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THE INDIANA STATE DEBT AND GOVERNOR OLIVER P. MORTON: "THE ABLEST AND MOST ENERGETIC OF THE WAR GOVERNORS"

by: Sarah McNair Vosmeier

On October 9, 1860, Henry S. Lane, the Republican candidate for Governor in Indiana, was elected by a majority of nearly 10,000 votes, and Republicans also gained control of both houses of the legislature. Fulfilling an earlier political bargain, the Republicans chose Lane to be Indiana's senator in Washington. In return, Lane resigned the governorship he had never really wanted, turning it over to his eager lieutenant governor, Oliver P. Morton.

Morton had been in office less than four months when war broke out in April, and he remained in office through the entire war. Thus his political reputation was based on his experiences as a war governor. After the war, his reputation was generally good — especially among the Republican majority, who sent him to the United States Senate. At the turn of the century, historian James Ford Rhodes called Morton "the ablest and most energetic of the war governors . . . no one [had] . . . more vigor and pertinacity." Morton was, according to Rhodes, "personally incorrupt," but his subordinants were not as virtuous as he. (*History of the United States*, 1904, vol. IV, p. 182) In general, people remembered Morton as a benevolent dictator. For example, one historian explained approvingly that "the state government functioned normally [during the war] except that the governor reigned as a sort of dictator." (*Dictionary of American Biography*)

Of course, it was easier to see Morton as a "benevolent" dictator after he left office, especially since he supported the winning side. While he was in office, Indiana Democrats lashed out at his administration, accusing him of violating the constitution and laws of Indiana. For example, in April of 1863 a Democratic editor complained,

The governor is evidently laboring under the hallucination that he is the state — the government, and that all must yield to his wishes and to his will. Like the frog in the fable, he is attempting to swell himself into the dimensions of an ox, but, as in that case it will prove a distinguished failure.

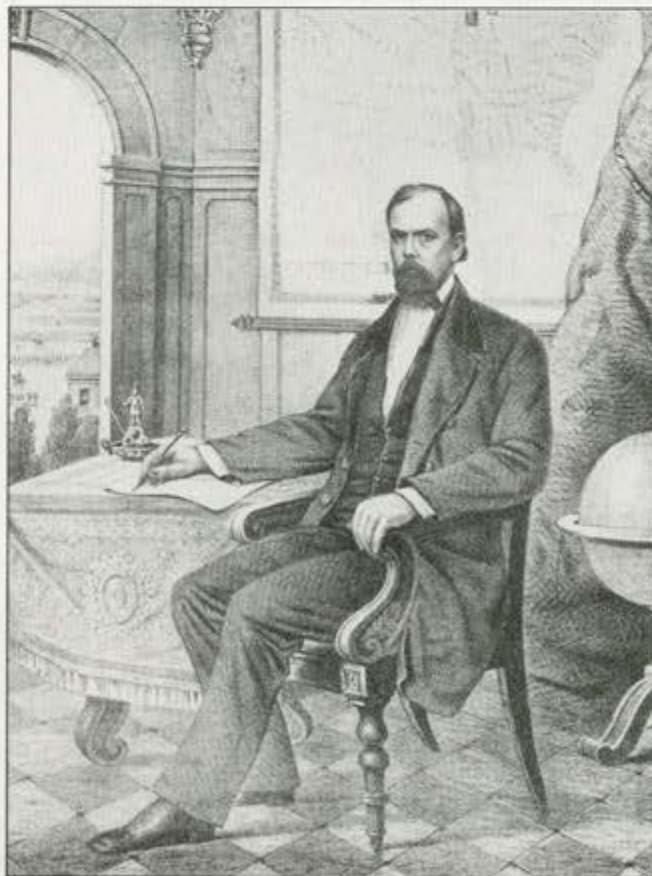
Morton insisted that he was justified in assuming unusual powers to keep Indiana within the Union. Still, as the Democrats pointed out, the Indiana constitution was designed to prevent dictators from taking power, whether they were benevolent or not.

Democratic hostility was limited at first. In April of 1861 patriotism was widespread in Indiana, among both Democrats and Republicans, causing one Indianapolis paper to assert that "We are no longer Republicans or Democrats. In this hour of our country's trial, we know no party, but that which upholds the flag of our country." (Kenneth Stampp, *Indiana Politics During the Civil War*, 1949, p. 73). Volunteers poured into Indianapolis, and the governor converted a nearby fairground into "Camp Morton" where the volunteers were organized into regiments.

Although there was no shortage of men at Camp Morton, the state treasury did not have enough funds to buy ammunition and supplies. Furthermore, the legislature's normal session had already ended, and it was not scheduled to meet again until after the 1862 election. (The legislature met in regular session for only 61 days, following the biennial elections in October.) Morton arranged to borrow money from banks and individuals to meet the state's most immediate needs, and then promptly called for a special legislative session to appropriate money for the war.

For once the politicians were able to put aside most of their partisan disagreements. Working together, they authorized the governor to borrow money for purchasing arms; and they agreed to issue state bonds (worth 2,000,000 dollars) to be sold in Indiana and on Wall Street. To sell the bonds in New York, Morton called upon James F. D. Lanier, a New York financier who had lived in Indiana and had been active both in Indiana politics and Indiana finances.

Between 1824 and 1833 Lanier had served as clerk in the Indiana House of Representatives. He later referred to this



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FIGURE 1. Oliver P. Morton (a composite print from a series of prints of war governors).



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FIGURE 2. Camp Morton. In 1861 volunteers were plentiful, but the state was short of money for supplies and ammunition.

experience as "one of the chief causes of my future success. It enabled me to form an intimate acquaintance with all the leading men of the state, many of whom, in after life, were not slow to reciprocate the good offices I had done them." When the Indiana State Bank was chartered in 1833, Lanier became one of its first officers. Thus, he also became acquainted with prominent Indiana financiers, including Hugh McCulloch, who was later Lincoln's Secretary of the Treasury. Even after leaving Indiana for New York City, Lanier continued to maintain his contacts with prominent Hoosiers as part of his business: negotiating railroad securities and promoting railroad expansion in Indiana and other parts of the Midwest.



*Courtesy of the
Indiana Historical Society*

FIGURE 3. James F. D. Lanier, about 1825 — probably while he was clerk of the Indiana House of Representatives.

The Indiana state bonds did not sell as well as state officials might have hoped, especially in Indiana. Then, in 1862 the state authorities discovered gigantic frauds in bond sales. Fake bonds had been issued with a supposed value of two and a half million dollars. Thus, to keep from paying interest on these fraudulent bonds, the state had to compile a new list of true bondholders. Still, these problems were minor compared with Morton's problems after the 1862 election.

By October of 1862 the Federal government had had several messy defeats; and many voters were unhappy with the Emancipation Proclamation, which Lincoln had announced in September. Locally, most Hoosiers resented the military draft instituted only days before the election. A combination of these negative factors caused voters to turn against the Republicans, giving the Democrats substantial majorities in both houses of the 1862 legislature.

With a majority in both houses of the legislature, the Democrats gleefully began proposing legislation to insure themselves patronage, power and reelection. For the Republicans, the final blow was a bill that would reduce the governor's patronage power in militia appointments. Like other bills, this one was a partisan attempt to strengthen the Democratic legislature by reducing the power and patronage of the Republican governor. However, in the context of the Civil War, the Republicans perceived it as an attempt by the copperheads to pervert the state militia for the use of the Confederacy. To block the bill, the Republicans in the House bolted, breaking the quorum necessary to enact business, and they remained away through March 8, 1863, the last day of the 61-day regular session.

Because of this interruption, the legislature was not able to pass any important legislation; but more significantly, the legislature did not have a chance to make any appropriations for the following two years' budget. Thus the Democrats expected Morton to call a special session (as he had in 1861). Morton, however, insisted that the Democrats were traitors, and he had no intention of allowing them to reconvene just to recognize the Confederacy. Thus, he refused to call a special session and began making plans to run the government without appropriations from the legislature.

Running a state government without state funds required ingenuity, especially during wartime. First, Morton made an appeal to loyal Hoosiers, receiving loans from both private citizens and institutions. Also, he arranged for sixteen Republican county governments to make special appropriations for the state government. In late March, Morton received \$90,000 from the federal government as payment for ammunition that the Indiana state arsenal had provided for Union forces. Altogether, Morton received about \$225,000 from these various unorthodox sources.

Even with these sources, Morton needed still more money, especially to pay the interest on the state debt, which came due on July 1. There was money in the state treasury to pay the interest, but it was not clear whether the treasurer had the authority to withdraw it because the state constitution stated

that "No money shall be drawn from the Treasury, but in pursuance of appropriations made by law."

In April, Oscar B. Hord, the Attorney General of Indiana, published his opinion in a long letter in the Indianapolis *Daily Sentinel* (the Democratic paper). Hord defined an appropriation as "an act of the General Assembly, setting aside money to be applied to a definite purpose, with authority to take it from the Treasury for application to that purpose." After examining a variety of statutes relating to the payment of the interest, Hord concluded that the 1862 legislature had *not* made a legal appropriation to pay the state debt. The newspaper's editor concluded that, if the interest were not paid, "the sole responsibility for that failure rests with the Republican party. A Republican governor has the power, and he alone" to preserve the state's honor.

Finally, in May Morton distributed a pamphlet arguing that the treasurer *could* legally pay the interest because funds for payment had already been appropriated by earlier legislatures. Morton defined an appropriation in more general terms than Hord had. According to Morton, an appropriation was "a direction given by law to pay money out of the Treasury for a particular purpose. . . . It may be a necessary intendment of a legislative act." Thus, Morton explained that the 1859 law creating the treasury was a general appropriation which made specific yearly appropriations unnecessary.

According to Hord, the 1859 law was not specific enough to be an appropriation; he argued that it was just a statement of *how* to transfer money, not an appropriation actually to do so. Morton responded with a dig at Hord, slyly pointing out that Hord had not complained when the Treasurer had paid his salary — despite the fact that, according to Hord's definition, the legislature had made no appropriation for it. Morton explained,

The payment of this salary was legal and proper, and I refer to the fact only to show that the Attorney General has made a practical decision of the question at variance with his written opinion.

The act of 1861 which contains the specific appropriations for the payment of the interest on the public debt, also contains specific appropriations for the payment of the salary of the Attorney General. . . . Yet the absence of specific appropriations for salaries in 1863 is not, in the opinion of

the Attorney General, a sufficient reason why he should not draw his salary.

Eventually, the controversy was taken to the Indiana supreme court, and on June 5 the court ruled that the Indiana constitution required a specific appropriation before money could be removed from the treasury. The Republicans complained that the court (controlled by Democrats) had been biased, but they had to admit they were beaten on the appropriation issue.

Still, Morton was not willing to call a special session, and so he journeyed to Washington to ask for help, presenting his case first to President Lincoln. According to Morton's biographer, Lincoln wanted to help the Indiana Republicans but explained that "I know of no law under which I can give you the money," and sent Morton to see Secretary of War, Edwin M. Stanton (William Dudley Foulke, *Life of Oliver P. Morton*, 1899, p. 260). When Morton told Stanton that Lincoln had been squeamish about the legality of giving Indiana federal money, Stanton replied, "By God, I will find a law!" Indeed, Stanton did find a law that, if interpreted loosely, could justify giving Morton the money he needed for supplies and ammunition. The terms of the appropriation were not broad enough to cover the payment of the state debt, but Stanton convinced Lincoln to sign the order giving Morton enough money to cover the interest payment as well as ammunition (Foulke, p. 261).

Apparently Stanton and Lincoln encouraged Morton to find other, less questionable, means of paying the debt if at all possible. Lincoln signed the order on June 18, and by June 23, Morton was in New York consulting with James Lanier, the banker from Indiana. While Morton was in New York, he telegraphed home to his office, saying,

I think it likely an arrangement can be made to pay the interest on the State debt and save the credit of the State without compromising you or anyone under the decision of the Supreme Court (*Indianapolis Daily Sentinel*, June 23, 1863).

In fact, the arrangement was successful, and Lanier's company agreed to loan the money necessary to make the interest payments.

In describing the arrangement, Lanier noted the political aspects of Morton's request: Morton said he needed the money



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FIGURE 4. Indiana State House, about 1870.

to "preserve the honor and credit of the State," but also because if he did not get the money, he could not justify his refusing to call a special session (*Sketch of the Life of J.F.D. Lanier, 1877, p. 37*). Lanier hesitated somewhat to advance the money, fearing that he might never be repaid. However, Lanier's natural patriotism, Republican partisanship, and financial interest in Indiana (or Morton's skillful persuasion) convinced the financier to help Morton save the state's credit while still avoiding a Democratic special session. Lanier recalled,

The application was made at the darkest period of the whole war. I could have no security whatever. . . . If the great contest should turn out disastrously to the cause of the Union and of freedom, I could never expect to be repaid a dollar. I felt however, that . . . if the credit of the State in such a critical period should be destroyed, that of the other States, and even the Federal Government, might be so impaired as to render it impossible for them to sustain the immense burdens of the war (Lanier, 37-38).

I was too old to take the field, but I gave whatever aid and encouragement I could to the cause of Union (Lanier, 34).

It seemed, at last, as though the problem of the interest payments had been resolved — one week before the payment deadline. The next day Lanier wrote to the state agent in New York to get a list of certified bondholders (the list excluding the holders of fraudulent bonds). Lanier must have been annoyed when the agent returned "a flat refusal, accompanied by a very vulgar and malicious attack on Governor Morton." (*Indianapolis Daily Journal, July 2, 1863*)

The Democrats had appointed John C. Walker as the state agent in New York before the Republicans had disrupted the 1862/1863 legislative session. Not only was Walker adamantly opposed to the Republicans, he had a personal grudge against Governor Morton. Walker's special enmity for Morton stemmed from Morton's removing him from a military command, and Walker's dismissal itself stemmed from a controversy over patronage and military appointments (the same issue that precipitated the Republicans' breaking quorum in 1862).

Morton had given Walker command of a regiment in 1861. Then, using his power of patronage, Morton began appointing Republicans as officers under Walker. Walker objected, insisting that his followers receive the commissions. Morton, perceiving Walker's interference as insubordination, arranged for his arrest and dismissal. Walker was not arrested, but he was dismissed while he was recuperating at home from typhoid fever. Although Walker later claimed that he had never really wanted the command and that he had always opposed the war, he was incensed that Morton had had him dismissed, even from a command he did not want in a war he opposed. As the war continued, Walker's opposition to it grew. By 1864 he was involved in a plan to arm Hoosier rebels and to release the Confederate prisoners held at Camp Morton (G. R. Tredway, *Democratic Opposition . . . in Indiana, 1973*). Thus, even in 1863, Lanier must have been well aware of Walker's grudge against Morton and his opposition to the war, especially since their offices were only a few

blocks apart on Wall Street.

When the payment deadline passed with Walker still refusing to cooperate, the Republican newspapers printed the exchange of letters between Lanier and Walker. The editor explained that Morton could not be blamed for repudiation of the debt because he had made arrangements for paying it, and "if it is not paid, the responsibility thereof rests alone with the repudiator's tool, John C. Walker." (*Daily Journal, July 2, 1863*)

Walker used the Democratic paper to express his opinion, noting, for example, that Morton's arrangement with Lanier would not actually pay the state debt, but would merely transfer the state's debt from the bondholders to Lanier's company, which would profit from Morton's arrangements. Perhaps the Republicans were sensitive to this criticism because Morton, Lanier, and the Republican newspaper all made the point that there was no agreement between Morton and Lanier about interest or commission on the loan.

Editorials continued in both the Democratic and the Republican papers, with the Republicans blaming the Democrats for blocking the payment, and with the Democrats still trying to get Morton to call a special session. In December, the Democratic State Auditor, Joseph Ristine, apparently assuming that the Democrats would never convince Morton to call a special session, finally agreed to give him the list of certified bondholders. Thus, in December Lanier's company began paying the July interest, and they continued to pay the interest on the state debt until a Republican legislature was elected in 1864.

Just as military defeats influenced the Democratic victory in 1862, military victories in the fall of 1864 contributed to a substantial Republican victory in 1864, and Morton was reelected. The new Republican legislature approved Morton's wartime activities, and agreed to repay Lanier's loan, with 7% interest. (Lanier's company received about \$40,000.) The Democrats objected, arguing, as they had since 1863, that the arrangement with Lanier was not legitimate and that the state did not have to repay the money he had (in effect) donated to Morton.

In his autobiography, Lanier reflected that the effect of his loan "was decisive. . . . At the next vacancy occurring in the Senate of the United States, Mr. Morton was chosen to fill the place" (Lanier, p. 45). Thus, Morton's treatment of the state debt and his arrangements with Lanier added to his reputation as the "ablest and most energetic" of Unionists, showing that he was even willing to bend state laws in his patriotism for the federal government. After the war was over, many people found this sort of extralegal "energy" more admirable than Walker's vindictiveness or Hord's legalism. In retrospect, modern readers might still admire Morton's ingenuity, but they are less likely to let his admirable qualities obscure his attitude toward the law. We now know that he was wrong about the Democrats: most were loyal to the Union, even in their opposition to the Republicans. Thus, Morton's ability and energy need not have been expended on excluding the Democratic legislature from the government.



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FIGURE 5. John C. Walker, appointed state agent by the 1862 (Democratic) Indiana legislature.