

FINANCING THE CIVIL WAR

Lesson by

William Pacello

Academic Level

Secondary/Collegiate

Bloom Level

Knowledge

Comprehension

Analysis

Evaluation

Unit

The Art of Political Finance, Volume I, Part I—Chapter 12

Time Required

Four 60-minute classes

Lesson Number within Unit: 9**Lesson Description**

This lesson will chronicle some of the key events of monetary and banking policy during the Civil War from the Union perspective as well as President Lincoln's view on banking and his effort to implement a national banking system and a debt-free currency.

Objectives

Students will be able to:

1. Understand the political climate just prior to and during the civil war
2. Identify additional issues of the Civil War aside from slavery
3. Recite that the Revenue Act of 1861 imposed the first personal income tax on individuals
4. Explain why the "greenbacks" were considered loose, fiat currency toward inflationary finance
5. Provide a brief explanation of how bonds helped finance the Civil War

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Materials & Equipment

Computer, Video Projector, Timeline of Civil War Finance

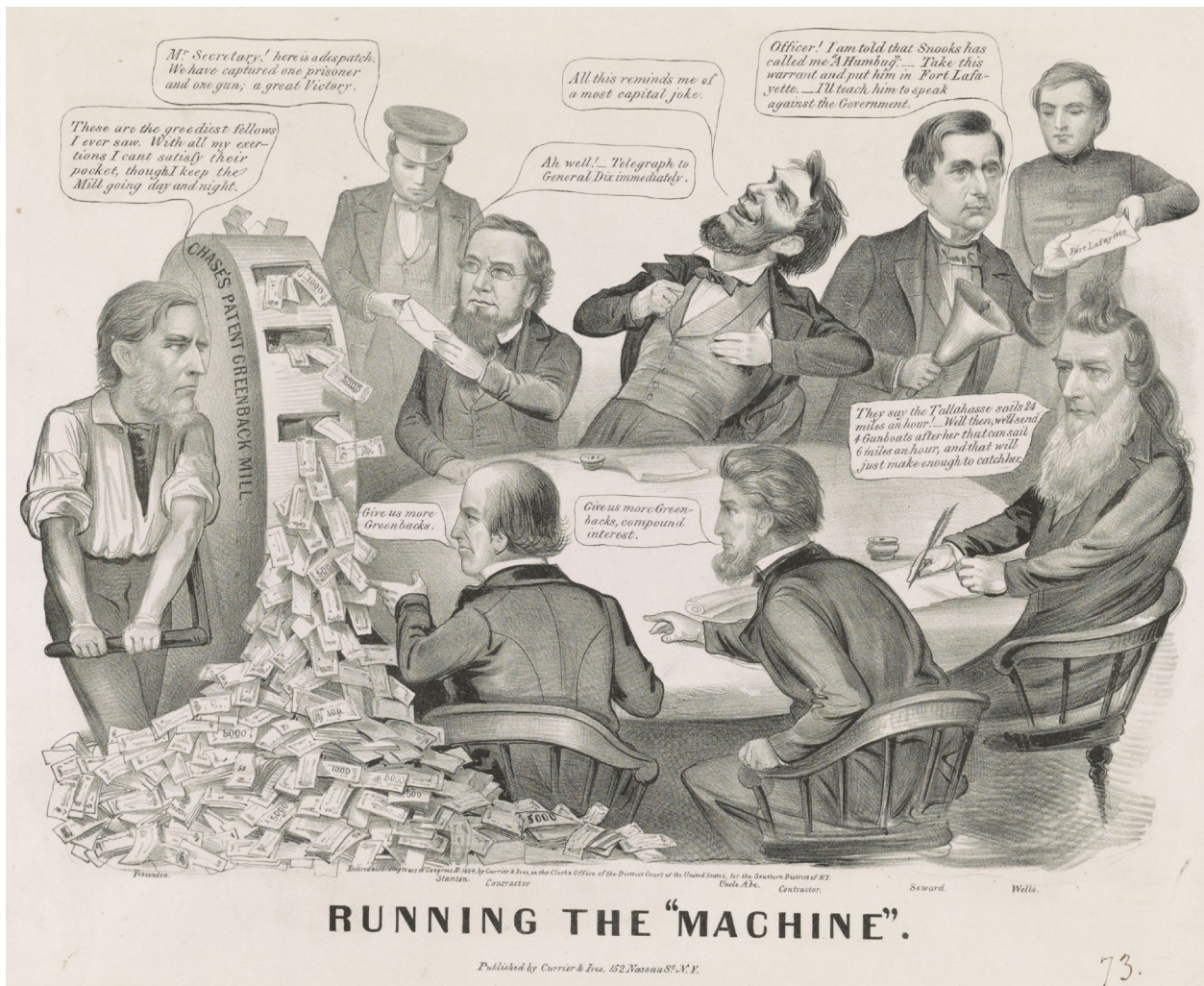


Figure 1 Currier & Ives, and John Cameron. Running the "machine". , ca. 1864. [New York: Published by Currier & Ives, 152 Nassau St. N.Y] Photograph. <https://www.loc.gov/item/2003689257/>.

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Concepts , Terms, Events

Bonds

In finance, a bond is an instrument of indebtedness of the bond issuer to the holders. It is a debt security, under which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay them interest (the coupon) and/or to repay the principle at a later date, termed the maturity date; there are several types of bonds, e.g., Government Bonds, Municipal Bonds, Corporate Bonds.

Demand Notes

Included in the Revenue Act of July 1861 authorization was given to Congress to issue \$50 million of Treasury notes earning 3.65% interest per year and payable on demand. The demand notes were not legal tender but could be redeemed for and on par with gold.

Greenbacks

The term greenback refers to paper currency (printed in green on one side) issued by the United States during the American Civil War. Officially known as United States Notes, they were given legal tender status but were not on par with gold.

Legal Tender

A medium (form) of payment recognized by a legal system to be valid for meeting a financial obligation.

Recovery

A phase of the business cycle following a recession, during which an economy regains and exceeds peak employment and output levels achieved prior to downturn. A recovery period is typically characterized by abnormally high levels of growth in real gross domestic product, employment, corporate profits, and other indicators.

Second American System

During the 1860s, the Republicans favored an expansion of federal power and passed over Democratic opposition a set of laws sometimes called the Second American System, providing federal aid for the transcontinental railroad, for the state university system, for the settlement of the West by homesteaders; for a national currency and a protective tariff.¹

¹ When and (to an extent) why did the parties switch places? May 20, 2010, By Eric Rauchway

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Procedures and Pupil Activity

Motivational Techniques:

Play clip from Ken Burns' Civil War, episode 1, 8:24 mark, Shelby Foote:

"Any understanding of this nation has to be based, and I mean really based on an understanding of the Civil War. I believe that firmly. It defined us. The Revolution did what it did. Our involvement in European Wars, beginning with the first world war I did what it did. But the Civil War defined us as what we are and it opened us to being what we became, good and bad things. And it is very necessary if you are going to understand the American character in the 20th century, to learn about this enormous catastrophe in the mid 19th century. It was the crossroads of our being, and it was a hell of a crossroads."²

Shelby Foote

Questions:

- A) Does anyone know a secondary issue of the Civil War? *State's Rights*
- B) Can anyone guess another issue of the Civil War? *Banking Systems*

On the subject of banking and money, Abraham Lincoln was quoted to say:

*"The people can and will be furnished with a currency as safe as their own Government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power."*³

<http://www.themoneymasters.com/the-money-masters/famous-quotations-on-banking/>

² The Civil War. Dir. Ken Burns. PBS, 1990. Episode 1

³ http://www.kamron.com/liberty/colonial_script.htm

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Political Climate

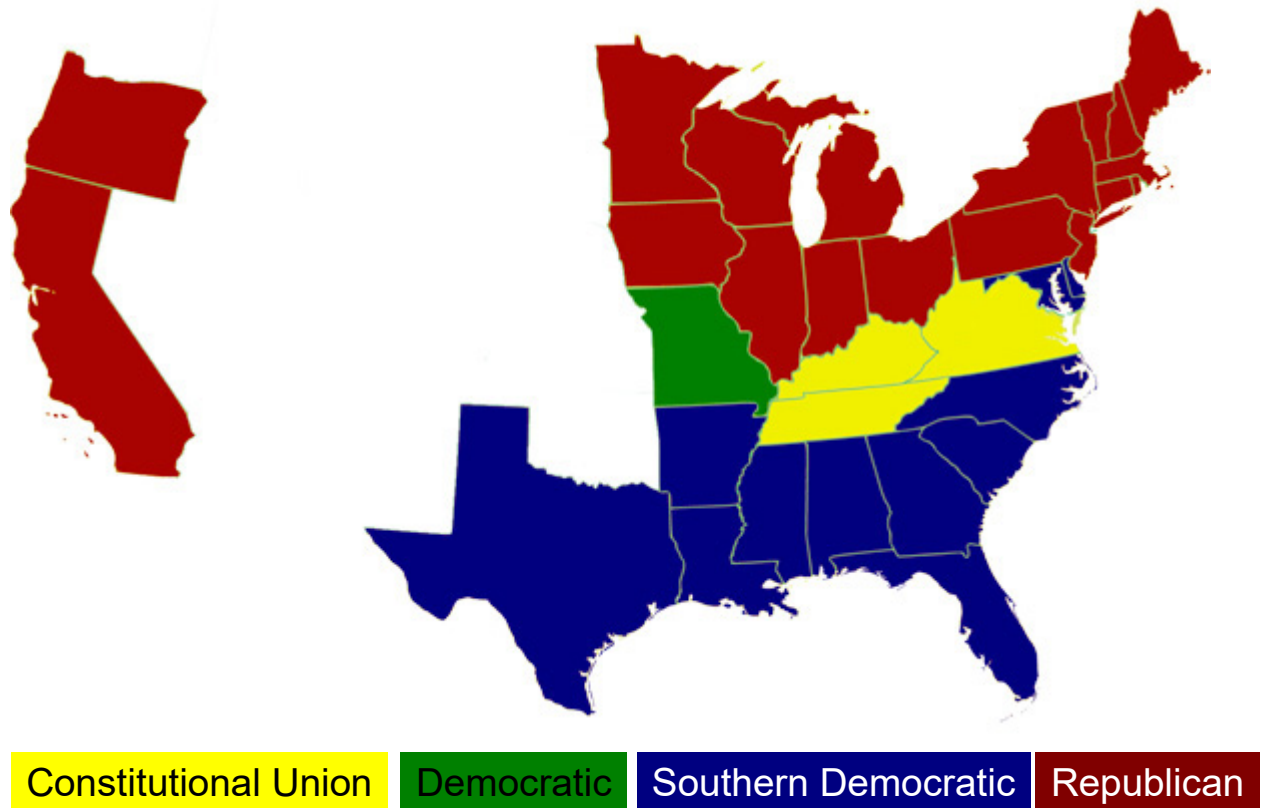


Figure 2 - 1860 Electoral College Vote
<https://www.presidency.ucsb.edu/statistics/elections/1860>

1860	President	Party
	Abraham Lincoln	Republican
Senate Majority		Republican
House Majority		Republican
Senate Minority		Democrat
House Minority		Democrat
Conflicts	Civil War	

In the presidential election of 1860, Republicans, led by Abraham Lincoln, opposed the expansion of slavery into U.S. territories. In addition to abolition, the Republicans favored an expansion of federal power and passed over Democratic opposition a set of laws sometimes called the Second American System, providing federal aid for the transcontinental railroad, for the state university system, for the settlement of the West by homesteaders, for a national currency and a protective tariff. Taken together, this was a highly ambitious program for expanding federal power. It was mercantilist, but it also aimed to get small-time farmers and ordinary citizens to buy into it with the Homestead Act and the state universities. And, broadly speaking, Democrats opposed it. ⁴

⁴ When and (to an extent) why did the parties switch places? May 20, 2010, By Eric Rauchway

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A residual of Henry Clay's First American System policies.

One of Lincoln's numerous quotes relative to the life and times in the United States:

"Labor is prior to, and independent of, capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration."

Have students translate. *People and slaves are more important than money, and without people, slaves or labor, you wouldn't have the crop, the money, or the wealth. Be kind to your laborers. Free the Slaves.*

Below is a graphic look of what was going on in the banking sector in 1860:

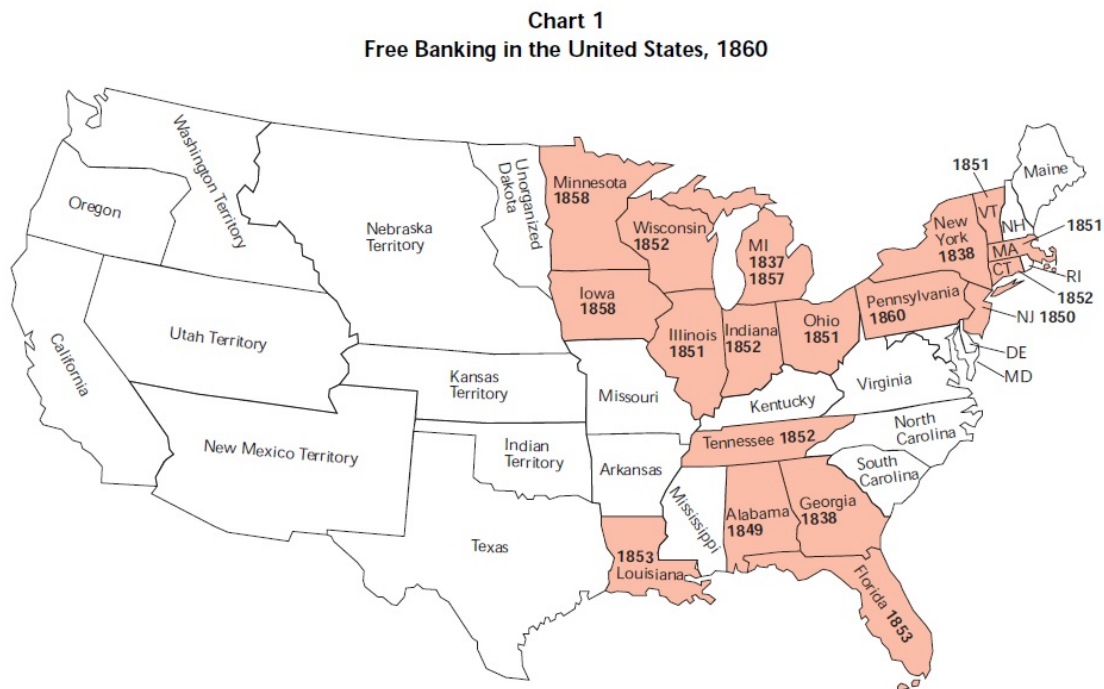


Figure 3: Rockoff (1975, 3) and Thorndale and Dollarhide (1987, 8).

The eighteen states shaded had adopted free banking by 1860. Only Michigan, Georgia, and New York did so in the 1830s, with the rest starting in 1849 or later.

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Reading Activity:

The following is a list of events related to money and banking during The Civil War according to the US Treasury.

March 4, 1861, seven slave states with cotton-based economies formed the Confederacy; (Cessation from the Union began).

March 9, 1861 - The Confederate States of America authorized the printing of \$50, \$100, \$500 and \$1000 notes.

April 12, 1861, Confederate forces fired upon Fort Sumter virtually commencing the Civil War, and four more slave states joined the Confederacy, bringing their total to eleven.

May 21, 1861 - Confederate troops seized the Charlotte Mint, turning it into a base of operations for the remainder of the war.

July 17, 1861 - An Act of Congress ordered the issue of currency to help fund the Civil War. Known as greenbacks, they were the first non-interest bearing notes created by the government.

August 5, 1861 – The Revenue Act of 1861 - The U.S. government levied the first income tax to help pay for the Civil War. All incomes over \$800 were taxed three percent until the year 1872, when the tax was repealed. (Go to Figure 4)

August 29, 1861 - The first United States currency was separated and sealed by hand by two men and four women in the basement of the Treasury. The currency was in the form of \$1 and \$2 United States Notes.

March 17, 1862 - Greenbacks were officially made legal tender.

July 1, 1862 - The Revenue Act of 1862 established a permanent tax collection agency and the office of the Commissioner of Internal Revenue. Income was taxed at a rate of three percent or five percent depending on salary.

June 30, 1864 - The Internal Revenue Act of 1864, increased the income tax rates established by the Internal Revenue Act of 1862. The measure was signed into law by President Abraham Lincoln.

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Currency of the Loyal States by Fiscal Years 1860 – 1866 (in Millions)								
		1860	1861	1862	1863	1864	1865	1866
I.	Specie:							
	1. Gold Coins	184.6	245.3	22.0	22.0	22.0	22.0	22.0
	2. Silver Dollars							
	3. Subsidiary Silver	39.6	42.2	3.0	3.0	3.0	3.0	3.0
	4. Minor Coins (Copper, Nickel, Bronze)	0.9	1.0	1.2	1.6	2.1	3.3	3.9
II.	Postage & Fractional Currency:							
	1. Postage Currency				20.2	15.2	9.9	7.0
	2. Fractional Currency					7.7	15.1	20.0
III.	Non-Interest-Bearing Treasury Notes:							
	1. Demand Notes			53.0	3.4	0.8	0.5	0.3
	2. Legal Tender Greenbacks			96.6	387.6	447.3	431.0	400.8
IV.	Bank Notes:							
	1. State Bank Notes	207.1	202.0	183.8	238.7	179.2	142.9	20.0
	2. National Bank Notes					31.2	146.1	281.5
V.	Interest Bearing Legal Tender Treasury Notes:							
	1. 1-Yr, 5% Treasury Notes of 1863					44.5		
	Combined						42.3	3.5
	2. 2-Yr, 5% Treasury Notes of 1863					109.0		
	3. Compound Interest Treasury Notes					15.0	193.8	159.0
VI.	Government Obligations not Legal Tender:							
	1. Certificates of Indebtedness			49.9	156.8	160.7	115.8	26.4
	2. 7-30 Treasury Notes of 1864						234.4	
	Combined							806.3
	3. 7-30 Treasury Notes of 1865						437.2	
VII.	Coin, Bullion, Paper Money in Treasury:	6.7	3.6	23.8	79.5	35.9	55.4	80.8

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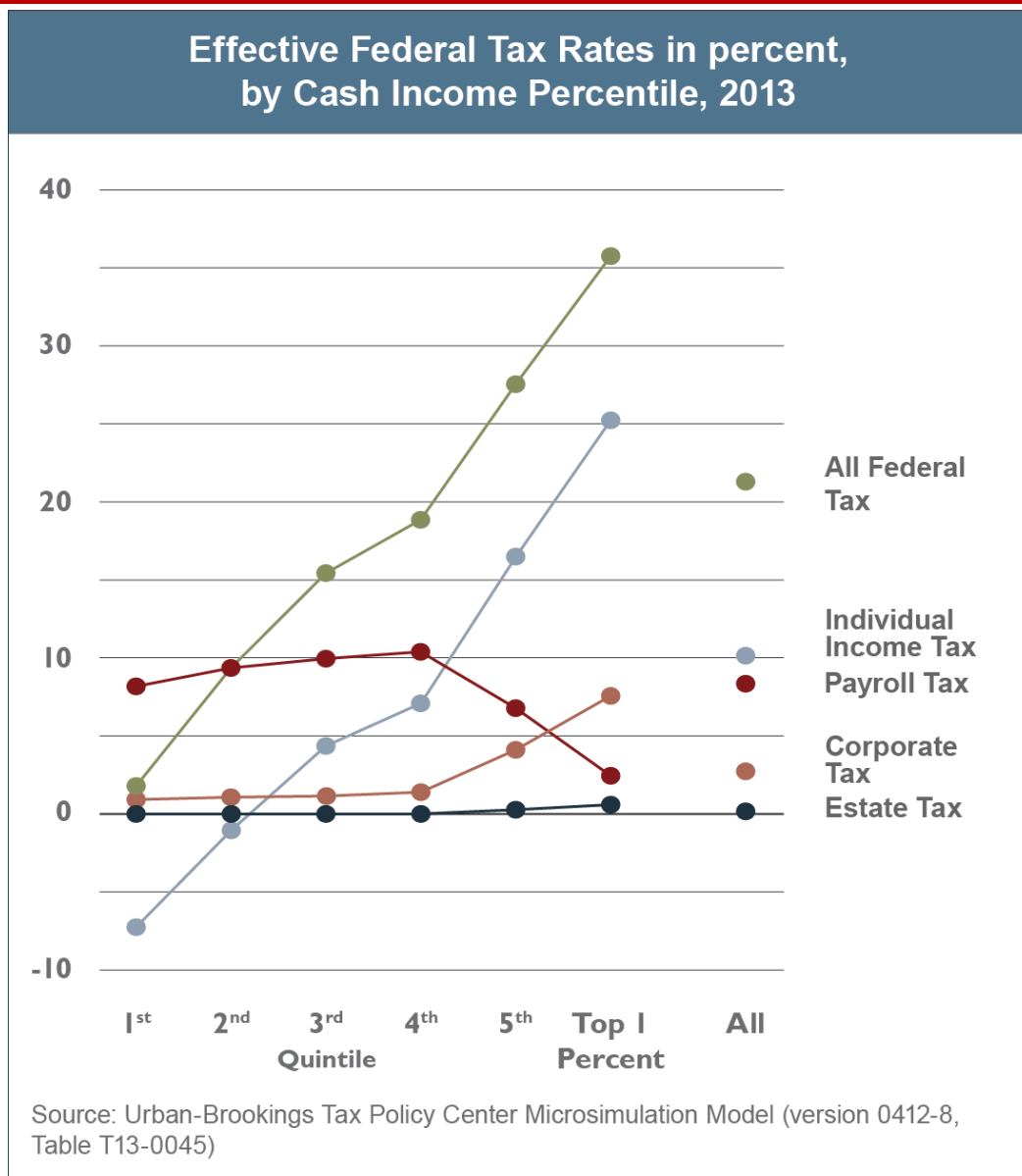


Figure 4 Line Graph of Tax Rates of the Various Revenue Streams

Ask students to analyze graph and draw conclusions from it.

1. Ascertain that personal income taxes are the highest among wealthier castes and on an overall basis.
2. Corporate tax rates are relatively low as are estate taxes.
3. Personal income tax shifts the burden from commercial entities to individuals.

In the antebellum period local and state banks could print their own money, and in the twenty years before the Civil War more than 4000 different kinds of paper money circulated. Even more striking, according to the Treasury Department, more than forty percent of the money in circulation was counterfeit.⁵

⁵ <http://chnm.gmu.edu/courses/omalley/money2/background2.html>

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The Civil War attempted to put an end to this monetary complexity. The National Banking Act of 1862 imposed a tax on State and local paper money issues. It also saw the introduction of a money form, called "greenbacks," controlled by the federal government.⁶

The War itself was never entirely popular, even in the North, and Lincoln's administration was hard pressed to raise money. Rather than impose more and higher taxes, the Lincoln administration resorted to legal tender paper money. "Legal tender" meant that by government decree people were forced to accept the paper notes as money. The North printed more than 450 million dollars in paper notes, popularly termed "Greenbacks." It used them to pay soldiers and suppliers, and from there they entered the economy. Greenbacks helped Lincoln finance the unpopular war.⁷

In 1865, during the time Lincoln was attempting to create a debt-free currency for the People like Demand Notes; this editorial was printed in the London Times.

"If this mischievous financial policy [of creating a debt-free currency], which has its origin in the American Republic, shall become permanent, then that government will furnish its own money without cost! It will pay off its debts and be without debt. It will have all the money necessary to carry on its commerce. It will become prosperous without precedent in the history of the world. The brains and the wealth of all countries will go to America. That government must be destroyed or it will destroy every monarchy on the globe!"⁸

Exercise

Calculate the cost of the Civil War in today's dollars:

According to the Treasury website, the cost of the Civil War was \$5.2B

<http://www.westegg.com/inflation/infl.cgi>

\$81B today.

Closure

On April 14, 1865 - President Abraham Lincoln approved of Secretary of the Treasury, Hugh McCulloch's plan to create an anti-counterfeiting unit within the Treasury, the United States Secret Service. It was one of Lincoln's last official acts.⁹

Recommended Reading

The Disintegration of the Second Party System - <http://www.encyclopedia.com/doc/1G2-2536601410.html>

United States Notes

https://en.wikipedia.org/wiki/United_States_Note#cite_note-2

The Cost of the Civil War

<https://www.measuringworth.com/uscompare/>

⁶ <http://chnm.gmu.edu/courses/omalley/money2/background2.html>

⁷ <http://chnm.gmu.edu/courses/omalley/money2/background2.html>

⁸ The Coming Battle – 1899 Page 88

⁹ <http://www.treasury.gov/about/history/Pages/1800-1899.aspx>