



FUNDING THE CIVIL WAR TAX, BORROW OR PRINT — UNION SCRAMBLED TO COVER COSTS

By Randy Koch

The “high cost of war” usually evokes visions of combatants killed and maimed, both physically and psychologically, not to mention the tolls taken on their loved ones. Experts have placed the death toll of United States Civil War military personnel at almost 360,000, while estimating Confederate deaths at 290,000. Current scholarship suggests an even higher combined number, near 800,000.

Certainly a distant second to human cost, but still exorbitant, was the North’s financial cost, which would exceed an estimated \$5 billion by war’s end, which calculates to over \$75 trillion in today’s money. The federal government had only three options to fund the war — tax, borrow or — thanks to Guttenberg — print money.

In 1861, the U.S. government received income primarily from import tariffs, and to a much lesser degree, short-term loans. By 1865, Congress implemented a number of taxes including, but not limited to, sin and luxury items such as liquor, tobacco, playing cards, carriages, yachts, billiard tables and jewelry. The government also levied the first federal inheritance and income taxes during the war. We can also thank the wartime Congress for creating the Internal Revenue Service. However, passing legislation and creating a structure to levy tax would require time, which the federal government lacked.

The eruption of war forced newly appointed Treasury Secretary Salmon Chase, formerly Ohio’s governor, to frantically scramble to fund daily expenses, which would exceed \$2 million by the end of 1861. Fortunately, he discovered a talented ally in the young Philadelphia financier, Jay Cooke. The native Sanduskian aggressively commenced selling Chase’s bonds, far outperforming other bankers, but even his enormous successes that year fell short of offsetting the burgeoning cost. As 1861 ended, Chase’s relationships with large New York state bankers had seriously eroded, due in large part with their skepticism with government stability, and also Chase’s dour, inflexible personality. Adding to the financial distress, rumors circulated of war with England spawning from the U.S. boarding and the removal of two Confederate envoys from the British ship, the Trent.

To meet the crisis, Congress passed the Legal Tender Act in February 1862. The legislation authorized the issue of paper currency, printed with green ink. These “greenbacks” were actually non-interest-bearing treasury notes, to be accepted as legal tender for all public and private debts. The act also suspended specie payment, the redemption of notes with gold and silver.

Opponents claimed the Constitution permitted state governments to mint only gold and silver coin as legal tender, thereby making a case for the federal printing of paper money unconstitutional. State bankers naturally opposed the law, which centralized fiscal power within the federal government. Conservatives opposed the volatility inherent with paper currency, evidenced by the Confederacy’s “graybacks” which already had

noticeably depreciated since the Richmond government began printing their currency in early 1861.

Paper currency also presented an opportunity for counterfeiting. This interesting topic will be highlighted in a forthcoming article.

Meanwhile, proponents of paper money believed the war could now be conducted with less dependence on loans from eastern banks. Westerners, often far removed from sources of hard money, enthusiastically welcomed the legislation. The increased flow of currency also placed more currency into the hands of middle class investors, who eagerly purchased low denomination war bonds.

Concern for currency valuation with the fortunes of war did prove valid. Just as the street value of Ohio State football tickets provides insight into the fans' confidence in the team's performance, so the fluctuating value of greenbacks served as a barometer of Northern battlefield victories and defeats. In another vein, the more tickets that are available, the lower the value of those tickets. Likewise, as the war dragged on and the government pumped more currency into circulation, simple supply and demand also affected the greenback.

With each passing year of bloody fighting, the value of the greenback did decrease. The average value of a greenback dollar in 1862 was 88 cents. In 1863 it lowered to 68 cents, and in 1864 dropped to 49 cents. Major battles especially affected the greenback's value. In July 1863, the greenback actually rose to 81 cents following dual victories at Gettysburg and Vicksburg, but following the horrific Union defeat at Chickamauga, fell to 68 cents in October, near what it been following the defeat in May at Chancellorsville.

Interestingly enough, with Lee's surrender in April 1865, the green rebounded to near 68 cents, despite Lincoln's assassination, although it would not attain a \$1 value until a decade later.

In retrospect, war bonds did prove most effective for the federal government, funding 65 percent of its expenses, with the balance split between taxation and the printing of greenbacks, although the influx of paper money did place currency in circulation for the common man to purchase a substantial amount of those bonds.

While reviewing the United States' mastery of funding the war with the options available, we can never forget that the Civil War, and subsequent wars, are truly won by those willing to risk their lives and give their "last full measure of devotion."

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