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Shaping the Economy Through Public Debt: Statebuilding in Industrializing America

Plasmare l'economia attraverso il debito pubblico:
la costruzione dello Stato nell'America industrializzata

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ABSTRACT

The nineteenth-century U.S. state is often understood as a non-administrative state that purposefully shied away from intervening in the economy. This essay looks at the public debt amassed during the Civil War to explore how this instrument of finance and statecraft could be used to reshape the state and make it into an influential economic player without developing a large bureaucracy. Public debt served to build and maintain the financial infrastructure that would underpin the massive capitalist-industrial development of the United States in the half-century that followed the Civil War.

KEYWORDS: State; Political Economy; Public Debt; Banking; Money.

Lo Stato americano del XIX secolo è stato spesso considerato uno Stato non amministrativo che evitava deliberatamente di intervenire nell'economia. Questo saggio esamina il debito pubblico accumulato durante la guerra civile per esplorare come questo strumento finanziario e di governo è stato utilizzato per rimodellare lo Stato e renderlo un attore economico influente senza sviluppare una grande burocrazia. Il debito pubblico è servito a costruire e mantenere l'infrastruttura finanziaria che avrebbe sostenuto il massiccio sviluppo capitalistico-industriale degli Stati Uniti nel mezzo secolo successivo alla guerra civile.

PAROLE CHIAVE: Stato; Economia politica; Debito pubblico; Settore bancario; Moneta.

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The American Civil War has brought in its train a colossal national debt and, with it, a heavy tax-burden, the creation of a finance aristocracy of the vilest type, and the granting of immense tracts of public land to speculative companies for the exploitation of railways, mines, etc. In short, it has brought a very rapid centralization of capital. The great republic has therefore ceased to be the promised land for emigrating workers. Capitalist production advances there with gigantic strides¹.

Karl Marx followed the Civil War closely. He would, being the London correspondent of the *New York Tribune*. He also came to view the fight for emancipation as a necessary step towards the “true freedom of labor” – as he wrote on behalf of the International Working Men’s Association to congratulate Abraham Lincoln on his reelection in 1864². Yet if the Civil War enabled the Union to build an army capable of forcing abolition on the rebellious South, it also transformed the state and unleashed the capitalist. As Marx concluded in 1867, in the quote above, the U.S. state was now fostering an economic order to support capitalism. And the material pivot of this historical turn was public debt. This was an astute observation of the dynamics at work within the national American state.

Historians, political scientists and economic historians have long understood that public debt has historically been a crucial tool in the formation of modern states – although they have often abusively generalized the British case into a model³. During the eighteenth century, with European empires clashing globally, a new form of relationship between debt capacity and military buildup forged the state institutions of imperial powers. The British example, again, served as the basis for the conceptualization of the fiscal-military state⁴ – although even this paradigmatic case is now being qualified by new work⁵.

Recent scholarship on the early American state has underlined how much the new United States emulated the politics of power of Britain when the Federal Government assumed the debts of the War of Independence, specifically to build financial credit and be able to borrow rapidly for territorial expansion, through war or purchase. This policy was so much tied to questions of sovereignty as well as wealth distribution that it was at the core of the rise of the first political parties in the first years of the Early Republic. And indeed, it built for the U.S. state a financial capacity that, although small compared to European countries, was the underpinning of a continental-size land grab. By mid-century, the United States had claimed

¹ K. MARX, *Capital: A Critique of Political Economy*, vol. 1 (1867), trans. B. Fowles, New York, Vintage Books, 1977, p. 940. My thanks to Dr. Matteo Rossi for bringing this to my attention.

² *Address of the International Working Men’s Association to Abraham Lincoln, President of the United States of America*, «The Beehive», January 7, 1865. See also R. BLACKBURN, *Marx and Lincoln: An Unfinished Revolution*, London-New York, Verso, 2011; M. BATTISTINI, *Karl Marx and the Global History of the Civil War: The Slave Movement, Working-Class Struggle, and the American State within the World Market*, «International Labor and Working-Class History», 100, 2021, pp. 158-185.

³ This is discussed in N. BARREYRE – N. DELALANDE (eds), *A World of Public Debts: A Political History*, Cham, Palgrave Macmillan, 2020, introduction and part I.

⁴ J. BREWER, *The Sinews of Power: War, Money, and the English State, 1688-1783*, Cambridge, Mass., Unwin Hyman, 1989; D.C. NORTH – B.R. WEINGAST, *Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England*, «The Journal of Economic History», 49, 4/1989, pp. 803-832.

⁵ S. PINCUS – J. ROBINSON, *Wars and State-Making Reconsidered: The Rise of the Developmental State*, «Annales. Histoire, Sciences Sociales - English Edition», 71, 1/2016, pp. 9-34; D. COFFMAN ET AL. (eds), *Questioning Credible Commitment: Perspectives on the Rise of Financial Capitalism*, Cambridge, Cambridge University Press, 2013.



all the territory that today composes the contiguous forty-eight States⁶. It did not quite control it yet, however: that would require another half-century of massive migration, extensive railroad-building and numerous wars against Native Americans⁷.

Despite this link in the literature, most scholars have not seen the Civil War as a turning point on public debt and statebuilding. Students of the national public debt have tended to analyze the Civil War debt as following the same fiscal-military-state logic as previously: the short-term rapid borrowing of massive funds to prosecute the war, followed by the steady reimbursement of the debt until extinction afterwards. To them, the unprecedented size of the national debt did not change the underlying mechanism, or the meaning of this state instrument. This was still the “classical age of public debt”⁸. Meanwhile, canonical studies of the American state have emphasized continuity through the nineteenth century. With the development of bureaucracy the yardstick of the “modern state”, the Civil War has been seen mostly as a parenthesis, where the national state proved capable of building administrative capacity in an emergency but unwilling to do so in the long term. The “administrative state” would emerge later, at the turn of the twentieth century⁹.

The significant changes between the antebellum and postbellum eras, in terms of capitalism and economic development, have thus not been analyzed in terms of statebuilding or state institutions, but rather in terms of policy – i.e. as a matter of party and not of state. Those policies have mostly been understood as *negative* – keeping the state and the market clearly separate and thus preventing state intervention in the economy – rather than positive – which would have required institutional change and growth. It was, indeed, a *laissez-faire* approach that was designed to circumscribe the state, not develop it. In this story, capitalism thrived precisely because there was no state intervention¹⁰.

Yet this classical understanding of statebuilding in the United States does not hold well against the groundswell of works reevaluating the role of the U.S. state in its first century. Numerous studies have shown how interventionist the national state

⁶ H.E. SLOAN, *Principle and Interest: Thomas Jefferson and the Problem of Debt*, Oxford, Oxford University Press, 1995; M.M. EDLING, *A Revolution in Favor of Government: Origins of the U.S. Constitution and the Making of the American State*, Oxford, Oxford University Press, 2003; M.M. EDLING, *A Hercules in the Cradle: War, Money, and the American State, 1783-1867*, Chicago, University of Chicago Press, 2014.

⁷ R. WHITE, *The Republic for Which It Stands: The United States During Reconstruction and the Gilded Age, 1865-1896*, Oxford, Oxford University Press, 2017.

⁸ The literature is well summarized in J. HEFFER, *L'âge classique de la dette publique américaine (1789-1916)*, in J. ANDREAU ET AL. (eds), *La dette publique dans l'histoire*, Paris, IGPDE/Comité pour l'histoire économique et financière de la France, 2006, pp. 365-392. Max Edling also includes the Civil War in the fiscal-military logic of previous wars, although his conclusion leaves open the possibility it might have been a turn too: M.M. EDLING, *A Hercules in the Cradle*.

⁹ The classic account here is S. SKOWRONEK, *Building a New American State: The Expansion of National Administrative Capacities, 1877-1920*, Cambridge, Cambridge University Press, 1982. Skowronek has resisted the revisionism of the historians of the Early Republic, in spite of the many new studies of the state in that period: S. SKOWRONEK, *Present at the Creation: The State in Early American Political History*, «Journal of the Early Republic», 38, 1/2018, pp. 95-103. For the Civil War as parenthesis, see R.F. BENSEL, *Yankee Leviathan: The Origins of Central State Authority in America, 1859-1877*, Cambridge, Cambridge University Press, 1990.

¹⁰ The most sophisticated take on the idea that party and policies, instead of state, spurred economic development is R.F. BENSEL, *The Political Economy of American Industrialization, 1877-1900*, Cambridge, Cambridge University Press, 2000. For a recent take on this analysis, see N. BARREYRE, *Looking Backward: Bringing Politics Back into Economic Development*, «Reviews in American History», 53, 4/2025, pp. 419-425. Even accounts that seek to reevaluate the U.S. state in the nineteenth century still carry this negative vision for the postbellum decades: B. BALOGH, *A Government Out of Sight: The Mystery of National Authority in Nineteenth-Century America*, Cambridge, Cambridge University Press, 2009.

was from the very beginning. And it certainly did not hide behind the States themselves, which were also very active in their own right¹¹. These works in turn led to a call for reconceptualizing the American state in view of its concrete historical practices, instead of its (mis)match to abstract models conceived by social scientists at later times with other states in mind¹². Indeed, a look at the actual instruments wielded by the state shows that statecraft in that period comprised a diversified toolbox of institutions to carry out state action, and that political pragmatism, instead of a universal template, was the order of the day. Bureaucracy is not the only form of state institution, nor is it always required for state action. This certainly was true in the nineteenth century. Here was a state that was not pared down to “courts and parties”, nor was it “pre-modern”, as many political scientists have contended. Rather, when we study the American state through its concrete actions and structures, we better understand in what ways it created or transformed institutions (either public, private or hybrid) to perform new missions. Only with such empirical methods can we reconstruct an historically-grounded, non-teleological understanding of the state¹³.

Public debt is a good place to study state intervention, and consequently statebuilding, in a perspective that does not presume the necessary existence of a large bureaucracy. Like law, public debt can easily be seen as policy that does not need new institutions to perform change. After all, the courts that began implementing sweeping transformations of the law after the Civil War were the same as existed previously, and yet the change was clear¹⁴. Similarly, for public debt, the antebellum Treasury had already the credit, and the know-how, to borrow money efficiently, through bankers and financiers. No lasting institutional innovation seemed needed when the Civil War started. This essay aims to show, on the contrary, that the Civil War loans did transform the U.S. state, and with it its role in the economy. And it did not do it through bureaucratic means¹⁵.

By 1860, the United States had built an efficient fiscal-military state. Or so it seemed to everyone. After all, it had borrowed easily to purchase Louisiana from France, or to make war on Mexico and pay for the conquered territory it “compensated”. There had been some hitches: finding lenders proved difficult in 1812 when the United States declared war on Britain, and the dozen or so State defaults in the 1840s fueled ill-will towards the United States. But the machine seemed well-oiled

¹¹ For a synthesis of this new scholarship, see the aforementioned B. BALOGH, *A Government Out of Sight* (although already fifteen years old). See also A. RON - G. RAO (eds), *Taking Stock of the State in Nineteenth-Century America*, «Journal of the Early Republic», 38, 1/2018, pp. 61-118; G. RAO, *The New Historiography of the Early Federal Government: Institutions, Contexts, and the Imperial State*, «William and Mary Quarterly», 77, 1/2020, pp. 97-128.

¹² William Novak has been at the forefront of such calls for reconceptualization: W.J. NOVAK, *The Myth of the “Weak” American State*, «American Historical Review», 113, 3/2008, pp. 752-772; W.J. NOVAK ET AL., *Toward a History of the Democratic State*, «The Tocqueville Review / La Revue Tocqueville», 33, 2/2012, pp. 7-18.

¹³ N. BARREYRE - C. LEMERCIER, *The Unexceptional State: Rethinking the State in the Nineteenth Century (United States, France)*, «American Historical Review», 126, 2/2021, pp. 481-503.

¹⁴ A discussion of this turning point in relation to statebuilding can be found in S. SAWYER - W.J. NOVAK, *Emancipation and the Creation of Modern Liberal States in America and France*, «Journal of the Civil War Era», 3, 4/2013, pp. 467-500.

¹⁵ The reflections shared in this essay are part of a larger project forthcoming at the University of Chicago Press: N. BARREYRE, *The Power of Debt: Capitalism and the Rise of the American State*, Chicago, University of Chicago Press, 2027. For some of my early formulations of what public debt revealed on the U.S. state, see N. BARREYRE, *Les avatars politiques de la dette américaine : la crise de la sécession et les transformations de l'État fédéral (1861-1913)*, in G. BEAUR - L. QUENNOUËLLE-CORRE (eds), *Les crises de la dette publique, XVIII-XXI siècle*, Paris, IGPDE/Comité pour l'histoire économique et financière de la France, 2019, pp. 475-493.



and supported by unimpeachable credit. And yet, when secession came and hostilities broke out, the system broke down all the same. It had always depended on access to the European (and, in fact, British) money markets, through a few select intermediaries, and for diplomatic as well as financial reasons these were now mostly out of reach, as the unofficial trip of premier New York financier and Rothschild agent August Belmont to European capitals in 1861 soon confirmed. Meanwhile, American banks did not have the wherewithal to float more than a couple of loans to the public, and soon clashes between the bankers and the Secretary of the Treasury led to a dead-end. By New Year 1862, the Union was running out of options¹⁶.

The result was a partly-improvised scramble for solutions, to meet the urgent necessity of raising money to wage the war, in volatile efforts where national pride and patriotism clashed with financiers' "common sense" and diverging political interests at work in Congress. There is no need to recount the whole saga here¹⁷. In schematic terms, what ended up financing the war was a three-pronged system. First, large-scale loan campaigns aimed at the domestic market, and more specifically at the larger public, and confided to an exclusive agent (Jay Cooke), who in turned enrolled either banking houses, where they existed, or traveling agents, to sell U.S. bonds to Americans. Second, an expanded tax base aimed at financing interest and make the loans marketable: it included excise taxes on multiple items, high duties on imports, and an income tax on the wealthy to slightly redress the regressive nature of the other taxes. And third, a monetary policy combining the short-term printing of unconvertible paper-money (greenbacks) and the longer-term refoundation of the banking system on a national, federally-regulated basis. This is the financial system that the Union had built when the Confederation was vanquished and the war ended¹⁸.

What does all this mean in terms of state formation? Traditionally, the arrangements for selling U.S. bonds during the war have been seen as a sign of state weakness. Business historians, especially, have hailed Jay Cooke as the embodiment of the American entrepreneur with the energy and the organizational know-how to develop on the spot the infrastructure to sell massive amounts of bonds to the general public where the U.S. state would have been incapable of it¹⁹. There is good reason to be skeptical of such an interpretation, however. The choice to name Cooke, a private banker, as an exclusive agent for the Federal Government - which came rather late in the war, in January 1863 - did not prove a lack of capacity to build a bureaucracy. Indeed, at the same time, the Treasury was developing, from scratch, a large internal revenue service with assessors and collectors of the new

¹⁶ The financial dealings of the Union Government in 1861 are well-narrated in B. HAMMOND, *Sovereignty and an Empty Purse: Banks and Politics in the Civil War*, Princeton, Princeton University Press, 1970. On Belmont's trip to Europe and the international context, see I. KATZ, *August Belmont: A Political Biography*, New York, Columbia University Press, 1968, chap. 7; J. SEXTON, *Debtor Diplomacy: Finance and American Foreign Relations in the Civil War Era, 1837-1873*, Oxford, Oxford University Press, 2005, pp. 83-95.

¹⁷ The best recent account is D.K. THOMSON, *Bonds of War: How Civil War Financial Agents Sold the World on the Union*, Chapel Hill, University of North Carolina Press, 2022. Also useful is J. FLAHERTY, *The Revenue Imperative: The Union's Financial Policies during the American Civil War*, London, Pickering & Chatto, 2009; as well as older classic accounts such as B. HAMMOND, *Sovereignty and an Empty Purse*; F. REDLICH, *The Molding of American Banking: Men and Ideas*, vol. 2 (1951), New York, Johnson Reprint Corp., 1968.

¹⁸ I explore the politics of this legacy in N. BARREYRE, *Gold and Freedom: The Political Economy of Reconstruction*, trans. A. Goldhammer, Charlottesville, University of Virginia Press, 2015.

¹⁹ H.M. LARSON, *Jay Cooke, Private Banker*, Cambridge, Mass., Harvard University Press, 1936.

taxes throughout the entire territory. The *Federal Register*, which lists the officers and agents of the U.S. state, quite spectacularly displayed how much the Treasury Department had grown, and its responsibilities had multiplied. Beyond the traditional activities of minting and taxing imports, as well as disbursing the expenses of the Government, managing lighthouses and fighting against contraband, the Treasury now collected internal taxes throughout the land, printed bonds and national banknotes, fought counterfeiting with a new secret service, and, indeed, managed a ballooning public debt. This entailed designing the bonds, printing them, registering all purchasers (each one on several registers so they could be cross-checked), issuing the numbered bonds to them, paying interest to each and every one twice a year. The *Federal Register* included more than a hundred pages of small-font lists of agents working for the Treasury by the end of the war²⁰. The bureaucratic expansion of that Department, including on the loan side, was swift.

Selling bonds on the domestic market was imposed by the situation, but the decision to do it through an exclusive private agent, after the traditional option of soliciting bids from banks had failed, was a choice. And this choice shaped the kind of state the United States was becoming. Using official agents remunerated by commissions or fees was a traditional tool in the toolbox of states in the nineteenth century. Replacing the bid system by agents – officially empowered by the state to sell bonds along a list of criteria defined by the state – thus followed precedent, as far as statecraft was concerned, even though it was a turning point in the history of the U.S. debt more particularly²¹. Using an exclusive agent was more contentious, as it established a public monopoly but put it in private hands (albeit in service of the state, and with strict conditions)²². For the rest of the war, the Federal Government oscillated between use of Cooke as exclusive agent and the use of the brand new national banks for selling bonds. It never seriously contemplated the use of post offices, however, even though they already existed throughout the land. In effect, thus, the U.S. state developed its own financial capacity in a public-private partnership: the Treasury developed an extensive tax apparatus to form the revenue basis of its own credit (by proving to the public that it could dramatically raise its means of collecting revenue that would be used to pay interest in the short-term, and principal in the long-term); it also developed all the machinery to issue and manage a very large debt. All that, it did itself. The public-facing job of selling the bonds, however, was contracted to a private banker, who managed that whole side of the operation—which was, by nature, more temporary than the rest.

What I want to suggest is that the Civil War was not simply the continuation at another scale of the fiscal-military state of old. It saw the transformation of the state apparatus itself. The Treasury was much augmented but also reformed around more numerous tasks it shouldered directly, while it overhauled the way it handled intermediaries with the financial markets (contracted agents, not bidding bankers). Moreover, by borrowing on a very large scale in the domestic market, from a much

²⁰ U.S. DEPARTMENT OF THE INTERIOR, *Register of Officers and Agents, Civil, Military, and Naval, in the Service of the United States, on the Thirtieth September 1865; Showing the State or Territory from Which Each Person Was Appointed to Office, the State or Country in Which He Was Born, and the Compensation, Pay, and Emoluments Allowed to Each; Together with the Names and Compensation of All Printers in Any Way Employed by Congress, or Any Department or Officer of the Government*, Washington, Government Printing Office, 1866.

²¹ On the practice of fees for the remuneration of state agents, see N.R. PARRILLO, *Against the Profit Motive: The Salary Revolution in American Government, 1780-1940*, New Haven-London, Yale University Press, 2013.

²² On the democratic problem of monopoly, see D.A. CRANE - W.J. NOVAK (eds), *Antimonopoly and American Democracy*, New York, Oxford University Press, 2023.



larger spectrum of the citizenry, it also reshaped the political relation of the population with the state. This trend was accentuated by the fact that, during the war, debt was not only created through loan issues, but also through deficit-spending. The Federal Government very rarely had the means to pay its providers with cash. Very often, the Treasury used certificates of indebtedness, short-term IOUs, for payment. In effect, it turned any business trading with the Government into a creditor. All this multiplied the number of Americans who had a financial stake in the national state²³.

The historiography generally deemed this an epiphenomenon, too temporary to be significant. On the budgetary side, historians have pointed out that the Federal Government was swift, after the war, to dismantle the war tax system and to retrench its expenses (even to the detriment of its own Reconstruction policies in the South)²⁴. On the debt side, economic historians have underlined that the Treasury had started reimbursing the war bonds by 1870, and that the debt steadily declined until the early 1890s. This proved, according to them, that the United States was still in the “classical age of its debt,” following the same pattern as before.²⁵ Such a view is understandable, as they followed the discourse of some of the most prominent politicians of the time. One of the Republican leaders, Justin Morrill, kept repeating that “A permanent national debt is not an American institution, as our history has already twice proven,” while John Sherman, probably the most influential Republican on financial legislation after the Civil War, predicted that it would take probably thirty-five years to extinguish the debt, but that they would do it²⁶. Most politicians, in fact, shied away from, if not directly rebuked, Jay Cooke’s attempt to reframe public debt as a positive good. At the end of the war, he and his writers launched an offensive by expounding the virtues of the U.S. debt: for them, not only was it a solid investment, it was also good for the American economy, precisely because it was held domestically. For ordinary Americans, it could serve as a savings bank. And for the nation as a whole, it would prove an engine for growth, as France and England proved with their respective enormous public debts²⁷. This reframing was a logical step at the end of such massive public subscriptions during the war, and was, indeed, in line with developments in several prominent European countries²⁸. Politically, however, it was badly received and Cooke’s attempt at redefining public debt failed.

Yet, if Republicans took up the rhetoric of the return to normalcy, their actual policies were following a very different direction. Indeed, state finance is anything but neutral within the political economy, and the way Republicans, after the war,

²³ The array of credit instruments the U.S. state issued is detailed in R.A. BAYLEY, *The National Loans of the United States, from July 4, 1776, to June 30, 1880*, 2d ed., Washington, Government Printing Office, 1882. See also M.R. WILSON, *The Business of Civil War: Military Mobilization and the State, 1861–1865*, Baltimore, Johns Hopkins University Press, 2006.

²⁴ W.E. BROWNLEE, *Federal Taxation in America: A Short History*, New York, Cambridge University Press, 2004; R.D. HURET, *American Tax Resisters*, Cambridge, Harvard University Press, 2014; G.P. DOWNS, *After Appomattox: Military Occupation and the Ends of War*, Cambridge, Harvard University Press, 2015; R.F. BENSEL, *Yankee Leviathan*.

²⁵ J. HEFFER, *L’âge classique de la dette américaine*.

²⁶ Both quoted in N. BARREYRE, *Gold and Freedom*, p. 54.

²⁷ S. WILKESON, *How Our National Debt May Be a National Blessing: The Debt Is Public Wealth, Political Union, Protection of Industry, Secure Basis for National Currency, the Orphans’ and Widows’ Savings Fund*, Philadelphia, M’Laughlin Brothers, 1865, among others.

²⁸ On the reconceptualization of public debt as a positive tool in France at the time, see D. TODD – A. YATES, *Public Debt and Democratic Statecraft in Nineteenth-Century France*, in N. BARREYRE – N. DELALANDE (eds), *A World of Public Debts*, pp. 79–106.

chose to consolidate the war debt, then to refinance it, and only then to reduce it, served to reshape the economy of the United States and the role the national state would use in it. Those policies were hotly contested in the political arena – most of it did not happen in secret, although technical matters can often be used to obfuscate the democratic debate. And it was in this context of contestations that the claim to tradition was used to deflect accusations of undemocratic innovations²⁹.

I will argue that the choices made in the management of the national public debt led to three momentous changes in the U.S. state and its role in the economy: it helped create a new financial infrastructure in the shape of international financiers operating from the United States, built to channel European investments into the country; it embedded the Treasury into the national banking system, making it into something more than a simple regulator, and closer to a central bank; finally, it turned the Treasury into a first-class operator on the financial markets, tasked *de facto* with stabilizing it (also a function akin to a central bank). Some of those changes were legislated; others grew out of new practices and demands from various economic actors. All reshaped the state and the economy.

The first change is probably the least known and understood. This is partly the result of the consolidation of the war debt in the years immediately following the defeat of the South. The Treasury was then faced with an enormous debt of unprecedented proportions, half of which was made of short-term instruments. Yet Hugh McCulloch, Secretary of the Treasury, departed from the public subscriptions of the war. Instead, in partnership with private banker Jay Cooke, he conducted financial operations piecemeal and directly in the money market, issuing new bonds only at discretion, depending on the price of older U.S. bonds in the secondary market. This approach through “managing the market,” in part to prevent speculation, meant that the new bonds would not reach the wider public, unlike during the war, but go to financial operators and, through them, to wealthy investors. By the decade’s end, the short bonds had been consolidated into longer bonds, but the operations had concentrated the public debt into wealthier hands, and many European ones³⁰.

This linkage of the national public debt and European investors was reinforced by the refinancing operations that were conducted throughout the 1870s. Indeed, as the Government paid high interest rates (6 percent) on its bonds, and as almost all its debt was due in 1881, it seemed a good idea to refinance the debt, i.e. to exchange the current bonds for longer bonds at lower interest rates so as to spread out its burden over time. Yet, here again, the choices made had huge consequences. Over stiff accusations of favoritism, both George Boutwell then John Sherman, when Secretary of the Treasury, chose to contract exclusively with what came to be known as a “syndicate” – a very small circle of U.S. financiers with senior partners in London, who would sell the new bonds directly or through intermediaries they could choose at their own discretion. Those operations proved very lucrative for the private bankers involved in the successive syndicates. But they had another, overwhelming goal: to build the international reputation and financial networks of

²⁹ The political debates, as they were part of the larger “money question,” are explored at length in N. BARREYRE, *Gold and Freedom*. See also W.T.K. NUGENT, *The Money Question during Reconstruction*, New York, W.W. Norton, 1967; W.T.K. NUGENT, *Money and American Society, 1865-1880*, New York, Free Press, 1968; R.F. BENDEL, *Yankee Leviathan*.

³⁰ To my knowledge, there has not been a study of these operations and what they meant to this date. For the detailed analysis, see N. BARREYRE, *The Power of Debt*, chap. 2. David Thomson looks at the effect of the massive migration of the U.S. debt to Europe in the last chapter of D.K. THOMSON, *Bonds of War*.



those select financiers. At a time when selling sovereign bonds was the hallmark of elite financiers, and being involved in joint operations with N. M. Rothschild and the Baring Brothers a coveted anointment, the U.S. state basically organized its own refinancing operations around making select U.S. financiers (with ties to the Republican party) into international financiers of international reputation. This, in turn, would prove invaluable when those financiers would have to attract European capital for private ventures, be they railroad securities or, soon, “industrials”³¹.

In short, the postwar management of the war debt had been geared towards the construction of a particular private infrastructure for the U.S. economy: a financial sector of international reach and reputation. The U.S. state lent a select few its own credit, as well as its means, through massive bonds issues and recalls, so that they could build experience, networks, and profits, in the hope that they would use it to fuel U.S. growth with European capital. In moving such a massive part of the U.S. debt to international markets, however, the United States tied itself to the gold standard, a deflationary move that was hotly resented by large sectors of the public. Indeed, international trade with Europe was conducted in gold. But after the war, the United States had a shortage of monetary instruments, and moving to the gold standard required retiring greenbacks (paper-money) and demonetizing silver – the former being achieved in 1879, but the latter eluding those who pursued it until 1896. Selling the U.S. debt in Europe was a way to tie the U.S. economy to international capital flows. But it required to sustain the gold value of the dollar – something akin to regulate the foreign exchange rate today³².

This was the second major change of the political economy of the U.S. state led by public debt. Because of the volume of its operations, and because of the commitment to the gold standard, the Treasury became a prime operator on the money market. It would use the purchases and sales of bonds to try and stabilize the price of gold, but also to inject liquidity into the money market when it was too tight, so as to prevent failures and panics. Indeed, the stringency of money was a recurring problem through the decades after the Civil War. Every fall, especially, the massive sales of new crops in the Midwest drained all the cash into the region, making it scarce enough to create difficulties, and sometimes bankruptcies. The Panic of 1873, the Panic of 1893, and the Panic of 1907 were all linked to this seasonal stringency that banks would not, or could not, compensate. And here, the role of the Treasury was key to try and alleviate these shortages. The Treasury was big enough to break dangerous speculative endeavors (as during the Gold Corner of 1869), but such power also worried financiers. This led to periodical attempts to remove such responsibilities from the Treasury – seen by many in the financial and banking community as burdened with political patronage. The last such attempt led to the creation of the Federal Reserve – although its proponents could not achieve

³¹ The importance of those funding operations have not been highlighted in the historiography, but can be garnered through the (business) biographies of the financiers involved, such as E.P. OBERHOLTZER, *Jay Cooke, Financier of the Civil War*, Philadelphia, G.W. Jacobs & Co., 1907; V.P. CAROSSO, *The Morgans: Private International Bankers, 1854-1913*, Cambridge, Harvard University Press, 1987.

³² On tying the United States to international capital flows, see S. VALEONTI – A. RON, *John Sherman of Ohio: Finance Minister of the American Civil War Era. Working Paper hal-04998888*. «HAL», March 20, 2025, <https://hal.science/hal-04998888>. On the gold standard as foreign exchange, M. FRIEDMAN – A.J. SCHWARTZ, *A Monetary History of the United States, 1867-1960*, Princeton, Princeton University Press, 1963. On the emergence of the silver question, A. WEINSTEIN, *Prelude to Populism: Origins of the Silver Issue, 1867-1878*, New Haven, Yale University Press, 1970; S. DECANIO, *Populism, Paranoia, and the Politics of Free Silver*, «Studies in American Political Development», 25, 1/2011, pp. 1-26.

the dream of pushing the Government out of banking altogether; quite the contrary³³.

This role of the Treasury as a stabilizer of a money market put at risk by speculation was unofficial – there was no statute directing the Treasury to do this – and it did not always go unchallenged, but it was widely expected of it through the last decades of the nineteenth century. It was an extension of its official role in maintaining the gold value of the dollar, which always required an active presence in the money markets since the country had a perennially negative balance of payments. The Treasury operations mostly relied on buying and selling its own bonds. Sometimes, in times of crisis, as in 1895, it even issued a new loan to replenish its gold reserves – in a politically controversial move that rent the Democratic Party asunder³⁴. In that regard, the Treasury acted very much like a central bank would.

There was a third dimension of debt policy, this time very official, that had turned the Treasury into an almost-central bank: its role as regulator of banks. During the Civil War, with a nation deprived of cash and the war economy desperate for liquidity, the national government had taken upon itself to reform the banking system. The thinking was that the Union could not print paper-money in infinite numbers, for fear it would devalue rapidly. Yet, many Midwestern banks had collapsed, and in the more solid Northeast the banks had suspended specie payments, making their own notes less trustworthy. To provide the circulating medium necessary for the economy, Secretary of the Treasury Salmon Chase and Republicans in Congress thus proceeded to nationalize the banking system, heretofore only regulated at the State level. Introduced in 1863, revamped one year later, the “National Banking System” provided for the transformation of banks into national banks, created by Federal charters, with stringent regulations designed to ensure their solidity and, more importantly, the trustworthiness of their banknotes. The key provision to ensure this was to mandate a minimum reserve in U.S. bonds, and to guarantee the circulating national banknotes also on U.S. bonds³⁵.

The American state thus made its own debt into the very core of the national banking system. This, in itself, is a hint that it could not be true anymore that “a permanent debt is not an American institution,” since the new law ensured that the state would have to perpetually have a certain amount of debt in circulation *just* for the proper functioning of the banking system of the country. But it also tied the shape and form of the U.S. debt to the needs (and wants) of bankers. Make the interest rate too low, for instance, and bankers would find it more advantageous to give the bonds back to the Treasury and retire their own banknote circulation, thus worsening the shortage of currency in the country (especially in the West and South). Make the interest too high, however, and the Government would soon be accused of fattening rich bankers at the expense of taxpayers. Politically, the new system was delicate to balance. But it put the Treasury at the center of the banking world, and this manifested in many ways. The Subtreasury of New York even

³³ R.F. BENSEL, *Yankee Leviathan*; N. BARREYRE, *Gold and Freedom*; S.R. NELSON, *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters*, New York, Alfred A. Knopf, 2012; O.M.W. SPRAGUE, *History of Crises Under the National Banking System*, Washington, Government Printing Office, 1910; J. LIVINGSTON, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890-1913*, Ithaca, Cornell University Press, 1986; E. SANDERS, *Roots of Reform: Farmers, Workers, and the American State, 1877-1917*, Chicago, University of Chicago Press, 1999.

³⁴ R.F. BENSEL, *The Political Economy of American Industrialization*; V.P. CAROSSO, *The Morgans*.

³⁵ J. FLAHERTY, *The Revenue Imperative*; N. BARREYRE, *Gold and Freedom*; F. REDLICH, *The Molding of American Banking*, vol. 2; H. ROCKOFF, *Banking and Finance, 1789-1914*, in S.L. ENGERMAN – R.E. GALLMAN, *The Cambridge Economic History of the United States*, vol. 2, New York, Cambridge University Press, 2000.



became an integral part of the Clearing House Association of New York, the private institution through which the banks of the city arranged their interbank transfers and, in case of panic, emergency loans. Soon, the Treasury started to print certificates that could be used only between bankers, and between bankers and the Government³⁶.

For our purpose here, there is no need to go into the technical weeds. Suffice to say that, even though in law the Federal Government was only tasked with setting the regulations and do regular audits of the national banks, in effect the use of U.S. bonds to back banknote circulation and as minimum reserve turned the Treasury into a *sort* of central bank, embedded within the banking networks and providing part of the infrastructure, via the Subtreasury system, for bank transfers. It was precisely because they recognized how much the Treasury was at the core of the banking system that so many bankers, in the 1870s but mostly starting in the 1890s, agitated for reform. They dreamt of a financial system organized around a central bank completely under their control and without “political” interference (i.e., without any Government say in it), arguing that all the problems had stemmed from political agitation (on silver) and state incompetence³⁷. In this they did not succeed, as the Federal Reserve created in 1913 remained under state supervision. But the extent of their critique certainly serves to highlight how much the state intervened in the financial world after the Civil War.

Looking at the U.S. public debt, looking at it *properly* – i.e. studying not only its volume and flow but also its operations, its channels, the actors it involves – thus opens a window into the transformation of the state and its relation to the economy. If, at first sight, it looks as if the U.S. state after the Civil War had not changed its ways, steadily retiring its debt and retreating from the responsibilities it had taken on during the war, a closer look reveals that the state did transform, and leveraged its own debt to intervene directly, and repeatedly, in the economy, in order to shape it. Whether it helped build an internationalized financial sector able to massively attract foreign capital, whether it attempted to stabilize the money market in a national economy unevenly supplied with currency, whether it worked to sustain conditions of the gold standard in a skewed balance of payment, or whether it became part of the general workings of the banking system, the U.S. Treasury became a *de facto* quasi-central bank in many of its dealings. This happened in large part outside of institutional reform, and without the massive bureaucratization that many political scientists have insisted was the hallmark of the modern state. Yet the U.S. state was anything but the “laissez-faire state” of the myth. It proved a core part of the overall economic system as it transformed into an industrialized economy in the second part of the nineteenth century. It is time to shed the idea that the state and the economy could be separated, or ever were; and to construct, in its place, an historicized understanding of the state that is fully embedded into the political economy that shapes it, and that in turn it shapes continually.

³⁶ N. BARREYRE, *The Power of Debt*, chap. 6.

³⁷ J. LIVINGSTON, *Origins of the Federal Reserve System*.