

### Ways and Means: Lincoln and his Cabinet and the Financing of the Civil War

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#### Recommended Citation

Williams, Frank J. (2022) "Ways and Means: Lincoln and his Cabinet and the Financing of the Civil War," *Civil War Book Review*: Vol. 24 : Iss. 3 .

DOI: 10.31390/cwbr.24.3.04

Available at: <https://digitalcommons.lsu.edu/cwbr/vol24/iss3/4>

## Review

**Williams, Frank J.**

**Summer 2022**

**Lowenstein, Roger.** *Ways and Means: Lincoln and his Cabinet and the Financing of the Civil War*. Penguin Press. HARDCOVER. ISBN 9780735223554 \$30.00 432 pp.

Woodrow Wilson, during the hundredth anniversary celebration of Abraham Lincoln's birth, wrote:

The most valuable thing about Mr. Lincoln was that in the midst of the strain of war, in the midst of the crash of arms, he could sit quietly in his room and enjoy a book that led his thoughts off from everything American, could wonder in fields of dreams, while every other man was hot with the immediate contest. Always set your faith in a man who can withdraw himself, because only the man who can withdraw himself can see the stage; only the man who can withdraw himself can see affairs as they are.

It was this Lincoln characteristic that harnessed his ability to work with his chosen Secretary of the Treasury, Salmon P. Chase, his political rival. It was through their relationship that the Union was able to finance the cost of the Civil War—because waging the war to save the Union cost a lot of money, from \$1 million a day to \$3 million a day.

The Civil War presented the Union with a financial riddle. Prior to the beginning of hostilities, the United States' federal budget was around \$80,000,000.00. By the end of the war, the Department of the Treasury was spending \$80,000,000.00 every month. The United States and the Confederate States—also struggling through this same conundrum—attempted to meet these financial demands by raising tariffs and imposing taxes. However, each borrowed much of their war spending. In situations where one side would win and the other would lose, and could cease to exist, borrowing was a very risky proposition.

I must disclose I was honored to read Mr. Lowenstein's manuscript prior to its publication. It was a page turner then and even better now. Nevertheless, at last count, more than 85,000 books have been written about the people and events of the Civil War, covering nearly every possible issue or topic in that war. However, Mr. Lowenstein's *Ways and Means* addresses the Union and Confederate financial policies in a highly readable way. It is a neglected topic eclipsed by military

narratives and biographies. Mr. Lowenstein, a longtime business journalist, uses his experience to discuss loans, bonds, notes, and currencies in a clear and enjoyable manner avoiding what could potentially become a mind-numbing summary of financial data. He explains the economics and financial exactitudes in an understandable manner, making this book essential for anyone interested in the Civil War to fully understand another important aspect of the conflict.

*Ways and Means* unveils the story of Abraham Lincoln's urgent and necessary funding of the Civil War that transformed the Union to a state-centric country to one united nation. Mr. Lowenstein brings this unappreciated story—studied in academic circles—to a wider audience.

His account starts with Chase and his need to raise more money than the entirety of the United States federal government expended prior to the Civil War. Before the conflict, the federal government relied on import duties to fund its work. After secession, import income was cut in half as the Union lost the bustling ports of the South, only further harmed by the Confederate privateering vessels. In shock, New York's financial class demanded the government come to terms with the Confederates. Interest rates for federal debts doubled. President Lincoln commented that upon his arrival in Washington he had found “an empty Treasury and a great rebellion.” (p.#?)

President Lincoln's Treasury Secretary was also a financial novice. As a Democrat from Ohio, he was skeptical of federal authority. He shared Andrew Jackson's financial policy and preference for a decentralized economy supported by a small federal government. However, to his credit, Chase soon realized this common philosophy did not address the age of modern warfare.

After Chase's transformation, four years of economic innovations ensued. Chase and Jay Cooke, a Philadelphia broker and future railroad financier, developed a close relationship, remaking public finance in the process. Instead of working with New York's financial institutions, Cooke took fundraising projects to the American middle class. Cooke, alongside a network of other brokers, sold United States Civil War bonds throughout the Union through both door-to-door sales and newspaper advertisements. In early 1862, Chase made Cook his exclusive agent, who sold federal debt through bonds, which in turn became vast engines to finance the Union war efforts. Cooke sold nearly half a billion dollars' worth of war bonds.

These bonds were not enough to finance the war. The Civil War gave rise to the first federal income tax. In February 1862, Congress passed the Legal Tender Act, which established “greenbacks” as currency applicable in fulfillment of all debts. The value of greenbacks became a barometer for the Union's prospects for the remainder of the Civil War.

The Civil War's impact on the modern financial system did not end with the income tax and paper money replacing specimen coin. Federal banks replaced state banks across the Union. These institutions funded not only the Civil War, but the postwar economy.

Mr. Lowenstein also explains the Confederacy was unable to claim any such record of financial innovation. Chase's counterpart—Christopher Memminger, a South Carolina lawyer—benefited from early windfalls. The Confederacy took possession of six million dollars in gold from federal custom houses and fifteen million dollars from bond sales to Confederate supporters.

Despite this early success, the Union's industrial base overshadowed the Confederacy's by four times. Memminger and Confederate President Jefferson Davis had hoped withholding cotton from Manchester, England and Marseille, France, would pressure their respective nations into supporting the Confederacy. However, 1860s bumper crops blunted market pressures on the two textile hubs. Basic goods became in short supply. The inflation already suffered by the people, morphed into hyperinflation during 1863 and 1864.

The South's slavery economy created an enormous liability for the Confederacy due to its resistance to the power of capital markets. In other words, slavery fueled capital markets. It hampered the Confederacy's independence efforts because, in reality, its entire economy rested upon the forced labor of humans, who could and did rise up and destroy the same system. Two hundred thousand black people served in the Union military by the end of the war. More left cotton fields to follow the Union's armies, which deprived the Confederacy of their labor—and the Confederacy's social structure. President Lincoln's Emancipation Proclamation was not only a strategy for justice, but also exposed the Confederacy's greatest vulnerability—its economic model. Finally, there was an administration that made freedom a war aim.

The Confederacy's chief economic challenge was actually not slavery—it was a more practical problem. As a separatist nation, if it failed, its creditors would receive nothing. The Fourteenth Amendment and the U.S. Constitution would later prohibit the repayment of Confederate debts. To be sure, the Union faced its own financial and financing challenges, but it was buoyed by a belief that it would survive the war to collect taxes and repay its debts regardless of the outcome of the Civil War. This simple framework of public financing explains why separatist groups, even to this day, are rarely successful without the support of outside powers.

Mr. Lowenstein's work, based upon Chase's papers and other documents, shines a light on this oft overlooked financial history of the American Civil War and its impacts on the modern

economic framework. *Ways and Means* is compelling in its account and serves as a worthy addition to any reader's bookshelf.

*Frank J. Williams is the founding Chair of the Lincoln Forum, former President of The Ulysses S. Grant Association and Presidential Library, and regular Civil War Book Review columnist for Abraham Lincoln, the Civil War, and Reconstruction.*