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THE POLITICAL ECONOMIES OF SECESSION

BY
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Economic analyses of American Civil War causation typically focus on longue durée *structural arguments neglecting specific context and contemporary observers' predictions about disunion's effects. This article suggests secession heightened concern about government solvency and intensified a conversation about the nature of American inter- and intra-national trade, one hinging on ideas about relative dependence and positioning within the world economy. Deep South secessionists rested their claims on a cotton-centric economic worldview, trusting that their coveted commodity could finance independence and attract foreign partners. Pro-compromise northerners greatly feared that possibility. Less compromising Republican political economists countered that secession would reveal northern economic superiority and the South's underlying weakness, eventually leading to voluntary reunion. Though competing sides envisioned peaceful pathways towards their ends, the actions of insolvent central governments—who feared that any compromise on contested forts and revenue ports would undermine the confidence of underwriters—militated against these imagined peaceful ends.*

I. INTRODUCTION

Economic interpretations of the Civil War's origins tend to view the differences between the North and South as so fundamental that the conflict appears inevitable. For Progressive-era historians and their heirs, the conflict was a battle between a capitalist North and a pastoral, agrarian South in which tariffs appeared more significant than slavery's expansion westward. For those schooled in Marxist theory, it boils down to a battle between competing labor systems and beliefs: a bourgeois-minded North and a backward-looking, aristocratic, slaveholding South. Modernization theory and the post-civil rights recognition of slavery's centrality both reinforced and altered

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dichotomies that merged into a dominant narrative. To oversimplify somewhat, an allegedly less modern (some said anti-modern) South committed to an outmoded labor system was destined to confront a more modern, free-labor North in a so-called irrepressible conflict. Developed by skilled historians and economists, these approaches offered powerful analytical tools through which to examine various aspects of northern and southern society. Because of these arguments, one cannot plausibly question slavery's absolute centrality to secession and, by eventual consequence, the American Civil War.[1]

Yet, recent studies have also muddied the waters. We more fully appreciate the South's political and economic diversity, which included many sectors, non-slaveholding majorities, and a sizeable number of slaveholding, border-state unionists. Slavery appears not only profitable, but also a malleable institution brutally applied towards a variety of economic pursuits. It was also, recent syntheses contend, so entangled with modern capitalism as to make the two hard to distinguish (Baptist 2014; Rockman 2009). Relatedly, northern businesses were enmeshed in the financing, insuring, and carrying of slaves and slave-derived produce (Murphy 2005; Beckert 2001, 2014). The North may have had more industry than the South, but, as Ariel Ron reminds us in this volume, most northerners—including the most ardent unionists—were also agriculturalists, further problematizing structuralists' accounts.

At the least, these new historiographical strands blur the dichotomies of orthodox interpretations. They might be starting to overturn them, as new revisionist histories stressing the role of individual actors are reappearing.[2] This more complicated picture creates space to reframe the debates on the terms of the participants themselves and within the specific context in which secession unfolded. Rather than trying to identify *a* northern political economy and *a* southern political economy, this article starts from the premise that different political economies coexisted and competed within and across the Mason-Dixon line in ways that colored the decisions leading to war. The fact that many northerners (especially Democrats) shared the assumptions of slave and cotton-centric secessionists mattered because their conciliatory efforts threatened northern protectionists' and free soil Republicans' hard-fought victories within the North.

Conversely, ardent unionists did not simply look south and see a people set apart; they also saw commonalities. Had difference alone defined the contest, then William Seward's famous "irrepressible conflict" could as easily have led to peaceful separation as armed combat. It did not, and though slavery was the key underlying difference, the issue around which other issues often hinged and political parties rose and fell, slavery alone does not sufficiently explain the choices individuals made after secession, especially the complicated reasons for why northerners rallied to resist it and why Davis's administration decided to fire the first shot. More complete answers

[1]Economic approaches to causation are too numerous to include here, but general dichotomies provide a thread that links the work of Charles and Mary Beard (1921), Louis Hacker (1947), Eugene Genovese (1965), and Eric Foner (1971), which inform the best-selling Civil War synthesis of the last quarter-century, James McPherson's *Battle Cry of Freedom* (1988). Very different, recent interpretations emphasizing deep structural economic issues are Ransom (1989), Thornton and Ekelund (2004), Egnal (2009), and Ashworth (2012).

[2]Three recent historiographies of Civil War causation highlight the limits of structural approaches premised on modernization: Ayers (2005), Towers (2011), and Woods (2012).

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naturally require looking beyond economics to capture the full range of human experiences and emotions, but re-creating the overlapping and competing political economies of secession, and the various fears and hopes spawned by what the *New York Herald* referred to as the "Panic of 1860" (November 14, 1860), provides a clearer understanding of the dilemmas facing politicians tasked with balancing interests and emotions, while ensuring the financial solvency of their respective states.[3]

Succinctly put, the argument is this: 1. While concerns over slavery's future drove Deep South secessionists out of the Union, they undergirded their movement with a cotton-centered economic worldview, convincing themselves (and a skeptical public) that they would find willing partners abroad *and* had (or could create) a diversified enough economy capable of fighting a war. 2. Further north, secession generated economic panic, reinforcing the sense of political vulnerability and focusing a debate over the nature of the national and the northern economy. Pro-compromise Democrats believed that northern commercial, manufacturing, and financial interests were dependent on slave-grown production for foreign markets, and circulated dire forecasts of northern economic collapse, escalating fear, and eventually anger, that the North would be irreparably damaged by permanent disunion. Republican-leaning protectionists, by contrast, urged calm, stressing that southern dependence on northern services could lead to voluntary reunion as the southern economy faltered. 3. All sides generally wished to avoid war and many thought that possible. Yet, the desperate need to finance what, after February, became rival governments and the related fear of looking weak to wavering border state residents, foreign powers, and their own citizens led Federal and Confederate leaders to pursue forceful policies culminating in war.

II. SECESSIONISTS' ECONOMIC VISIONS

By 1860, few white southerners in the Cotton South questioned slavery's economic value. Southern planters were among the nation's wealthiest citizens. There, the earnings of slaves accounted for an estimated 31% of whites' income (Gunderson 1974, p. 922). In the whole South, capital in slaves accounted for $3 billion in wealth, more than the nation's combined investment in manufacturing, railroads, banks,

[3]Appreciating this melds individual agency with material realities and ideology to combine "the structural explanation of the fundamentalists with the dynamic explanation of the revisionists," who stress the role of individual choices (Ayers 2005, p. 133). This raises the challenge of separating reality from rhetoric, but, as with most panics—particularly politically induced ones—events did not develop along linear paths. Uncertainty gave rhetoric significance beyond what reality should have permitted (Huston 1987; Lepler 2013). Neither did the political economists, though offering partial views, capture the complicated whole. Cotton and slavery were crucial to the world economy but not, as it turned out, regal enough to conform northern or European action to secessionists' will. Conversely, while Republican political economists stressing northern economic superiority accurately perceived an independent North's domestic potential, only the course of the war proved the accuracy of their claims. Prior to 1860, the United States remained a debtor nation heavily reliant on international trade and finance (Sexton 2005). Making sense of this complexity often placed political economists at the forefront of these conversations. Though they were not necessarily causal of policy-makers' decisions, they frequently framed the choices and interpreted the results to attentive audiences. They subsequently provide a window into how an independence movement to preserve slavery became a war to preserve union.

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farm implements, and home productions—reason enough to explain the region's unwavering commitment to a professed "right" to own people as property (Huston 2003, p. 28). This investment probably limited development in other sectors, including manufacturing and possibly farm mechanization, while curtailing immigration—facts reformers lamented (Wright 1978). Slavery also, however, had something akin to a "multiplier effect" due to southern banks' willingness to accept slaves as leverage for other investments, the common practice of hiring them out, and the need for support industries like factoring, ginning, railroads, and a bustling steamship industry. A vibrant domestic slave trade also infused capital into slave-exporting eastern regions.[4]

The region boasted numerous commercially viable crops and other industries (creating multiple southern political economies), but the engine of growth came, and was known to come, from raw cotton production. In 1860, over 2¼ billion pounds of fiber, worth about $250 million, was harvested (Bruchey 1967, Table A). Annually, over three-fourths of that crop was destined for European mills. Since the mid-1830s, cotton exports accounted for half the value of all US exports (Bruchey 1967, Table K). Poor record-keeping and the indirect route of much of that trade, often through New York City, in what Robert Albion aptly termed the "cotton triangle," makes tracing inter-regional trade statistics notoriously difficult (1939, p. 99). But whether cotton was domestically consumed or transported abroad, northern firms and financiers provided the bulk of the services for this highly lucrative trade, a partnership that usually ameliorated sectionalized politics (O'Connor 1968).

Studies have sometimes focused on the tariff as a cause of southern frustration, and that may have been true in the 1820s and 1830s (Thornton 2004, ch. 1). Yet, from 1846 to 1860, Democratic Party supremacy ensured relatively low tariff levels in line with regional desires. What rankled Deep South politicians in the late 1850s was that domestic free trade and navigation acts preventing foreign competition in the coastal trade had ceded (in their view) cotton's wealth to monopolistic northern interests no longer capable of squashing anti-slavery political movements. Through this lens, the rise of Republican congressional power and especially Lincoln's 1860 election defied the laws of profit-making and political economy as southerners understood them, suggesting, as they endlessly charged, that "fanatical abolitionism" had captured the northern political imagination (Schoen 2009, ch. 5). If cotton couldn't safeguard the critical institution of slavery within the Union, best to more fully leverage the crop's power outside of it.

Secession thus presented what Michael Bernath describes as "a moment of possibility" (2013, p. 299), a chance to pursue new partnerships and free the region from moral and political dilemmas and perceived economic exploitation. Both economic traditionalists committed to commercial agriculture and reformers seeking industrialization believed it could end dependence on northern businesses and generate greater wealth at home.[5] "Restore to her the use of the 130 to 140 million a year of her produce for the foreign trade," a reprinted tract proposed, and "all her ports will throng with business" (Garnett 1855, p. 564). Southern free traders, including arch-fire-eater

[4]More work is needed in this area, but for a summary see Smith (1998). Also Barnes, et al. (2011), Deyle (2005), Tadman (1989), Johnson (2013), Gudmestad (2011), Woodman (1969), and Baptist (2010).
[5]On dependency and interdependency theory as a theme in southern economic thought, see Persky (1992) and Schoen (2005).

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Robert Barnwell Rhett, believed the answer lay in direct trade with Europe, incentivized with freer trade that could lead to recognition. To some scholars and contemporaries, this commercial agrarian mentality appears old-fashioned, even naive, but proponents embraced it as forward-facing, in the spirit of modern British and French political economists who lauded *laissez-faire* and whose governments had recently signed an historic free-trade treaty.[6]

But secession also enlivened southern economic reformers like George Fitzhugh and James D. B. Debow (examined herein by Harro Maas), who were equally committed to slavery but believed economic development required government action, even protection. Like free traders, they assumed northern monopolies had siphoned off southern capital. Yet, these economic nationalists, including Upper South Whigs, looked less towards Europe and more towards development at home. As national controversies over slavery deepened, the position had won greater support and some minor local victories. Secessionists inflated those to assure the public that the region was self-sufficient enough for independence, and looked for Confederate action to mold private and public capital towards greater diversification (Jones 1861, pp. 10–11).

Mobilization for disunion, as John Majewski has shown, thus blended these two primary strands, "fusing free trade and protectionist impulses" into an idealized picture whereby secession promised endless economic potential (2009, p. 133). Reformers saw the potential for industrial development, especially if war occurred. Jefferson Davis's diplomats left for Europe convinced that their region's near monopoly would create direct trade, win recognition perhaps leading to peace, and lead foreign investors to support the Confederacy (Owlsey 1931). Both sides castigated southern unionists for accepting an unmanly dependence on the North.

The secession of Louisiana further heightened optimism by bringing in New Orleans, North America's second-largest port and a banking industry with the largest specie reserves outside of New York (Marler 2008, p. 257). Especially under a constitution and central government unambiguously committed to slavery, southern whites could finally enjoy the material blessings of modernity, without the jarring political and social ramifications of strikes, urban poverty, or anarchy. Many interpreted economic disruption in the North with a hopeful eye to mean that their economic dreams could be achieved, possibly even without war. "No power on earth dare make war" on King Cotton, James Hammond had claimed (1866, p. 317). The argument, part pleading, part boastful, echoed into 1861. High winter expectations would face harsh spring realities, as the Confederacy attempted to finance its government under worsening commercial conditions and the threat of northern resistance.

III. UNION FEARS AND AMBIGUOUS HOPES

In the North, secessionists' boasts generated a mixture of public anger and fear, proportionally determined by the perceived sincerity and feasibility of their plans. Thomas Kettell, editor of the prominent *Hunt's Merchants' Magazine* and co-founder of the

[6]This was the Cobden-Chevalier Treaty signed in January 1860. For broader perspectives, see Marler (2013), Genovese and Genovese (1983), and Onuf and Onuf (2006).

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US *Economist,* believed secessionists to be deadly earnest and accepted their underlying economic logic. The Bostonian's 1860 publication, *Southern Wealth and Northern Profits*, estimated that northern importers, exporters, manufacturers, insurers, and financiers annually exchanged over $460 million in finished goods and services to slave states for bills and raw materials that they subsequently peddled elsewhere for additional profits. Unless northern politicians compromised on slavery, Kettell warned, disunion would rechannel southern trade directly to Europe, cutting out northern middlemen and empowering southern merchants, financiers, and agents. The presumed end of intercontinental free trade would give southern industrialists (already closer to raw materials like cotton) greater comparative advantage over northern firms soon to face a Confederate tariff (Kettell 1965, p. 75). In short, northerners were more dependent on southern trade than southerners were on them.

Post-election panic broadened circulation of Kettell's concerns, especially in Democratic papers, including his former employer, James Gordon Bennett's *New York Herald.* The largest subscribed daily in the country (Fermer 1986, p. 324) proclaimed that "the most infallible of public barometers, the stock market," portended "the beginning of the bitter end." Only the uniting of "conservative merchants, banks, and manufacturers of New York" could prevent disaster: "we have not yet lost our faith in the permanency of our government and the stability of its institutions, but we cannot shut our eyes to the painful truths . . . the last few days have elicited" (November 14, 1861). The qualification *yet* captured the ominous mood, and by late November, fearing the reaction of currency speculators and nervous clients, banks in Richmond, Baltimore, Philadelphia, and New York suspended specie payment.[7] Commerce slowed as capital contracted and five additional states joined South Carolina to form a cotton confederacy in early February. Merchants and financiers worried secessionists would default on an estimated $200 million owed them and that northerners' private property, like federal buildings, would be confiscated (Foner 1941, p. 218).

Even regions less directly invested in the South perceived adverse consequences. Westerners feared restricted access to New Orleans. New Englanders worried their abolitionist reputation would make them targets. Albany, New York's *Atlas and Argus* believed a free-trading Confederacy would attract the "border States of the South" and that still-remote Pacific states, with "every motive of interest to establish free trade with the world," would form their own nation. California gold, the natural heir to King Cotton, would flow freely to other nations. Surrounded by independent and free-trading confederacies, a shadow of the United States would find itself engaged in "competition that will virtually exclude our commerce and manufactures" (November 22, 1860). Though partially rhetorical and intended to induce compromise, these Democratic-led doomsday scenarios reinforced the logic of secessionists, ironically furthering the likelihood of war. If the effects of secession were so dire, shouldn't it be challenged, no matter the cost?

Georgia's and South Carolina's appointment of trade agents to Europe and the formation of a Confederacy with greater diplomatic weight emphasized the reality behind the rhetoric as fears of a cotton-centered Confederate-European trade alliance took

[7]*The New York Times*, November 23, 1860; *The [Richmond] Daily Dispatch,* November 22, 1860; *The Philadelphia Inquirer,* November 23, 1861.

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center stage. Kettell and others had warned of the possibility, quoting liberally but selectively from the foreign press to suggest that French and British observers now “acknowledge their mistake” in pursuing emancipation. Unlike Republicans, they recognized their dependence on unfree labor and welcomed the opportunity to undercut northern competitors. Southern and European interests would prosper, leaving the North “alone permanently injured” (Kettell 1860, pp. 149, 167–168). Davis’s diplomats could not have said it any better, and Kettell’s tract became a plank of Confederate propaganda, and northern angst (Schoen 2009, p. 248).

In addition to spurring well-studied compromise efforts over slavery, such fears motivated two important policy efforts. First, in early January 1861, New York City’s Democratic mayor, Fernando Wood, dropped a potential bombshell. Having digested a steady diet of Kettell-like arguments, Wood feared his metropolis would be cut out of a reconfigured, post-secession, Atlantic trade. Seeking neutrality capable of cultivating free trade with all, he urged city councilmen to invoke the city’s colonial charter, stating that “New York be, and from henceforth forever hereafter shall be and remain, a free city of itself.” New York should follow the model of free-port German and Italian city-states. The dubious proposal amounted to commercial secession, but some journals and New York merchants thought it worth the risk. Secondly, there emerged a sustained, Democratic-led effort to prevent the protective Morrill Tariff from passing, despite certainty that the votes were there due to the removal of six southern states' Congressional delegations. Raising the effective rate by about 70%, critics argued, would facilitate European-southern direct trade and undermine compromise efforts.[8]

Wood’s port bill and anti-tariff efforts threatened government solvency while taking direct aim at Republicans’ election pledge to foster a home economy through internal improvements and moderate protectionism. The prospect of a New York City free port horrified manufacturers and non-Manhattan merchants who dreaded being overwhelmed by the influx of inexpensive southern and foreign goods (Perkins 1964, pp. 393–398). It also threatened to remove the duties from custom houses that received an estimated 70% of the nation’s dutiable goods the previous years.[9]

Republican economic commentators prepared for political battle, hoping to immunize voters and politicians from what they perceived to be free-trade dystopian ideas that Pennsylvania protectionist Henry Carey thought to be “the cause of the discord with which we are troubled.”[10] Though Carey was a late convert to Republicanism, Lincoln’s victory and secession appeared to him as a fulcrum on which the nation’s political economy could finally pivot away from Kettell’s vision towards greater self-sufficiency—but only if Wood was stopped and the Morrill Tariff was not sacrificed on the altar of sectional compromise (Smith 1951, pp. 89–98).

[8]Marc William-Palen (2013) shows the tariff initially increased British sympathy for the Confederacy, though ultimately not enough to dictate policy. Those who contend that the tariff *caused* the Civil War ignore that Deep South secessionists generally made only passing reference to it, focusing instead on Republican threats to slavery. Confederates relished passage of the Morrill Tariff, believing it furthered their diplomatic and economic hopes abroad. Though border-state Democrats voted against it, passage does not seem to have damaged unionism, which held until April’s Fort Sumter crisis. The best examination of the tariff is Magness (2009, pp. 287–329).

[9]For duties, see: New York Chamber of Commerce (1861, pp. 57–66).

[10]Carey to John Sherman, 20 February 1861, Sherman Papers, Library of Congress, cited in Stamp (1970, p. 162).

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Carey and his allies crafted an argument aimed at instilling confidence in the northern public, while preserving protectionism and a pathway towards peaceful reunification. In Carey's view, sound political economy required minimizing long-distance exchange, something history had taught created unnecessary risk, expense, immoral practices like the slave trade, dependence on Britain, and costly wars. Lasting wealth came instead from production and exchange between neighbors, a process he believed elevated labor, morality, collective wealth, and national sentiments (Carey 1848, p. 311). His vision, as he wrote in 1847, was of locally defined "little pyramids" of diversified wealth combined under one "Great Pyramid," the nation (Meardon 2011, pp. 317–329). The federal government would connect these regional economies through tariff protection and more aggressive internal improvements. In early 1861, in the midst of Wood's free-port plan, Carey's friend Stephen Colwell, a native Virginian-turned-Pennsylvanian tariff promoter, applied these theories to New York City, arguing that the metropolis's wealth came from daily transactions between New Yorkers and with its immediate hinterland, not from overseas or coastal trades.

In *The Five Cotton States and New York*, Colwell sought to explode Hammond and Kettell's King Cotton arguments: "the kind of gas which propels the wheels of revolution in South Carolina" and now threatened the North (1861, p. 49). Secessionists, not New Yorkers, would experience the economic pain from their traitorous act. Cotton planters had relied on the Northeast and profited disproportionately from a union that had fought wars for slavery's expansion and underwritten their wealth. While New York's trade would quickly rebound, he predicted, trade in seceding states would dissipate as faulty international credit lines collapsed, eventually destabilizing cotton markets and ultimately slavery (1861, pp. 48–49, 64). In late March, another acquaintance of Carey's, Samuel Powell, issued a point-by-point refutation of Kettell's tract, highlighting its insulting notion that "one of the mightiest nations upon earth" could be "persecuted with the proposition that all their wealth, all their industry, all their power, emanates and has been wrongly forced from them from a department containing twelve millions in all, but in which *four millions of negro slaves alone, have accomplished the gain and wealth*" (1861, pp. 29–30). No need to kowtow to slaveholders' demands or to sacrifice Republican economic policies like tariff protection or a revenue stream necessary for a more robust federal role in shaping the economy. Within New York City, appeals to northern honor and interest, including interest payments on millions in US bonds and treasury notes, ultimately undermined Wood's free-port proposal and blunted local opposition to the Morrill Tariff.

Importantly, protectionism could, but did not necessarily, mean abolition or an eagerness for war. Colwell thought both likely but Carey (neither an abolitionist nor an ardent free soiler) declared himself "entirely willing" that the Cotton States "should stay out, that I would not move a finger to induce them to return" (Smith 1951, p. 96). Rather, he publicly urged President Buchanan "to profit by the secession of the cotton States," sign it into law, and "once again establish our independence," by casting off the financial noose of European merchants and financiers.[11] Congress and the president (with added cover due to the revenue shortage) signed the bill just days before Buchanan's tumultuous presidency ended. Scholars have difficulty understanding

[11]Henry Carey, "The Tariff," *Boston Daily Advertiser*, February 15, 1861.

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Carey's calls for peaceful separation, which continued through March (Smith 1951, p. 96). But Carey's recent embrace of "zone theory" (see Meardon herein) prevented him from conflating slaveholding with "the South" or secession. He believed that the citizens and predominantly non-slaveholding inhabitants of a mineral-rich—and generally free-labor—zone following the Appalachian Mountains and stretching from western Virginia down through northern Alabama and Georgia (what he called "the great backbone of the Union" [Carey 1861, pp. 4, 7]) would lead their states back into the union. Carey failed to appreciate those inhabitants' relative political weakness compared to planting districts, but believed that panic and economic interest, rightly understood in the wake of a southern commercial crash, would lead even wealthy planters to voluntarily rejoin the Union, perhaps as early as fall elections. In this, Carey's economic thinking—stressing future commonalities rather than past difference—may have undergirded President Lincoln's and William Seward's own faith in southern unionism and the possibility of eventual peaceful reunion.[12]

Like other western Republicans (buoyed by higher demand for American grain and less invested in declining stocks), Lincoln showed himself remarkably immune to what one colleague mockingly referred to as the Northeast's "mercantile howl" (cited in Foner 1941, p. 252). Having been told the panic had been ginned up to defeat his election and force pro-slavery compromises, the president-elect refused to comment on it.[13] Neither did fears of panic lead him and western Congressmen to consider sacrificing the party's free soil doctrine, unlike many northeastern Republicans who believed that slave expansion could be tolerated if it kept slave states loyal (Beckert 2004, p. 96). Despite promises for an amendment guaranteeing slavery in existing states and a stronger fugitive slave act, continued stalemate over slavery's extension caused border-state-led compromises to flounder. Still, disheartened politicians were not yet ready to embrace war. Davis sent a commission to Washington to negotiate a settlement. Democratic leaders urged compromise; and Republicans like Carey, Seward, and Lincoln suggested hostility would be counterproductive to the ultimate aim of preserving border-state unionism and luring the Deep South back. Rumors persisted that the right compromise or circumstances could accomplish this, giving unionists something to hope for and Confederates something to overcome.

Lincoln's hopeful, perhaps even naive, optimism about the United States's survival contributed to his calculated silence in Springfield, but, like Davis, he confronted two sobering realities upon his inauguration in early March. The first, exhaustively studied, centered on the federal arsenal in Charleston Harbor that was running short on supplies, meaning the crisis would be coming to a head sooner than expected. Second, and less studied, both the federal government and the new Confederacy desperately needed funds. Foreign and domestic audiences, and potential underwriters, waited to see how committed Federal and Confederate leaders were to protecting their governments' competing sovereignty claims, not just to federal property, but also to ownership of the pre-war debt and the right to raise revenue.

[12]Carey penned an open letter to Seward in mid-February: "Letter to Mr. Seward," *Boston Daily Advertiser,* 15 February 1861.

[13]See Lincoln to George T. M. Davis, October 27, 1860 (Basler 1953, vol. IV, p. 133); "Views on Commercial and Financial Uneasiness," November 9, 1860 (vol. IV, p. 138); to Truman Smith, November 10, 1860 (vol. IV, p. 138; vol. IV, pp. 210–211).

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IV. GOVERNMENT FINANCE AND THE COMING OF WAR

"What Shall be done for a Revenue?" a Republican-leaning, New York *Evening Post* headline anxiously asked on March 12, 1861. The question and a related one—what shall be done with the debt?—were intertwined with the contested sovereignty claims that secession created. Yet, as Jane Flaherty and Max Edling have recently noted, scholars have generally paid little attention to the pre-Civil War debt, because it paled in comparison to the post-war period or to late twentieth-century deficits.[14] Regardless, Americans' willingness to finance wars and treaties that enabled their remarkable expansion came at a cost, one totaling about $65 million in debt by the end of 1860. One of the highest peacetime levels in the country's early history, it daunted Americans, most of whom failed to see it as the "national blessing" Alexander Hamilton had envisioned. But for both the Confederacy and the Union, the need to ensure public credit at reasonable rates was a crucial, measurable marker of public faith in their respective governments.

Public debt could also serve as a call to arms, and when Lincoln summoned Congress into session on July 4, 1861, it did. Supporting his response to Confederates' attack on Fort Sumter and well-known constitutional objections to secession, Lincoln offered a quite pragmatic explanation for why seceding states could not be permitted to separate peacefully:

> The nation purchased, with money, the countries out of which several of these States were formed. Is it just that they shall go off without leave and without refunding? The nation paid very large sums (in the aggregate, I believe, nearly a hundred millions) to relieve Florida of the aboriginal tribes. Is it just that she shall now be off without consent, or without making any return? The nation is now in debt for money applied to the benefit of these so-called seceding States, in common with the rest. Is it just either that creditors shall go unpaid, or the remaining States pay the whole? A part of the present national debt was contracted to pay the old debts of Texas. Is it just that she shall leave and pay no part of this herself? Again, if one State may secede, so may another; and when all shall have seceded none is left to pay the debts. Is this quite just to creditors? Did we notify them of this sage view of ours when we borrowed their money? If we now recognize this doctrine by allowing the seceders to go in peace, it is difficult to see what we can do if others choose to go, or to extort terms upon which they will promise to remain.

National honor and national credit, in short, were on the line, and by abandoning their debt responsibility, forming a rival confederacy, and now attacking the flag, seceding states had to be stopped. Lincoln's words eloquently captured the big picture, but a closer examination of the secession crisis's impact further demonstrates the importance of public credit, not just for the Union but also for Confederates who fired the first shot amid a worsening commercial situation and their own grave concerns. That these interwoven crises of government finance and control of forts Sumter and Pickens played out on an international stage intensified the challenge (Poast 2014; Schoen 2015).

[14]Flaherty's work (2009) builds upon the still-useful exception to this rule, Bray Hammond's (1970) book, and examines Republican bank policy during the war. Max Edling's (2014) book promises to change how we look at nineteenth-century finance.

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Prior to the Civil War, European creditors provided a traditionally reliable source of investment in American securities: a stable investment in a world rocked by conflict in Latin America, Asia, and Continental Europe. In 1853, 45% of the national debt was owned abroad, and in 1860, American businesses and governments had attracted $400 million in foreign credit, making it a debtor nation (North 1960, p. 581; Sexton 2005, pp. 10, 78). After the Panic of 1857, however, British investors slowly retreated from American securities. The sectional conflict drove US bonds 5% below par on the London exchange. In the aftermath of Lincoln's election and first-wave secession, they slid further until by mid-January, the world's financial capital offered only 86 cents on the dollar. After Lincoln's inauguration, they dipped to 79¼, and when news of Sumter reached London, they fell to 72 (Sexton 2005, pp. 78, 244). The period from 1860 to 1862 would see the repatriation of much of the previous debt back to the US, though both sides—and especially the Confederacy—continued to make calculations based on the need for foreign creditors.

In addition to worsening American's credit abroad and sticking the remaining states with a sizeable debt, secession had made financing the debt at home difficult. In early December, Buchanan's first Treasury secretary, Georgian Howell Cobb, had resigned to lead his state out of the Union, but not before allegedly letting subscribers back out of $3 million in bond pledges (Paterson 1952, p. 38). His successor, Marylander Philip Thomas, rightly thought to have secessionist sympathies, transformed a bond issuance into $10 million in shorter-term treasury notes but could unload them only by offering 12% interest, double the authorized amount (Flaherty 2009, pp. 254, 256). Distrust led a New York banking delegation to demand he be replaced, something Buchanan did with one of their own: railroad investor and New York post-office commissioner, John A. Dix.

Dix, a former army captain, showed resolve when, after Louisiana's secession in late January, he famously instructed his special agent to shoot "on the spot" anyone who tried to lower the flag from a US revenue cutter departing for Washington. A southern telegraph operator intercepted the order and leaked it to the press, making it an ominous rallying cry for war hawks on both sides.[15] Though symbolically important, it was ineffective. The ship and revenue, like those from federal customhouses, ports, and mints elsewhere, fell into secessionists' hands, totaling about $718,000 (Todd 1954, p. 159). Neither could Dix solve the fundamental problem: a lack of faith in the federal government's ability to pay its bills or its debts, especially as commerce and custom's revenue appeared to be falling. States scoffed at his plan to use their own deposits to support federal obligations (Patterson 1952, p. 41). In early February, he raised only $8 million of an authorized $25 million loan, and that sold at 4% to 10% below par.

Lincoln's secretary of the Treasury, Ohioan Samuel Chase, arrived to find an "exhausted condition of the treasury," facing a $25.2 million deficit and $76.4 million debt.[16] Register of the Treasury Lucius E. Chittenden later reminisced: "there was not enough money to pay for the daily consumption of stationery. No city dealer would furnish it on credit" (1893, p. 90). When, on March 15, Lincoln asked Chase about

[15]Dix and Dix (1883, pp. 367–370); Adam Goodheart, "Shoot Him on the Spot," *The New York Times,* January 28, 2011.

[16]John A. Dix, "Condition of the Treasury," *Congressional Globe,* 36th Cong., 2d sess. H. Doc, serial set, 1103, 6, 2. On debt, see Myers (1970, p. 150).

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resupplying Fort Sumter, he advised against it, noting that "the present condition of the National Finances," could not support a possible civil war.[17] Yet, two weeks later, Chase adjusted his thinking, seemingly resigning himself to the likelihood of war (McClintock 2008, pp. 232–233). He likely drew some courage from that week's money market report. On March 25, the New York-based *Bankers Magazine* reported that "securities of the government show an improvement" and that "the new loan . . . have been, in a great measure, absorbed by the investment demand." Stock quotes on US 6% bonds had risen from 94 to 98 over the month, and from 86¾ to 90 on 5% bonds (1861, vol. XV, p. 839). Over the next few months, the magazine joined the chorus of other Republican political economists like Colwell and Powell, stressing the fundamental strength of the economy and the relative smallness of the debt when considered per capita. Concern remained, and Chase and Lincoln hoped for peace—but perhaps better rates and revenue from the newly implemented Morrill Tariff meant the nation could afford a war if it came, especially the short one most anticipated. They could at least afford to push the decision squarely onto Confederate officials' shoulders.

In Montgomery, Davis's new government also faced a solvency crisis. If Chase couldn't afford stationery, his Confederate counterpart, South Carolinian C. C. Memminger, needed funds to repay a Montgomery furniture maker who sold him an office desk on credit before the nation had any cash or credit (Capers 1893, p. 310). Secession had removed the Confederacy from under the burden of the US national debt, and confiscation and state pledges offered some start-up money. But the government needed to move quickly to get specie, build credit, and print money. In February, the Confederate Congress authorized a $15 million ten-year loan at 8% annual interest and $1 million in new Confederate notes at 3.65%. The announcement for the first bond issuance of $5 million was made on March 17, with subscriptions opening and the first 5% payments due in specie on April 17. Memminger had high hopes, believing he could get double the subscriptions and possibly get $1 million from a New York City bank, symbolic achievements that could demonstrate public faith in advance of Confederate diplomats' anticipated negotiations with British and French officials (Todd 1951, pp. 26–27).

By some accounts, public enthusiasm for the loan was high, but concern remained due to a regional specie shortage and the difficulty of navigating different states' diverse banking systems (Schweikert 1989, pp. 287–294). Southeastern banks had suspended specie payments and would have to be convinced to open the vaults. The largest banks, in New Orleans (sitting on over $17 million), had not suspended but remained skeptical of Confederate policies (Marler 2008, pp. 52–54). Consequently, Memminger faced the real potential of an embarrassing shortfall, especially when full payment of subscriptions was due on May 1. Thus, heading into April, the Davis government had to convince subscribers to back the loan and nervous banks to accept the new notes and draw down their specie reserves to support it (Todd 1951, pp. 27–29). This was the backdrop for Davis and his cabinet's response to news from Washington and New York that the Lincoln administration would not, as expected, be abandoning the forts, but re-provisioning them and sending a revenue cutter.

Davis's decision to seize Sumter went far beyond the control of military posts in Charleston or Pensacola. Unfortunately, a relative paucity of documents prevents us

[17]Chase to Abraham Lincoln, Saturday, March 16, 1861 (Report on Fort Sumter), *The Abraham Lincoln Papers, Library of Congress,* http://memory.loc.gov/ammem/alhtml/malhome.html. accessed May 7, 2013.

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from knowing precisely what happened during those crucial discussions, though Secretary of State Robert Toombs later claimed to have been the only voice of opposition (Davis 1994, p. 310). To be sure, the decision was taken with antsy South Carolininans in mind and upon news from DC that Lincoln would not negotiate with his commissioners. Davis subsequently ordered the cessation of any provisions or communication to the fort. But situating these events in the context of overlapping treasury concerns, one grasps why the new president believed, even more perhaps than Lincoln, that his government's resolve must be demonstrated.

Letting Lincoln's expedition land would signal weakness at home and abroad at precisely the moment when public support for the government would be first materially tested. Without money and credit, the Confederate Hercules would starve in its cradle, failing to deliver on its early promises. Flexing some muscle, even at the risk of appearing the aggressor, would, by contrast, rally the people and potentially stave off financial embarrassment. It would demonstrate to uncommitted slave states and European financiers then being approached that Confederates were earnest—disunion permanent. It partially did, as on April 17, the full $5 million was taken up and perhaps an additional $3 million offered in subsequent days (Todd 1951, pp. 28–29). Lincoln's response of calling out 75,000 troops also pushed the crucial state of Virginia to secede, much to Davis's delight and Carey's and other northerners' chagrin.

The joining of more industrial Upper South states greatly extended the Confederacy's war-making capacity, but the war the Confederates got obliterated pre-war economic assumptions. They had expected abundant trade with Europe and possibly even recognition. They got neither. The subsequent northern blockade and a New Orleans-led cotton embargo (aimed at forcing recognition) limited total war custom duties to only $3.5 million in revenue, a far cry from the $25 million Memminger predicted the first year alone would bring (Todd 1951, p. 125). Plagued by specie shortages and a stagnant economy, the Confederacy famously resorted to evermore desperate and ultimately ineffective financing schemes, including cotton-backed loans, taxes paid in-kind, and binge printing of money, all of which drove inflation (Bensel 1990; Ball 1991). These and a deep commitment to "the cause" kept (often successful) armies in the field, but quality of life plummeted. Secessionists had put too much faith in cotton. They showed too rudimentary an understanding of international finance and underestimated global market adaptability. European capitalists created new supplies and foreign financiers generally kept their distance from the conflict and especially southern banks with poor reputations (Beckert 2004; Sexton 2005, pp. 134–189).

Initially, the North too had its problems. Lincoln's mustering of 75,000 troops drew comparisons to George Washington's 1795 march on tax-evading Pennsylvania Whiskey farmers. But, by June, the Confederacy had armies on Washington's doorstep, a threat that the normally cautious General Winfield Scott believed was calculated to "cause such prestige and inspire in it such faith as will insure the recognition of its Government abroad, and at the same time so impair confidence in the Federal Government as to render it impossible for it to procure loans abroad, and very difficult for it to raise means at home."[18] Chase would not get his foreign loans but instead had to invest a greater portion of the US population in national bonds. In so doing, however,

[18]Scott to Patterson, July 11, 1861, *Official Records of the Union and Confederate Armies,* Series 1, Volume 2, p. 164.

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that debt became something of a national blessing, investing a diverse and bipartisan coalition in the future success of the federal government (Lawson 2002, pp. 40–64).

To a great extent, the wartime situation conformed reality to what Republicans' vision for the North had been—the pivot for which Carey had hoped (Richardson 1997). The federal government standardized currency and banking policy, expanded railroad production, and had to rely almost exclusively on their own citizenry to supply, fight, and fund a war that foreign governments avoided. Meanwhile, Thomas Kettell, angry about southerners' betrayal and hoping to redeem a soiled reputation, published *History of the Rebellion* (1866). Contrary to his pre-war claims, he blamed the crisis on southerners, and then headed west for a new life in San Francisco. For decades, Kettell's free-trade doctrines would, like the Democratic Party that promoted them, suffer.

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