Repudiation: The Crisis of United States Civil War Debt, 1865-1870

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Abstract:

From 1865 to 1870, a crisis atmosphere hovered around the issue of the massive public debt created during the recently concluded Civil War, leading, in part, to the passage of a Constitutional Amendment ensuring the "validity of the public debt." However, the Civil War debt crisis was not a financial one, but a political one. The Republican and Democratic Parties took concerns over the public debt and magnified them into panics so that they could serve political ends—there was never any real danger that the United States would default on its debt for financial reasons. There were, in fact, three interrelated crises generated during the period: a repudiation crisis (grounded upon fears of the cancellation of the war debt), a repayment crisis (arising from calls to repay the debt in depreciated currency), and a refunding crisis (stemming from a concern of a run on the Treasury). The end of the Civil War debt crisis came only when there was no more political advantage to be gained from exploiting the issue of the public debt.

It was a time of unprecedented debt, of fears of austerity, of an unsettled currency system, and of economic disaster in many member states. It was 1865.

Emerging from four years of Civil War, the United States was now faced with the task of reconstructing its political and economic systems. As part of this endeavor, from 1865 to 1870, much of the country's focus was on the massive public debt created during the conflict. Congress went so far as to pass a constitutional amendment that read in part, "The validity of the public debt of the United States…shall not be questioned."

Why was it necessary for the United States Congress to alter the founding document of the nation to secure the public debt from some sort of repudiation? One might expect that in this time of upheaval that the crisis was a financial one: The Government, facing default, strove to force politics aside to resolve the situation. As it turns out, the opposite was true. The United States was in no jeopardy of default, and the Constitution was amended to force politics into the equation for political ends.

The Civil War debt crisis was not a financial one, but a political one. Actually, it consisted of three interrelated crises that arose simultaneously as hostilities came to an end in 1865: a repudiation crisis, a repayment crisis, and a refunding crisis. At the basis of all these crises was the battle for political advantage in the post-war United States. The Republican and Democratic Parties took concerns over the public debt and magnified them so that they could serve as political tools that took the form of crises. The resolution of the debt crises came only when there was no more to be gained from using the issue of the public debt for political advantage.

What Crisis?

The Civil War debt crisis was not a matter of possible default. In the years 1865 to 1870, the ability of the United States to pay its wartime debt never came into question despite its enormous size. Poorly structured and heavy with short-term securities, the public debt was nevertheless steadily whittled down after the war. This was possible because of a widespread willingness of Americans to be heavily taxed to provide the money needed not just to make the interest payments but also to have budget surpluses to pay down the debt.

The debt accumulated during the Civil War by the Union was unprecedented. On June 30, 1865, the public debt was $2,677,929,012 (when cash held by the Treasury is subtracted). In 1860, before the start of the Civil War, the public debt had stood at $64,843,831. Now, five years later, the debt was 41 times larger and the share of the public debt per capita had increased from $2.06 in 1860 to $75.01 in 1865.[1] As a

[1] *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix, 1980* (Washington, DC: Government Printing Office, 1980), 61. The 1865 figure adjusted for inflation would be $1,070.00 as of 2011. As a comparison, the per capita debt as of August 31, 2012, was $17,146. Samuel H. Williamson, "Seven Ways to Compute the Relative Value of a U.S. Dollar Amount, 1774 to present," MeasuringWorth, April 2012. www.measuringworth.com/uscompare, accessed September 14,

percentage of gross domestic product, the public debt had grown from being 1.49 percent in 1860 to 27.1 percent in 1865.[2] The debt would continue to rise during the summer as the last of the wartime bills arrived at the Treasury. The peak was reached on August 31, 1865, with the Government facing an outstanding balance of $2,757,689,571.43.[3] Not only was size a problem but also the structure of the debt was far from desirable.

In the summer of 1865, the debt was made up of 32 disparate instruments, a number of which consisted of multiple issues. Interest rates varied mainly between 4 percent and 7.3 percent with most of the interest-bearing debt paying 6 or 7.3 percent.[4] Examining the debt reported on June 30, 1865 results in the following:

Category of Debt	Amount	Avg. Cost	Avg. Maturity (Years)	Percentage of Total
Currency (irredeemable)	$458,166,398	0.0%	n/a	17.08%
Payable on Demand/Short Notice	$582,010,736	5.3%	~ 0	21.70%
Payable in 5 years or less	$696,956,992	7.2%	3.0	25.98%
Long-term Debt	$945,459,900	5.8%	20.9	35.24%
Total	$2,682,593,026	6.3%	9.8	100.00%

In brief, the debt management concerns facing the Government after the war were mainly the currency and the large amount of debt coming due in the short-term. The currency consisted mostly of United States Notes or, as more commonly called, Greenbacks. With over $432 million outstanding, this fiat currency fluctuated in value and saturated the money market, causing a myriad of economic difficulties.

Total short-term debt, that debt payable on demand or maturing in the next five years, made up 48% of the total debt and bore an average interest rate of 6.3%. This was a far more pressing problem that not only damaged the credit of the Government, but led to concerns that future revenues may not be great enough to prevent embarrassment to the Treasury.

This situation was the result of the lack of a coherent debt management policy during the war. The stamp was set at the beginning of the war by Secretary of the Treasury Salmon P. Chase whose expectations of a short war and lack of financial knowledge and experience led to a dependence on expediency in generating revenue to fund the

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2012; Gordon Gray, *The United States Has a Credit Problem*, URL: finance.yahoo.com/blogs/the-exchange/united-states-credit-problem-233708122.html, accessed September 14, 2012.

[2] GDP data from Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?" MeasuringWorth, 2011. www.measuringworth.org/usgdp accessed June 26, 2012. As a comparison, the debt held by the public to GDP ratio in August 2012, was 72.8%. Congressional Budget Office, "An Update to the Budget and Economic Outlook: Fiscal Years 2012-2022," August 22, 2012: 22, www.cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf, accessed October 10, 2012.

[3] *Annual Report of the Secretary of the Treasury on the State of the Finances, 1867* (Washington, DC: Government Printing Office, 1868), iii-iv.

[4] *Annual Report of the Secretary of the Treasury on the State of the Finances, 1865* (Washington, DC: Government Printing Office, 1865), 50-55.

war effort. This meant much panic borrowing at unrealistic rates of interest and lurching from funding crisis to funding crisis. Without useful or sound guidance from the Treasury, Congress would step in to deal with the crisis, quickly pushing through whatever measure would bring about a financial solution. As a result, by the war's end, the country was faced with a chaotic collection of securities that no one really understood.[5]

Despite these debt management concerns, there was no panic that the country would be unable to meet its financial obligations. The United States economy—at least in the North—was essentially sound.[6] While some manufacturers suffered from the postwar readjustment, the financial sector was doing well and farmers were getting unparalleled prices for their crops.[7] New areas of the West were being opened up and connected to the East via massive railway expansion. Meanwhile, the states of the former Confederacy were trying to restart their economies with help from Northern investors.[8] One financial historian summed-up the situation this way: "The natural resources of the country and opportunities for productive enterprise made it possible for the country to press forward by leaps which no mistakes of taxation, monetary issue, or Treasury borrowing could withstand."[9]

However, this fundamental economic strength was often hidden to contemporaries who spent the period under the cloud of repeated minor economic downturns. The period was distinguished by a series of economic recessions that occurred between 1865 and 1870. Briefly, a cyclical peak was reached in April 1865 (the month in which the war essentially ended), then the economy declined until December 1867. From there, until June 1869, the economy again grew. A recession then followed that lasted until December 1870. Driven primarily by cycles of stock market boom and bust, the severity of the downturns was moderated by the steady expansion in railroads and robust crop prices.[10]

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[5] The story of Civil War finance has been told many times. Works focusing on debt management include Robert T. Patterson, *Federal Debt-Management Policies, 1865-1879* (Durham, NC: Duke University Press, 1954), chapts. 3-4; Robert A. Love, *Federal Financing*, 1931 ed. (New York: AMS Press, 1968), chapts. 4-5; Tilford C. Gaines, *Techniques of Treasury Debt Management* (New York: The Free Press of Glencoe, 1962), chapt. 1.

[6] William Archibald Dunning, *Reconstruction, Political and Economic, 1865-1877* (New York: Harper & Brothers Publishers, 1907), 142-44; Alexander Dana Noyes, *Thirty Years of American Finance* (New York: G.P Putnam's Sons, 1898), 2-4.

[7] Robert P. Sharkey, *Money, Class, and Party: An Economic Study of Civil War and Reconstruction* (Baltimore, MD: The Johns Hopkins Press, 1959), 102-04.

[8] Stanley Coben, "Northeastern Business and Radical Reconstruction: A Re-examination," *The Mississippi Valley Historical Review*, 46, 1 (June 1959): 83-84.

[9] Davis Rich Dewey, *Financial History of the United States*, 9th edition (New York: Longmans, Green and Co., 1924), 358.

[10] Arthur F. Burns and Wesley C. Mitchell, *Measuring Business Cycles* (New York: National Bureau of Economic Research, 1946), 78 (table 16); Warren M. Persons, Pierson M. Tuttle, and Edwin Fricke, "Business and Financial Conditions Following the Civil War in the United States," *The Review of Economics and Statistics*, 2, supplement 2 (July 1920): 7-13; Rendigs Fels, "American Business Cycles, 1865-79," *The American Economic Review*, 41, 3 (June 1951): 331-35; William A. Richardson, *Practical Information Concerning the Public Debt of the United States with the National Banking Laws* (Washington, DC: W.H. & O.H. Morrison, 1872), 92-93; Sharkey, 84-85, 103-04.

It was this basic health of the economy and the Government's revenue system that ensured the country against a debt default. The tax system at the end of the war has been described as "Spartan," and indeed taxes were high and a source of universal grumbling during the economic downturns of the postwar period.[11] The philosophy of the tax system was to impose moderate duties on a large number of objects or as Special Commissioner of the Revenue, David A. Wells, put it, "wherever you find an article, a product, a trade, a profession, or a source of revenue, tax it." Added to these taxes were those based on personal income. Begun in 1861, the income tax was revised in 1862, 1864, and 1865 to raise rates. Though the income tax was attacked as inquisitorial and often evaded, its usefulness and continued existence was not questioned until 1870.[12]

While Federal taxes were repeatedly reduced in the post-war years, they still remained high enough (and the economy robust enough) to allow for consistent Government budget surpluses. The major reason for the only slight reduction on taxation during the postwar years was the complex political-economic calculus involved in deciding what products and services should have their taxes reduced and which should not and how that decision impacted upon the tariff wall erected around the United States.[13]

However, always in the back of everyone's mind was the need to repay the war debt. During the war, there was little resistance to the imposition of taxes to pay for the war. Given that a generation had not experienced Federal taxation,[14] it was no doubt seen by a majority as a novel, temporary call to action in a great patriotic endeavor. This attitude carried over to the postwar period and the repayment of the debt. After the war, the people of the North "manifested an incomprehensible impatience at the thought of indebtedness."[15] Though this enthusiasm to be taxed waned and led to complaints during the recessions of the postwar era, there was little actual pressure placed on Congress for tax reform.[16]

Including interest payments on the public debt and reduction in the debt, surpluses for the years 1866 through 1870 ranged from $927,000 to $116 million. The rapidity of the debt repayment and the size of the surpluses prompted Secretary of the Treasury Hugh McCulloch to ask Congress for reductions in taxes, but to no avail. The majority of the

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[11] Sharkey, 54; Dunning, 137.
[12] Laurence F. Schmeckebier and Francis X. A. Eble, *The Bureau of Internal Revenue* (Baltimore, MD: The Johns Hopkins Press, 1923), 7, 8; Joseph A. Hill, "The Civil War Income Tax," *The Quarterly Journal of Economics*, 8, 4 (July 1894): 415, 422.
[13] Dewey, 305, 394; Howard K. Beale, *The Critical Year: A Study of Andrew Johnson and Reconstruction*, reprint 1930 ed. (New York: Frederick Ungar Publishing Co., 1958), 230-33.
[14] Schmeckebier and Eble, 6.
[15] Frederick C. Howe, *Taxation and Taxes in the United States under the Internal Revenue System, 1791-1895* (New York: Thomas Y. Crowell & Co., 1896), 74.
[16] McCulloch stated in his memoirs that there was little complaint about taxation because they were indirect, consumption taxes that "do not seem to be felt." Hugh McCulloch, *Men and Measures of Half a Century* (New York: Charles Scribner's Sons, 1889), 461.

people and Congress wanted the debt paid, no matter the cost.[17] More detail can be gleaned from the chart below (figures are in millions).[18]

Fiscal Year	Total Revenues	Total Expenditures	Interest on Debt	Change in Debt Principal	Surplus
1866	$520	$519	$133	+ $78	$1
1867	$463	$347	$144	- $106	$116
1868	$376	$370	$140	- $67	$6
1869	$357	$321	$131	- $38	$36
1870	$396	$294	$129	- $109	$102

So, given the popular will for repaying the debt, the means to do so, and the actual reduction of the debt almost annually, where is the crisis over the debt? Obviously, there is no financial or economic crisis here. Perhaps, the crisis was one of confidence. Perhaps, the question during the postwar years was not whether the debt *could* be paid, but whether it *should* be repaid—and if so, how? Should it be paid in full? And, assuming the debt was to be paid, who would bear the cost of repaying the debt and who would benefit? In the years after the cataclysm of the Civil War, these were not fine points to be debated by economists, financiers, and politicians. What happened to the public debt was an issue of profound importance to almost everyone dwelling in the North, not only because of the popular dread of debt but also because the debt itself was sacred.

The Sacred Debt

The economic magnitude of the public debt after the war was unprecedented and so was the place it held in the popular psyche. The Civil War debt held a huge political charge in postwar America. This stemmed from the popular distribution of the debt and the way in which it was marketed.

Probably not since the Revolutionary War had so much of the public debt been held by the general public rather than financial institutions. In July 1864, one newspaper reported, "there has never been a national debt so generously distributed among and held by the masses of the people as all the obligations of the United States."[19] In part, the reason for this was the same as during the Revolution—a lack of cash. Because of the shortage of coin, troops often received Treasury notes and bonds for their pay.[20]

[17] Patterson, 120-24; McCulloch, 209.

[18] Charts derived from data in Dewey, 399-401; *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix, 1980* (Washington, DC: Government Printing Office, 1980), 61.

[19] Heather Cox Richardson, *The Greatest Nation of the Earth: Republican Economic Policies during the Civil War* (Cambridge, MA: Harvard University Press, 1997), 64. Also see, James Macdonald, *A Free Nation Deep in Debt: the Financial Roots of Democracy* (New York: Farrar, Straus and Giroux, 2003), 397-99.

[20] Jane Flaherty, "'The Exhausted Condition of the Treasury' on the Eve of the Civil War," *Civil War History*, 55, 2 (2009): 269. And, we must remember that at the time there was not the sharp distinction between Government currency and Treasury securities as there is today. Greenbacks were United

However, the widespread distribution of United States debt instruments resulted mainly from the Treasury's new dependence on popular support for its issues. In the decades preceding the Civil War, the Treasury had met the Government's modest borrowing needs by selling debt instruments to banks and financial interests. And, when the new Secretary of the Treasury, Salmon P. Chase, entered into his office with the Lincoln administration in 1861, he followed the same practice. However, Chase's financial naivety led to numerous missteps that earned him the distrust and hatred of the bankers and financiers of the major markets in the United States. As a result, the initiative in Government financing passed to the market and made paying for the war difficult. As a way to escape the restrictions of the market, Chase turned to the idea of a popular loan.[21]

An appeal directly to the people would bypass the uncooperative financial community, encourage support for the war, and bind the citizenry more closely to the Government. Napoleon III had successfully advanced such a loan in 1859, but it was an innovation in American finance.[22] Chase announced his intentions: "As the contest in which the government is now engaged is a contest for national existence and the sovereignty of the people, it is eminently proper that the appeal for the means of prosecuting it…should be made in the first instance, at least, to the people themselves."[23]

The instrument created by Congress for the first "National Loan" was a Treasury note paying 7.3% over three years and available by subscription only. Known as the "Seven-Thirty," the interest rate was chosen so that a $50 bond would pay one cent in interest per day. Using an appeal to patriotism, the "National Loan" was a moderate success, but it did not generate enough revenue to meet the costs of the war.[24] Chase and the Congress tried again in February 1862 with the floating of $500 million in "Five-Twenties."[25] The below-market coupon rate of 6 percent was meant to minimize the cost of the loan and not to appeal to the financial market. However, a sop was thrown the investor as the interest on the loan was to payable in gold rather than the increasingly devalued Greenback. Chase hired Jay Cooke to take over the sale of the Five-Twenties who made them so popular that the issue was over-sold. Cooke's success led to other issues directed toward the public and more participation by Cooke in the sales.[26]

States Notes, a Treasury obligation reckoned as part of the public debt just like all other securities issued during the war. The distinction was that these did not pay interest.

[21] Flaherty, 271; Heather Cox Richardson, 33-39, 45-46; Rafael A. Bayley, *The National Loans of the United States* (Washington, DC: Government Printing Office, 1882), 151.

[22] Heather Cox Richardson, 41; Flaherty, 272.

[23] *Report of the Secretary of the Treasury*, 37th Congress, 1st sess., July 4, 1861, S. Ex. Doc. 2, 12.

[24] Melinda Lawson, *Patriot Fires: Forging a New American Nationalism in the Civil War North* (Lawrence: KS: University Press of Kansas, 2002), 43.

[25] "Five-Twenties" got their name from the fact that the Government could redeem them in five years, but they matured in twenty.

[26] Heather Cox Richardson, 60-63.

Cooke's sales focus was the small investor who was perhaps investing in a financial instrument for the first time. To win over these largely middle-class buyers, Cooke sent his agents into small communities, going to the investor instead of requiring him or her to travel to a Treasury office to buy a security. But, much of his efforts were focused on education. He advertised widely and wrote editorials laying out the financial benefit and patriotic significance of purchasing Government bonds.[27] After the war, Cooke claimed that ninety percent of the 3 million subscribers to wartime loans were of "*the people*" or the middling classes.[28] John Sherman stated in the Senate: "I know that in the portion of Ohio where I live there is scarcely an independent farmer or mechanic who has not more or less of the five-twenty loan. It has been taken by servants, laborers, mechanics, persons in every condition and degree of life, poor and rich."[29] Even if Cooke's number of investors is not correct, it could be safely said that many Northern voters held bonds,[30] and being new to investing, they were prey for "scheming office-seekers" who would play upon their "ignorance of the intricacies of finance" for votes.[31]

The success of Cooke's sales brought a new pride to the Union, a pride in the financial strength and patriotism of the average citizen. Direct sales of Government debt also aided in bringing about a new identity between the bondholding citizen and the Federal Government. Weakening the bonds of locality or regionalism, the average American now recognized himself as part of a larger nation—the Union. Thus the wartime debt became inextricably entwined with the patriotism and moral purpose of the Civil War.[32] To attack the public debt was therefore an attack on the wartime sacrifices and the righteousness of the war to preserve the Union and abolish slavery: "Most…viewed the sanctity of the national debt as a moral legacy of the war second only to emancipation itself."[33] Yet, not everyone in the country held Government bonds or believed in the sanctity of the public debt.

To some it was a worry and a threat:[34] "The National Debt is the subject, above all others, which fills the thoughts and claims the anxieties of every serious mind in the country."[35] Even during the war, the worrisome continuing growth of the debt led to a flood of varied plans to pay it off. At the war's end, the repayment of the debt was

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[27] The full story of the sales campaign appears in Ellis Paxson Oberholtzer, *Jay Cooke: Financier of the Civil War* (Philadelphia: George W. Jacobs & Co., 1907), 1: 212-325. Also see Lawson, 52, 55-57.

[28] Heather Cox Richardson, 64. Emphasis in original. Eric Foner puts the number closer to 1 million and the class of holders as "wealthy individuals." Eric Foner, *Reconstruction: America's Unfinished Revolution, 1863-1877*, 1st Perennial Classics ed. (New York: Harper Collins, 2002), 22.

[29] Oberholtzer, 1: 317.

[30] Beale, 333.

[31] David Montgomery, *Beyond Equality: Labor and the Radical Republicans, 1862-1872*, 1967 ed. (Urbana, IL: University of Illinois Press, 1987), 368.

[32] Montgomery, 347; Albert S. Bolles, *The Financial History of the United States from 1861 to 1885*, reprint 2d ed. (New York: Augustus M. Kelley, 1969), 3:306; Lawson, 59. This included Greenbacks. Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865-1879* (Princeton, NJ: Princeton University Press, 1964), 69.

[33] Foner, 23-24, 311.

[34] Leonard H. Courtney, "On the Finances of the United States of America, 1861-67," *Journal of the Statistical Society of London*, 31, 2 (June 1868): 208.

[35] J.S. Gibbons, *The Public Debt of the United States* (New York: Charles Scribner & Co., 1867), 1.

assumed and seemingly everyone was doing the math as to how long that might take with the most learned estimating around 30 years. The thought of simply repudiating the debt was so shocking as to be almost inconceivable.[36]

And, despite the debt's size, there were few who questioned the ability of the country to pay it off. The bigger question was where the money would come from. The fear was that the need to pay the debt would lead to that financial imperative dictating Government policy, and that some sort of austerity program would impose crushing taxes and throw people out of work. Pointing to the current heavy taxation, the Treasury, it was argued, was becoming the people's "master," and the need for money to pay the debt "gives law to industry, imposes regulations that govern production, and already begins to injure the employments of the people."[37] Following this train of thought, usually championed by the Democratic Party, the public debt was a threat to the nation, particularly the lower classes.

Taxation to pay for the debt, it was argued, would impoverish these groups for the benefit of an increasingly permanent wealthy class that derived its riches from interest on Government bonds. The power derived from this wealth would be used to continually expand the public debt until it became a permanent source of wealth paid for by an increasingly enslaved working class.[38] The Democrats would come to call this class of wealthy bondholders the "bondocracy" and liken it to the British aristocracy.[39] Both groups gained wealth and political power without labor but upon the backs of the farmers and workers: "By the operation of excessive taxes, capital accumulates in the hands of the few, and tends to form a wealthy class, which gradually absorbs all the functions of the State, and makes laws to perpetuate its own rule."[40] The solution for some was to think the unthinkable and repudiate the wartime debt, seeing it as illegal and unjust.[41]

Thus, at the end of the Civil War, was the stage set: There was a debt of unprecedented size and complexity with much of it quickly coming due for payment. Much of this debt was held by a large number of middle-class Northern voters, many of them novice investors who saw the debt as a sacred legacy and feared for its safety—and of their investment in it. Yet, there were many from the lower classes which did not hold bonds and felt crushed by the heavy, regressive tax system used to pay the debt. With the ideological support of the Democrats and some radical thinkers, they saw the debt as a threat to their livelihood and freedom.

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[36] Patterson, 52-54.
[37] Gibbons, 1.
[38] Heather Cox Richardson, 32-33.
[39] Montgomery, 348-49; Patterson, 57; Unger, 77-78. This position was very much in the Democratic tradition, John Gerring*, Party Ideologies in America, 1828-1996* (Cambridge: Cambridge University Press, 2001), 59, 166-78.
[40] Gibbons, 5-6.
[41] Henry Clay Dean, *Crimes of the Civil War and Curse of the Funding System* (Baltimore, MD: J. Wesley & Bro, 1869).

It is this conflict between negative and positive views of the public debt that lay at the heart of the Civil War debt crisis. The resultant fears were expressed and exploited by the political parties of the postwar period in their struggle for power, regardless of the damage such exploitation might have on the apparent credit-worthiness of the United States Government.

The Repudiation Crisis

The repudiation crisis was the fear that a politically resurgent South, represented by the Democratic Party, would force the Government to repudiate the Union debt or force the recognition and repayment of the Confederate debt. These worries were seized upon by the Republican Party and used as leverage to advance its reform agenda in the South and defeat a Democratic resurgence by linking the Democratic Party with pro-repudiation sentiments. The ultimate combination of repudiation anxieties and political calculation was the fourth clause of the Fourteenth Amendment to the United States Constitution, which guaranteed the public debt and was passed by Congress in June 1866. Yet, the utility of identifying Democrats with repudiation led to Republicans exploiting this fear into the elections of 1868.

Odd as it may seem, at the basis of the repudiation crisis was the Thirteenth Amendment to the Constitution that ended slavery in the United States. The Constitution contains Article I, Section 2, laying out the election of Representatives to Congress. It originally stated that the apportionment of Representatives to a state would be based on the number of free persons plus three-fifths the number of all slaves. However, the end of slavery by the Thirteenth Amendment, removed the three-fifths rule and the reduced calculation of representation in slave states. In effect, the representation and Congressional influence of the former Confederate states was significantly increased with the end of the Civil War.[42]

It was fully expected among the Republican leadership that Democratic Congressmen from the readmitted Southern states would combine with Northern Democrats in Congress to form an unstoppable majority that could rewrite many of the changes made during the war.[43] Not least among the changes from the Civil War were the debts accumulated by the Confederacy and the Union. A Southern, Democratically controlled Congress could force the United States to assume the Confederate debt or to repudiate the Union debt, which was the public debt of the United States.

Such scenarios were entirely possible as it was not entirely clear whether the Southern states had ever legally left the United States. So, it could be argued that the Confederate debts were not those of an alien combatant, but merely of member states that had been temporarily taken over by rebellious individuals. This view was

[42] Dunning, 52-53.
[43] Foner, 252.

championed by sitting President Andrew Johnson.[44] And, it was not unprecedented or unconstitutional for the United States to take on the debt of one or more states. This had been most famously done when the United States was first formed and Secretary of the Treasury Alexander Hamilton had the Federal government take on the Revolutionary War debt of the various states.[45] Thus, there was no insurmountable legal impediment to the United States assuming the debt of the Confederacy.

The Civil War debt held by individual Confederate states at the end of the war has been estimated at $66,907,000.[46] But, this pales compared to the debt of the Confederate States of America, which was reported to be $1.4 billion on October 1, 1864.[47] Added together, the Confederate debt that might be forced upon the United States for repayment equaled $1.438 billion. And, if one adds in compensation for freed slaves (which was a rumored demand of Southerners),[48] valued at $1.75 billion in 1860, the total bill the South might present to the North amounted to $3.2 billion, $500 million more than the United States public debt at its peak.

On the other hand, there was nothing in the Constitution preventing the United States from repudiating its own debt. Numerous individual states had done this in the past. In the 1840s, and within the memory of many, a number of states had defaulted on or totally repudiated their debts because of the stresses brought on by the panic of 1837.[49] Now, twenty years later, after a civil war, why should not the United States follow their example and wipe the slate clean? Such views received spotty support in the North where some critics called the war debt unconstitutional and demanded its repudiation.[50]

For a number of politicians, both Democrat and Republican, all this talk about assuming the Confederate debt or repudiating the public debt was pure nonsense. Democrat Benjamin Boyer stated in the House of Representatives that no one "outside of a lunatic asylum" thought that the South would demand payment of the Confederate debt.[51] And, the *New York Times* ridiculed one Republican politician who thought such things as "fighting windmills" or waiting for "the sky to fall."[52] A later commentator stated, any "thought of repudiating Northern obligations was entertained only in the ingenious

[44] Eric L. McKitrick, *Andrew Johnson and Reconstruction* (Chicago: University of Chicago Press, 1960), 101-02.
[45] Dewey, 92-94.
[46] James L. Sellers, "An Interpretation of Civil War Finance," *American Historical Review*, 30, 2 (January 1925): 286, 289.
[47] John C. Schwab, *The Confederate States of America*, 1861-1865 (New York: Charles Scribner's Sons, 1901), 76.
[48] Beale, 94.
[49] William A. Scott, *The Repudiation of State Debts* (New York: Thomas Y. Crowell & Co., 1893); William B. English, "Understanding the Costs of Sovereign Default: American State Debts in the 1840's," *The American Economic Review*, 86, 1 (March 1996).
[50] Most vociferous was Dean, 206-07, 234.
[51] *Globe*, 39th Cong., 1st sess. (1865), 2467.
[52] Joseph B. James, *The Framing of the Fourteenth Amendment* (Urbana: University of Illinois Press, 1965), 24.

campaign manufactories of the [Republican] Radicals, and in the brains of fanatic Copperheads and a few irreconcilable Southerners."[53]

However, despite these views, the Republicans publicly declared that to prevent such dire events, they had to counteract the effect of the Thirteenth Amendment. This would be done by pursuing measures that would ensure the vote to former slaves, who would no doubt vote Republican and against their Democratic former masters.[54] Shortly after the reconvening of Congress, Thaddeus Stevens, on December 18, 1865, stated in Congress that a failure to reform the Southern suffrage would give the Democrats "possession of the White House and the halls of Congress. I need not depict the ruin that would follow. Assumption of the rebel debt and repudiation of the Federal debt would be sure to follow."[55] In sum, the futures of the Confederate debt and the public debt were tied up with the threat of a future Democratic Party supremacy in Congress and this relationship would manifest itself in the clauses of the Fourteenth Amendment.

Besides guaranteeing the citizenship and civil rights of former slaves and barring former Confederates from Congress, the Fourteenth Amendment addressed the matter of wartime debts in section four:

> "The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned. But neither the United States nor any State shall assume or pay any debt or obligation incurred in aid of insurrection or rebellion against the United States, or any claim for the loss or emancipation of any slave; but all such debts, obligations and claims shall be held illegal and void."

The creation of this clause was a matter of evolving views of the Northern and Southern debts and political calculation.

Efforts to secure the repudiation of the Confederate debt began during the Civil War. In July 1864, Congress passed the Wade-Davis Bill. Though it never became law due to a pocket veto by President Lincoln, the bill provided a path for Confederate states to rejoin the Union after the war. One of the issues included in the bill was the necessity of returning states to repudiate their war debts.[56] After the war, President Andrew Johnson made it clear to a number of Southern governors that they had to repudiate the Confederate debt as a condition to readmission to the United States. However, Georgia, South Carolina, and other Southern states resisted repudiating their debts, raising concerns in the North.[57] These doubts were reinforced by Carl Schurz's report

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[53] Beale, 199; James, *The Framing of the Fourteenth Amendment*, 27.
[54] The story of the Republican quest for civil rights for former slaves and security from Democratic political gains is told in every history of Reconstruction. The most concise account can be found in Foner, 228-80.
[55] *Globe*, 39th Cong., 1st sess. (1865), 74.
[56] McKitrick, 105, 128-33.
[57] *Ibid.*, 9, 92, 166-68, 202, 207.

on conditions in the South. Southerners, he reported, did not want to help repay the national debt and would like compensation for their lost slaves and other damages.[58]

Such fears led the *Chicago Tribune* in July 1865 to suggest a Constitutional amendment as the only way to secure a guarantee of Confederate repudiation.[59] This sentiment was repeated in the opening days of the Congress in December 1865—the first meeting of Congress since the end of the war. Here, proposals for an amendment to secure the repudiation of the Confederate debt were put forward. In early 1866, these ideas were taken up by a Joint Committee of Congress drafting the Fourteenth Amendment. During April, it proposed an amendment that read, "Neither the United States nor any State shall assume or pay any debt or obligation already incurred, or which hereafter may be incurred, in aid of insurrection, or of war against the United States, or any claim of compensation for loss of involuntary service or labor," and forwarded it to the Senate for a final review.[60]

By this point in time, there was also anxiety over the security of the United States public debt. As early as May 1865, while the final act of the Civil War was coming to an end, concerns were being raised over the stability and safety of the public debt. Representative Henry Winter Davis, surveying the scene, wrote, "None of the white population of the Southern States is interested in paying the public debt….If the whites be restored to political power, their representatives are interested in repudiating that public debt."[61] The financial markets were nervous to the point that the *New York Times* had to repeatedly assure readers in May and June 1865 that the public debt was in no danger. By August 1865, Secretary of the Treasury Hugh McCulloch was worried that all the talk about repudiation by various politicians was impacting the market: "Nothing can be more damaging to our national credit than the openly-expressed opinion by leading men, that there may arise contingencies in which the national debt will be repudiated."[62]

When Congress met in December 1865, efforts were immediately made to secure repayment of the national debt. A resolution to declare the debt "sacred and inviolate" was overwhelmingly passed.[63] Worries continued into January 1866 as the *Nation* reiterated that an unconditional return of the South and its representatives to the Union would lead toward a repudiation of the national debt: "It would hardly be a safe thing for the national credit to have such a body of men in Congress, reinforced as they would probably be, by a considerable number of Northern men ready to go for at least qualified repudiation."[64] In February, Senator Henry Wilson stated his concern over the

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[58] James, *The Framing of the Fourteenth Amendment*, 51; Beale, 334-35.
[59] James, *The Framing of the Fourteenth Amendment*, 25.
[60] Benj[amin] B. Kendrick, *The Journal of the Joint Committee of Fifteen on Reconstruction, 39th Congress, 1865-1867* (New York: Columbia University, 1914), 103, 116-17.
[61] Beale, 333-34.
[62] James, *The Framing of the Fourteenth Amendment*, 25.
[63] *Globe*, 39th Cong., 1st sess. (1865), 10.
[64] Beale, 333.

repudiation of a debt that was "as sacred as the blood of our heroes poured out on the battlefields."[65]

The Fourteenth Amendment began to take its final form in May 1866. At that time, all the fears of repudiation were brought together into one provision. It provided for the security of the public debt of the United States and repudiated the debt of the former Confederate States of America. A slightly altered form of this provision was put forward during open debate in the Senate, forming the final form of section four of the Fourteenth Amendment.[66]

However, there was more to section four than securing the public debt and banishing the Confederate debt. It was widely seen that the inclusion of the debt provisions in the amendment was a political move to bolster the chances of passage of the entire proposal.[67] Already, in late December 1865, the *New York Herald* suggested that combining the controversial propositions of civil rights and suffrage for former slaves with the popular debt guarantees into one Constitutional amendment would strengthen propositions that may not be able to stand on their own. In March 1866, Senator Charles Sumner was advised by Wendell Phillips, that the "pressure of vast debt—uncertainty of it" gave the Republicans leverage to promote their agenda.[68]

In May 1866, the *Chicago Tribune* argued that the proposed amendment would make a good Republican campaign platform. Democratic opponents would have to argue against its points, i.e., in favor of repudiating the public debt and repaying the Confederate debt.[69] Indeed, by the time of passage by Congress of the proposed Fourteenth Amendment in June 1866, the threat of repudiation was seen as a vital political weapon by the Republican Party.

The fears regarding the debt were already recognized as a political asset during the summer of 1865. As we have seen, it was during this time that anxieties over the possible repudiation of the public debt became so prevalent that the financial markets grew unsettled. It did not take long for leading Republicans to seize upon the issue and begin crafting a message that depicted Republicans as defenders of the public debt. Democrats, on the other hand, were not to be trusted, according to Republicans. If they came to power, repudiation was sure to follow. All the fear mongering regarding repudiation was also being used by more radical elements of the Republican Party to attack President Johnson, a Democrat leading what was basically a Republican government. Secretary of the Treasury McCulloch saw it as a strategy to get "holders of securities to take ground against the President's policy [on Reconstruction] by the

[65] *Globe*, 39th Cong., 1st sess. (1865), 701.
[66] *Ibid.*, 2869; McKitrick, 353-54.
[67] Beale, 205; Dunning, 68. This was also the view in the South, see Joseph B. James, "Southern Reaction to the Proposal of the Fourteenth Amendment," *The Journal of Southern History*, 22, 4 (November 1956): 479, 491.
[68] James, *The Framing of the Fourteenth Amendment*, 49-50, 111.
[69] *Ibid.*, 135. This approach was typical for Republicans: "Every election was an occasion to impress upon the voters what financial destruction Democracy would wreak." Gerring, 77.

argument that under it there is danger of…the repudiation of the obligations which have been created in the prosecution of the War."[70]

The Democrats, to a degree, played into the hand of the Republicans. As they sought to create a new, post-war identity, free of "the odor of rebellion,"[71] the Democrats began to attack the public debt as a Republican creation designed to benefit the rich. The Republican response to any assault on the public debt or calls to modify its terms, in any way, was to label it as a form of repudiation. The Democratic platform in Ohio was criticized by Republicans in September 1865 because it called for the taxation of United States securities, which, it was argued, was simply a backdoor to repudiation.[72]

During the 1866 election season, Republicans employed the fear of repudiation to garner support not only for their election to Congress but also for the Fourteenth Amendment. Campaigning in Toledo in August 1866, James A. Garfield told a crowd that "repudiation of the federal debt was certain if representatives from the South were allowed to enter the Fortieth Congress." Ben Butler added his voice during the campaign in Gloucester, Massachusetts. He warned that if the Democrats returned to power financial chaos would ensue: "what would your 7:30s be worth?" Roscoe Conkling told a Utica, New York, gathering that the Fourteenth Amendment would protect the North from a resurgent Democracy: "What would become of the public debt and the public credit? What would greenbacks, and five-twenties, and seven-thirties be worth?" The *New York Herald* summed things up: "Herein lies the secret of the astounding popular strength of [the Fourteenth Amendment]….No man who has a fifty dollar government bond salted down would trust its redemption to the chances of the casting vote in Congress of a Southerner who has lost his thousands in Confederate script."[73]

The Congressional elections of 1866 resulted in a resounding success for the Republicans, thanks, in part, to panic over a possible Democratic repudiation of the debt.[74] The Republican victory also assured the ultimate ratification of the Fourteenth Amendment and the end to any legitimate fear of the assumption of the Confederate debt or the outright repudiation of the Union war debt.[75] However, the Republican Party continued to use the fear of repudiation to combat the Democrats. In the run-up to the 1868 elections, the Republican platform drew attention to the many "forms of repudiation," calling them a "national crime."[76] While some Republican journals were still charging Democrats with the desire to repudiate the debt in its entirety and/or

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[70] Beale, 335-37.
[71] Joel H. Silbey, *A Respectable Minority: The Democratic Party in the Civil War Era, 1860-1868* (New York: W.W. Norton & Company, 1977), 182.
[72] James, *The Framing of the Fourteenth Amendment*, 26.
[73] *Ibid.*, 162-64, 167; Beale, 334.
[74] Beale, 337, 386.
[75] The Reconstruction Act of 1867, passed by the Republican-dominated Congress elected in 1866, required states seeking readmittance to the Union to ratify the Fourteenth Amendment. Foner, 276.
[76] *Ibid.*, 338.

assume the Confederate debt,[77] by this time, the new "crime" being perpetrated by the Democrats was to suggest that the public debt be repaid in Greenbacks rather than gold.

The Repayment Crisis

The repayment crisis was the battle over whether the United States public debt would be paid in gold or in Greenbacks. During the war, the country went off the gold standard and issued the United States' first fiat currency, the United States Note, popularly known as the Greenback. By the end of the war, Greenbacks were trading at a discount to gold, and some advocated paying off the public debt in the devalued currency. This move would save the nation money—at the expense of the bondholders. This idea was seized upon by the Democratic Party as a campaign issue and became a centerpiece to an attack on banking and financial interests or anyone whose wealth was derived from Government bonds. The Republicans responded by calling the Democrats repudiators. The manner of repayment was not resolved until after the 1868 elections.

The Treasury suspended specie payments on December 30, 1861, after the major lenders to the Government did. A monetary crisis of sorts ensued.[78] There was a shortage of circulating currency, and what currency did circulate was of questionable value, consisting mainly of a collection of paper notes issued by private banks. By early 1862, a greater concern for Congress than providing a workable currency was providing an immediate source of income. It was the need to pay the bills that led to the issuance of Greenbacks. After much debate over whether to assign them legal tender status, United States Notes were authorized by the act of February 25, 1862. Greenbacks were meant to be a temporary measure; they would be redeemed for gold or converted into bonds and cancelled as soon as the war ended.[79] The United States, it was believed, would return to the gold standard immediately after the war.[80]

Working under this assumption, when writing wartime legislation authorizing loans to fund the war effort, Congress did not always take the trouble to explicitly state in what form of currency the interest and principal of the loan would be payable. In most cases, it was clearly stated that interest payments should be payable in coin, but often repayment of the principal was not spelled out. This was the case with the Five-Twenties authorized during the war. Basically, all the acts authorizing Five-Twenties seemed to let open the means of repaying their principal amounts, which totaled

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[77] Charles H. Coleman, *The Election of 1868: The Democratic Effort to Regain Control*, reprint 1933 ed. (New York: Octagon Books, 1971), 290.
[78] Macdonald, 388-90.
[79] Noyes, 8. Richardson also argues that this was another move to "turn further away from bankers and toward the public for funds." Heather Cox Richardson, 53.
[80] For more on the ante bellum currency system and the place of the Greenback see Franklin Noll, "The United States Monopolization of Bank Note Production: Politics, Government, and the Greenback, 1862-1878," *American Nineteenth Century History*, 13: 1: 17-20.

$606,569,500 in 1865 or over 27% of the public debt.[81] This was not a problem as long as the United States returned to the gold standard after the war, making Greenbacks equivalent in price to gold.

However, this lack of specificity came back to haunt the Treasury after the war when the repayment of the public debt and a return to the gold standard became controversial issues. The argument was raised, as early as the autumn of 1865, by those seeking to reduce the debt that since many of the bonds had been purchased with Greenbacks, they should be paid off in the same manner.[82] The advantage of this to the Treasury was that with gold trading at a premium to the Greenback (it was worth $.71 in gold on average in 1866), the debt could be paid off with devalued currency, in effect forcing a loss on the bondholders. Some even advocated simply printing enough Greenbacks to pay off the debt immediately. "The government, it was urged, should have the opportunity of taking up its obligations in the same depreciated paper for which it issued them."[83]

Of course, none of this would have been an issue, if the United States had returned to the gold standard, implementing the resumption of specie payments. A return to specie was attempted immediately after the war by contracting the number of Greenbacks. The new Secretary of the Treasury Hugh McCulloch pursued this path with the goal of restoring a stable money market. Without it, he argued, prices would not come down and the debt could not be refunded on favorable terms.

There was much support inside and outside Congress for a rapid retirement of Greenbacks immediately after the war. Everyone was tired of the high prices caused by the war; and the glutted money market made for speculative excesses.[84] Inside Congress, its first financial resolution (on December 18, 1865) was a promise to retire the Greenbacks. This was the high-tide of the clamor for contraction. Even before any Treasury action was taken, prices were declining.[85] And, already businessmen were getting anxious as the effect of declining prices on their inventories and the economy began to be understood.

Despite these concerns, Congress gave the Secretary of the Treasury the authority to contract the currency. But, it was a hard won victory and a compromise measure. The Funding Act became law on April 12, 1866, and gave the Secretary of the Treasury the power to refund short-term debt into bonds authorized under existing acts as well as the authority to contract Greenbacks to the extent of $10 million during the first six months following the act and $4 million per month thereafter.[86] However, McCulloch's efforts at

[81] This percentage applies if one does not count irredeemable currency as part of the debt. If currency is included, the percentage drops to 22.6. Dewey, 345; William A. Richardson, 80-81.
[82] Chester McA. Destler, "The Origin and Character of the Pendleton Plan," *The Mississippi Valley historical Review*, 24, 2 (September 1937): 173.
[83] A. Barton Hepburn, *A History of Currency in the United States*, rev. ed. (New York: The Macmillan Company, 1924), 227; Destler, 174; Dewey, 346; Beale, 245.
[84] Coben, 78; Patterson, 179, 181.
[85] Noyes, 11.
[86] Dewey, 340.

contracting the currency began during an economic downturn, making them very unpopular. This situation prevented McCulloch from pursuing any further reduction in the number of Greenbacks throughout 1867, and in February 1868, the authorization was revoked.[87] During the period of active retirement of currency, some $44 million in notes were retired. So, gold remained at a premium and holders of bonds were thus getting very high rates of interest, in real terms, which was seen as profiteering from the war and unfair to labor suffering from a recession and high taxes. As a result, demands for repayment of the debt in Greenbacks gained strength.

On July 11, 1867, George Hunt Pendleton, former Democratic member of Congress and candidate for Vice President in 1864, gave a speech in St. Paul, Minnesota that catapulted the Greenback repayment argument on to the national political stage. In this speech and many that followed, he proclaimed that the huge public debt was the result of Republican corruption and incompetence. And, it was only just that it be paid off using the devalued Government currency the Republicans created. Therefore, any bonds without the explicit legal requirement that the principal be repaid in gold should be discharged in Greenbacks. This position was now dubbed the "Greenback Idea" or "Ohio Idea" by the popular press—or derided as the "Ohio Rag Baby."[88]

Of course, this was a calculated political move. McCulloch's contraction policy provoked protests in the agricultural West, which suffered from currency shortages and fears of price declines. These protests grew into an attack on the public debt, the National Banking System, and monied interests in general. Seizing leadership of this discontent, the Ohio Democratic Party focused its fire on the "aristocratic" bondholders that sought to enslave the workers and farmers to pay off their bonds. More extreme elements of the Party called for the outright repudiation of the debt or its immediate repayment by printing Greenbacks. The moderates, seeing the value of turning these sentiments against the Republicans on a national scale, then stepped in to champion the position of repaying just the Five-Twenties in Greenbacks. Pendleton, who had presidential aspirations, adapted various proposals into a platform that was "a moderate and practical escape from Radical [Republican] deflation on the one hand and [Democratic] 'copperhead' repudiation on the other."[89]

Repayment in Greenbacks was used by the Democratic Party in the 1868 election to paper over divisions in the Party over the course of Reconstruction.[90] Its platform stated the party sought "One currency for the Government and the people, the laborer and the office holder, the pensioner and the soldier, the producer and the bondholder."[91] However, Pendleton failed to receive the nomination as the Democratic presidential candidate. Instead, former Governor of New York and "hard money" man, Horatio Seymour was chosen to represent the Party in the national elections. Seymour

[87] Herbert S. Schell, "Hugh McCulloch and the Treasury Department, 1865-1869," *The Mississippi Valley Historical Review*, 17, 3 (Dec. 1930): 408; Dewey, 342-43; Noyes, 13.
[88] Coleman, 28-29. This topic is discussed at length by Sharkey and Unger.
[89] Destler, 183.
[90] Dunning, 131, 133.
[91] Democratic Party Platforms: "Democratic Party Platform of 1868," July 4, 1868. Gerhard Peters and John T. Woolley, *The American Presidency Project*, www.presidency.ucsb.edu/ws/?pid=29579.

attempted to sidestep the Greenback agitation but with little success as evidenced by the platform plank.[92] The waters were further muddied by an open letter from President Johnson wherein he likened bondholders to the new slaveholders.[93] Despite all this clamor over the debt, the Democrats officially went to the country on the issue that the Republicans had acted unconstitutionally when pursuing Reconstruction.[94]

While there was some sympathy for Greenback repayment in the Republican Party,[95] Republicans counterattacked by equating Greenback repayment of the public debt with repudiation. Horace Greeley wrote regarding Pendleton's Greenback scheme in October 1867, "Should I ever consent to argue the propriety of wholesale swindling, I shall take your proposal into consideration." Repudiation in all its forms was played up by Republican journals and newspapers, which also raised the old specters of Democratic Party desires to pay the Confederate debt and reimburse slaveholders for the loss of their property upon emancipation (even though the Fourteenth Amendment that forbid these actions was now ratified and in force).[96]

All these ideas became embodied in the Republican Party's 1868 platform adopted in May. As we have seen, it denounced of "all forms of repudiation" and declared that the "national honor requires the repayment of the public indebtedness in the utmost good faith to all creditors at home and abroad, not only according to the letter, but the spirit of the laws under which it was contracted." It also warned against "repudiation, partial or total, open or covert…threatened or suspected."[97]

So, while the Democrats attacked the Republicans with the abstract notion of unconstitutionality, the Republicans pounded the Democrats with the charge of wanting to rob the bondholders and saddle the country with rebel debt. In short, the Democrats represented revolution, a desire to turn back the clock and "reraise all the old issues."[98] With former Union general Ulysses S. Grant as its candidate, the Republican Party defeated the Democrats in the autumn elections. To some Republicans, this was a foregone conclusion. Edwards Pierrepoint wrote, "I cannot conceive how any intelligent man, who does not wish the Rebels returned to power, the Nation's faith violated, its debt repudiated, its name dishonored…can vote against Grant."[99] The implications for the debt were so clear that they were viewed in London. The *Daily News* commented that the issue of repaying the debt in Greenbacks was now dead.[100] However, it had perhaps spoken too soon.

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[92] Coleman, 33-35, 289.
[93] Schell, 419.
[94] Coleman, 286-89. Unger points out that much Democratic campaigning still focused on the Greenback plank. Unger, 91. Barrett argues that the 1868 election was fought purely on the repudiation issue. Don C. Barrett, *The Greenbacks and Resumption of Specie Payments* (Cambridge, MA: Harvard University Press, 1931), 169.
[95] Montgomery, 338, 361.
[96] Coleman, 28, 290.
[97] Republican Party Platforms: "Republican Party Platform of 1868," May 20, 1868. Gerhard Peters and John T. Woolley, *The American Presidency Project*, www.presidency.ucsb.edu/ws/?pid=29622.
[98] Silbey, 229-30, 243-44.
[99] Montgomery, 353.
[100] Coleman, 340-41.

On December 7, 1868, a lame duck President Johnson, in his annual message, called for a repudiation of the debt. Expanding upon Democratic Party rhetoric, he decried the "army of tax-gatherers" that impoverishes the nation in order to pay the interests on the public debt. And, he warned that the debt would lead to a new form of slavery: "The borrowers would become the servants to the lenders—the lenders the masters of the people." Further, he pointed out that the bondholders were actually getting 9 percent return on their Five-Twenties given the gold premium over Greenbacks. The solution to these injustices was to quickly pay off the debt. This could be done, he argued, by paying interest payments not to the bondholders but to the Treasury to retire the debt. Bondholders had become too greedy, he suggested, in demanding that the interest and principal of their bonds be repaid in gold instead of Greenbacks. His plan was their comeuppance for the benefit of the people: "The lessons of the past admonish the lender that it is not well to be over anxious in exacting from the borrower rigid compliance with the letter of the bond."[101]

A week later, with the opening of its third session, the Republican led Congress immediately condemned the President's remarks. The House resolution declared, "That all forms and degrees of repudiation of national indebtedness are odious to the American people."[102] Congress followed up this talk with an act passed on March 3, 1869, that declared that the Government would pay all bonds in coin. Johnson refused to sign it, and the act failed to become law through a pocket veto.

However, the next day, Grant was inaugurated as President. In his inauguration speech, he made clear that all talk of the "Ohio Idea" was over: "To protect the national honor every dollar of government indebtedness should be paid in gold."[103] Grant called Congress back into session and, on March 18, the Public Credit Act was signed into law. The act pledged that all United States obligations would be paid "in coin or its equivalent." Further, debts would not be paid in United States Notes until they were "convertible into coin at the option of the holder."[104]

A few months later, the Ohio Democratic Party platform stated that repayment in gold was "unjust and extortionate" and may again raise "the question of repudiation."[105] The "Ohio Idea" had proved too successful in the West and among the lower classes to let it simply disappear. However, this was now just the sound of a voice in the political wilderness. The Greenback issue would indeed survive and even revive into a potent political force in the future. Then, the target would not be the public debt but the gold standard. Yet, in the present, everyone's attention was now turning to a new battle, which had not caught the popular attention but was tied up with the repayment crisis.

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[101] Edward McPherson, *The Political History of the United States of America during the Period of Reconstruction*, 2d ed. (Washington, DC: Solomons & Chapman, 1875), 386-88. The yields on Five-Twenties were indeed approaching 9% at the time. Macdonald, 392.
[102] McPherson, 392.
[103] Hepburn, 213.
[104] William A. Richardson, 81.
[105] Hepburn, 214.

The Refunding Crisis

The refunding crisis was the pressing need to reorganize the chaotic collection of high-interest securities many of which were beginning to mature or reach their call dates. During the war, the press of necessity and the fever of war made the passage of financial legislation comparatively easy. However, a lack of an overall plan, a division of responsibilities between the Treasury and Congress, the absence of an understanding of the financial markets, and the instabilities caused by a Civil War, led to the creation of a confusion of instruments of varying maturities and, for the most part, high interest rates. The ad hoc nature of debt creation during the war by Congress prevented any attempt at wartime debt management. The overriding concern during the war was to generate an income from loans regardless of the cost. As a result, "loans followed each other with great rapidity and with a perplexing variation in terms and conditions."[106]

So, with the war's end, the Treasury was faced with a sizeable portion of the debt coming due in the near future. In fact, most of the short-term or "unfunded" debt would reach maturity before 1868.[107] One contemporary, promoting a crisis mentality, erroneously put the amount needing immediate refunding at close to 90 percent of the total debt. Meanwhile, the *Journal of Commerce* wondered whether United States securities would maintain their value if the debt was not paid quickly. Charles Adams agreed that the large unfunded debt was "a source of great danger."[108]

And, indeed, of all the crises reviewed in this study, this was the only bona fide financial one and, perhaps because of its real danger to the Government, the least politicized one. Given all the debt that was subject to redemption by the holder on demand ($582 million or 22 percent of the public debt), there was a chance that the Treasury could be caught short of the funds necessary to meet the demand. Thus, whatever the Secretary of the Treasury could do to convert this debt into long term instruments worked as an insurance policy against a run on the Treasury.[109]

There were two opposing views on how to deal with the problem of the large amount of short-term debt and a general refunding of the debt. These positions were championed by Secretary of the Treasury Hugh McCulloch and Senator John Sherman, Chairman of the Senate Finance Committee. Secretary McCulloch, focused on a return to the gold standard or the resumption of specie payments, sought first to retire or refund the currency. He believed that this step was necessary before attempting to refund the rest of the short-term debt. The public credit would have to be restored and inflation crushed before more favorable rates of interest could be secured. In his view, all that

[106] Dewey, 306.
[107] Courtney, 219; Bolles, 3:307.
[108] Gibbons, 37-38; James, *The Framing of the Fourteenth Amendment*, 24; Patterson, 75; Henry C. Adams, *Public Debts: An Essay in the Science of Finance* (New York: D. Appleton and Company, 1887), 179-203.
[109] The debt management aspects of this situation are discussed in Patterson, 74-77.

could be done in the short-term was to consolidate maturing and short-term securities into bonds at the high rates demanded by the market.

Sherman took a directly opposite view. Refunding, he believed, should be accomplished while the money market was glutted with cash. This would enable the Government to refund short-term securities into low-interest, long-run bonds with early option dates for the Government to redeem them. Sherman added, "The very abundance of the currency obviously enables us to fund the debt at a low rate of interest; and as the debt was contracted upon an inflated currency it is just and right that upon that same currency it should be funded in its present form."[110] Jay Cooke agreed with this view and felt that funding should come before contraction. Currency contraction would play havoc with the recovering economy, raise rates, and delay refunding at a lower rate.[111]

However, as discussed above, a majority in Congress supported McCulloch's view to focus on currency contraction and gave him authority to act through the Funding Act passed in April 1866. This act, which gave Secretary McCulloch authority to contract the currency, also gave him the power to fund the short-term debt into longer running securities. McCulloch proceeded to convert various notes, paying interest from 5 percent to 7.3 percent, into Five-Twenty bonds, paying six percent. The Treasury also redeemed the Temporary Loans of 1862 and the Certificates of Indebtedness.[112] By December 1867, McCulloch had successfully converted basically all of the debt payable on demand or short notice into 20 year bonds, averting a potential run on the Treasury.[113] This achievement passed unnoticed as the Treasury Secretary was under fire over his increasingly unpopular plan for currency contraction and George Pendleton was touring the country promoting the "Ohio Idea."

At roughly the same time that McCulloch started his consolidation of the short-term debt, Sherman was working on a bill to refund the entire debt that embodied his own attitude toward the situation. He had opposed the Funding Act, later calling it "the most injurious and expensive financial measure ever enacted by Congress."[114] He believed the short-term debt could have been refunded at 4 or 5 percent. This bill made it through the Senate in July but failed in the House because of a lack of support from McCulloch who believed the time not yet ripe for a refunding at lower rates because the markets were disturbed by events in Europe.[115]

As McCulloch's currency-contraction policies fell into disfavor in late 1867, Sherman and others sought to ride the changing political tide and made efforts to refund the debt. Heeding the storm currently going on over repayment of the debt in Greenbacks, Sherman engineered a bill to force holders of Five-Twenties to accept a 5 percent bond

110 Dewey, 338.
111 Schell, 405.
112 Dewey, 340.
113 Patterson, 70.
114 John Sherman, *Recollections of Forty Years In the House, Senate and Cabinet* (Chicago: The Werner Company, 1895), 1: 384.
115 Schell, 406; Patterson, 68.

payable in gold. He thought this would more attractive than the alternative, repayment in Greenbacks, which would also be refunded in the act.[116] The bill passed Congress but fell victim to a pocket veto by President Johnson.

This was not a surprise. Basically, no important legislation, especially any dealing with the public debt, would now become law as the 1868 elections had appeared on the horizon.[117] Any reordering or refunding of the debt threatened the basis of the Democratic electioneering issue of paying off the wartime Five-Twenties in paper. Reworking the debt into a new instrument or instruments that guaranteed repayment in gold would undercut the entire basis of the "Ohio Idea" and leave the Democrats almost weaponless in the upcoming battle with the Republicans for Congress and the Presidency. So, it was in the interest of Democratic Congressmen and the Democratic President to create as much gridlock as possible in the run up to the 1868 elections. "The Democrats' every effort was directed toward producing…a stalemate."[118]

During 1868, the legislative gridlock and the Greenback repayment crisis kept the average cost of the public debt high and dragged down the nation's credit. By December, while the United States could at best sell long-term bonds at 6 percent, British and French bonds were being issued at 3 percent. In fact, American bonds were held to be as risky as those of Italy. All the talk about repudiation made investors nervous and drove up the costs of borrowing.[119] At home, the view of United States' credit was not much better because of the panic over repudiation in one form or another. The credit "was poor for one fundamental reason: a sufficiently large portion of the population did not comprehend or were misinformed as to the rudimentary nature of money and credit."[120]

It was only after the Republican victories in 1868 and the sounding of the death knell for Greenback payment of the debt that attention could again be focused on refunding the debt at a lower rate of interest. The Democratic gridlock was broken and the Republicans were eager to secure the debt against any future tampering, and in a way that would reflect well upon them.[121] But, there also seemed a rush toward putting the whole matter of the debt to rest, permanently.[122] There was no more political advantage to be gained from a crisis surrounding the debt for the Republicans. In fact, with the popularity of the "Ohio Idea," the crisis had almost been successfully turned against them in 1868, causing panic in the Republican ranks.[123] Soon, the Secretary of the Treasury would be calling the debt, in words more familiar to a Democratic audience, "a

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[116] Unger, 87-88; James Albert Woodburn, *The Life of Thaddeus Stevens* (Indianapolis, IN: Bobbs-Merrel Company, 1913), 572.
[117] Bolles, 3:320-21.
[118] McKitrick, 449.
[119] Macdonald, 392-93.
[120] Patterson, 72-74.
[121] Sharkey, 125-26; Unger, 94.
[122] Patterson, 90-92.
[123] Unger, 86, 92.

public evil" and a burden to the "laboring classes."[124] It was time for the Republicans to move on, and quickly.

As we have seen, Grant's inaugural address and the quick passage of the Public Credit Act in early 1869 pledged the United States to repay all of its obligations in coin unless otherwise stated in the authorizing act. This pledge stabilized the market and dropped interest rates, allowing for refunding to take place on more favorable terms for the Government. "Creditors were no longer afraid to buy, and from that hour the national credit took a strong turn upward."[125]

Grant's Secretary of the Treasury was George S. Boutwell. He made the refunding of the debt a priority. He was not impressed with the condition of the Treasury upon McCulloch's departure. True, there was no longer a threat of a run on the Treasury, but the credit of the Government was still low and the interest paid on the debt very high.[126] Boutwell found the high rates paid by the Government an embarrassment given the rates in Europe. In a time of peace, there was no reason for the Government to continue to pay wartime rates. High interest rates for Treasury securities, he felt, were also crowding out business investment. Moreover, $1.6 billion in Five-Twenties had reached the date at which they could be redeemed by the Government. In his 1869 report, released in December 1869, Boutwell called for a refunding at not more than 4.5 percent interest.[127]

Early in 1870, a bill was introduced in the Senate embodying Boutwell's ideas. During debate in the Senate and the House, the bill was modified and became law on July 14, 1870. The act authorized the Secretary, at his discretion, to issue $500 million in 10 year bonds at 5 percent, $300 million in 15 year bonds at 4.5 percent, and $1 billion in 30 year bonds at 4 percent. These bonds were to be paid in gold and exempt from local and Federal taxation. And, though it would take years for the total refunding to be accomplished, the 1870 act closed the book on the repayment crisis and the refunding crisis.[128]

Conclusion

After 1870, the public debt receded from the public's attention. It continued to be reduced, as it had for years prior. It continued to be restructured, as it had since 1866. Taxes were collected and interest payments made as they had since the end of the Civil

[124] *Annual Report of the Secretary of the Treasury on the State of the Finances, 1870* (Washington, DC: Government Printing Office, 1870), xvi. The words of Boutwell, "known to be a strong partisan" of the Republican Party. McCulloch, 348.
[125] Bolles, 3:320.
[126] George S. Boutwell, *Reminiscences of Sixty Years in Public Affairs*, reprint 1902 ed. (New York: Greenwood Press, 1968), 2: 125-27.
[127] Dewey, 352-54; *Annual Report of the Secretary of the Treasury on the State of the Finances, 1869* (Washington, DC: Government Printing Office, 1869), xvii.
[128] Boutwell, 2: 140-42; Patterson, 81-90, 112; Bolles, 3:326-39.

War. Repayment and management of the public debt remained on its established, dreary, steady course. Yet, there was no longer a debt crisis. Where had it gone?

The debt crisis (or debt crises) ceased to exist because there was no longer a political need for it. The Republicans had exploited anxiety over the public debt for its full worth, whipping up potential threats to the sacred debt into panics and crises for political gain. The Party then hastily smothered the fire it created when it threatened to be successfully used against them by the Democrats.

Thus, when the Republicans wanted to secure their agenda for Reconstruction and their political security in Congress by writing them into the Constitution, they bundled the controversial propositions with one that embodied fears over the public debt that they had played up into a crisis of repudiation. The Republicans then engendered a panic over repudiation to defeat the Democrats in the 1866 elections, and in the process guaranteed the ratification of the Fourteenth Amendment.

It was then the Democrats' turn to exploit the public debt. Seizing upon the unpopularity of Republican attempts to achieve the resumption of specie payments through currency contraction in the West, the Democratic Party launched an assault on their opponent's political ownership of the debt by calling for the debt's repayment in Greenbacks. The challenge of the "Ohio Idea" pushed the Republicans back upon their heels in the 1868 election. The Republican Party counterattacked by employing a repayment crisis rhetoric wherein payment in Greenbacks became the "national crime" of repudiation.

Meanwhile, efforts to refund the debt progressed in the background, though buffeted by the winds of the "Ohio Idea" as McCulloch and Sherman dueled over the best solution to the refunding crisis. Sherman tried to harness the threat of Greenback repayment to accomplish a coercive refunding but was blocked by political gridlock engineered by the Democrats who saw their Greenback gambit in the coming election being threatened. After the Republican success in 1868, the Party worked quickly to make the public debt a non-issue by securing its future refunding and repayment in coin.

Ultimately, it was not the unprecedented dollar amount of the public debt that created a debt crisis after the Civil War, but the public debt's unprecedented symbolic importance to the American people.

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