of economic turmoil following the failure of his bank. However, by the last half of the 1870s, he began to invest in a Utah Silver mine. By 1879 Cooke had sold his stake and easily recouped much of his fortune[284]. With his newly gained fortune Cooke lived a comfortable retirement. Still, he briefly postponed retirement to help partially finance the Northern Pacific Railroad[285].

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[280] White, 378
[281] Idib, 379
[282] US Department of Treasury, *Freedmen's Bank Demise*
[283] Idib
[284] Oberholtzer, vol 2, 525
[285] Idib, 534

Under new management, the rail company restarted construction and completed the line by 1883. In the following celebration which was attended by Grant, and the incumbent President Chester Arthur, Cooke was given toasts and praise[286]. He died in 1905 at the age of 83. He left the world much as he had come into it, amidst wealth and personal prosperity.

In examining the 14 years the Republicans maintained complete control of the nation, one is left with a narrative of success, undercut by failures of their own making. For all their faults, in many cases, the Republican party did succeed. From 1860 to 1865, they oversaw a total war against a rebellious South, saving the country and freeing the slaves. Under Lincoln and Chase, the party remade American finance with the first real instance of large government intervention since the days of Alexander Hamilton. The Greenbacks and the National Banking Act successfully raised billions of dollars, saving the country and industrializing the nation. Jay Cooke's initial bond sales best exemplified the promise of the party. For the first time everyday Americans, the working class, and the smallholder, would enter the financial market making sound investments that would build the country and secure their own wealth. This was the dream of Henry C. Carey when he first wrote a Harmony of Interests. Through interventionist policies, the government had encouraged investment to unlock the potential of the American middle and working class.

This growth would only continue in the years following the Civil War. Government policies would promote the railroads and see the continued diversification and growth of American finance. With new railroads came industrial progress as masses of workers gained access to new commodities and plentiful jobs. Technological advancement paired with increasingly sophisticated finance ushered in rapid agricultural growth. This had real-life effects on the people of the nation and the world, reducing food prices by the largest margin since the Neolithic era[287]. A feat nothing short of astounding. While the economy grew the Republicans parlayed their political capital to pursue their ambitious project of

[286] Idib
[287] White, 219-220

Reconstruction. Their attempts to create an equal nation and move both South and the country at large away from the horrors of slavery are commendable. Reconstruction at its height, represented one of the first instances of a truly biracial democracy and can be considered one of the proudest chapters of American history.

All of these successes, however, are tainted with defeat and failure. The Republican Party during the Civil War fought tooth and nail with a rebellious financial elite and attempted to once and for all demonstrate that no power is above the authority of the state. However, on the precipice of victory, its financial leaders in Salmon Chase and John Sherman chose a devil's bargain to ease the passage of reforms. Instead of developing a central financial authority that could have exerted influence and policed American banking the Republicans created a centralized system led by the bankers. The result would be a greater influence for a small cadre of Eastern financial elite and a growing regional inequality.

The growth of railroads while beneficial to the economy, was under-regulated and formed a financial bubble. Bad actors in both the railroads and finance took advantage of their close ties to the Republicans to gain lucrative federal contracts, land, and subsidies. This is best exemplified by Jay Cooke who leveraged his fame (given to him by the Republicans) and his government ties to promote a risky and dangerous venture. With his influence, he took advantage of thousands of individuals selling them on a fantasy, including some of the nation's most dispossessed people.

Ultimately the centralization of the financial system and the promotion of unregulated and risky investment would cause not only its collapse but the collapse of the entire economy. If the nation's economy had not been so tied together, and so centralized in New York finance, the effects of 1873 would certainly have been reduced. While centralization promoted growth, with little regulation or a governing structure outside of private finance, corruption, and collapse were almost inevitable.

By 1874 the Republicans, in response to the collapse, chose austerity over stimulus. They viewed inflation, rather than the multitudes of unemployed and destitute, as the nation's primary concern. While this conservative policy may have helped the creditors of the nation thousands of dispossessed people would be left abandoned by their government. Today this country faces a similar dilemma. While the economy of 2023 is in no way the same as that of 1873, the cycle of depressions and recessions still surrounds us. Following the financial crisis of 2008, the United States along with much of the Western world, pursued a policy of limited stimulus and austerity. The result was anemic growth, a high unemployment that most affected the poor and working class, and which would last for years following the crisis. Concurrently the nation would see widening inequality, with some going as far as to describe this period as the new Gilded Age. In 2020, by contrast, following the economic collapse caused by the COVID-19 pandemic, the United States responded by passing two of the largest stimulus packages in the history of the country. Unlike the stimulus of 2008, much of the appropriated money was sent directly to the nation's poorest. The CARES Act and the American Rescue Plan were not simply corporate bailouts, but trillion-dollar efforts to save the working class. The result would be the lowest unemployment in 70 years, robust (although still low) wage growth, and a real transfer of capital from the nation's richest residents to its poorest. Accompanying this economic transformation would be a rise in inflation. Today many critics point to this inflation to argue that these stimulus packages were failures and wrong for the country. Many of the most ardent opponents of these stimulating Acts have called for a return to the austerity of 2008. To some economists, high inflation is such a threat, that the economy must be forced to undergo a recession with unemployment being set as high as 10%. While it is impossible to know the future and it is quite difficult to know what the best solution may be, in examining our history we see what happens when a party puts capital holders above workers.

It was this past austerity and the Republican's response to the 1873 economic crisis that is the most damning policy of their fourteen years in power. In 1860 the party under Lincoln had declared itself the protector and promoter of the laborer. They placed the worker over the capital holder and argued that they were the basis of the entire economy. By 1873 however, this sentiment was gone. Grant's initial feckless leadership only caused confusion and wasted time as the economy collapsed. His surprise decision to veto any attempted stimulus was not only a betrayal of the party's core ideals but was economic stupidity. In the name of protecting the creditor and bankers, Grant and the Republicans had sacrificed their majority and their political agenda. While much of the blame lies with the surprise veto, the Republicans following Grant did not abandon their newfound conservatism but rather further embraced it as time went on. Reconstruction ultimately failed because the Republicans had sacrificed their political capital in order to appease financial elites. This failure would doom millions of Black Americans to live under a regime of violent White supremacy for the following 88 years, and would have long-lasting impacts on racial political, and economic inequality much of which is still felt today, In the end, the party would be left with an economic system that remained unstable until it would finally be put out of its misery by subsequent Democratic administrations. The greatest tragedy is this did not need to happen. It was ultimately up to the actions of flawed individuals, none of which was pre-destined or pre-ordained. If different politicians had been in charge. If Salmon Chase had been more rigorous in choosing his employees, instead of relying on his financial connections and personal friendship with the Cookes. If Grant had shown the courageous leadership, he exhibited on the battlefield in managing Congress. And if the party had still listened to Henry C. Carey, this all may have been avoided. The economy could have been stimulated; Reconstruction could have been saved. Instead, the Republicans chose austerity, a policy that produced devastating and heartbreaking effects that clouded the nation for years to come.

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