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HUGH McCULLOCH AND THE BEARS OF WALL STREET

The United States was financially ill equipped in 1861 to fight a major war. With an estimated national income of \$140 per capita, there were not vast pools of capital to be tapped for quick financing. For most of its life the young government, now threatened with division and extinction after less than eighty years of existence, paid its way by means of tariff duties and revenue from the sale of public lands. These were not dependable sources in time of war. Borrowing was the only way out, but the youthful country had no central bank since Andrew Jackson's Bank War. There were some 1600 different state banks and thousands of kinds of currency, and the government had no official fiscal agent familiar with dealing with bankers for loans.

The war changed all of this. Taxation remained unpopular in a country born of resistance to taxation, and the government relied more heavily on borrowing and printing. It borrowed by means of the sale of interest-bearing govern-

ment bonds marketed by the firm of Jay Cooke and Company. Cooke earned handsome commissions selling the government's forms of indebtedness to bankers, brokers, and men of wealth who recognized them as good short-term, high-interest investments. He also marketed the government's bonds successfully and fueled President Lincoln's war machine with cash.

The government also used the printing press freely. Beginning in February of 1862, it issued about \$450,000,000 in non-interest-bearing United States Notes, which soon came to be called "greenbacks." This government paper money was legal tender for payment of all debts, public and private.

Finally, the government simplified the chaos of banking, created a market for government bonds, and provided a uniform bank-note currency by creating the National Bank system in 1863. Banks were then organized under national charters with specified minimum levels of capital. The Trea-



Courtesy of The New-York Historical Society, New York City

FIGURE 1. William Beard (1824-1900) painted *The Bears of Wall Street Celebrating a Drop in the Market* because he liked to paint wild animals and humorous situations. James Jackson Jarves (1818-1888), the greatest American art critic of Lincoln's day, complimented Beard's "fine wit" and called him "an artist of genuine American stamp."

surey Department's Comptroller of the Currency, who supervised the new system, required the banks to purchase United States bonds and issued national bank notes equalling 90 percent of the value of United States bonds deposited in the United States Treasury by the particular banks.

Such was the system of Civil War finance which Hugh McCulloch "inherited" when he became Abraham Lincoln's Secretary of the Treasury in March of 1865. He was not Lincoln's first choice for the office, and the reasons for his selection remain a bit murky. In fact, he was rather surprised himself, as he explained to his friend and former pastor, Charles Beecher, brother of Henry Ward Beecher and Harriet Beecher Stowe, on March 13, 1865:

Odd things do happen;—I fought the Charter of the new Indiana State Bank and in six months was its President. I came to Washington in July 1863 to see that this Bank received no detriment from Mr. Chase's Bank Bill & in three months, I was his Comptroller—I had not the slightest desire to be Secretary of the Treasury and would not have raised a finger to obtain that position, and here I am, with the credit of the nation to no small extent upon my hands.¹

Most students of the period agree that McCulloch was one of Lincoln's most conservative choices. Most seem to agree with McCulloch's self-appraisal that he was a banker and not a politician. James G. Randall and Richard N. Current say that "McCulloch was a conservative in politics as much as a conservative in finances." McCulloch's disagreements with previous Secretaries' policies were based on conservative financial assumptions. "He thought Chase had erred in consenting that the government paper money should be made a legal tender," wrote Randall and Current, "and he thought Fessenden had erred in attempting to dispense with the services of the middleman Jay Cooke in the sale of government bonds." They maintained that Lincoln did not even agree with his gloomy Secretary:

McCulloch was bearish. He had the dour outlook proverbially associated with a man of his Scotch ancestry. As comptroller of the currency he had issued to the National Banks in December, 1863, a circular embodying his pessimistic views. The states of the North, he then warned, appeared to be prosperous but actually were not, for the war was "constantly draining the country of its laboring and producing population, and diverting its mechanical industry from works of permanent value to the construction of implements of warfare." The "seeming prosperity," he explained, was due primarily to "the large expenditures of the Government and the redundant currency." He advised the bankers to prepare for a depression: "manage the affairs of your respective banks with a perfect consciousness that the apparent prosperity of the country will be proved to be unreal when the war is closed, if not before. . . ." When he received the offer of the treasury position, McCulloch assumed that Lincoln had been motivated by "the impression which was made upon him" by this gloomy circular.

But Lincoln in his message to Congress of December, 1864, expressed an entirely different spirit. Part of the message was a paean to wartime progress and prosperity. "It is of noteworthy interest," the President declared, "that the steady expansion of population, improvement and governmental institutions over the new and unoccupied portions of our country have scarcely been checked, much less impeded or destroyed, by our great civil war, which at first glance would seem to have absorbed almost the entire energies of the nation." Sales of public land soared high, the Pacific railroad was being pushed to completion, new sources of gold and silver and mercury were being opened in the West. The popular vote in the recent election—larger in the free states, despite the non-voting of most of the soldiers, than it had been in 1860—demonstrated an important fact: "that we have *more men now* than we had when the war began. . . ."



From the Lincoln National Life Foundation

FIGURE 2. Jay Cooke and Jay Cooke, Jr.

Besides: "Material resources are now more complete and abundant than ever."²

Robert P. Sharkey was in substantial agreement about McCulloch in his pioneering study of the financial history of the end of the Civil War and Reconstruction. "McCulloch was an extremely conservative banker," said Sharkey. He had "a rigid, conservative, and essentially unimaginative mind." He "could see little merit and much positive evil in the greenbacks. They were controlled by none of the rules of experience and legal restrictions by which a well-secured bank-note currency was made to serve the needs of the business community. Their volume was limited solely by political considerations and the availability of the printing press. In addition, McCulloch felt strongly that the original issue of greenbacks in 1862 had been an unconstitutional exercise of power. This was the orthodox, conservative view of the greenbacks which was shared by a majority of McCulloch's banker colleagues. What it failed to consider was the fact that any tampering with the volume of the greenbacks in the fateful years which followed the end of the war was likely to precipitate a depression. The situation called for the delicacy of a scalpel, but McCulloch brought only the bluntness of a meat axe." Sharkey added that the Indiana banker "along with the majority of his contemporaries who could claim to be well informed on economic matters accepted the idea that the Almighty had ordained the use of gold and silver as money."³

A look at the McCulloch manuscripts at the Lilly Library at Indiana University suggests a somewhat different picture of Hugh McCulloch. Instead of a superstitiously conservative, dour pessimist, one can portray a flexible Secretary of the Treasury, ably and patriotically bending his sincere convictions to meet the exigencies of a wartime economy. He tried to forge a middle way between the bears of Wall Street and the bullish inflationists of Pennsylvania and the West.

In the last couple of months of the war, the new Secretary got plenty of bearish advice. Even before he became Secretary, in fact, conservative New York financiers like Morris



From the Lincoln National Life Foundation

FIGURE 3. Hugh McCulloch

Ketchum complained of the inflationist policies of McCulloch's predecessors in the office. On September 6, 1864, Ketchum wrote Comptroller McCulloch: "I had hoped, and the country expected, that with Mr. Fessenden, every opportunity would be embraced for contraction, and thus crush speculation, and prostrate the exorbitant prices of the necessities of life, from which, there is more danger to the stability of our Government, than from the enemy."⁴ Not all the advice was quite so extremist in tone, and more often it resembled the advice of John A. Stewart, U. S. Treasury agent in New York City: "So far as possible, having due regard to the wants of the Treasury, contraction should be the order of the day, and in my judgment it will have an important bearing upon the result of the coming Presidential Election."⁵

McCulloch was obviously inclined to see things their way. Shortly after assuming office, he wrote an old Fort Wayne associate (in a more revealing vein than he customarily wrote self-appointed advisors from New York's financial community): "It will be a difficult thing to reduce the circulation of the country, and at the same time meet promptly the enormous demands upon the Treasury. I hope, however, to be able to do both. . . ."⁶ No man can fairly be accused of rigidity who came to Washington to fight a system he wound up implementing (the National Banking system), and McCulloch learned as he went along and was proud of it. Thus he wrote one George A. Cotter of Brooklyn three days before Lincoln was assassinated, "I have been under the necessity of revising a good many opinions which I entertained before the commencement of the war, and expect to be a good deal wiser a year hence by merely watching the course of events than I am at the present time."⁷

And learn he did. The conservative Hoosier banker customarily assured his correspondents that he had no intention of suddenly or severely curtailing the currency. Thus he told Boston's Gamaliel Bradford, a writer on financial and government reform:

I have now only to say, that there is no great danger of an

immediate contraction of the Currency. If I had the power, I should lack the disposition to do violence to the business of the country by a rapid curtailment of our circulating medium. A repeal of the Legal Tender Act [which created the "greenbacks"] would, in my judgment, be much more injudicious and much more disastrous, than the opponents of that measure ever supposed its passage would be.⁸

Financial subjects, and especially money theory, excited a great number of writers and cranks on both sides of the issue, and McCulloch saw himself as somewhat beleagueredly threading his way between the extremes of deflationist bears and inflationist bulls. Thus he complimented one D. W. Bloodgood of New York for a favorable editorial on March 28, 1865:

Your remarks in the "Journal" were timely and judicious. I had before me yesterday two gentlemen of distinguished reputation, as writers upon Finance;—Mr. [Henry C.] Carey, of Philadelphia, and Mr. Hazard, of Rhode Island. The former is of the opinion that the country can only be saved from utter ruin by an increase of Paper Money; the latter argues, that unless the currency be rapidly curtailed, we shall have, in a short period, a financial collapse. My own opinion is, that both are equally in error.⁹

McCulloch dealt with Mr. Carey more than once. This famed champion of high protective tariffs and cheap money (and Pennsylvania's economic interests) received this soothing advice from McCulloch in early April, 1865:

You are, I am satisfied, too apprehensive in regard to the future. The volume of circulation is now large; is being daily increased, and the people have confidence in it. As long as this is the case there can be no crash; and I think, no prostration of important interests.

You pay too much regard to newspaper paragraphs [?]. They are less potent than you suppose them.¹⁰

He could be just as rough on bears and deflationists. To John A. Stewart of the New York Treasury office he wrote on March 25, 1865, urging him to cooperate with the bullish speculator, Jay Cooke: "I trust that there will be entire harmony of views and action between yourself and Mr. C. He is ardent and sanguine, but I have generally found him safe and judicious."¹¹ When prospects of peace in late March of 1865 lead to a panic in the gold market and a sudden and rapid decline in the price of gold, McCulloch told Stewart: "Keep cool. The storm is too violent to last long, although I apprehend that the bear interest will for a time be too strong to be successfully resisted."¹² Eventually disgusted himself, McCulloch wrote Jay Cooke on March 29, 1865: "What a mercy it would be to the country if Wall St. could be sunk."¹³ These surely were not the words of a simpleminded captive of the Wall Street bears.

Sharkey admitted that McCulloch "was not a bullionist in the sense that he did not feel it wise or necessary to insist on a one-hundred per cent specie backing for bank-notes."¹⁴ Nevertheless, he intimated that McCulloch thought gold and silver divinely appointed as the only real currency. It is true, as McCulloch admitted himself, that he was, "for a banker, a 'hard money man.'"¹⁵ But one should not ignore the important occasion when McCulloch helped the war effort by dashing a bullionist movement. In 1865, the California Supreme Court decided that United States Notes (the "greenbacks") were not to be accepted for payment of state taxes. McCulloch wrote a stinging letter to Thompson Campbell, obviously intended for publication. McCulloch had "very decided opinions upon this subject, and . . . no hesitation in saying, that, . . . California would have been a much richer and more prosperous State, if her circulation had been a mixed, instead of an exclusively metallic one . . ." McCulloch lectured:

No country can prosper for any considerable time, where money commands so high a rate of interest as it does in California, and nothing would tend more directly to reduce that rate of interest than the introduction of a sound paper cir-

culating medium.

Paper money has been found to be a necessity in all commercial countries, and especially in the United States, and what is true elsewhere, must be true in California.

Blessed with great natural resources, California was held back from full economic development and large influx of much-needed population by only one factor, plentiful credit. "California," the Secretary of Treasury added, "needs a well regulated credit system;—she needs a paper circulation to quicken enterprise, and give impetus to business;—she needs a lower rate of interest;—she needs to be cured of the mania for an exclusive metallic currency;—in a word, she needs, in addition to the recognition of United States Notes as a currency, a sound banking system—such as is provided for by the National Currency Act . . ."¹⁶

In truth, Hugh McCulloch was frequently bullish on America. Although the Lincoln assassination shocked the country, Wall Street recovered quickly from a brief panic. McCulloch wrote John A. Stewart the day after Lincoln died in this reassuring vein:

You will perceive that the new administration is inaugurated, and the wheels of Government are not stopped for a moment. My hope is, and my belief is, that this great National calamity will teach to the world a lesson, which will be of the most beneficial character to our Republican form of Government; that it will show that the assassination of our Chief Magistrate does not affect in the slightest degree the permanence of our institutions, or the regular administration of the laws; that an event that would have shaken any other country to the centre does not even stagger for a moment a Government like ours.¹⁷

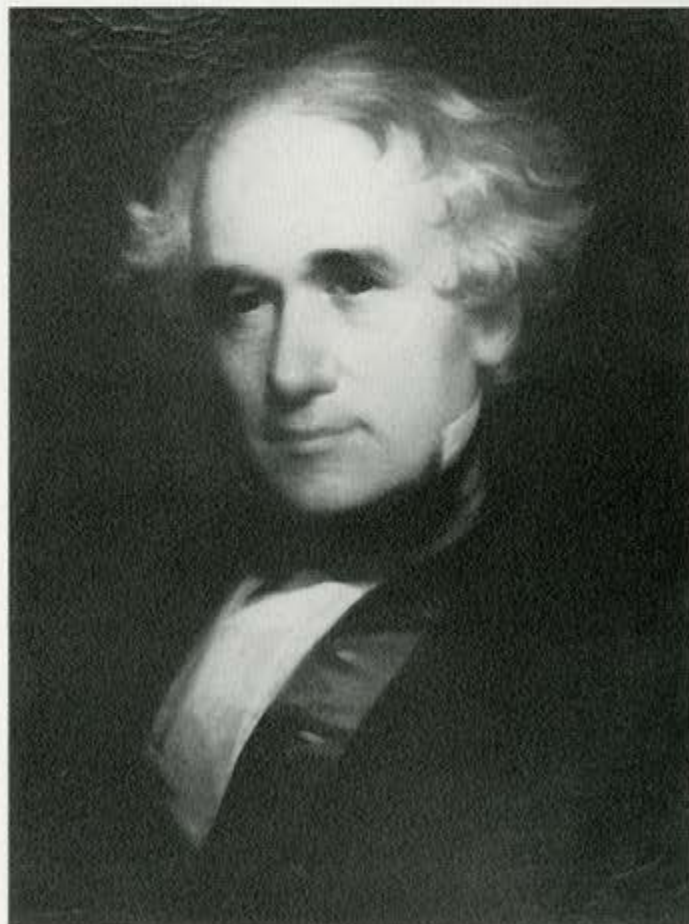
Nor was his thinking always far apart from that of President Lincoln. Five days after Lincoln's death, McCulloch wrote D. W. Bloodgood, apparently responding to some suggestions for solutions to financial problems after the war: "The idea of employing a portion of our soldiers upon the Pacific Road and in the mining Districts is a good one. Labor is high in the loyal States, but there is no lack of it."¹⁸ Speaker of the House Schuyler Colfax, ready to leave for California on April 15, saw President Lincoln the day before. He reported that the President told him: "Don't forget, Colfax, to tell those miners that that is my speech to them, by you." As Colfax remembered it later, Lincoln told him to tell the citizens of California that he had "very large ideas of the mineral wealth of our nation." Mining should be encouraged, for the gold and silver could quickly pay off the war debt. Moreover, Lincoln said that he would answer the fears of those who saw paralyzed industry and vast unemployment in the sudden return of thousands of disbanded soldiers by trying to attract these veterans to California to mine the minerals that would pay the debt.¹⁹

In these last thoughts, as perhaps in others in the months preceding, President Lincoln and his Secretary of the Treasury, Hugh McCulloch, were not very far apart.

Notes

1. Hugh McCulloch to Charles Beecher, March 13, 1865. Copy in Secretary of Treasury letter copybooks, vol. A, pp. 48-49, McCulloch MSS, Lilly Library, Indiana University, Bloomington.
2. James G. Randall and Richard N. Current, *Lincoln the President: Last Full Measure* (New York: Dodd, Mead, 1955), pp. 279, 278, 279-80.
3. Robert P. Sharkey, *Money, Class, and Party: An Economic Study of Civil War and Reconstruction* (Baltimore: Johns Hopkins Press, 1967), pp. 58, 59, 60.
4. Morris Ketchum to Hugh McCulloch, September 6, 1864. Copy in John Aikman Stewart and Henry Herbert Van Dyck letter copybooks, vol. I, p. 24, McCulloch MSS, Lilly Library.
5. John A. Stewart to Hugh McCulloch, September 10, 1864. Copy in *ibid.*, p. 30.

6. Hugh McCulloch to P. Hoagland, March 10, 1865. Copy in Secretary of Treasury copybook, vol. A, p. 12, Lilly Library.
7. Hugh McCulloch to George A. Cotter, April 11, 1865. Copy in *ibid.*, p. 385.
8. Hugh McCulloch to Gamaliel Bradford, March 11, 1865. Copy in *ibid.*, p. 17.
9. Hugh McCulloch to D. W. Bloodgood, March 28, 1865. Copy in *ibid.*, p. 221.
10. Hugh McCulloch to Henry C. Carey, April 1, 1865. Copy in *ibid.*, p. 264.
11. Hugh McCulloch to John A. Stewart, March 25, 1865. Copy in *ibid.*, p. 188.
12. Hugh McCulloch to John A. Stewart, n. d. Copy in Stewart and Van Dyck copybook, vol. I, p. 100.
13. Hugh McCulloch to Jay Cooke, March 29, 1865. Copy in Secretary of Treasury copybook, vol. A, p. 242.
14. Sharkey, *Money, Class, and Party*, p. 58.
15. Hugh McCulloch to P. Hoagland, March 10, 1865. Copy in Secretary of Treasury copybook, vol. A, p. 12, McCulloch MSS, Lilly Library.
16. Hugh McCulloch to Thompson Campbell, n. d. Copy in *ibid.*, pp. 224-226.
17. Hugh McCulloch to John A. Stewart, April 16, 1865. Copy in Stewart and Van Dyck copybook, vol. I, pp. 110-111, McCulloch MSS, Lilly Library.
18. Hugh McCulloch to D. W. Bloodgood, April 20, 1865. Copy in Secretary of Treasury copybook, vol. B, p. 465, McCulloch MSS, Lilly Library.
19. See *Lincoln Lore* No. 331 (August 12, 1935).



From the Historical Society of Pennsylvania, Philadelphia

FIGURE 4. Henry C. Carey (1793-1879) of Philadelphia was America's foremost intellectual opponent of free trade and hard money.