

Lincoln Financed the War by Taking On The British-Backed New York Banks

by Rochelle Ascher

The following article first appeared in the national newspaper The New Federalist in 1992.

When Lincoln entered office in March of 1861, civil war was only weeks away. Five southern states had seceded after the announcement of his victory, the rest followed in rapid succession.

Seven states had announced the formation of the “United States of the Confederacy” on Feb. 1, 1861. Confederate Vice President Alexander Stephens stated: “Our confederacy is founded upon the great truth that the Negro is not equal to the white man, that slavery is his natural and normal condition. This, our new government, is the first in the history of the world based on this great physical and moral truth.”

The United States was bankrupt. President Jackson’s dismantling of the Bank of the United States (National Bank), followed by President Polk’s Independent Treasury Act of 1846, and the free trade treason of Presidents Pierce and Buchanan, had destroyed the U.S. economy. Lincoln had to wage war on two fronts—one against the free traders of New York and New England, and the other against their surrogates: the Confederate Army. And both “fronts” were run out of London!

Congress was out of session following Lincoln’s inauguration, so Secretary of the Treasury Salmon P. Chase turned to the Associated Banks of New York, headed by James Gallatin for an immediate loan to the Treasury of \$150 million in specie (gold coin). Chase arranged to have the banks buy government bonds in three sets of \$50 million each at intervals of six days. The specie would return to the banks after it was paid out by the Treasury Department as salaries, materials purchases, etc. The Associated Banks would also have the right to market several million dollars worth of government refinancing bonds known as “7:30 bonds.”

The bottom line: the Associated Banks intended to sell the U.S. debt overseas to the Rothschild and Baring banking houses.

U.S. historians say the reason for the Associated Banks’ abrogation of their agreement with Chase and suspension of specie payments to the government on Dec. 28, 1861 was the Trent Affair. As Allen Salisbury outlines¹, the real reason was that Henry Carey and his Vespers Circle were engaged in furious letter-writing, negotiating, and lobbying efforts with the Congress and President Lincoln to have the policies of Alexander Hamilton adopted instead. The New York bankers were determined to stop this Lincoln plan.

The Heart of the Matter

The fundamental turning point in U.S. history concerning restoration of the American System and defeating the British plan to balkanize and forever destroy the United States through its support of the Confederacy, centered on the issues of how to finance the government, and the civil war that was facing Lincoln in December 1861. Lincoln’s policy was outlined in his Dec. 3 “Annual Address to Congress.”

The significance of Lincoln’s Dec. 3, 1861 speech to Congress cannot be overestimated—as the British were well aware. Lincoln had the opportunity as President to sign into law the economic policy he had worked for through the better part of his political life.

Lincoln’s plan was presented by his Secretary of the Treasury, Chase—a free-trade liberal sweating and agonizing all the way through—and by Lincoln himself.

The measures included:

- a nationally regulated private banking system, which would issue cheap credit to build industry;
- the issuance of government legal tender paper currency (the greenbacks);
- the sale of long-term, low-interest bonds (“5:20s”) to the general public and to the nationally chartered banks;

1. Allen Salisbury, *The Civil War and the American System* (Washington, D.C.: Executive Intelligence Review, 1992).

- the increase of tariffs until industry was running at full tilt (the Morrill Tariff);
- government construction of railroads into the middle South, promoting industrialism over the southern plantation system—what Carey called a “peace-winning program” to industrialize the South.

The nation’s banks were intended to serve as both investors in the future wealth of the U.S. through the purchase of the 5:20 bonds (5% interest for 20 years); through the issuance of long-term, low-interest loans to manufacturers, and by acting as a medium for the circulation of currency.

Henry Carey had proposed such a banking system to Henry Clay years earlier (this would have been under the jurisdiction of the Bank of the United States).

Carey also sent letters to Lincoln in the fall of 1861 preceding Lincoln’s historic December address with a copy of Carey’s pamphlet urging the construction of a North-South railroad to facilitate future attempts to industrialize the South. Carey wrote to Lincoln:

“If Henry Clay’s tariff views would have been carried out sooner there would have been no secession because the southern mineral region would long since have obtained control of the planting area. Some means must be found to enable these people of the hill country to profit of our present tariff. . . .”

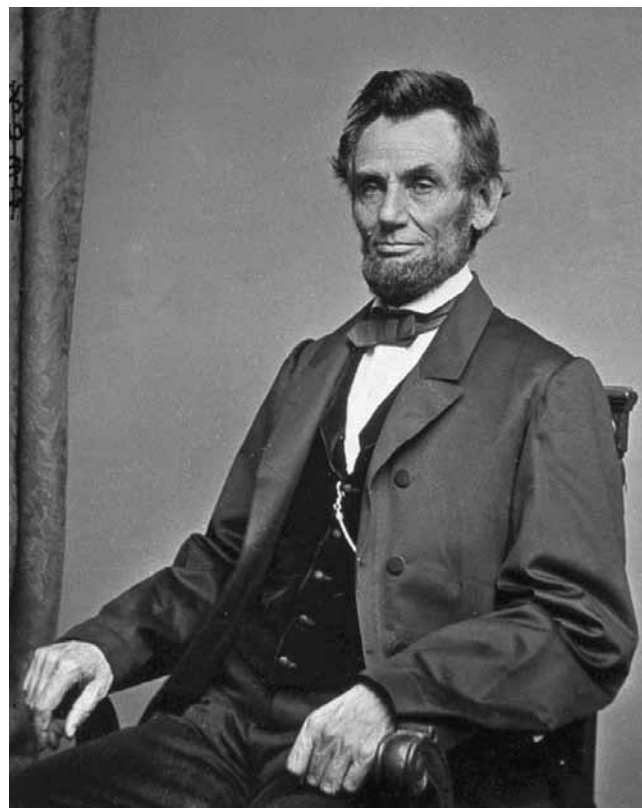
And later:

“How much more firm and stable might the union have been, had there developed then a policy which would have filled the hill country of the South with free white men engaged in mining coal and ore, making iron and cloth, and building school houses and churches. . . .”²

Reasserting the American System

The Dec. 3 speech by Lincoln was the emphatic declaration that the American System would be the guiding principle of his Administration. He urged Congress to consider the proposal by Carey to begin construction of a railroad system into North Carolina, Kentucky, and Tennessee, to enable development of mining and other industrial interests in these southern states.

Regarding financial policy, Lincoln stated: “The operations of the Treasury during the period which has elapsed since your adjournment have been conducted with signal success. The patriotism of the people has placed at the disposal of the government the large means demanded by the public exigencies. Much of the



National Archives

In December 1861, the first year he was in office, Lincoln presented his economic plan, which included setting up a nationally regulated private banking system to issue cheap credit to build industry, and the increase of tariffs, until industry was running full tilt. He had to overcome the resistance of British-backed private financial interests.

national loan has been taken by citizens of the industrial classes, whose confidence in their country’s faith, and zeal for their country’s deliverance from present peril have induced them to contribute to the support of the government the whole of their limited acquisitions. This fact imposes peculiar obligations to economy in disbursement and energy in action.”³

Lincoln spelled out his underlying republican philosophy and attacked the aristocratic British-allied bankers (this is the most famous section of his Dec. 3, 1861 Annual Address to Congress):

“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. Labor is the superior of capital, and deserves much the higher consideration. Capital has its rights, which are as worthy of protection as any other rights. Nor is it denied that there is, and

2. Ibid.

3. Abraham Lincoln, *Collected Works*,

probably always will be, a relationship between capital and labor, producing mutual benefits. The error is in assuming that the whole labor of community exists within that relation. . . . In most of the southern States, a majority of the whole people of all colors are neither slaves nor masters; while in the northern a large majority are neither hirers nor hired. . . .

“Many independent men everywhere in these States, a few years back in their lives, were hired laborers. The prudent, penniless beginner in the world, labors for wages awhile, saves a surplus in 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. This is the just, and generous, and prosperous system, which opens the way to all—gives hope to all and consequent energy, and progress, and improvement of condition to all. No men living are more worthy to be trusted than those who toil up from poverty—none less inclined to take, or touch, aught that they have not honestly earned. Let them beware of surrendering a political power which they already possess, and which, if surrendered, will surely be used to close the door of advancement against such as they, and to fix new disabilities and burdens upon them till all of liberty shall be lost.”⁴

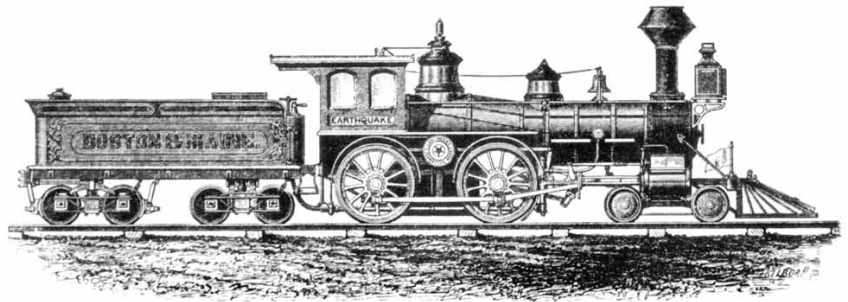
When Gallatin and the Associated Banks got wind of the new policy (even before Lincoln and Chase addressed Congress), they went berserk. They wrote to Chase, demanding the adoption of a stringent taxation policy.

On Dec. 28, 1861, the New York Associated Banks suspended specie payments to the government. They suspended payment of gold owed to their depositors, and stopped transferring to the government the gold which they had pledged for the purchase of government bonds. The banks of other cities immediately followed suit.

On Jan. 9, 1862, Gallatin headed a delegation of bankers who came to Washington to meet with Chase and those Congressmen responsible for steering the Hamiltonian legislation through Congress. Gallatin presented the bankers’ “alternative”:

- the Treasury must deposit its gold in private

4. Ibid., Vol. V, pp. 52-53. Dec. 3, 1861 Annual Message to Congress.



LOCOMOTIVE BUILT BY MANCHESTER LOCOMOTIVE WORKS.

Locomotives such as this represent the kind of infrastructure projects that Lincoln wanted built, since they were investments in the future wealth of the United States, through the issuance of long-term, low-interest loans by the nation’s banks.

banks, and let those banks pay the government’s suppliers with checks, keeping the gold on deposit for the investment use of the bankers;

- the government should sell high-interest bonds to these same banks, for them to resell to the European banking syndicate—that is, allowing them to sell an unlimited number of 7:30 bonds below par on the London market;
- the government should suspend the “Subtreasury” law by which the government gained control over the banks;
- the government should immediately cease the issuance of government legal tender; and of course,
- a great deal of the war should be financed by a tax on basic industry.

Gallatin was shown the door. One Congressman, Samuel Hooper (R-Mass.), commented that he would adopt no plan which called for “government shinning before Wall Street.”

Economic Warfare

The British, when informed that Congress had dismissed the Gallatin plan, were furious. William Cullen Bryant, editor of the *New York Post* and head of the free-trade wing of the Republican Party, began a series of editorials attacking Lincoln’s financial policy, and calling for direct taxation of industry to pay off the war debts. After Congress passed the legislation, Bryant met with Lincoln, imploring him to veto the measure. Lincoln refused. From Britain, August Belmont, official U.S. agent of the British Rothschild bankers, and American Consul of the Hapsburgs’ Austrian Empire, then meeting with the Rothschilds and New York Re-

publican boss Thurlow Weed, dispatched a plethora of protesting messages to Lincoln.

At a meeting arranged by the Rothschilds with British Prime Minister Henry Palmerston and Chancellor of the Exchequer William Gladstone, Belmont was questioned as to the state of the American nation's defenses and the popular attitude toward Great Britain. Palmerston had the gall to say, "We do not like slavery, but we want cotton and we dislike your Morrill Tariff." Belmont wrote to Lincoln's Secretary of State William Seward:

"The English government and people could not accept the North's justification for fighting the Confederacy as long as this war is not carried on for the abolition of slavery in the southern states. Perhaps English sentiment could use the tonic of a reduction in the objectionable Morrill tariff? *Nothing else could contribute so effectively toward disproving widespread* Southern assertions that the war was merely a contest between free trade and protection."⁵

While Lincoln fought the Eastern bankers over the national banking system, the Treasury issued several hundreds of millions of new greenbacks. Philadelphia banker Jay Cooke was employed by Treasury Secretary Chase to become the sole agent for the 5:20 bonds. Several of Carey's associates, including Stephen Colwell, William Elder, and Samuel Wilkerson, prepared the propaganda Cooke utilized to sell the bonds. (Elder and Colwell were later appointed by Lincoln to posts in the Treasury Department; Elder as the official Treasury statistician and Colwell as an economist).

Banker Cooke sold small government bonds to the average citizen: with 2,500 subagents, Cooke sold over *\$1.3 billion worth of bonds to citizens between 1862 and 1865*. As Lincoln had argued in his Annual Address of 1861, the U.S. citizenry would finance the war.

The original bill authorizing the sale of the 5:20 bonds contained no provision for paying the interest on the bonds in gold. Thus, if the bill as it was prepared by Thaddeus Stevens' House Ways and Means Committee had passed the House, it *would have had the effect of severing the domestic economy of the United States from the British early in Lincoln's Administration*. The British pound sterling at the time was the gold-backed world reserve currency. By controlling the world's gold supply, the British ruled the world. But before the bill was passed, August Belmont and James Gallatin worked out a compromise with Republican Congressman Elbridge Spauld-

ing which *allowed the bonds to be purchased with greenbacks, but their interest was to be paid in specie*.

This compromise was the first step in pegging the value of the U.S. greenback to gold, and allowed Belmont and other New York merchants engaged in the export-import trade to speculate in gold through the Associated Banks, and thus create fluctuations in the value of greenbacks as measured by the British gold standard.

President Lincoln pushed for his measures of control over the banking system, using more of his influence over Congress than on any other issue. The New England and New York bankers instructed their Congressmen to defeat the bill. But Lincoln's prestige and authority won out—and he signed the National Currency Act on Feb. 25, 1863 and the National Banking Act on June 3, 1864.

To understand the significance of what Lincoln did, we first have to look at the state of banking in the United States on the eve of the Civil War.

The national banking system was in a state of anarchy. *There was no national currency*. Each bank issued its own notes. On Jan. 1, 1862, there were 1,496 banks in the United States, some 7,000 legitimate notes, and some 5,500 counterfeit notes! Only 253 banks had notes that had escaped alteration or limitation.

There was specie payment, i.e., payment of gold coin by a bank in exchange for a bank note, but as I mentioned, this was suspended by the Associated Banks at the outbreak of the war.

Banks had no one in the national government to answer to, only state banking inspectors, who were frequently bribed. Banks often had little capitalization or reserves, operating often solely on the "connections" of the bank's chairman. Banks promoting the most outrageous schemes and responsible to no one, were the order of the day. The large private banking houses, like the House of Morgan, used large credit lines from Europe to add to the chaos.

Lincoln's Regulated Banking System

Richard Freeman, in his article "The Economic Mobilization that Saved the Union, 1861-65," described the measures Lincoln took, in the footsteps of Alexander Hamilton, to create a sound national banking system out of this anarchy.⁶ His steps were embodied in the Banking and Currency Acts of 1862, 1863, and 1864. We quote

5. Salisbury, op. cit.

6. Richard Freeman, "The Economic Mobilization that Saved the Union, 1861-1865," *New Solidarity*, March 16, 1984.

from Freeman's article below:

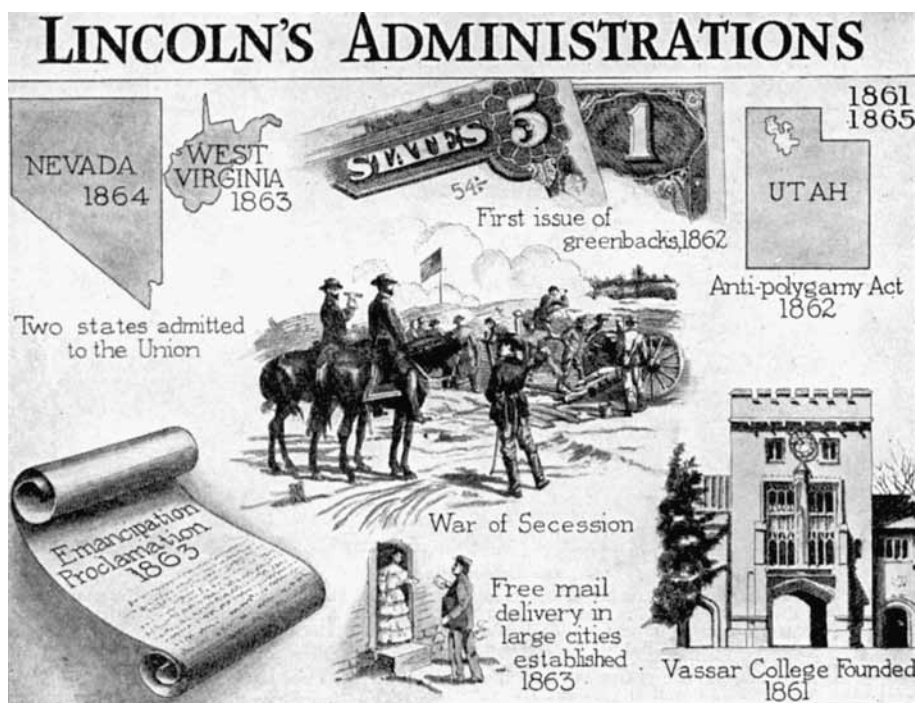
“Step 1: Federal Supervision:

“As a provision of the Banking Act of 1863, commercial banks could be incorporated under federal charter, instead of the prevailing system of banks being incorporated under state charter. This meant the commercial banks would have to accept federal supervision exclusively. When many state banks refused to incorporate under federal charter, the Treasury Department under Lincoln's orders, announced a 10% tax on all bank notes issued by state banks. This forced the Associated Banks to join the national banking system, or pay a 10% tax on every transaction conducted outside the system. This made the issue of state bank notes so prohibitive in cost, and put these banks at such a disadvantage relative to federally chartered banks, that the number of state banks fell from 1,466 to 297, and the number of national banks rose to 1,634. Furthermore, the Office of the Comptroller of the Currency was established so that no national banking association could start business without his certification of authorization.

“Step 2: Reserve Requirements and Capitalization:

“Regulations were imposed covering minimum capitalization, reserve requirements, the definition of bad debts, reports on financial condition, and identity of ownership and other elements of safety to depositors. Under the Banking Act of 1863, a minimum capitalization of \$5,000 was fixed for institutions in communities with less than 6,000 population; and of \$100,000 for larger cities. Half the authorized capital had to be paid in before the bank could open its doors. Every bank director had to be an American citizen, and three-quarters of a bank's directors had to be residents of the state in which the bank did business.

“Each bank was limited in the interest rate it could charge by the strictures of its state's usury laws; or if none were in effect, then to 7%. If it were caught exceeding this limitation, it would forfeit the loan in question and would have to refund to the victimized bor-



Lincoln's plan included a call for the issuance of government legal tender paper currency (the greenbacks), which were first issued in 1862. This infusion of credit kept the Union Army going, and helped build the industrial infrastructure that led the Union to victory. By 1863, he had signed the National Currency Act, and the National Banking Act in 1864.

rower twice what he had paid in interest. Banks could not hold real estate for more than 5 years aside from bank buildings.

“Step 3: Currency and the Greenback:

“There were to be two kinds of legal money: greenbacks and bank-issued notes.

“A. Bank-issued notes:

“Banks could only issue notes against U.S. government bonds, and notes could be issued up to only 90% of the value of the bonds. This meant that notes of banks, although individual in their issue, were secured uniformly against a measure of value: U.S. government bonds. A national bank had to deposit with the Treasury, bonds amounting to at least one-third of its capital. It would receive in return government-printed notes, which it could circulate as money. Thus, the banks *would have to lend the government* substantial sums for the war effort to qualify for federal charters, and a sound currency would be circulated to the public for an expanding economy.

“In addition to the bond requirements, specie (gold) and lawful money reserves had to equal at least 15% of deposits and note issues for banks in most cities, and at

least 25% of deposits and note issues for banks in the largest cities, which were called reserve cities. This meant that banks could not just issue bonds or take deposits freely, but had to secure them with reserves of 15-25%, guaranteeing the safety of the banking system.

“B. Greenbacks:

“Under the Banking and Currency Acts of 1862 and 1863, a national currency, supplemental to the private bank note issues, was created by Lincoln, called the ‘greenback.’ During the war, \$450 million in greenbacks were issued. These were Treasury obligations and notes that circulated as common currency. As claims against the U.S. government, they could be used in all transactions. At the time of issue, greenbacks constituted almost one-half of the amount of currency in circulation. By creating \$450 million worth, Lincoln increased government spending by 300%!

“This massive infusion of credit was needed to feed, house, and arm the Union Army and build the industrial infrastructure that would lead the Union to victory. The greenbacks became doubly necessary when speculators such as J.P. Morgan acted to undercut the value of U.S. currency and refused to help market government debt. (During the war, Morgan sold such huge quantities of

U.S. gold abroad, in an attempt to wreck the value of the U.S. currency, that several newspapers openly attacked him as a British-affiliated traitor!)

“The greenbacks were attacked as needless instruments of inflation by the domestic and foreign enemies of the U.S. during the Civil War. This was ludicrous, especially since those who attacked the greenback, such as the House of Morgan, were the very people actively debauching the U.S. currency (since interest payments on the greenbacks were still pegged to gold), and manipulating prices by 50-70% in an attempt to defeat the republic. The opponents of the greenback were really the opponents of the national banking system that Lincoln was in the process of building.

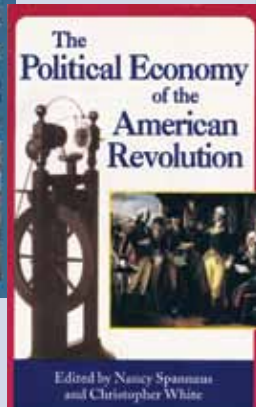
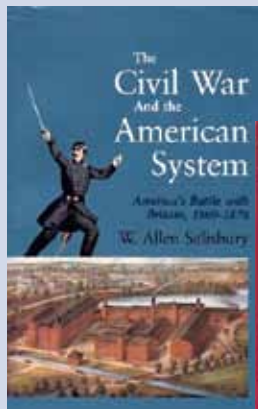
“Lincoln went further. He set up a “reserve requirement tree,” in which smaller banks had to hold reserves in larger banks, and these larger banks had to hold reserves in still larger banks. By having the U.S. government regulate the nine or so top banks that, through this process, held two-thirds of the national bank deposits, Lincoln hoped to regulate the national banking system. Had Lincoln lived, it is likely that he would have superseded this arrangement with the creation of a Third National Bank of the United States.”

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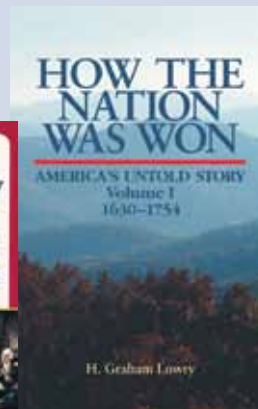
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