



Capitalism and Conflict: Economic Determinants of Wall Street's Loyalty during the American Civil War

Vijay Adkin

Date of Submission: 25-02-2025

Date of Acceptance: 05-03-2025

Abstract

The financial backing of the Union by Northern financiers during the American Civil War represents a pivotal moment in U.S. economic history. This research explores the motivations behind Wall Street's support for the Union, arguing that financial interests, rather than moral concerns, played a primary role. The paper examines the economic context of the Civil War, including Wall Street's investments in the Southern cotton trade and the Union's industrial growth, and uses principles from behavioral economics, such as loss aversion, to explain the decisions made by Northern financiers. Through an analysis of primary and secondary sources, this paper demonstrates that the Union's economic prospects, rather than its moral arguments against slavery, were key factors in Wall Street's decision.

I. Introduction

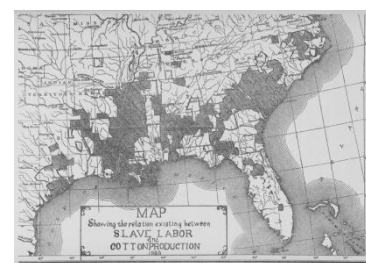
Jay Cooke, a Philadelphia banker, sat at his desk in the winter of 1861, meticulously reading a letter from the Treasury Department. The streets were silent, the noise of industry muffled by a layer of fresh snow. However, the tension was evident in his office. The Union desperately needed money to fund its war effort. Cooke, known for his charm and financial ingenuity, had been tasked with selling millions of dollars' worth of government bonds to skeptical Northern investors. Across his desk lay reports of Southern blockades and faltering cotton markets, alongside projections of Union industrial expansion. Cooke understood the stakes. The war wasn't just a battle of armies; it was a battle for economic survival. If the Union failed, the financial world he had built his career upon could collapse.

Wall Street's decision to back the Union during the Civil War is one of history's great paradoxes. Northern financiers had deep investments in the South, underwriting the cotton trade and insuring goods that depended entirely on enslaved labor. One might imagine this war was about doing the right thing: slavery had been outlawed in the North for decades, and now the Union was taking the fight to the South to abolish it everywhere. However, this was primarily an

economic conflict rather than a moral one. What the Confederacy was unable to provide Wall Street with was industrial growth, market stability, and the prospect of a single economy. Northern bankers' decision to back the Union was a deliberate one, motivated more by financial survival than by moral principles.

Wall Street's Southern Reliance: The Cotton Web

By the mid-19th century, cotton wasn't just a crop—it was a major part of the global economy. Sven Beckert describes the American South as dominating world cotton production with the



majority of all cotton being produced.¹ The region's many plantations, worked solely by enslaved people, supplied raw materials, almost entirely cotton and a

small percentage tobacco, to textile mills in Europe and the industrial Northern United States. New York City served as the hub of this economic ecosystem, with Wall Street orchestrating the flow of credit, insurance, and profits. Banks lent capital to Southern planters, insurers safeguarded shipments, and brokers earned commissions by facilitating exports to markets as far as England and France.²

¹ Sven Beckert, "Emancipation and Empire: Reconstructing the Worldwide Web of Cotton Production in the Age of the American Civil War," *The American Historical Review* 109, no. 5 (2004): 1405.

² *Ibid.*, 1406 - 1410.



Yet, beneath this thriving network lay a growing tension. The South's dependence on enslaved labor clashed with the North's evolving industrial economy.

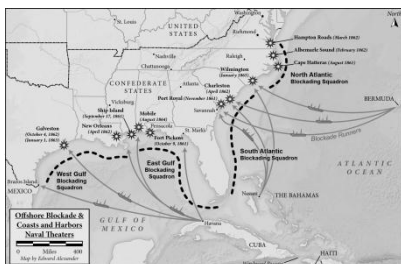


While Northern financiers benefited from the cotton trade, their own fortunes increasingly aligned with a different vision of economic growth—one rooted in free labor and industrial innovation.

As states began to secede from the Union this global web was disrupted, leaving the North to scramble for alternative sources of cotton and forcing Wall Street to reconsider its loyalties.³ This pivotal disruption was eye opening to Northern financiers. As the cotton trade faltered, Wall Street's financiers began to see the Confederacy's economy as unsustainable in the long term. The South's reliance on slavery, combined with its lack of industrial infrastructure, made it a risky partner. Meanwhile, the Union's industrialized economy offered opportunities for growth far beyond the mere cheap raw materials Southern plantations could provide.

Frederick Augustus Conkling, in a presentation to the American Geographical and Statistical Society in 1865, challenged the South's long-standing mantra that "Cotton is King." He argued that while cotton was an essential commodity, its dominance had been overstated. The Civil War revealed the fragility of the South's economy, showing that the global demand for cotton could be met elsewhere when necessary.⁴ This perspective highlighted the South's overreliance on a single crop and the risks it posed to investors tied to that economy. At the same time, it underscored the strategic importance of Wall Street's alignment with the Union, which promised a diversified and industrialized future for American markets.

For Wall Street financiers, the stakes were high. Maintaining access to the Southern cotton trade was vital for short-term



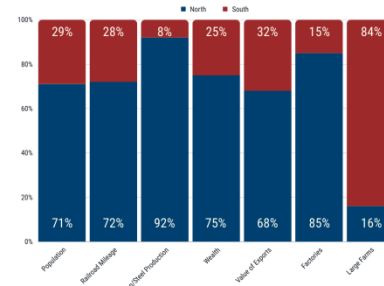
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profits, but the war disrupted these channels. The Union's blockade choked the flow of cotton, while European powers began sourcing from regions like Egypt, China, and India.⁵ The shift exposed how dependent New York's financial institutions were on the South's plantations, even as they hedged their bets by supporting the Union cause. This conflict between safeguarding current assets and ensuring long-term financial stability characterized Wall Street's complex connection to the Civil War.

Economic Approach and Market Unity

The secession of Southern states posed an existential threat to Wall Street. A divided nation meant fractured markets, unstable trade routes, and depreciated federal bonds. For financiers, these risks outweighed the profits tied to Southern cotton. Preserving the Union, with its centralized financial system and industrial potential, offered a more stable path forward.

As Marc Egnal emphasizes, the Republican Party's economic platform was deeply tied to fostering



national economic growth. This included policies such as the creation of a national banking system, the introduction of higher

tariffs, and significant investments in railroads and infrastructure. These measures reflected the North's reliance on an east-west economic axis, which increasingly excluded the South.⁶ This reorientation of the Northern economy provided Wall Street with

opportunities for growth far exceeding those tied to the South's agrarian economy.

Federal policies like the issuance of greenbacks further bolstered



⁵ Ibid., 7 - 14.

⁶ Marc Egnal, "The Economic Origins of the Civil War," OAH Magazine of History 25, no. 2 (2011): 30.



Wall Street's confidence in the Union. Wesley C. Mitchell highlights how these paper notes, despite fluctuations in value, helped stabilize the Northern economy and ensured continued government financing during the war.⁷ The Republican emphasis on centralized economic policies reinforced Wall Street's alignment with the Union.

Behavioral Economics in Decision Making

Wall Street's decision to back the Union can be better understood through the lens of loss aversion. This psychological principle, where individuals prioritize avoiding losses over pursuing equivalent gains, shaped financial choices during the Civil War. The Confederacy's fragile economy—reliant on enslaved labor and vulnerable to blockades—posed far greater risks than the Union's industrialized and centralized financial system. By prioritizing the avoidance of potential losses, financiers aligned with the more stable Union economy.⁸

The principle of loss aversion, however, applied on both sides of the conflict. While most Northern financiers backed the Union, some likely supported the Confederacy, motivated by the desire to align with the side they believed might win the war. Speculation of this kind was informed by observations such as those made in 1862, noting that “those of the North were of a certain order of peace men,” contrasting with the South's perceived advantage in military leadership.⁹ The observation that “our government had allowed them [the Confederacy] to monopolize the military profession” further illustrates why some financiers might have seen the South as a viable, if riskier, alternative.¹⁰ These calculations reveal how loss aversion influenced financiers' decisions to hedge their bets, weighing both economic and military factors when deciding where their support would yield the greatest long-term security.

⁷ Wesley C. Mitchell, "The Value of the 'Greenbacks' During the Civil War," *Journal of Political Economy* 6, no. 2 (1898): 144–145.

⁸ Thomas C. Cochran, "Did the Civil War Retard Industrialization?" *The Mississippi Valley Historical Review* 48, no. 2 (1961): 199–200.

⁹ "Slavery a Falling Tower: A Lecture on Slavery: The Cause of the Civil War in the United States: Delivered at Arly Chapel, Bristol, June, 1862." *American Geographical and Statistical Society Proceedings*, 1862, 6.

¹⁰ *Ibid.*

Social proof also played a role. Northern financiers faced growing pressure to conform to the Unionist sentiments of their peers and the public. Public statements decrying slavery often masked the underlying motivations of protecting investments and preserving credibility within elite Northern circles.¹¹

The principle of economic determinism—that material interests drive political and social actions—further supported Wall Street's choices. The Union's emphasis on industrial growth, national banking, and infrastructure development resonated strongly with financiers. The agrarian South, tied to outdated plantation models, lacked the economic foundation to offer comparable long-term stability.

Finally, political morality, while present, took a secondary role. Public support for free labor aligned with Wall Street's economic goals but also provided moral justification for financiers to back the Union. This dual alignment of economic interests and moral rhetoric allowed Wall Street to publicly support the Union while ensuring their material priorities were protected.

The Union's Industrial Transformation

As the war progressed, the North's industrial economy expanded dramatically, offering Wall Street unparalleled opportunities for investment. Factories in the Northeast churned out supplies for Union troops, while railroads financed by Wall Street capital transported goods and soldiers across the country. Beckert argues that the war catalyzed a major restructuring of global cotton production, forcing the North to adapt its industrial base and forge new economic networks.¹²

The Union blockade of Southern ports further underscored the benefits of centralized economic control. By disrupting the Confederacy's access to international markets, the North solidified its dominance in both domestic and global trade. This reorientation, driven by Wall Street's financial backing, laid the groundwork for the postwar economic boom with cities like Dayton, Ohio

¹¹ Marc Egnal, "The Economic Origins of the Civil War," *OAH Magazine of History* 25, no. 2 (2011): 31–32.

¹² Sven Beckert, "Emancipation and Empire: Reconstructing the Worldwide Web of Cotton Production in the Age of the American Civil War," *The American Historical Review* 109, no. 5 (2004): 1423 - 1425.

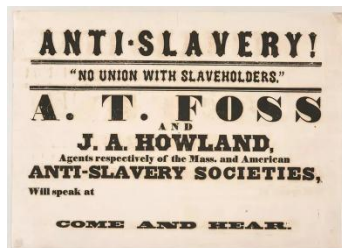


almost tripling in population between 1850 and 1870.¹³

Morality as a Secondary Concern

While abolitionist leaders like Frederick Douglass played a crucial role in shaping public sentiment, their appeals often provided rhetorical cover for Wall Street's economic motives and goals. In his essay "Give Us the Facts," Douglass recalls how his audiences demanded practical and persuasive narratives rather than philosophical musings, reflecting the broader preference for actionable over idealistic solutions.¹⁴ This emphasis on facts and results mirrored Wall Street's approach to supporting the Union: they acted where economic incentives aligned with public morality.

As Marc Egnal notes, Northern policymakers emphasized free labor not only as a moral ideal but as a means of ensuring that Western territories were reserved for white settlers.¹⁵ They argued that keeping Western territories open for free labor—not



slave plantations—would create opportunities for Northern settlers and businesses to thrive. This way of framing the issue blended morality with

economic interests, giving Wall Street's support for the Union a practical and principled appearance. For financiers, the idea of free labor wasn't just a moral victory—it was a vision of a growing economy that aligned with their own priorities.

II. Conclusion

Wall Street's support for the Union during the Civil War was not a moral crusade but a strategic decision rooted in economic self-interest. By aligning with the North, financiers preserved their investments, fostered industrial growth, and positioned themselves as the architects of a unified

economic order. Their actions, shaped by market calculations and behavioral tendencies, reveal the complex interplay of profit, patriotism, and principle.

As debates about capitalism and morality persist, Wall Street's Civil War gamble serves as a reminder of the power of economic forces to shape history. In times of crisis, it was not ideology but the promise of stability and growth that ultimately held the Union together.

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¹³Egnal, "The Economic Origins of the Civil War," 32.

¹⁴ Frederick Douglass, "Give Us the Facts," from *My Bondage and My Freedom* (1855), in *The Speeches of Frederick Douglass: A Critical Edition*, ed. John R. McKivigan et al. (New Haven: Yale University Press, 2018), 520.

¹⁵ Egnal, "The Economic Origins of the Civil War," 31.



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