

## The Role of Political Parties in Financing the American Civil War

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Proposals to raise revenue through taxation, bonds, and currency percolated through the political system in both the Union and Confederacy during the American Civil War, but the North was much more successful at financing the war effort than the South. Existing scholarship highlights the role of state capacity and states' rights ideology in explaining these differences, but we argue that the existence of strong and stable parties in the United States – and the lack thereof in the Confederacy – is also crucial to explaining disparities in war financing. This paper traces the legislative history of revenue raising measures in the US and Confederate Congresses throughout the duration of the American Civil War. We argue that the Republican Party in the US overcame the typical collective action problems associated with legislative action in order to raise revenue and prosecute the war effort, while the party-less Confederate Congress struggled to pass and implement similar measures. Methodologically, we combine qualitative case studies with quantitative analyses of roll call voting to evaluate our argument.

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## Introduction

The causes of Confederate defeat – and Union victory – in the American Civil War have been studied by historians and social scientists for more than a century and a half (see, e.g., Donald 1960; Beringer et al 1986; Boritt 1992). A variety of different arguments have been advanced, many boiling down to the North's overwhelming advantages in men and economic resources along with the South's weaker presidential leadership, persistent internal dissension, and unwillingness to adapt to changing conditions. One explanation that has received far less attention is the role parties played in organizing political decision making. Specifically, the Union had a vibrant two-party system in place during the war, while the Confederacy lacked a party system.

Potter (1960: 113) first noted the difference in partisan structure between the two nations, raising “the possibility the Confederacy may have suffered real and direct damage from the fact that its political organization lacked a two-party system.” He argued that the lack of parties made opposition to President Jefferson Davis devolve into unorganized protest, whereas a true opposition party – had it existed – would have been forced to offer an alternative set of policies. McKittrick (1967: 121) built on Potter in a more systematic essay, but arrived at the same conclusion: “[In the North], it was partisan politics that provided the very framework within which ... obstacles could be contained and overcome. To Jefferson Davis's government such a framework was not available.” Jenkins (1999) compared voting behavior in the two-party US House and the no-party Confederate House and found voting to be significantly more predictable in the US House. Jenkins argued that parties served as a “bonding mechanism” in the US House, while the lack of parties in the Confederate House resulted in less internal structure to keep members aligned vote to vote.

We build on these earlier studies by exploring further the role that parties – or the lack thereof – may have played in the American Civil War. Like Jenkins (1999), we examine behavior in the US and Confederate Congresses, but with a specific focus on how each legislature sought to finance the war. But we also take a wider view, by analyzing how congressional action combined with executive decision making – focusing specifically on actions taken by the Treasury Secretary in each nation, Salmon Chase in the US and Christopher Memminger in the Confederacy – on the issue of war financing. In doing so, we examine the degree to which parties in the US connected the executive and legislature to a clear policy agenda that could then be assessed by voters on election day. Fiorina (1980) coined the term “collective responsibility” to characterize the role that parties play in this institutional arrangement. He went on to argue that “the only way collective responsibility has ever existed, and can exist given our institutions, is through the agency of the political party; in American politics, responsibility requires cohesive parties” (26).

How does Fiorina's collective-responsibility argument, as it relates to political parties, work? It includes multiple parts. He states:

A strong political party can generate collective responsibility by creating incentives for leaders, followers, and popular supporters to think and act in collective terms. First, by providing party leaders with the capability (e.g., control of institutional patronage,

nominations, and so on) to discipline party members, genuine leadership becomes possible. Legislative output is less likely to be a least common denominator – a residue of myriad conflicting proposals – and more likely to consist of a program actually intended to solve a problem or move the nation in a particular direction. Second, the subordination of individual officeholders to the party lessens their ability to separate themselves from party actions. Like it or not, their performance becomes identified with the performance of the collectivity to which they belong. Third, with individual candidate variation greatly reduced, voters have less incentive to support individuals and more incentive to support or oppose the party as a whole. And fourth, the circle closes as party-line voting in the electorate provides party leaders with the incentive to propose policies that will earn the support of a national majority, and party back-benchers with the personal incentive to cooperate with leaders in the attempt to compile a good record for the party as a whole. (26-27)

Following Fiorina’s thinking, in the context of the American Civil War, Republican Party politicians in the US were going to rise or fall together as it related to policy making. There might be internal disagreements about which policy to pursue, or how far to go in pursuit of a particular objective, but Republican President Abraham Lincoln and his cabinet were inextricably tied to the Republican majorities in both chambers of Congress. Voters would assess how the war was going – and the policies chosen to pursue it – and know who to reward or blame based on party label.

In the Confederacy, no parties existed – so southern voters did not know who to support or reward. They might blame Davis for the conduct (and results) of the war, for example, but there was no “Davis” party – and voters had no easy way (no ready-made “shortcut” in lieu of party labels) to determine which members of Congress were more pro-Davis (and on which issues). Thus, Confederate members of Congress had no incentive – or, at least, much less of an incentive – to cooperate with Davis and other national leaders on policy matters. They had considerably more freedom to vote any way they liked on any issue and faced little or no cost in changing their minds and switching positions. There was no substitute “bonding mechanism” for party in the Confederate Congress.

It was in this context that national policymakers – cabinet officials like Chase and Memminger, and members of Congress – considered measures to finance the war. And the options were essentially the same in both the Union and the Confederacy: taxes (including tariffs), bonds (loans), and currency. As we will discuss, the conditions in each nation – including choices each made that might have enhanced or limited certain financial choices – made particular measures more likely (and sensible) than others.

In the end, although the Davis administration was often able to force items onto the Confederate Congress’ agenda, it lacked the internal structure necessary to enact those policies. Anti-administration coalitions, often ephemeral and shifting, were usually able to defeat the Davis administration’s legislation. However, those coalitions themselves did not possess any real positive agenda control to offer holistic and permanent solutions to the Confederacy’s fiscal woes. When anti-administration coalitions *were* able to develop revenue raising measures, usually short-sighted currency-printing bills, former Democrats in Congress lacked the negative

agenda control necessary to stop them from passing.<sup>1</sup> This mismatch between negative and positive agenda control, a result of a party-less system, was responsible for a significant portion of the Confederacy's inability to raise the revenue necessary to prosecute the war successfully.

By comparison, Republicans in the US Congress controlled committees, drafted legislation that made a majority of their members better off, and presented a relatively unified front when shepherding bills through the legislative process. The Lincoln administration might have locked horns with the Radical wing of the party at times, but all Republicans had an incentive to make sure those struggles did not derail critical policy making that would lead to victory over the rebel states – including policy on financing the war.

## **Pre-War Background**

Financial capacity was an issue for the United States from the nation's founding. Under the Articles of Confederation, the national government (which was exclusively a Confederation Congress) had no ability to levy taxes, which put great stress on the fledgling nation as it tried to fight and win a war against the powerful British. Even after achieving an unlikely victory, the new American nation was in a similar position: its inability to tax meant that it could not pay its war debts. When a workable government under the Articles eventually proved impossible, and a new Constitution was drafted, one enumerated power the Founders gave the more muscled Federal Congress was the ability to lay and collect taxes.

During the First Federal Congress, Treasury Secretary Alexander Hamilton laid out an ambitious financial plan for the new constitutional republic. One plank was to create a sinking fund to pay down the war debts incurred by both the national government and the states, as a means of establishing good credit for the country – both at home and abroad – going forward. A second plank was to create a national bank to hold government funds, collect taxes, and make loans to both the government and private citizens. Hamilton argued that the Constitution's implied powers – in this case, giving Congress the authority to do what was “necessary and proper” to perform its fiscal duties – allowed for the creation of such a Bank of the United States (BUS), and President George Washington ultimately agreed (and signed the legislation). Third, a system of (protective) tariffs was created to protect the nation's fledgling manufacturing industries against foreign competition. Fourth, an excise tax on domestically produced goods – which ultimately was narrowed down to a small set of goods including whiskey – was proposed to further increase government revenue.

Hamilton's financial plan was contentious and created a rift in Congress between his followers and those of Thomas Jefferson and James Madison. Hamilton and Madison had both been proponents of a strong central government during the drafting of the Constitution and the subsequent ratification debates. Now, Hamilton was establishing his vision for just how strong the central government should be, and it was beyond the liking of Madison and his Virginia colleagues. Hamilton's interest in establishing his financial vision led him to espouse within-Congress principles – the establishment of leadership positions to manage conflict on the floor, whip positions to provide communication between floor leaders and the rank-and-file, and caucus meetings to bring all like-minded members together regularly and keep them informed –

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<sup>1</sup> The former Democrats did not even control a majority of committees by the war's end.

that would, when taken together, lead to creation of the first political parties (Aldrich 1995). While he had to compromise with Madison and Jefferson on some things, Hamilton's ability to see his vision through helped create a vibrant Federalist Party that dominated congressional politics for the nation's first few years, as Madison and Jefferson (once virulently opposed to political parties) hastened to build their own Democratic-Republican Party in response.

Over the next several decades, up to the Civil War, banking and tariffs were policy topics that would divide the country – while mapping onto partisan visions for national development – and sometimes threaten its continued existence. The First BUS had a 20-year charter, and with the Federalist Party in eclipse in 1811, it was allowed to expire. But the economic tumult brought on by the War of 1812 – as the federal government experienced a lack of fiscal order and the negative effects of an unregulated currency – led to a rethinking on the BUS. Led by President Madison – a staunch opponent of the First BUS – and at the urging of business interests that sought security for their government bonds, a Second Bank of the United States was chartered in 1816 (see Jenkins Weidenmier 1999).

That same year, a new tariff was adopted, the first that could be considered “protective” rather than “for revenue only.” Its goal was to pay off the War of 1812 debt and, more importantly, protect the fledgling American manufacturing sector. A dozen years later, the Tariff of 1828 increased import duties substantially, resulting in the cost of imported goods rising by as much as 50 percent. While manufacturing interests in the North supported this substantial increase in duties, agrarian interests in the South did not – and they referred to it as the “Tariff of Abominations.” Led by Senator John Calhoun of South Carolina, Southern leaders argued that unfavorable federal laws could be “nullified” within a state's borders – leading to the Nullification Crisis and the first serious calls for secession. President Andrew Jackson – intent on upholding federal dominance – threatened to send federal troops into South Carolina to collect tariff duties, which stoked fear of significant violence and the fracturing of the Union. But the crisis was averted when Senator Henry Clay negotiated the Compromise Tariff of 1833 – after a small reduction in duties in the Tariff of 1832 – which substantially revised tariff rates downward and satisfied Southern leaders.

Around the same time, banking was once again creating serious divisions. Four years before the Second BUS's expiration, in advance of the presidential election of 1832, supporters sought to renew its charter. Led by Henry Clay, the Second BUS's renewal became a litmus test for Andrew Jackson's presidency. Jackson and most Southerners and rural interests opposed the BUS, believing it served the needs of manufacturing and industrial interests at the expense of agricultural interests. And Jackson won this battle – along with reelection over Clay – and the Second BUS was not renewed. It was allowed to expire in 1836, and this would be the last national banking system in the United States until the Civil War. Federal funds were eventually taken out of Second BUS and placed in state “pet” banks that were loyal to Jackson. In this new deregulated banking system, state banks were left to their own devices with no federal “backstop.” Very quickly, risky state banking loans unmoored the system and led to the Panic of 1837, lingering financial instability, and a subsequent depression.

The next decade saw further battles over banking. Under President Martin Van Buren, two treasury notes of \$10 million each were issued in 1837 and 1838, to try to relieve the

national financial crisis. At the same time, Van Buren also pushed for a new subtreasury plan, which would create federal depositories – for the placement of federal funds – that were independent of state banks and private businesses. But his plan was stymied in the House of Representatives on multiple occasions. He finally saw his independent subtreasury plan enacted into law in 1840, but too late to save his presidency. It was immediately repealed in 1841, when the Whigs came to power. A new independent subtreasury bill would be enacted by the Democrats in 1846 – and would stay in place until the banking changes made by the Republicans during the Civil War.

Tariffs would also continue to embroil the country – but never again to the “nullification” level of the early 1830s – as new laws would slightly elevate or reduce rates. The Tariff of 1842 was the first after the Compromise Tariff of 1833 and raised rates to the 1832 level; the Walker Tariff of 1846 reduced rates to the 1833 level; and the Tariff of 1857 reduced rates even further and expanded the free list. Finally, the Morrill Tariff of 1861 – enacted on March 2, 1861, just days before the end of the 36th Congress – raised rates significantly. But this occurred after seven states of the Deep South seceded and formed the Confederate States of America.<sup>2</sup>

Overall, between 1790 and 1860, the tariff contributed 88 percent of the US government’s revenue (Pope 1971). This would be the starting point from which federal leaders would work as they faced the challenge of financing a civil war with the rebel states. Very quickly, they would come to realize that tariff revenue would not be the solution for financing the war.

In the new Confederate nation, leaders would make important early decisions that would frame their own options for financing the war. During the Confederate Constitutional Convention, for example, some of the financial issues that had roiled the Second Party System in the US were dealt with. The Confederate system was officially nonpartisan, but former Democrats outnumbered former Whigs – and they made sure their preferred policies were put into place (Jenkins 1999b; 1999c). Protective tariffs<sup>3</sup> and federal funding for internal improvements<sup>4</sup> were both prohibited in the new Confederate Constitution. A central bank, as such, was not prohibited. But a Bank of the Confederate States of America was never established in the Confederacy’s short life (Todd 1954, pp. 19–20).

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<sup>2</sup> The states and dates of secession were: South Carolina (December 20, 1860), Mississippi (January 9, 1861), Florida (January 10, 1861), Alabama (January 11, 1861), Georgia (January 19, 1861), Louisiana (January 26, 1861), and Texas (February 1, 1861). The Confederate States of America was formed on February 8, 1861.

<sup>3</sup> See Article I, Section 8, Clause 1: “Congress shall have the power to lay and collect taxes, duties, imposts, and excises for revenue, necessary to pay the debts, provide for the common defense, and carry on the Government of the Confederate States; but no bounties shall be granted from the Treasury; *nor shall any duties or taxes on importations from foreign nations be laid to promote or foster any branch of industry*; and all duties, imposts, and excises shall be uniform throughout the Confederate States. (Key provision in italics.)

<sup>4</sup> See Article I, Section 8, Clause 3: “Congress shall have the power to regulate commerce with foreign nations, and among the several States, and with the Indian tribes; *but neither this, nor any other clause contained in the Constitution, shall ever be construed to delegate the power to Congress to appropriate money for any internal improvement intended to facilitate commerce; except for the purpose of furnishing lights, beacons, and buoys, and other aids to navigation upon the coasts, and the improvement of harbors and the removing of obstructions in river navigation; in all which cases such duties shall be laid on the navigation facilitated thereby as may be necessary to pay the costs and expenses thereof.*” (Key provision in italics.)

## Union Financial Policy

In this section, we detail how the Republican Party was essential in bundling together its financial response to the Civil War and minimized the possibility of legislative cycling. Republicans in Congress, as well as Treasury Secretary Salmon Chase, were the central figures in creating this program. At the beginning of the war, Secretary Chase's proposed finance plan to Congress involved two of the eventual three planks of Civil War finance for the North: taxation and borrowing. Due primarily to the difficulties in attaining cheap borrowing and in implementing a new system of taxation, the North eventually also issued its own currency (legal tender issued through fiat) commonly called "greenbacks," which took it off the gold standard. Early in the war, though, the issuance of fiat currency was not a serious consideration--it went against the deep ideological connection between elites and the gold standard, which was designed to protect against inflation of the currency by a government looking to minimize its debts. In the end, the Union was relatively successful in financing the war through traditional means, especially compared to the Confederacy: 20.1% of the war was financed by tax revenues (including tariff revenue), 66.1% by loans, and 13.8% by greenbacks (Ball 1991, 255).<sup>5</sup> The Confederacy, in contrast, financed 54.1% of their spending by paper currency issuance (Ball 1991).

To delineate the precise role of the Republican Party and organized interests in explaining Congressional voting behavior in the Union, we also conduct a series of roll-call vote tests on key Congressional votes (logistic regression analysis). Existing scholarship also identifies the role of manufacturing, financial, and agricultural interests as influential in determining Congressional voting on monetary policy (Bensel 1991). We operationalized manufacturing and agricultural interests through data collected from the 1860 and 1870 Census: the number of manufacturing establishments in a district per hundred people, and total farms in a district per hundred people. We also use a dataset on aggregate statistics of state banks in 1860 and state banks and national banks in 1870 (number of banks in a district per thousand people), as well as the 1861 Bankers' Almanac.<sup>6</sup> These data were collected at the county level, and aggregated to Congressional districts to allow testing of votes in the House of Representatives.<sup>7</sup>

At the outbreak of war in April 1861, the Union's fiscal position was poor. The Treasury was facing a \$65 million deficit with declining customs revenue, as the South refused to allow the Union to collect duties from Southern ports (Richardson 1997, 32). Unable to wait for Congress to pass new taxes and tariffs, Secretary Chase first looked to Northeastern banks to fill the government's coffers (Hammond 1970; Richardson 1997). The response by Northern bankers was initially a strong show of support. The loan was quickly oversubscribed with most bids ranging from 90% to par (Richardson 1997). However, Chase, perhaps given confidence by the

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<sup>5</sup> Loans were broken up into three different categories: (1) long-term loans (31.4% of Union revenue) (2) interest-bearing notes (26.8% of Union revenue) (3) temporary and short-term loans (7.9% of Union revenue).

<sup>6</sup> Provided by Matthew Jaremski, based on Jaremski and Fishback (2018).

<sup>7</sup> Because precise bank location data was available through the 1861 Bankers' Almanac, these data were geocoded into Congressional districts. For Census data, this was impossible, as they were calculated by county. For much of the North, county and Congressional districts overlapped. For areas in which counties and districts did not overlap, such as Massachusetts and some city districts such as in New York City, the county data was divided by the number of districts that split up the county. For robustness checks, we also conducted regression analyses with these districts excluded. These tests produced similar results to our findings with the full dataset.

enthusiastic response to the loans, or perhaps in an effort to play hardball with bankers, rejected all bids below 95% face value or higher without warning to Wall Street. Wall Street, feeling that their generous show of support had been partially rejected by the government, felt snubbed. (Richardson 1997).

This early tension between Secretary Chase and prominent bankers was troubling because, in his financial plan proposed to Congress in July of 1861, Chase proposed only raising enough revenue through taxes to pay the peacetime level of expenditures in addition to the public debt, and the rest would be paid through borrowing (Mitchell 1897). In short, Secretary Chase's initial financial plan would require a very high level of borrowing. Congress responded promptly by passing the Loan Act of 1861 in mid-July. The Loan Act authorized the Secretary of Treasury to borrow \$250 million over twelve months (Hammond 1970). These securities could take the form of 7% bonds, or various types of treasury notes ("three year notes bearing 7.3%, one year notes bearing 3.65%, and demand notes bearing no interest") (Sharkey 1959, 20). It was passed uncontroversially in the House, 153-5 on July 10th, and in the Senate on July 15th.<sup>8</sup>

With this new authorization, Chase travelled to New York in early August to negotiate another loan (Hammond 1970, 73). This second iteration of loan negotiations was more tense than the first (Sharkey 1959; Hammond 1970). In short, many bankers felt that Chase's proposed borrowing terms (partially set by Congress) were below the market interest rate (Hammond 1970). However, Chase was not inclined to bend to the will of bankers during wartime. Instead, he apparently threatened them with currency issuance, saying "I hope you will find that you can take the loans required on terms which can be admitted. If not I must go back to Washington and issue notes for circulation...[even] [i]f we have to put out paper until it takes a thousand dollars to buy a breakfast" (Hammond 1970, 82). In the end, Chase and the bankers agreed on a series of three \$50 million loans throughout the summer and fall of 1861.

While Chase was negotiating the loan, Congress worked on the second part of the finance plan: taxes. The Revenue Act of 1861 proceeded in two tracks in the House. The first track revolved around revising the tariff structure--a once bitter conflict made simpler after the secession of the South. New duties were placed on sugar, tea, coffee, and liquor, and increases were made to the "Morrill Tariffs" that had been passed before the Civil War (Hammond 1970, 51; Brownlee 2016; 62). The Morrill Tariffs were duties on manufactured goods like iron and steel, clothing, textiles, and luxury goods. Specific mention was made in the bill about the new tariffs being used to pay for interest on the public debt. The revised tariffs were passed in the House on July 18, 1861 82-48.<sup>9</sup> Opposition came primarily from Democrats (both Midwestern and Northeastern) as well as Midwestern Republicans.

The other, more controversial track contained measures related to the taxation of real estate (land and buildings) and income. These were controversial because they could potentially be interpreted as "direct" taxation measures by the federal government. Direct taxation measures were taxes that involved the direct extraction from individuals as opposed to businesses. Measures of direct taxation had to abide by Article I of the US Constitution which required that they be apportioned by the population. In other words, if the US federal government sought \$20

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<sup>8</sup> Voteview overview of the House vote of the Loan Act of 1861- <https://voteview.com/rollcall/RH0370015>

<sup>9</sup> Voteview- <https://voteview.com/rollcall/RH0370027>

million in property taxes, states would have to contribute their share based on their *population* instead of based on a percentage of their actual property values. Thus, on a per capita basis, wealthier and smaller states like Massachusetts would benefit compared to poorer and more populous states. Tariffs were primarily thought of as indirect taxes because, although they raised prices for consumers indirectly, they were paid by businesses. Tax on real estate was also controversial because Western farmers (who had more land) would be more heavily affected than someone who lived in the urban Northeast, even if the farmer was poorer in terms of annual income and wealth (Brownlee 2016). More broadly, federal taxes were also controversial because the federal government did not yet have a system of federal tax collectors, so these taxes would still have to be collected by states until such a system could be devised.

In the end, the bill included a tax on real estate that totaled \$20 million, and because it was an indirect tax, would be apportioned based on population of the states. The bill also included the nation's first income tax, which was technically considered an "indirect" tax (Brownlee 2016), because it was to be collected through employers instead of through individuals themselves. Because of the lack of federal tax collectors, the taxes were to be collected by the states (Hammond 1970, 56; Hummel 2007). In the final version of the bill, the income tax rate was set at 3% on all incomes over \$800 (Richardson 1997), and most of the direct forms of taxation were delayed in collection until 1862 (Hammond 1970). The bill passed the House on July 29th, 1861, 77-60. Most Democrats (Midwestern and Northeastern) opposed the bill, and many Midwestern Republicans opposed the bill as well.<sup>10</sup> The Senate bill, which combined some aspects of both taxation tracks, passed 22-18 on July 30th, 1861. Only one Democrat supported the bill, and its passage was determined primarily by Northeastern Republican support, with a few votes in favor by Midwestern Republicans. The final bill, based on a conference committee with the Senate, passed 89-39 in the House and 34-8 in the Senate, and received more support from Midwestern Republicans.<sup>11</sup>

Throughout the spring and summer of 1861, Secretary Chase's strained relationship with New York bankers in particular drove him to rely more heavily on the young financier Jay Cooke (Richardson 1997, 38). Cooke, originally from Ohio, had settled in Philadelphia. The two were not strangers. Jay Cooke's brother Henry (H.D. Cooke), had supported Secretary Chase's earlier political career in Ohio politics. Chase began to rely on Cooke more heavily throughout the summer for both making loans to the government as well as marketing bonds to the masses. In September of 1861, Cooke was appointed by Chase to be a subscription agent of the Treasury department and was tasked with popularizing the purchase of government bonds to everyday citizens (Richardson 1997).

The refusal of Secretary Chase to eliminate the "sub-treasury system" combined with the sheer quantity of loans (\$150 million), began to cause issues for the Eastern city banks in the fall of 1861 (Hammond 1970). The sub-treasury system required that when banks made loans to the government, they had to physically transport the equivalent amount of gold reserves to "sub-treasuries" throughout the country, where the gold would be held in government vaults. Originating in 1846, the goal of the sub-treasury system was to prevent banks from monetizing the debt through deposit creation. If there had been no sub-treasury system, banks could lend to

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<sup>10</sup> House vote- <https://voteview.com/rollcall/RH0370037> Senate vote- <https://voteview.com/rollcall/RS0370081>

<sup>11</sup> House vote- <https://voteview.com/rollcall/RH0370044> Senate vote- <https://voteview.com/rollcall/RS0370098>

the government by creating deposits in the government's bank account, without any corresponding decline in lending activity (as their reserves would not be affected). The thought was that the sub-treasury system would minimize the likelihood of inflation as well as impropriety between bankers and the government.

The usefulness of this system was less clear during wartime. Mitchell (1897) estimates that New York, Boston, and Philadelphia (the three main financial cities) had only about \$60 million in total gold reserves at the time, yet Chase was asking to borrow \$150 million. Banks had expected, when agreeing to the series of loans, that Chase would suspend the sub-treasury act, allowing them to monetize the debt. They were furious when he refused (Hammond 1970). Chase believed that gold would essentially be recycled continuously through bond operations and actual spending, and thus even though the total amount of government loans was greater than actual gold reserves, there was no immediate issue. In theory this chain worked as follows: banks would surrender their gold to the sub-treasuries in exchange for government securities. Banks would then sell those securities to investors for gold, partially replenishing their reserves. Furthermore, military spending would put more gold (or demand notes representing gold) into the hands of manufacturers and soldiers, which would be used to purchase more securities or be saved in banks. In theory, this cycle would continue throughout the war. While tidy in theory, it did not work in practice. The Union did not fare well early on in the war, which encouraged the hoarding of gold instead of its recycling to banks. The end result was that Eastern city banks lost gold reserves rapidly throughout the fall of 1861. By December they were forced to end gold payments, which meant that they were not able to exchange depositor funds for gold.

The suspension of gold payments by banks, along with an increasingly poor fiscal position for the US Treasury, led to a full-scale fiscal crisis for the US government in early 1862. With banks low on reserves, the federal government did not have a quick option for borrowing to meet their shortfalls. Most of the new taxes passed in 1861, were not to be collected until later in 1862. The Republican Party was essential in coordinating and bundling together various financial reforms (Hammond 1970). While Secretary Chase preferred that the war be financed solely through borrowing and taxation, other Republicans advocated for the issuance of government currency (DeCanio 2015). Chase, likely frustrated by the uncooperativeness of the bankers, was particularly interested in revising the state banking system to incentivize the purchase of government debt. Congressional Republicans like Thaddeus Stevens (R-PA), Elbridge Spaulding (R-NY), and Samuel Hooper (R-MA) worked with Chase to develop a comprehensive financial plan. Secretary Chase noted that his support of fiat currency "is only however, on condition that a tax adequate to interest, reduction of debt, and ordinary expenditures be provided, and that a uniform banking system be authorized... securing at once a uniform and convertible currency... and creating a demand for national securities which will sustain their market value and facilitate loans" (Hammond 1970, 201-202). Thus the new financial plan, bundled together through Republican Party dealmaking, would include the issuance of fiat currency, the revision of the state banking system to enhance the appeal of federal government securities, and greater taxation.

Congress passed the first Legal Tender Act in February 1862. The act issued \$150 million in United States notes (greenbacks). Congress passed the first Legal Tender Act in February 1862. The act issued \$150 million in United States legal tender notes (greenbacks), the issuance

of up to \$500 million in 6% bonds, required that duties on imported goods be paid in coin, and required that interest on the public debt be paid in coin (not more legal tender notes). This last section drew some opposition, especially in the House. Thaddeus Stevens in particular found it objectionable that soldiers would be paid in paper money but bondholders in gold. However, the Senate demanded its inclusion in the final version of the bill (Hammond 1970). The bill passed 93-59 in the House, and 30-7 in the Senate.<sup>12</sup> In the House, 79 Republicans voted in favor, 18 were opposed. Twenty-seven Democrats opposed the bill, and only 6 supported the bill. Union Party members opposed the bill 12 to 7. In the Senate, Republicans favored the bill 24-3, Democrats were split 3-3, and the Union Party favored the bill 3-1. There was not a strong relationship between region and voting in house or party.

While one may assume that Congressional Republicans faced opposition from financial elites, the banking industry was somewhat divided on the issue (DeCanio 2015). A group of New York City bankers led by James Gallatin (the grandson of previous Treasury Secretary Albert Gallatin), pressured the Lincoln administration to oppose the issuance of fiat money (Sharkey 1959). However, because of gold hoarding, and the fact that Secretary Chase was reluctant to suspend the subtreasury system, many banks needed something else to act as reserves instead of gold to enable deposit issuance. John Sherman (R-OH) at least partially justified his vote in favor of the bill because it had received support from bankers (Hammond 1970, 220). The coalition of Republicans that favored the Legal Tender Act were strange bedfellows. Hammond writes, “It is also remarkable how little common interest, economic or regional, the innovators had; for they included, especially in their leadership, both Easterners with important business interests--Alley, Hooper, Spaulding, and Stevens--and Western extremists--Bingham and Kellogg--whose constituents were mostly agrarian” (1970, 195). Not united by economic interests, Republicans were united behind the pressure of war and a growing sense of nationalism.

We next present roll-call vote analyses of Congressional voting on the Legal Tender Act of 1862. We operationalized party as dummy variables. We predict that belonging to the Republican Party increased the likelihood of voting for the Legal Tender Act. Because party was operationalized as a series of dummy variables, Republican Party membership serves as a reference category in the roll-call vote analysis. In other words, the parties listed in the analysis (Democrat and Union) should be interpreted as the effect of belonging to that party *compared to being a Republican*. We present the logistic regression model of House and Senate voting on the Legal Tender Act below in Table 1. As the results show, Republicans were more likely to vote for the Legal Tender Act than Democrats and Union Party members. The control variables, state banks per thousand people, total farms per hundred people, and total manufacturing establishments per hundred people did not significantly affect voting. In Table 1, we also run a logistic regression excluding party variables. This test, because manufacturing establishments per hundred people is significantly related to voting, suggests that Republican districts were more reliant on manufacturing than districts of other parties. Voting in the Senate showed similar results. Republicans were more likely than Democrats to vote for the Legal Tender Act, though the control variables did not significantly affect Senate voting.

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<sup>12</sup> House vote on the Legal Tender Act- <https://voteview.com/rollcall/RH0370105>, Senate vote on the Legal Tender Act- <https://voteview.com/rollcall/RS0370176>

	House 1	House 2	Senate 1	Senate 2
Democrat	-3.096*** (0.551)		-3.003* (1.370)	
Union	-1.900*** (0.570)		-0.558 (1.431)	
Constitutional Unionist	-0.856 (1.511)			
State Banks per thousand	-5.969 (3.378)	-2.526 (2.323)	4.161 (7.527)	5.370 (6.575)
Total Farms per hundred	0.017 (0.078)	0.108 (0.064)	0.500 (0.292)	0.395 (0.235)
Total Manufacturing Establishments per hundred	1.282 (1.141)	2.415* (0.962)	2.806 (1.673)	1.541 (1.529)
Num.Obs.	152	152	37	37

\* p <0.05, \*\* p <0.01, \*\*\* p <0.001

Table 1- House and Senate Voting on the Legal Tender Act of 1862

The broader theory behind issuing legal tender notes was that they could retain their value if taxes were increased (Ron and Valeonti 2023). Ron and Valeonti (2023) describe this as the “fiat loop”--the idea that “tax obligations generate the demand for state monies that endow them with worth” (267). Thus, the next priority for the Republicans was to pass a revised tax bill in 1862 that built on the somewhat minimal tax bill passed the year prior. This new tax bill worked its way through Congress throughout the spring and early summer of 1862. The new bill was extremely comprehensive, covering “seventeen triple-column pages in the *Congressional Globe*” (Richardson 1997). Some of its key features included a 3% tax on domestic manufacturers, increased progressivity of the income tax, a variety of excise taxes, and the establishment of a new federal Internal Revenue Bureau to aid the collection (instead of solely relying on states) (Bensel 1991). The Republican Party played a key role in arbitrating the disputes related to who would bear the tax burden. Hammond (1970) writes, “City and country, East and West, jealously sought to shift the tax burden from one to other” (276). Western Republicans early on felt aggrieved by the manufacturing taxes which they felt would hurt Western consumers (Richardson 1997, 118). However, in the end, the cohesiveness of the party, in addition to the necessity for revenue, ensured the bill’s passage.

The final version of the bill passed the House on June 23rd 1862 by a vote of 108-11.<sup>13</sup> No Republican voted no. The lack of variation on party prevents us from including party in our

<sup>13</sup> Voteview- <https://voteview.com/rollcall/RH0370288>

logistic regression analysis because of collinearity issues, but is an obvious indication of the importance of party in the vote. We instead run a logistic regression (presented in Table 2) of just the control variables. State banks per thousand people, total farms per hundred people, and total manufacturing establishments per hundred people did not significantly affect voting. Just a few weeks later, Republicans passed higher rates on tariffs with very minimal division (Richardson 1997). While federal government revenue in the first two years of war remained quite low (\$42 million and \$52 million respectively), it doubled to \$113 million in 1863 (see Figure 1 below).

	House
State Banks per thousand	-2.248 (2.566)
Total Farms per hundred	-0.025 (0.117)
Total Manufacturing Establishments per hundred	0.248 (1.164)
Num.Obs.	121

\* p <0.05, \*\* p <0.01, \*\*\* p <0.001

Table 2- House Voting on the Tax Bill of 1862

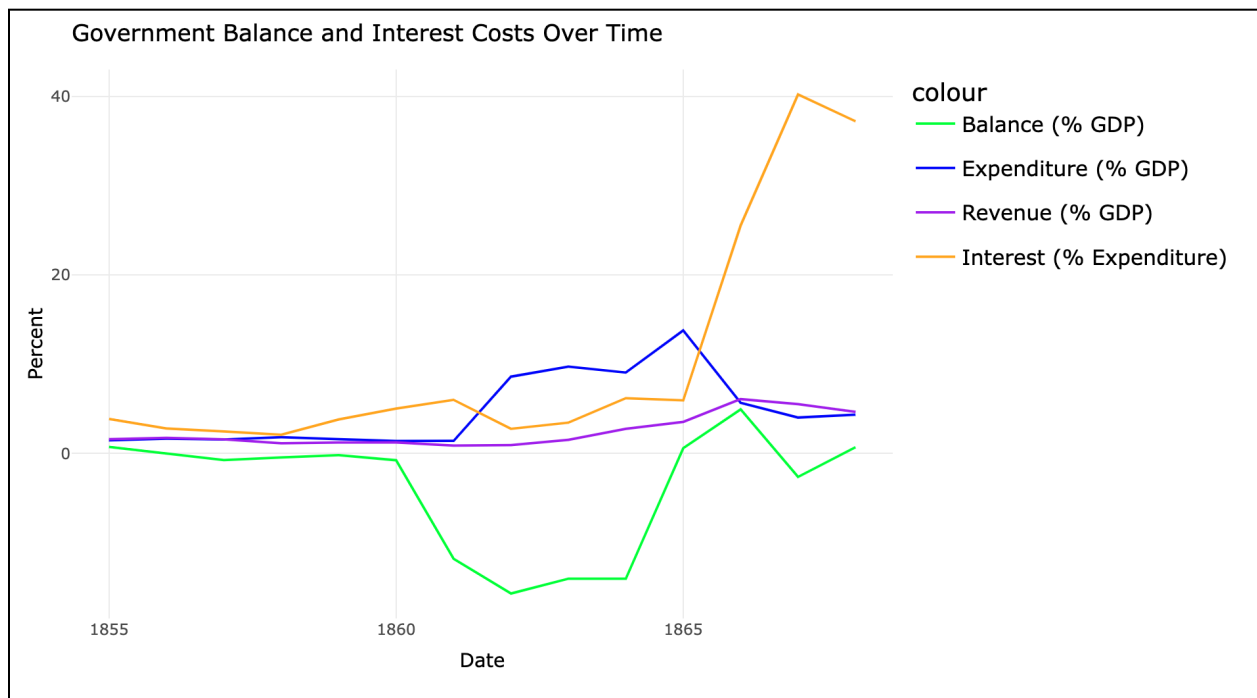


Figure 1- United States Government Balance and Interest Expenditure Over Time (1855-1868)<sup>14</sup>

In mid-1862, Secretary Chase proposed the last plank of the tripartite Republican financial program: the creation of a “national currency,” meaning a system of national banks that would issue a uniform national currency. Importantly, this proposal was different from the national currency the Union already had in place--federal greenbacks. Instead, this new national currency would be issued by banks, but only on the security of federal bonds. Chase saw this as a way to create a “captive demand” (Menand and Younger 2023) for federal borrowing. Banks could issue notes up to 90% of the value of the bonds they purchased. Besides creating demand for the federal debt, Chase also sought to drive out the state banking system which many Republicans saw as inefficient and a remnant of the states’ rights ideology that started the war. Chase lobbied Jay Cooke and John Sherman (R-OH) in the fall and winter of 1862-1863 (Gische 1979). However, the existing state banking system was broadly opposed to this change (Gische 1979). Cooke himself, although he was aligned with Secretary Chase and the Republican establishment, feared the reaction of state bankers to the proposal (Hammond 1970, 289). However, Chase eventually convinced Cooke to join his side of the issue.

Up until this point, Sherman had not fully committed to the idea of the national banking system (Gische 1979). While Sherman had a distaste for the state banking system, and had introduced a tax on state bank notes, he was content with the notion that federal greenbacks would replace state bank notes as the uniform national currency (Gische 1979). Chase, through Jay Cooke, who was Sherman’s main campaign financier, encouraged Sherman to back the plan fully (Richardson 1997). In a letter to his wife at around this time, Sherman wrote:

“Chase appealed to me through Cooke to remodel the bill to satisfy my views and take charge of it in the Senate. The appeal was of such a character that I could not resist, although I foresaw the difficulties and danger of defeat. When I made the speech on taxation of state bank bills, I had not determined what to do, but carefully avoided any reference to the National Bank bill. That speech brought me into correspondence with bankers and others, and while giving me some reputation, compelled me to study the preference between government and bank currency and led me to the conviction that it was a public duty to risk a defeat on the Bank Bill” (Burton 1906, 134-135).

With Sherman’s support, the National Bank Act began to take its final form in mid-January 1863. The Act proposed the creation of the Office of the Comptroller of the Currency (OCC), from which banks could apply for national charters and deposit their federal bonds and issue notes. The act also proposed a state bank tax of 2%, and made important revisions to the way bankers’ balances could be deposited in reserve cities (Gische 1979). Sherman and the Cookes tried to raise support for the bill through publishing anonymous op-eds in prominent newspapers (DeCanio 2015). The bill passed first in a narrow vote in the Senate, 23-21. Republicans favored the bill but did not support it universally, 21-7. Only two Democrats voted for the bill with eight opposed. The House passed it a week later 78-64, along similar

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<sup>14</sup> Data collected from Finaeon Global Financial Database. The blue line represents government spending as a percentage of GDP, the purple line represents federal tax revenue as a percentage of GDP, and the green line represents government fiscal balance as a percentage of GDP (negative indicates deficit, positive indicates surplus). The orange line represents the percentage of government expenditure on interest payments on federal debt.

partisan lines--Republican House members favored the bill on the whole but their support was far from universal. Sherman, in a letter to his brother William Tecumseh later in March of 1863 claimed “paternity of the Bank Law” (Sherman and Sherman 2016).

We present our roll-call vote analysis of the National Bank Act below in Table 3. Similar to previous votes, Republican party members were more likely to vote for the bill in both the House and Senate, compared to Democratic and Union party members. Economic control variables did not significantly affect voting.

	House 1	House 2	Senate 1	Senate 2
Democrat	-4.177*** (0.786)		-2.402* (0.987)	
Union	-1.781** (0.546)		-19.576 (2648.902)	
Constitutional Unionist	-17.143 (1492.730)			
State Banks per thousand	-3.445 (3.549)	-1.066 (2.211)	2.128 (4.195)	
Total Farms per hundred	0.057 (0.082)	0.107 (0.065)	0.106 (0.208)	-0.016 (0.140)
Total Manufacturing Establishments per hundred	0.330 (0.835)	1.438 (0.754)	-0.203 (1.486)	-0.655 (0.957)
Num.Obs.	147	147	44	44

\* p <0.05, \*\* p <0.01, \*\*\* p <0.001

Table 3- House and Senate Voting on the National Bank Act of 1863

By February 1863, the three planks of the Republican financial plan had been mostly developed. In the second half of the Civil War, the Union mostly made revisions to and expanded on the bills described thus far: (1) they passed a third Legal Tender Act in March 1863<sup>15</sup> (2) they increased the income tax in 1864 and raised taxes on spirits and tobacco (3) they raised the average tariff rate of the Morrill tariffs from 37% to 47% and (4) passed revisions to the National Banking system in the National Bank Act of 1864, which raised the tax on state bank notes from 2% to 10% and encouraged the bankers’ balances to be stored in New York City (Gische 1979).

To summarize this section, the Republican Party as an organization was instrumental in generating “collective responsibility” in regards to Civil War finance (Fiorina 1980). Despite fiscal difficulties early in the war, Republicans like Secretary of the Treasury Salmon Chase, Thaddeus Stevens (R-PA), Elbridge Spaulding (R-NY), Samuel Hooper (R-MA), and John Sherman (R-OH) developed a coherent response that incorporated three separate financing strategies: taxes, loans, and currency issuance. In practice, currency issuance and taxes went

<sup>15</sup> The second Legal Tender Act was passed in July of 1862.

hand-in-hand, as taxes were required to maintain the value of greenbacks. Loans, especially after the passage of the National Bank Act in 1863, played a central role in financing Union spending (producing about 66% of total revenue). While different factions within the Republican Party preferred one or two of these financial strategies to the other, the party itself (and its leadership), played an important role in bundling the strategies together to ensure a cohesive response, which we supported through narrative evidence as well as roll-call vote analyses.

## **Confederate Revenue Raising Measures**

In this section, we detail how the lack of parties and party organization in the Confederate Congress stymied the South's ability to finance the war effort. Legislative proceedings related to bills to raise taxes, issue currency, and float bonds in the Confederate Congress took circuitous paths to passage, and former Democrats - the ostensible majority - were rolled frequently. From the start of the war through October 1864, 54.1% of Confederate revenue came from printing currency, 37.7% from issuing bonds, and 8.2% from taxes (Ball 1991, Lerner 1954). This section is divided into three parts reflecting the three sources of revenue: the first on raising taxes, the second on bonds, and the third on currency.

### *Taxes*

One month after the Civil War began, Secretary of the Confederate Treasury, Christopher G. Memminger, proposed a limited plan to raise \$15 million in property taxes. Memminger argued a program of direct taxation, payable in government notes, would create demand for Confederate money while also reducing the amount of currency that would need to be printed in order to avoid the inflationary pressures of increasing the money supply. He proposed taxing the property most important for a Confederate victory, including slaves.

The Provisional Congress eventually passed a neutered version of Memminger's tax bill on August 19, 1861. The new tax was to be assessed and collected by the states with an incentive to cooperate by reducing each state's tax burden by 10% if they took responsibility. However, several states resisted the new tax by, for example, exempting some property. In addition, the law did not compensate any Confederate tax collectors to receive the taxes, undercutting national taxation capacity and foreshadowing later troubles in collecting taxes. In the first year after the tax law was passed, no money was raised, and within two years, \$20.8 million had been raised (1.7% of total revenue).

The next major tax program passed in April 1863 after the 1861 tax law proved to be a failure. The 1863 program was ambitious, providing for a wide range of taxes on goods, licensing fees, and wealth, and a graduated rate income tax. In addition, it provided for some taxes to be paid in kind in an effort again to reduce the inflationary pressures of increasing the money supply (Samson 1985). The program proceeded with two bills. The first, H. R. 26, or "An act for the assessment and collection of direct taxes and internal duties," which set up the national infrastructure for tax collection, was introduced in the House on January 13, 1863.<sup>16</sup> The bill passed the House by a vote of 41-33 (former Democrats 16-23, former Whigs 18-6, others

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<sup>16</sup> *Journal of the Congress of the Confederate States of America*, 6, 1/13/1863, 8.

7-4);<sup>17</sup> it passed the Senate without a recorded roll call vote;<sup>18</sup> and was signed by President Davis on May 1, 1863.<sup>19</sup> The second, H. R. 18, or “An act to lay taxes for the common defense and carry on the Government of the Confederate States,” which laid out the taxation plan, was introduced in the House on February 25, 1863.<sup>20</sup> The bill passed the House by a vote of 50-30 (former Democrats 27-22, former Whigs 18-5, others 5-3);<sup>21</sup> it passed the Senate without a recorded roll call vote;<sup>22</sup> and was signed by President Davis on April 24, 1863.<sup>23</sup>

For both bills, former Whigs were more supportive than former Democrats. In fact, on H.R. 26, the bill to enhance the national government’s capacity to assess and collect taxes, former Democrats were rolled, despite being the ostensible majority. A majority of former Democrats voted against the bill, yet it passed anyway. In a legislature with strong parties, rolls, especially on important final passage votes, are extremely rare (Cox and McCubbins 2005). Majorities of both former Democrats and Whigs voted to pass H. R. 18, the bill laying out the specific taxation program. Agreement on the first bill, but disagreement on the second bill, reflects the underlying agreement between the former partisans about the need for revenue raising measures but division on issues related to the reach of the national government versus states. In a legislature organized along partisan lines, the majority party likely would not have allowed a bill disfavored by a majority of its caucus to make it to the floor for a final vote.

The Confederate Congress next moved on taxes at the beginning of 1864, passing new tax-in-kind legislation in February 1864. The bill, H. R. 98 or “An act to levy additional taxes for the common defense and support of the Government,” was introduced in the House on December 31, 1863.<sup>24</sup> It passed the House by a vote of 47-25 (former Democrats 29-15, former Whigs 12-9, others 6-1);<sup>25</sup> it passed the Senate without a recorded roll call vote;<sup>26</sup> and was signed by President Davis on February 17, 1864.<sup>27</sup> Unlike the process in the North, differences in preferences over revenue raising measures were dealt with on the floor or in the Committee of the Whole with same legislative days consumed fully by rounds of amendments voted on by the entire chamber. The debate in the House was wide-ranging with over 300 motions and amendments offered on the floor during debate over the three tax bills. The Confederate Congress did not move again on taxes until late in the war when it passed laws in July 1864<sup>28</sup> and March 1865<sup>29</sup> simply raising the rates on existing laws.

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<sup>17</sup> *JCCSA*, 6, 3/28/1863, 255-256.

<sup>18</sup> *JCCSA*, 3, 4/21/1863, 322.

<sup>19</sup> *JCCSA*, 6, 5/1/1863, 485.

<sup>20</sup> *JCCSA*, 6, 2/25/1863, 144.

<sup>21</sup> *JCCSA*, 6, 3/23/1863, 234-235.

<sup>22</sup> *JCCSA*, 3, 4/9/1863, 271.

<sup>23</sup> *JCCSA*, 6, 4/27/1863, 430.

<sup>24</sup> *JCCSA*, 6, 12/31/1863, 580.

<sup>25</sup> *JCCSA*, 6, 1/22/1864, 674.

<sup>26</sup> *JCCSA*, 3, 2/13/1864, 739.

<sup>27</sup> *JCCSA*, 6, 2/17/1864, 863.

<sup>28</sup> House passage vote: 48-39 (former Democrats 20-51, former Whigs 19-17, others 9-7), *JCCSA*, 7, 6/2/1864;

Senate passage vote: 13-9 (former Democrats 5-5, former Whigs 6-2, others 2-2), *JCCSA*, 4, 6/9/1864, 192.

<sup>29</sup> House passage vote: 44-30 (former Democrats 20-14, former Whigs 16-10, others 8-6), *JCCSA*, 7, 2/23/1865, 642; Senate passage vote: 9-5 (former Democrats 5-1, former Whigs 2-3, others 2-1), *JCCSA*, 5, 3/3/1865, 647.

By 1864, however, Memminger was dismayed at the state of the tax collection program and lay partial blame on the tax-in-kind provisions of the 1863 law which were difficult to collect due to intransigence on the part of states as well as Union armies destroying the property that was to be collected. As a result, he blamed the Congress for creating a program of “taxation so cumbersome and intricate that delay and disappointment [were] its inevitable results” (quoted in Lerner 1954, 512) and called on Congress to create a simple property and income tax. Unhappy with Memminger’s reproach, the House passed a resolution passing the “deliberate judgment of this House that the public welfare does demand that he should no longer be retained.”<sup>30</sup> Memminger resigned soon after.

No roll call was recorded for passing the resolution, but a motion to table the resolution has a recorded roll call vote. The motion to table the resolution failed 37-45 (former Democrats 19-14, former Whigs 12-23, others 6-8). Again, former Democrats were rolled. A majority of former Democrats did not want to publicly criticize the Treasury Secretary, but they failed to table the resolution. This vote is a particularly extreme display of the lack of party organization and discipline as it represents the ostensible minority of former Whigs successfully forcing out a sitting cabinet member (also a former Democrat) over the objections of the ostensible majority.

The whole taxation program of the Confederacy raised around 8% of total Confederate revenue throughout the war as a result of, among other things, limited national capacity to collect taxes, especially taxes-in-kind. Debates over taxation in the Confederate Congress were chaotic with some entire legislative days dedicated to managing dozens of small amendments to the text of tax bills as a whole body. Former Democrats lost early battles over enhancing national capacity to collect taxes, but by the end of the war, additional taxes passed with majorities of both parties. By contrast, major tax legislation in the North passed with minimal, or even no, Republican Party defections. Throughout the war, the Congress consistently undermined Secretary Memminger’s plans to use taxation to raise revenue and reduce inflation. Memminger had more ambitious plans to curb inflation using bonds and directly manipulating the money supply, detailed below, but congressional intransigence and dysfunction limited the ability of the Confederacy to manage the economy.

### *Bonds*

In addition to taxation, the Confederate government attempted to raise revenue through issuing bonds. Secretary Memminger was originally pessimistic about the prospects of bonds as a major source of revenue because of how dominant agriculture was in the southern economy. The seasonality of farm profits made it difficult to rely on stable loan revenue and he therefore urged the Congress to focus on raising revenue through taxation, “the only certain reliance under all circumstances” (quoted in Lerner 1954, 514). He soon realized that tax legislation would take a while in the national legislature, becoming more sanguine on debt, and suggested the Congress begin issuing bonds. The Provisional Congress in May 1861 issued a round of bonds and a second in July 1861. Once it came time to harvest, however, international export markets ran dry and the Union had blockaded Southern ports, leading farmers who may have intended to purchase bonds were unable to. All the while, prices rose almost 30%. Memminger therefore attempted to induce bond purchases. He proposed two plans.

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<sup>30</sup> *JCCSA*, 7, 5/27/1864, 110.

First, he proposed a plan designed to encourage those holding treasury notes to convert them into longer-term bonds by issuing higher-interest bonds in exchange for treasury notes the sooner they were exchanged. On March 23, President Davis signed a law passed by both houses of the Confederate Congress implementing this program. The bill, S. 11 or “An act to provide for the further issue of Treasury notes, and for other purposes,” was introduced in the Senate on January 23, 1863,<sup>31</sup> and passed the Senate less than a month later without a recorded roll call vote.<sup>32</sup> It was then introduced in the House on February 12, 1863,<sup>33</sup> and passed on March 6, 1863 without a recorded roll call vote.<sup>34</sup> The only roll calls recorded pursuant to the debate over the bill in the House were a series of votes to suspend the rules or end debate, and there were none in the Senate. However, there were about 30 amendments and motions in the House that were disposed of on the floor. Second, he proposed the national government compel bond buying. He suggested that Congress pass legislation requiring “a loan to the government of a portion of all income” (quoted in Lerner 1954, 516). Congress, however, never acted on this suggestion.

Although the Confederate government raised much more revenue through bonds than it did through taxation, the Congress spent much less time handling bond bills than it did tax bills. In addition, important bond measures passed without recorded roll call votes, troubling our ability to draw inferences about individual vote choices. In addition, the Congress moved relatively quickly on bonds, and the debate focused mainly on how long holders of treasury notes would have to convert them to bonds before the interest on the exchanged bonds would deteriorate, but again there are no recorded roll call votes on those amendments to the bill. The Confederate Congress did not go as far as Memminger would have liked, evidenced by the Congress never acting on his proposal to compel bond buying.

### *Currency*

The final, and ultimately largest, source of Confederate revenue was printed currency. By the end of the third year of the war, the South had greatly increased its money supply and was suffering from hyperinflation. In an attempt to stem inflation, the Confederate Congress passed a law in early 1864 eliminating around one-third of all currency in circulation.

The bill, H. R. 92 or “An act to tax, fund, and limit the currency,” was introduced in the House on December 31, 1863.<sup>35</sup> It passed on January 16, 1864 by a vote of 38-32 (former Democrats 25-17, former Whigs 8-13, others 5-2).<sup>36</sup> The bill was introduced in the Senate on January 25, 1864.<sup>37</sup> It passed on February 4, 1864 without a recorded roll call vote.<sup>38</sup> However, on February 2, 1864 after finishing consideration of all amendments, the Senate voted on reading

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<sup>31</sup> *JCCSA*, 3, 1/23/1863, 29.

<sup>32</sup> *JCCSA*, 3, 2/10/1863, 63.

<sup>33</sup> *JCCSA*, 6, 2/12/1863, 97.

<sup>34</sup> *JCCSA*, 3, 3/6/1863, 134. The House journal does not have any information about passage, but the Senate journal reports a message from the House that they passed the bill on March 6, 1863.

<sup>35</sup> *JCCSA*, 12/31/1863, 579.

<sup>36</sup> *JCCSA*, 3, 1/16/1864, 644.

<sup>37</sup> *JCCSA*, 3, 1/25/1864, 617.

<sup>38</sup> *JCCSA*, 3, 2/4/1864, 673.

the bill a third time, which failed 10-11 (former Democrats 5-6, former Whigs 4-5, others 1-3).<sup>39</sup> After the failed vote, the Senate voted on recommitting the bill to the Committee on Finance, which failed. It then voted to recommit the bill to a select committee of five members, which was successful.<sup>40</sup> The Senate passed the bill without a recorded roll call vote two days later. President Davis signed the bill on February 13, 1864.<sup>41</sup>

Despite the February effort to reduce the money supply, the realities of raising revenue to continue the war led the Confederate Congress to essentially undo all the progress it had made by passing a new law in May 1864 authorizing the printing of more money. The bill was introduced jointly in the House (H. R. 18) on May 3, 1864<sup>42</sup> and Senate (S. 21) on May 13, 1864.<sup>43</sup> On June 6, 1864, the House voted to table the bill, then voted to reconsider the motion to table, then rejected the motion to table.<sup>44</sup> Later, the House voted to postpone the bill indefinitely which passed 36-35 (former Democrats 16-12, former Whigs 13-18, others 7-5). However, the next day, the bill was reported from committee and passed without a recorded roll call vote. The bill passed the Senate on May 18, 1864 without a recorded roll call vote.<sup>45</sup>

The lack of an organized party system stymied any real progress on sound monetary and fiscal policy. The disappearance of parties meant that, although individual legislators took issue with many proposals from the Davis administration and Treasury Secretary Memminger, they had no real mechanism to present viable alternatives. As a result, anti-administration types voted down reasonable proposals but made no positive progress on introducing policies. In other words, the Davis administration had positive agenda control, but at times the anti administration faction had negative agenda control. Neither faction had both positive and negative agenda control, leading to sclerosis.

## **Discussion and Conclusion**

By the end of the war, 20.1% of Union revenue came from taxes, 66.1% came from loans, and 13.8% from paper currency issuance (greenbacks); whereas, 8.2% of Confederate revenue came from taxes, 37.7% came from loans, and 54.1% from printing currency (Ball 1991). Most important in that comparison is that the Union financed significantly more spending from taxes than from currency issuance, while the Confederacy financed nearly seven times the amount of spending from currency issuance compared to taxes. Because of the heavy reliance on issuing paper currency to finance spending, the cumulative inflation by the end of the war was over 9000% (Lerner 1955). In the Union the cumulative inflation by the end of the war was about 75%, averaging around 18.75% per year. Thus, the Union's annual rate was well above the target inflation rate for peacetime economies, but it was nowhere near the hyperinflation experienced by the Confederacy.

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<sup>39</sup> *JCCSA*, 3, 2/2/1864, 656.

<sup>40</sup> *JCCSA*, 3, 2/2/1864, 656-657.

<sup>41</sup> *JCCSA*, 3, 2/17/1864, 794.

<sup>42</sup> *JCCSA*, 7, 5/3/1864, 17.

<sup>43</sup> *JCCSA*, 4, 5/13/1864, 35.

<sup>44</sup> *JCCSA*, 7, 6/6/1864, 169-170.

<sup>45</sup> *JCCSA*, 4, 5/18/1864, 54.

The key difference in Union and Confederate policy that led to these differing outcomes was the ability of the Union to pass strong tax measures early in the war as well as establish a system of national banks which were incentivized to loan to the government. The Republican Party was essential to the passage of a strong taxation program (in both 1861 and 1862) and the National Bank Act of 1863. The National Bank Act in particular required internal Republican Party enforcement by members of the Lincoln administration, especially by Treasury Secretary Salmon Chase. The Confederacy, on the other hand, struggled to agree to a comprehensive system of taxation, and thus adopted a somewhat weak program that faced significant obstacles in collection. It also was unable to pass legislation that would induce individuals or banks to loan to the government (Lerner 1954). While the Union passed three separate issues of legal tender paper currency (greenbacks), totalling around \$450 million overall, they were typically accompanied by increasing tax revenues that maintained the value of the new notes (Ron and Valeonti 2023). The Confederacy's paper currency issuance was far more prevalent and persistent throughout the war.

The Republican Party in the US Congress acted as a majority party ought to. They controlled committees, drafted legislation that made a majority of their members better off, and presented a relatively unified front when shepherding bills through the legislative process. Much of the difficult work of putting together legislation happened behind closed doors or in committees, and therefore floor procedures were minimally disruptive toward policy change. To be sure, ideological differences (between Moderates and Radicals) and regional differences (between Midwesterners and Northeasterners) played out in sometimes dramatic ways, but the North was ultimately able to pass sound fiscal and monetary policies to prosecute the war.

On the other side of the Mason-Dixon line, the Confederate Congress was not as successful. Differences between ephemeral and shifting coalitions played out in protracted legislative battles, tying up the entire chamber. Opponents of Treasury Secretary Memminger's plans for a revenue raising program were able to defeat his measures, but were unable to produce any viable, long-term solutions to the financial issues facing the Confederacy as they lacked any internal organization to overcome collective action problems. In sum, while the Davis administration was able to get its allies in the Confederate Congress to introduce and sometimes even vote on the policies they wanted, anti-administration factions were often able to defeat or neuter those proposals – but lacked the policy formulation infrastructure to present holistic alternatives.

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