EconoFact Chats: Abraham Lincoln and the Role of Government in the Economy

Roger Lowenstein (Author, and former reporter for the Wall Street Journal)

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a nonpartisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

President Lincoln concluded the Gettysburg Address with the phrase, "This nation, under God, shall have a new birth of freedom, and that government of the people, by the people, for the people, shall not perish from the earth." There's a great focus on the phrase, 'a new birth of freedom,' as pointing to the emancipation proclamation. In his new book, 'Ways and Means,' Roger Lowenstein points out that for the people also represented an important pivot, one towards the view that the government should provide the means through which ordinary working people could better their lives; for example, by incentivizing the construction of railroads and through the expansion of higher education with land-grant universities. And in this way, the government would promote economic development and spread prosperity beyond the rich industrialists of the north and the owners of large plantation in the south.

Michael Klein:

The idea that a robust federal state could play an important role in advancing the economic fortunes of a nation and especially a fostering greater economic equality has clear resonance today. In telling the story of the financing of the Civil War and the economic policies of the Lincoln administration, Roger offers a mirror to the current debates over the role of government in building infrastructure and helping people finance their education. And he does so in a compelling and entertaining way, just as he did in his 2015 book, 'America's Bank: The Epic Struggle to Create the Federal Reserve.' Roger, thank you for the book and thank you for coming on EconoFact Chats.

Roger Lowenstein:

Michael, it's a pleasure to be on the show, a big fan of it and I look forward to talking with you.

Michael Klein:

Roger. I was a big fan of Ways and Means, and also a big fan of America's Bank. In each of these books, there are compelling personalities whose beliefs, work and action had profound impacts. One of the central characters of Ways and Means is, of course, President Lincoln. Can you first explain what the role of the federal government was in terms of the economic life of the nation and the provision of infrastructure before Lincoln's election in 1860?

Roger Lowenstein:

Sure. It was virtually nil. There was no federal taxing system, no national money, no national bank. There had been a series of infrastructure bills, but they had been vetoed by a series of presidents, six democratic presidents. So, the federal government, you had the post office and obviously the army, which was a small army, and that was basically it.

Michael Klein:

How did Lincoln's experiences as a young man affect his vision of the role of government and the economic sphere and the ideas that he brought to his presidency?

Roger Lowenstein:

That's a good question because most people think of Lincoln as a great emancipator and the leader of the country during the Civil War, but they don't realize that most of his early career was dedicated to economic issues. He grew up on a frontier. He was very conscious of the need for better transportation. He would be driving a stagecoaches over muddy flats. There wasn't enough credit. The store he clerked for failed because of that. He wanted all these things,;more credit, better transportation, educational opportunities, particularly for people in the mid-country, and these were issues he brought with him to the White House.

Michael Klein:

So he's very much a man of the frontier, who came to the federal government with an idea of improving what we now call the Midwest.

Roger Lowenstein:

Yes. You have to always remember that he was what people then called the Westerner. It was in the Midwest. Illinois then was the West. And the opportunities that people had in the East, markets were closer together, the roads were better, they didn't have those out in Illinois so much. When Lincoln said, "I want every man to have the chance," in economic terms, he was speaking about people like himself.

Michael Klein:

When Lincoln was elected, the 37th Congress was seated. You write about how the 37th Congress fostered what was a second American Revolution in the eight months from December 1861 to July 1862. Can you list some of the important bills they passed and how these bills changed the country?

Roger Lowenstein:

They created a series of remarkable bills. They created the first national money, legal tender, to pay for the war. They invented the first income tax, the progressive income tax. Both of those changed the country forever. Today, we have fiat money just as they did in the 1860s, and obviously, we have an income tax. They also launched a series of bills and programs that established a federal government as having a role in the average person's economic wherewithal. They passed the Homestead Act, giving 160 acres to anybody who would farm the land for five years.

Roger Lowenstein:

They created land-grant colleges, entitling middle class Americans to go to college. This is at a time when fewer than 1% of the country was enrolled in college and these weren't going to be Ivy League colleges. They were state schools intended for the middle class to teach practical education. They created the agriculture department, the first time that a federal department was responsible for the wellbeing of a major industry in the United States, agriculture then being the biggest. So it was both a practical change that affected people's lives and an intellectual change, an ideological change in the role of the federal government in the U.S. economy.

Michael Klein:

So this was a huge pivot, maybe somewhat like, or even extending, or bigger than the pivot under Roosevelt in the New Deal, but it was done by the Congress, not by the president. Did Lincoln's hand appear in all of these bills? Was he behind them?

Roger Lowenstein:

Well, those are good questions. It was like the New Deal, except in as much as we all know about the New Deal, we don't realize that there was a New Deal before the New Deal. Lincoln was very much a supporter of these bills. Congress had much more power vis-à-vis the president in the 19th century. Legislation came from the Congress constitutionally and Lincoln respected that. And so, it wasn't unusual that the actual bills would start in the legislative branch, although Lincoln was certainly a big supporter of all of them. He was a very big supporter, one bill I didn't mention was the transcontinental railroad. He had been a railroad lawyer. He was a big fan of transportation. He was very much behind the bill to launch the railroad.

Michael Klein:

Another central character in this book is Salmon Chase, Lincoln's Secretary of the Treasury. He is described as both the most consequential Secretary of the Treasury since Alexander Hamilton and an emotionally fragile character. Can you tell us a little bit about him?

Roger Lowenstein:

Yeah. Salmon Chase had to raise more money than had ever been expended during the life of the Republic [inaudible] in all the years since then. It was just a daunting task. He raised the first $50 million from banks. The bank said to him, that's enough. This should be enough for you to fight the war. In fact, he would have to raise 60 times that amount, and to do that, he would have to create means and go to sources that had never existed before. So he really was of great consequence. He was also, as you pointed out, emotionally fragile, needy. He was always looking to Lincoln for approval. He was very morose when he didn't get it. At the same time, he was challenging Lincoln surreptitiously; as we got close to 1864 and Lincoln's reelection, challenging Lincoln to run against him.

Michael Klein:

I worked at the U.S. treasury in the Obama administration and my office was on the fourth floor. On the third floor of the treasury building, there are portraits of all the treasury secretaries, from Hamilton, I guess, all the way now to Mnuchin. It turns out that when I went to my office, the stairwell that I would take, I would come face to face with the portrait of Salmon Chase every morning and he is like the most unhappy looking guy of all the portraits there, of anybody I've ever seen in a portrait, actually. He was unhappy because he was frustrated in his ambitions?

Roger Lowenstein:

Yes, he had challenged Lincoln for the presidency in 1860. He just couldn't get past this burning desire to become a president. A U.S. senator at the time, Benjamin Wade, said, "he's a good man, but his theology is unsound. He thinks he's a fourth man in the trinity." Even later, after the war, when Salmon Chase was appointed Chief Justice of the United States Supreme Court, he still continued to run for president twice from the Chief Justice role. And this ambition, which was unfulfilled, remained unfulfilled, really led him to be, as you [inaudible] from picture, from his portrait, a very unhappy man.

Michael Klein:

I guess, especially in 1864, there was a very long string of presidents who only served one term. So it seemed natural perhaps to Chase and others that Lincoln too would only serve one term, especially since in the run up to the election, the war wasn't going so well and it seemed like Lincoln was quite vulnerable.

Roger Lowenstein:

That's right. Chase began to scheme against Lincoln. He had all these clerks working for the expanded treasury department, expanded because of the new tax system. He enlisted these clerks to campaign for him. Mary Todd Lincoln began to warn her husband that Chase was conniving against him. Lincoln just brushed it off with his typical humility. He figured that Chase would eventually blow his own campaign up and that's exactly what happened.

Michael Klein:

Well, Chase, as you mentioned, was also considered the most consequential Treasury Secretary and that had to do with the financing of the war. In your book, you quote a Southern general who said, "we were physically strong, but financially weak." And the book does a masterful job of showing how the financing of the war was really instrumental for the Union victory, and also was a big part of the defeat of the Confederacy. Can you describe what Chase did in terms of both having a legal tender and in terms of placing bonds that helped finance the war for the North?

Roger Lowenstein:

Well, legal tender was the easiest money to use. You just printed pieces of paper and there you were. But they were the ones that could most destabilize investor confidence, as we know. So Chase was very careful to insist on a full quotient of tax revenue so that investors knew that the Union Government wasn't just paper, that the resources of the northern economy were behind it. And because of this inflation, although it was 80% in the North, now that's not so bad for wars. It was also 80% in World War I and World War II.

Michael Klein:

80% over the course of a number of years, not in a single year.

Roger Lowenstein:

Correct, 80% over the course of the entire war. It was a hardship, but it was a livable hardship. In the South, it was 9,000% over of those four years. That was not livable. The South just would not accept the necessity for taxation. They did accept the role of the new central government in Richmond as having the ability, and the right to tax them. After all, that was why they'd rebelled. They didn't believe in the central government. And so, they tried to finance the war almost exclusively in the printing press. Their other big problem was if their resources were all fixed, slaves and land, they had an already capital that they could tax or they could transfer. They couldn't get the cotton over to England because of the Northern blockade. So, their assets were fixed. They couldn't convert them into a form where they could use them to buy ammunition and food and so on that they needed in war and their economy really collapsed before their war effort did.

Michael Klein:

You point out in the book about the tax, the income tax in the North, the first income tax, and a pivot from tariffs to income taxes. You also point out that it is actually a progressive tax in the North.

Roger Lowenstein:

That's right. The impetus for the tax was certainly to raise money. It certainly wasn't an equality measure first. But since they needed the money, some of the representatives and senators, particularly from the middle west, from Lincoln's part of the country, were very keen that the rich had pay their share, and they specified [inaudible], mortgage brokers, people with stock portfolios and so on. They said, we can't go back to our constituents and say, we're not going to tax people with stock portfolios more. So, in that sense, they sounded very much like representatives today discussing a tax system, and they did put through a system with progressively higher rates.

Michael Klein:

And perhaps continuing with the mirror to today, in the South, the power was held by the Southern oligarchy, who would be the source of tax revenues, but they were very much against that.

Roger Lowenstein:

Yes, the South didn't have a middle class in the same sense that the North did. They never had a developed industry in the sense of North did. So they didn't have a population to tax. The plantation owners tried to convince these small white Southerners that slavery was a good thing, but the dirty little secret was that slavery wasn't only bad for the blacks. Obviously, it was a terrible crime against the blacks, but it was terrible for the mass of poor whites. 80% of the Southern whites didn't own slaves and their economic condition was far inferior to the economic condition of the average commoner in the North. That was a big reason why the South didn't have the economic needs to fight the war.

Michael Klein:

Linked to the issues of war financing and inflation is a creation of a national bank. A lot of our listeners might not realize that there was not a national money at the outset of the Civil War. For example, if you go to Sturbridge Village in Massachusetts, which is a recreation of a Colonial Era town, you'll see that there were lots of different monies and there's even a ledger that shows effectively the exchange rate amongst those monies. What was the importance of a national money, the greenback, both for economic and financial reasons, like you said, to help finance a war, but also for fostering a sense of national unity in the North?

Roger Lowenstein:

Well, when, as you said, there were exchange rates between monies from Pennsylvania and Massachusetts and Vermont and Ohio, everybody's money was worth a different price in a different state. There was no national cohesiveness. America couldn't finance international trade. Britain was the center of finance. We needed one universal currency. The Lincoln government created two. The first was legal tender; these pieces of paper, not backed by anything, but deemed to be money. And that was the first national money and it gave people the sense that we were one country. We had one currency. It was accepted everywhere by merchants all over the North and by the South. It was very important, not only to the economy, but the people's sense of nationhood.

Michael Klein:

And whose picture was on the legal tender?

Roger Lowenstein:

Well, Salmon Chase, the Treasure Secretary, about whose emotional fragility we've already spoken, put himself on the $1, knowing, of course, that there'd be more $1 circulating than $5 or $20 and so on. Even then, he had to be persuaded to approve legal tender. Chase and Lincoln always conceived a legal tender

as temporary, because sooner or later, they wanted to get back to a gold standard, which they did after the war. So there was a second national money created during the Civil War and that were these series of nationally chartered banks that you alluded to, each of them private banks, but each of them issuing the same national money, which became the money of the United States from 1863 on, and which lasted right up to the creation of the Federal Reserve.

Michael Klein:

Which is the subject of your other book.

Roger Lowenstein:

Yes. And this money really enabled America to go on to become a nation of the first rank economically, to catch Britain and world trade and finance and overtake it during World War I. We never could have done it if we'd still been on each state with its own money.

Michael Klein:

The creation of a national money and the increasingly large role of the federal government is also reflected in the fact that in the antebellum period, people would say, "the United States are," but subsequently they would say, "the United States is," demonstrating that the United States became a nation, and not just a confederacy of separate states.

Roger Lowenstein:

Yes. This is the old Hamilton-Jefferson debate about the central government or states right. The U.S. had always gone in the Jefferson direction, really right up to Lincoln. The Republicans were different. Of course, this is their first government during the Lincoln time. They were proud of having a strong national government. Senator Sherman, later the architect to the Sherman Anti-Trust Act, said, "We want to make everything as national as far as possible so that we will love our country." That was the whole quote. That's a very different idea than what the country had, and obviously than what the Confederacy had during the Civil War.

Michael Klein:

I'm glad you brought up the Hamilton versus Jefferson debates, because when I read Ron Chernow's biography of Hamilton, I was struck by how their debate, between Hamilton and Jefferson, on the role of the federal government versus the state government was still going on after more than two centuries. Your book shows how the debates on the economic side of this topic during the time of Lincoln carries on today.

Roger Lowenstein:

Yes, I think we've seen that graphically in the continued debates over healthcare. We still don't have a unified national system of financing healthcare. We're alone among the developed nations of the world. We don't have one set of securities laws, we have 50. The strong tendency among many Americans to resist federal control, which arose from 1776, is still with us and it's still at the heart of many, many of the debates we have.

Michael Klein:

Roger, when I read your book, I was really impressed by the depth of scholarship. I know it took you many years to research the book and then to write the book. I'd like to ask you how your views of the appropriate role of the federal government today may have been shaped or altered by your research and writing of Ways and Means?

Roger Lowenstein:

Well, I think the Republicans did enact a series of revolutionary bills, but they were very careful about how they went about it. They didn't move too far ahead of the electorate. It was said of Lincoln that he so gently guides the public, he seems to be following it. I think that was a very useful lesson in states-craft, even perhaps for a progressive today that you lead, but you lead gently, almost to be seeming to follow the public and not to get hung out by being too far ahead of the electorate.

Michael Klein:

Well, that's, I think, a good lesson. I got a sense of that as well when reading Ways and Means. I congratulate you on the publication of the book. It's a wonderful read, and I hope it achieves the best seller status that it deserves, just as your prior books did as well.

Roger Lowenstein:

Michael, it's a real pleasure to talk with you.

Michael Klein:

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