

RETHINKING THE SECOND AMERICAN REVOLUTION: LEGAL TENDER AND NATIONAL BANKING IN THE CIVIL WAR ERA

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Charles Beard had an undeniable flare for rethinking American History. These collected essays mark the anniversary of Beard's path-breaking, and now infamous, *An Economic Interpretation of the Constitution*. Yet Beard, along with his wife Mary Ritter Beard, used that same view of the history of American politics and society to re-think, not just the founding, but the entire sweep of American history in their influential survey *The Rise of American Civilization*, published in 1927. One standout chapter of that book is their interpretation of the American Civil War. In "The Second American Revolution," the Beards argued that the real significance of the Civil War was not found in the war itself, but in the economic transformation of the North. This thesis has had a long life among scholars, and while portions of the Beardian story have been refuted, it is safe to say that the larger perspective offered by the Beards remains at the bedrock of how many historians view the overarching narrative and significance of the Civil War.¹

My purpose in this essay is to provide a brief overview of the Beardian view of the Civil War and its current place in the historiography. I will then suggest some ways that the Beardian story fails us and our perspective on the history of American political economy during the war by discussing the origins of the Legal Tender Act and the National Banking Act in the Civil War

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1. CHARLES A. BEARD, *AN ECONOMIC INTERPRETATION OF THE CONSTITUTION OF THE UNITED STATES* (1913); 2 CHARLES A. BEARD & MARY R. BEARD, *THE RISE OF AMERICAN CIVILIZATION: THE INDUSTRIAL ERA 52–121* (1927). See generally Philip Shaw Paludan, *What Did the Winners Win?: The Social and Economic History of the North during the Civil War*, in *WRITING THE CIVIL WAR: THE QUEST TO UNDERSTAND* 174 (James M. McPherson & William J. Cooper, Jr., eds., 1998).

Era. In short, what I would like to suggest is that these policies grew out of the failure of the antebellum monetary system and represented an effort to control and regulate the contours of American capitalism.

I. BEARD'S CIVIL WAR

The Beardian perspective has the benefit of being refreshingly simple and straightforward. People's material interests motivate their actions. A strong sub-theme of Beard's interpretation of American history is a constant story of what political scientists now term "capture." The forces of capital and industry use their power to hijack public institutions and realign them to create a political economy conducive to their interests. In his *Economic Interpretation*, there is a clear sense of class divisions as the capitalists and merchants unite to wrest control over the country's economic future from the more popular agrarian class. Applying the idea to the mid-nineteenth century, the Beards saw class as subsumed in region. They argued that southern secession allowed the forces of industry in the North to capture the federal government from the hands of the southern planter class, and with the capture began the ascendance of what they dubbed "the industrial age" in American history.²

It's still a shocking thesis to read from the perspective of 21st century historiography. With sweeping prose, the Beards dismissed all the images of the war that their readers were accustomed to. The battles and generals were only a romantic gloss to the real substance of change that Beard found:

[T]he core of the vortex lay elsewhere. It was in the flowing substance of things limned by statistical reports on finance, commerce, capital, industry, railways, and agriculture, by provisions of constitutional law, and by the pages of statute books—prosaic muniments which show that the so-called civil war was in reality a Second American Revolution and in a strict sense, the First.³

The Beards even hedged the significance of emancipation in the light of the ascendance of this new power. To the progressives, it provided an origin point for understanding exactly how business

2. BEARD, *THE RISE OF AMERICAN CIVILIZATION*, *supra* note 1, at 53–54; William J. Novak, *A Revisionist History of Regulatory Capture: A Short, Inglorious History*, in *PREVENTING REGULATORY CAPTURE: SPECIAL INTEREST INFLUENCE AND HOW TO LIMIT IT* 25 (Daniel Carpenter & David Moss eds., 2014).

3. BEARD, *THE RISE OF AMERICAN CIVILIZATION*, *supra* note 1, at 54.

captured the federal government in the Gilded Age. Many other authors prior to World War II picked up the Beardian view of the war and fleshed out the narrative to include Reconstruction.⁴

The thesis underwent an intense examination over the course of the 1960s. The Beards emphasized that the real revolution could be found in the economic indicators of the northern economy, yet they did no real economic analysis to support this point. Thomas Cochran and Stanley Engerman famously refuted the notion that there was an economic take-off during the Civil War years. Their economic research concluded that the war actually had the opposite effect on GDP and industrial output, and most likely slowed the pace of industrial growth. Moreover, Robert P. Sharkey and Irwin Unger disassembled the idea that there was a united north during Reconstruction on the greenback issue. Iron producers in Pennsylvania clashed with northeast financial elites over the questions of contraction, resumption of specie payments, and by extension the economic future of the country.⁵

Yet, it cannot be denied that while the specifics of the Beard thesis have lost their luster, the thrust of their argument—that an industrial North trumped the agricultural South—seems to remain in place. James McPherson's widely read survey of the Civil War, *Battle Cry of Freedom*, endorsed this view.⁶ Richard Franklin Bense's 1990 *Yankee Leviathan* remains the central work on how and why the federal government became stronger in the war years, and largely rests on the Beardian view.⁷

To be sure, Bense refined and brought up to date the Beardian Civil War with careful attention to the nature of state development in the mid-nineteenth century. Explicitly using the capture perspective and comparing the U.S. to other states, Bense posited that the Civil War allowed the Republican party to capture the U.S. government and use it as a tool for their developmental policies. Prior to 1860, the stagnation of national

4. Paludan, *supra* note 1, at 174–89; ROBERT P. SHARKEY, MONEY, CLASS, AND PARTY: AN ECONOMIC STUDY OF CIVIL WAR AND RECONSTRUCTION 3–14 (1967).

5. SHARKEY, *supra* note 4; IRWIN UNGER, THE GREENBACK ERA: A SOCIAL AND POLITICAL HISTORY OF AMERICAN FINANCE, 1865-1879 (1964); Thomas Cochran, *Did the Civil War Retard Industrialization?*, 48 MISS. VALLEY HIST. REV. 197 (1961); Stanley L. Engerman, *The Economic Impact of the Civil War*, 3 EXPLORATIONS ENTREPRENEURIAL HIST. 176 (1966).

6. JAMES MCPHERSON, BATTLE CRY OF FREEDOM: THE CIVIL WAR ERA 452 (1988).

7. RICHARD FRANKLIN BENSEL, YANKEE LEVIATHAN: THE ORIGINS OF CENTRAL STATE AUTHORITY IN AMERICA, 1859-1877 (1990).

authority was a result of southern leaders who kept the central state weak to prevent its interference with the institution of slavery. Bensel avoided the Beards' oversimplifications by adding the wrinkle that the state helped create class. In short, he suggested that the national debt created a new class of financial elites, who then used their power over national policy to cut short the reconstruction of the South, foreshadowing a state that would use its powers to the advantage of capital over that of agriculture and labor.⁸

There has never been a better time to return to the "vortex" that the Beards described. The most recent and important contributions to the historiography of the Civil War have largely focused their attention away from the political economy of the North.⁹ Focusing on monetary legislation, I hope to provide a new perspective about the kind of federal state that the Union won during the Civil War.

My research tries to understand civil war monetary policy within the context of its origins. With the Beards, greenbacks and national banking are simple products of war. Beard goes a bit farther by arguing that national banking was the pet-project of "business enterprise."¹⁰ Moreover, we are left to believe that these policies were the ultimate victory for Hamiltonian and Whiggish thought, a thesis that stands to this day.¹¹ Upon careful examination, neither the Legal Tender Act nor the National Banking System fully conforms to this narrative. Each of these laws interjected the federal government into the political economy of the United States in what were widely seen as novel and intrusive ways. The style and substance of this intrusion borrowed as much from Democratic thought as it did from the Whigs. In the end these policies were not the same kind of promotional policies as the Pacific Railway Act, the Homestead Act, or tariff policy. Ultimately the growth of national monetary power was an effort to reform and stabilize the chaotic currency system of the nineteenth century.

8. *Id.* at 10–17, 68–69, 238–302.

9. See the discussion of present and future trends in the special roundtable on the future of Civil War studies in 2 J. CIV. WAR ERA 3–10 (2012).

10. BEARD, THE RISE OF AMERICAN CIVILIZATION, *supra* note 1, at 108.

11. See, e.g., MCPHERSON, *supra* note 6, at 450.

II. AMERICAN MONEY BEFORE THE CIVIL WAR

The place to start is not with what the Beards termed “the industrial vortex of the Northeast,” but the Wildcat Banks of the Midwest. In 1861, the banking system of Illinois imploded, taking with it many of the banks of the Midwest. A banking collapse, then and now, usually meant a freeze on credit and a slowing of commerce. The immediate effects of this collapse created a more immediate problem. It wiped out the monetary system of the entire region. That was only possible because the monetary system of mid-nineteenth century America depended on a species of currency that we would not recognize as money today.¹²

Gold was technically the only legal money of the United States in 1861. Contractual debts for money could only be satisfied with gold and silver coin minted by the U.S. government. Yet the scarcity of coin in the United States led most Americans to depend on notes issued by hundreds of banks across the country. Since before the War of 1812, banks served as the primary money manufacturers and regulators of the monetary system, with state governments providing various levels of oversight. Once chartered, an individual bank would aggregate coin and issue notes based on these reserves. The face of each note promised that the holder could present the note at the window of the cashier and get the par value in coin. With the belief that the note was as good as gold, it could pass from hand to hand and function as the circulating medium of a given community or region. That was the ideal situation; in reality, there was little to stop banks from issuing paper in excess of their reserves. Such notes did circulate, but at a discount depending on the reputation of the bank. The multiplicity of notes also lent itself to rampant counterfeiting. Thus mid-nineteenth century Americans had to navigate a world of money where one was constantly trying to evaluate and judge the value of the paper in their pocket. It is from our 21st century perspective a complex, confusing system, capable of providing cheap credit, but always on the edge of another collapse, as it was in the Panics of 1819, 1837, and 1857.¹³

12. BEARD, *THE RISE OF AMERICAN CIVILIZATION*, *supra* note 1, at 4; EMERSON DAVID FITE, *SOCIAL AND INDUSTRIAL CONDITIONS IN THE NORTH DURING THE CIVIL WAR* 110–11 (1930); BRAY HAMMOND, *SOVEREIGNTY AND AN EMPTY PURSE: BANKS AND POLITICS IN THE CIVIL WAR ERA* 37–38 (1970); HEATHER COX RICHARDSON, *THE GREATEST NATION OF THE EARTH: REPUBLICAN ECONOMIC POLICES DURING THE CIVIL WAR* 67–68 (1997); STEPHEN MIHM, *A NATION OF COUNTERFEITERS: CAPITALISTS, CON MEN, AND THE MAKING OF THE UNITED STATES* (2007).

13. Federal laws relating to legal tender came as sections to laws dealing with the regulation of the gold and silver currency. For example the act of 1853 revaluing the half-

A regulatory role for the federal government in the national monetary system was largely out of the question due to the legal and political history of the previous fifty years. Due to the framers' anger over the various state-issued currencies of the Revolutionary era, and their shame and disgust over the depreciation of the Continentals issued by Congress during the War for Independence, the Constitution contained an odd constellation of monetary provisions. The unanimity of the framers on the powers of the states is reflected in Article I, Section 10's ban on state-issued paper money (known as bills of credit) and the restriction disallowing states from using gold and silver as a legal tender. A provision allowing for the federal government to issue bills of credit was also struck down during debate in 1787. On that point, however, some delegates believed that the U.S. could issue paper, as long as it was not a legal tender.¹⁴

The Constitution, moreover, said nothing about banks. In 1787 there were three banks in the United States. The few chance references to banking at the constitutional convention showed that the delegates were thinking about large national banks like the Bank of England or the Bank of North America. No one could predict the proliferation of small banks that issued money across the country in the decades after ratification. James Madison confessed many years later that the state banks were a "great evil" that were "not foreseen" at the time of the writing of the Constitution.¹⁵ When the banking system collapsed during the War of 1812, federal leaders and commentators saw the decentralized banking system as a weakness and the primary cause of panic. The problem in the way of meaningful reform was a strongly rooted belief in the constitutionality of state banks.

State legislatures incorporated and regulated the banks, making banking and note-issue functions of state power. With the Constitution silent on the subject of currency created by state

dollar, quarter, dime, and half-dime, declared that silver coins would be a legal tender for debts under five dollars. See Act of Feb. 21, 1853, ch. 79 (10 Stat. 160). See also Act of Apr. 2, 1792, ch. 16, §16 (1 Stat. 250); BRAY HAMMOND, *BANKS AND POLITICS IN AMERICA, FROM THE REVOLUTION TO THE CIVIL WAR* 10–11 (1957); David A. Martin, *Bimetallism in the United States before 1850*, 76 J. POL. ECON. 428 (1968); David A. Martin, *U.S. Gold Production Prior to the California Gold Rush*, 13 EXPLORATIONS ECON. HIST. 437 (1976); Edward J. Stevens, *Composition of the Money Stock Prior to the Civil War*, 3 J. MONEY, CREDIT & BANKING 84 (1971).

14. 2 THE RECORDS OF THE FEDERAL CONVENTION OF 1787, 308–10 (Max Farrand, ed., 1911).

15. Letter from James Madison to Charles J. Ingersoll (Feb. 1831), in 3 THE FOUNDERS' CONSTITUTION 463 (Philip B. Kurland & Ralph Lerner, eds., 1987), available at http://press-pubs.uchicago.edu/founders/documents/a1_10_1s22.html.

corporations, decades of custom and usage led to a widespread belief that the states had acquired a right to create banks that would produce paper money. An attack on that right would require a rethinking of American federalism that the Jeffersonian-Jacksonian generation refused to consider. The bitterest enemies of the banks, including President Andrew Jackson and Thomas Hart Benton, conceded that the state banks were out of federal reach. In 1836, Aaron Vanderpoel, a Democrat from New York, thought the intent against a fractured currency system was clear in the Constitution but noted that custom and usage had turned Article I, Section 10 into a “dead letter.”¹⁶ He explained, based on common law principles,

the states had for more than forty years exercised the power of incorporating banks with power to issue notes; and if the original exercise of this power was founded in usurpation and error . . . it was, at all events, an error so old and so general as to have acquired the authority of *right* and *law*.¹⁷

This belief in the constitutionality of the banks informed constitutional law. When Missouri tried to issue its own paper money (under the guise of state loan office certificates), Chief Justice John Marshall found it easy to strike these notes down as state bills of credit in *Craig v. Missouri*.¹⁸ When the question of state bank notes came directly before the Court in *Briscoe v. Bank of Kentucky*, a new Taney court majority held for the state’s right to create banks of issue.¹⁹ Yet it would be a mistake to view the issue of state banks as a product of Democratic versus Whig constitutional thought. Marshall had just passed away, and Justice Joseph Story said that he would have found against the Bank of Kentucky. But what was at issue was the degree to which the Bank of Kentucky was a direct organ of the Kentucky legislature. In this case the Commonwealth of Kentucky held the majority of shares of the bank, and state coffers paid its employees. In his dissent Story agreed with the majority that it was perfectly constitutional for states to create banks that issued notes based on a reserve of coin.

The one viable option to regulate the welter of banks before the Civil War was indirect federal control. The Bank of the United States was not originally envisioned by Alexander Hamilton as a

16. CONG. GLOBE, 24th Cong., 2d sess., app. 51 (1836).

17. *Id.* (emphasis in original).

18. *Craig v. Missouri*, 29 U.S. 410 (1830).

19. *Briscoe v. Bank of Kentucky*, 36 U.S. 257 (1837).

means of regulating the state banks. The bank grew into that role, especially the Second Bank of the United States. By the 1830s, the BUS developed a system of acquiring bank notes from all over the country and holding them in reserve. State banks would restrict their issues out of fear that the BUS could present all those notes for payment on the same day, thus forcing suspension. Critically, from the Hamiltonian-Whig point of view the bank was an attractive policy option because it worked with the market, as opposed to government-issued paper money that was subject to the whims of democracy. As explained by Hamilton, a legislature would always print paper in an emergency before it would raise taxes, and thus, “so certain of being abused, that the wisdom of government will be shown in never trusting itself with the use of so seducing and dangerous an expedient.”²⁰ Nevertheless, the BUS succumbed to attacks by Jeffersonians and Jacksonians, and by the late 1840s even its admirers, such as a young Abraham Lincoln, confessed that another BUS was out of the question as a matter of politics.²¹

Direct regulation was in the hands of the market and the states that chartered them. After 1837, coalitions of Democrats and Whigs passed legislation that regularized the chartering of banks and attempted to regulate note issue with reserve requirements monitored by new state banking departments. In the biggest financial centers, banks banded together into clearing house associations that helped stabilize their local systems by pooling funds to support weak member banks and regulating interbank payments. In practice this patchwork of reform worked imperfectly. Especially in the West, stories abounded of banks that duped regulators. In a few extreme cases, several western states banned banknotes all together. It was within this volatile market that the federal government expanded its reach during the Civil War.²²

20. Alexander Hamilton, “Report on a National Bank,” 1 ANNALS OF CONG., app. 2096 (1790) (Joseph Gales ed., 1834).

21. Abraham Lincoln, Fragment: What General Taylor Ought to Say, *in* 1 THE COLLECTED WORKS OF ABRAHAM LINCOLN 454 (Roy P. Basler, ed., 1953).

22. LEONARD CLINTON HELDERMAN, NATIONAL AND STATE BANKS: A STUDY OF THEIR ORIGINS 101–32 (1931); WILLIAM G. SHADE, BANKS OR NO BANKS: THE MONEY ISSUE IN WESTERN POLITICS, 1832-1865 (1972); JAMES ROGERS SHARP, THE JACKSONIANS VERSUS THE BANKS: POLITICS IN THE STATES AFTER THE PANIC OF 1837 (1970).

III. LEGAL TENDER

The problem of the banks was not just a problem for business in peacetime; it was also a serious problem for the U.S. government in time of war and financial panic. Without a BUS, the federal government had no inflationary tools to help pay the cost of war. It was during the War of 1812 that the federal government began issuing its own paper money, called Treasury notes. The notes passed constitutional muster because most members of Congress could justify them as an act of borrowing. Each note promised a redemption date and was good for public dues owed to the U.S. While most Democrats favored gold, it was attractive during a time of emergency to use the people's credit in the form of notes managed by the people's representatives as opposed to trusting in state banks or a single BUS. Democratic-dominated Congresses repeated and strengthened this tradition in the Panic of 1837, the Mexican American War, the Panic of 1857, and as late as 1860 on the verge of the Civil War. The fact was that when the monetary system went into disarray during each of these financial or military emergencies, Jeffersonians and Jacksonians welcomed incursions by the government into the structure of the American political economy.

The size and nature of the Civil War forced Congress to take this tradition one step further. In the winter of 1861 and 1862 the banks of New York City suspended specie payments, taking the U.S. government down with it. The decision to suspend was a combination of politics and economics. Secretary of the Treasury Salmon P. Chase embraced a policy of borrowing millions in coin from the bank to finance the Union war effort. When the hope of a quick Union victory dissipated in the fall of 1861, the capitalists became fearful that the U.S. would drain them of all their resources. When a delegation of bankers headed to Washington D.C. in early January to confer with the government, they were quite clear in their demands: they wanted the government to raise taxes and use bank credit as the primary means of paying for the war.²³

But the political mood of the country was against them. In the press, the bankers of New York, Philadelphia, and Boston were branded as traitors. In the House, Rep. Elbridge G.

23. HAMMOND, *supra* note 12 at 155–57; E.G. SPAULDING, A RESOURCE OF WAR—THE CREDIT OF THE GOVERNMENT MADE IMMEDIATELY AVAILABLE, 18–21; *Gallatin on the Currency*, BANKERS' MAG. & STAT. REG., Feb. 1862, at 625; N.Y. HERALD, Dec. 6, 1861, at 3; N.Y. DAILY TRIB., Jan. 13, 1862, at 4–5.

Spaulding took the lead in drafting a bill that would allow the government to issue 150 million in treasury notes that would be a legal tender. This would allow the government to meet its financial obligations with less dependency on the capital of the banks. Across the country, commentators embraced legal tender as a war measure shorn of any complicated financial logic.²⁴

Unlike the old Treasury notes, this bill rested on force and compulsion and would require the federal government to warp and break the rules of finance capitalism in a new way. Congress fretted over the implications of such an action. Under the old Treasury note regime, the government offered its paper in payment without forcing anyone to take them. In this way, Treasury notes conformed to what might be called the rules of finance capitalism in Europe and America. In both places, governments financed their wars by attracting investors with a reasonable return on their money. The legal tender notes sliced through this logic by compelling the government's creditors, and creditors across the country, to take paper money with nothing behind it but the faith of the government. Moreover, inflation would affect prices in ways that no one could predict. As to its constitutionality, many congressmen took solace in the fact that the government has already been issuing paper money for some time. Legal tender, they reasoned, was merely an extension of this customary power. In the final analysis, most Republicans in Congress voted for the bill with grave doubts.²⁵ The fact that the bill passed at all was a measure of their collective fear of an economic collapse and the destruction of the Union war effort from within.

While legal tender paper money was born out of wartime necessity, the notes quickly became an attractive policy to replace the regime of state bank notes. During the debates over the Legal Tender Act, several congressmen hoped that this could be a viable permanent solution to the state bank note problem.²⁶ Moreover, Americans across the country embraced what they called "greenbacks" as they became more accustomed to them during the Civil War. Petitions in the National Archives bear testament

24. Letter from J.C. Day to Sherman (Feb. 11, 1862), John Sherman papers, 1759-1897, vol. 46, Library of Congress; Letter from R. Buchanan to Sherman (Feb. 11, 1862), John Sherman papers, 1759-1897, vol.46, Library of Congress; Letter from T.W. Olcott to E.G. Spaulding, (Jan. 31, 1862), *in* Spaulding, *supra* note 23, at 51.

25. CONG. GLOBE, 37th Cong., 2d sess., 679, 691, 766, 796, 800, app. 56; THE STATE, THE FINANCIAL SYSTEM AND ECONOMIC MODERNIZATION (Richard Sylla, Richard Tilly, & Gabriel Tortella, eds., 1999).

26. See CONG. GLOBE, 37th Cong., 2d sess., 688, 791, app., 57, 58.

to how westerners especially embraced the idea of full federal control of the monetary system by making greenbacks the legal tender of the country and, as one petition put it, “authoriz[ing] them to circulate among the people as a medium of exchange forever.”²⁷ This idea would only grow in the later 1860s as groups of Republicans and Democrats in industrial and agricultural regions demanded inflation as a key to economic growth.

IV. NATIONAL BANKING

Legal tender, however, was not the only possible solution to the problems of the American monetary system. In December 1861, Chase proposed to solve the problem of the monetary system by nationalizing the banks that created the money. Chase had seen the value of a national currency system as governor of Ohio in the aftermath of the Panic of 1857. Moreover, Chase’s concerns about fixing the American monetary system echoed a sizable amount of commentary after 1857 that increasingly looked to some sort of national currency to fix the banks. Post-1857, Chase and voices across the country argued for the existence of a national currency power that could be used to stop the banks.²⁸

Chase proposed a system that solved the problems of American finance by mixing Democratic ideology with a Whiggish concern for the national economy. The bill proposed that the government would charter banks that would then purchase U.S. securities that would be used to secure the issue of national bank notes. This was attractive for three reasons. First, it would not crush states’ rights. The National Banking System (NBS) would exist in tandem with the state systems. Chase hoped that a majority of banks would convert to the NBS because they saw it as financially attractive. Second, it obviated the need for a

27. “Petition of B.H. Smith and 41 other Citizens of Illinois...,” undated, “Petition of Andrew Siders and 49 other citizens of Illinois,” undated, file HR 37A-G20.2, RG 233, 37th Congress, Records of the Ways and Means Committee, NARA.

28. *Report of the Secretary of the Treasury*, CONG. GLOBE, 37th Cong., 2d sess., app. 23 (1861); SALMON P. CHASE, MESSAGE OF THE GOVERNOR OF OHIO TO THE FIFTY-THIRD GENERAL ASSEMBLY AT THE REGULAR SESSION COMMENCING JANUARY 4, 1858 14 (1858); Charles H. Carroll, *Currency of the United States*, 43 HUNT’S MERCHANT MAG. & COM. REV. 574 (1860); Peter Cooper, *Remarks on the Present Currency System*, 14 BANKERS MAG. & STAT. REG. 81 (1859); *The Currency and the Constitution*, 41 U.S. DEMOCRATIC REV. 1 (1858); *Currency and Trade—The Duty of Government*, 40 U.S. DEMOCRATIC REV. 385 (1857); John A. Dix, *New Views of the Currency Question*, 13 BANKERS MAG. & STAT. REG. 513 (1859); *National Currency*, 16 AM. WHIG REV. 424 (1852); J.S. Ropes, *Currency, Banking and Credit*, 14 BANKERS MAG. & STAT. REG. 161 (1859); James Ross Snowden, *Suggestions for a National Currency*, 12 BANKERS MAG. & STAT. REG. 609 (1858).

single monster bank. Each bank would be rooted in its community and beholden to the people's representatives in Congress and not the whims of a single BUS. Lastly, it was compatible with the gold standard. During the war national banks could redeem their notes in greenbacks, but with the resumption of specie payments, the NBS would serve as a reform to the old system.²⁹

The bill had weak support. Several historians have stressed that the bill passed because it would create a solid market for U.S. securities. The reality is that that Congress passed the first version of the National Banking Act in April 1863 because of inside baseball on the part of Chase. Chase was able to enact his vision by convincing President Abraham Lincoln, Senator John Sherman, and the Cooke brothers, Jay and Henry. This collective group pressured and cajoled enough in Congress to pass the act. In the Senate, the bill passed by a single vote.³⁰

The critical turning point occurred between 1864 and 1865. It is between those years that the last holdouts, the financiers of the east and various Republican legislators, embraced national authority over the currency. In 1864 Congress passed a second National Banking Act that changed several aspects of the system, including a pyramid reserve system that would empower New York City banks. This time the NBA passed with almost total Republican support.³¹ Former opponents, like Henry L. Dawes in the House, accepted the national banking plan as a necessary means "to cure an existing and acknowledged evil."³² The reforms were an active ploy by Chase to attract the biggest New York banks to join the system, thus assuring the NBS's success. More importantly, Republicans in Congress accepted the NBS as necessary to the country's economic future. In 1865, Congress passed a 10% tax on the banknotes of state banks and finally destroyed the era of the Wildcats. With this, the NBS grew from 467 banks in 1864 to 1,294 banks in 1865. When the state banks attempted to dismantle the system with a constitutional challenge, a majority of the Supreme Court, now with Chase as the Chief

29. CONG. GLOBE, 37th Cong., 3d sess., 882; CINCINNATI DAILY GAZETTE, Nov. 12, 1864.

30. FREDERICK J. BLUE, SALMON P. CHASE: A LIFE IN POLITICS 158–61 (1987); JOHN SHERMAN, RECOLLECTIONS OF FORTY YEARS IN THE HOUSE, SENATE AND CABINET 299 (1895).

31. David M. Gische, *The New York City Banks and the Development of the National Banking System 1860-1870*, 23 AM. J. LEGAL HIST. 21 (1979): 21–67; Richard S. Grossman, *U.S. Banking History, Civil War to World War II*, EH.Net Encyclopedia, (Mar 16, 2008), <http://eh.net/encyclopedia/us-banking-history-civil-war-to-world-war-ii>.

32. CONG. GLOBE, 38th Cong., 2d sess., 833 (1865).

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Justice, affirmed the idea that the federal government possessed a broad national currency power over the country.³³

V. CONCLUSIONS

The greenbacks and national banks are not testaments to a unified northern or Republican economic vision and have a larger story than merely the wartime needs of 1861-1865. To the contrary, the origins of the Legal Tender Act and the National Banking Act defy any single Hamiltonian or Jacksonian origin. What unites these laws is an impulse in American politics to use national authority to reform the excesses of the unruly antebellum economy. Beardian-style economic conflict emerged after the war as the bifurcated greenback/national banking system fermented conflict between regions and classes. Yet what we often miss in these histories is the permanent transfer of power from a heterogeneous monetary system to a nation of federally created money. Various groups might argue over the medium of their money and the amount for the rest of the century but never the proposition that the federal government should control it. In this sense the Beards were right that some form of consensus motivated policy. Yet, that consensus created a powerful new state that could simultaneously restrict and promote the freedom of the market—depending on your interests.

33. *Veazie Bank v. Fenno*, 75 U.S. 533 (1869).