BEYOND THE CAPACITY OF ANY MAN:

CHRISTOPHER GUSTAVUS MEMMINGER

AND THE FINANCIAL PROGRAMS OF

THE CONFEDERATE STATES

OF AMERICA

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Introduction

Christopher Gustavus Memminger faced the insurmountable task of financing the Confederate States of America. Appointed Secretary of the Treasury in February, 1861, Memminger was unprepared for the realities of war. A poor leader, he pursued a financial policy that drove the Confederate economy into arrears. Few historians, other than his biographer and Chief Clerk Henry D. Capers, have defended him. Some have chastised him. However, most historians acknowledge a myriad of factors in the Confederacy's financial collapse. In his foreword to Douglas B. Ball's, *Financial Failure and Confederate Defeat* (1991), Frank E. Vandiver writes, " 'Conventional wisdom' has long held the convenient view that the Confederacy collapsed from myriad causes; those historians who could deduce one more possible cause deserved a gold rung on the scholarly ladder! Indeed, the more complex the mélange, the sounder the theory…. considering the normal complexity of historical causes, this view has obvious merit."[1]

Confederate financial problems had their roots in the antebellum South. As the world's largest supplier of raw cotton, the bulk of the southern economy was at the hands of a small number of wealthy planters. The slaves who picked the cotton represented 19 percent of the antebellum United States $16 billion

[1] Douglas B. Ball, *Financial Failure and Confederate Defeat* (Chicago: University of Illinois Press, 1991), x.

total wealth. The secondary and tertiary economic effects from slavery meant that planter interests prevailed, and many non-planter whites showed deference for planter values and ideology. With planters making up 40 percent of Congress, they were well represented. However, a problem arose when planters pursued their own self interest, rather than supporting a nation established for their benefit. The South also enjoyed one of the lightest tax burdens of any nation. When war broke, public opinion in the South was strongly divided on the government's power to tax. Finally, nearing the end of the Free Banking Era, the South lacked the financial infrastructure to effectively guide a wartime economy.

During the course of the war, over 57 percent of the Confederacy's revenue relied on non-interest bearing Treasury notes. Bonds and interest-bearing debt made up 36.5 percent while taxes accounted for just 3.6 percent. All other non-debt revenue equaled 2.6 percent. This over-reliance on Treasury notes caused a remarkable inflation, unseen in the United States to this day.[2]

This study follows the analysis of Confederate finance in J.C. Schwab's *The Confederate States of America* (1901), Richard Cecil Todd's *Confederate Finance* (1954), and more recently, Douglas B. Ball's *Financial Failure and Confederate Defeat* (1991). Both Schwab and Todd restricted their studies to a narrative account of Confederate finance. Ball has criticized both works, stating, "they make little effort to try to ascertain *why* Confederate officials did what they did, or *why* the Confederacy did not manage its affairs more efficiently…. Schwab and Todd explicitly assume that no matter who was secretary of the

[2] Richard C.K. Burdekin, & Farrokh K. Langdana, "War Finance in the Southern Confederacy, 1861-1865." *Explorations in Economic History*. 30 (1993): 352-376, 355.

treasury, or what laws were passed, the result would have been the same."[3] Ball's account is very critical of Memminger and argues that his shortsighted policies and lack of fiscal leadership were major factors in the Confederacy's downfall. Vandiver sums up Ball's position in his preface, "Christopher G. Memminger, is shown as a confused, recessive misfit; executive policies reveal either abysmal ignorance of American financial experience or egregious optimism."[4]

Though Ball's book is a remarkable piece of scholarship, it fails to fully place itself within the historical realities of the time. Memminger's weak policies were a compromise between his own financial strategy and that of Congressmen representing the desires of their constituents. Ball also suggests that Memminger should have implemented an overly-ambitious tax policy, one that never would have passed a House dedicated to softening all burdens on the planting community. Finally, in his counterfactual appendices detailing "A More Effective Financial Policy," Ball forgets that Memminger was only one man. In Charles W. Calomiris's review of the book, he states, "Ball expects a great deal of activism from Memminger—regulation of bank loans and bank fund transfers and central management of commodity markets—but the country was fifty years from the creation of a central bank and from significant centralized control over a wartime economy."[5]

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[3] Ball, *Financial Failure and Confederate Defeat*, 16.
[4] Ibid., x.
[5] Charles W. Calomiris, "Review of *Financial Failure and Confederate Defeat*, by Douglas B. Ball," *Journal of American History*, 79 (December 1992): 1179-1180, 1179.

This paper, though not a defense of Memminger, attempts to lessen the force of Ball's criticisms. It illustrates a number of contentious social, economic, and political factors that the Secretary competed with in his day-to-day affairs. Memminger's financial policy was constantly at odds with a House and Senate comprised of 40 percent planters. The antebellum South's tax burden was so light that wartime taxation schemes came as a shock. Individual states questioned the power of the central government to tax. As for loan subscriptions, planter patriotism only went so far. Planters wanted to sell their goods for the best price. If the government could not oblige, they went elsewhere. In short, the Confederacy, a newly established nation at war, had an economic structure and mindset too primitive for a sophisticated financial policy. Given these factors, this paper will argue that the scope and talent needed to pursue an effective financial policy within the Confederacy was beyond the capacity of any man.

Chapter I

The Antebellum Economy

"Would any sane nation make war on cotton? Without firing a gun, without drawing a sword, should they make war on us we could bring the whole world to our feet….Cotton is King."[6]

James Henry Hammond, 1858.

The rudimentary nature of Confederate finance had its roots in the antebellum South. The South was an agrarian economy dependent mainly on cotton. Southerners, both as members of the Democratic Party, and as states' rights advocates, opposed a national banking system and had little imagination for financial instruments. Furthermore, the South enjoyed one of the lightest tax burdens in the world.

"King" Cotton

The antebellum South was the world's largest supplier of raw cotton. Confined mainly to South Carolina and Georgia in 1800, cotton cultivation expanded rapidly when the southwestern lands were thrown open to settlement

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[6] James H. Hammond, *Selections from the Letters and Speeches of the Hon. James H. Hammond, of South Carolina* (New York: John F. Trow & Co., 1866), 311-322.

in 1820. Between 1840 and 1860, the United States produced almost two-thirds of the world's cotton supply. In the late 1850s, the South supplied 77 percent of the 800 million pounds used by Britain, 90 percent of the 192 million pounds used by France, 60 percent of the 115 million pounds consumed by Germany, and upwards of 92 percent of the 102 million pounds consumed by Russia.[7] For the year ending August 30, 1861, cotton accounted for 86 percent of the value of southern exports—the bulk of which (80 percent) went to Great Britain. The closest export to cotton was leaf and manufactured tobacco at 8 percent.[8]

The antebellum South was a predominantly agrarian economy.[9] There was some industry, but it was mostly comprised of small local units. The southern factories of those days were small, old-fashioned mills, built near riverbanks, and usually powered by the flow of a stream. Industrial capitalism had made a few inroads by 1860—utilizing mostly isolated centers along the seaboard and in the upper South. A few southern industrialists were even able to adapt slavery to factory conditions. However, these were exceptions. The bulk of the southern economy remained dependent on cotton.[10]

Slaves were the backbone of the cotton economy, and they represented tremendous wealth.[11] Slaves accounted for almost 19 percent of the $16 billion national wealth. Southerners knew their general economic well being came from

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[7] Sven Beckert, "Emancipation and Empire: Reconstructing the Worldwide Web of Cotton Production in the Age of the American Civil War," *American Historical Review* 109 (December 2004): 1406.
[8] Thomas F. Huertas, "Damnifying Growth in the Antebellum South," *Journal of Economic History* 39 (March 1979): 87-100, 90.
[9] The North, too, was mostly agrarian, but possessed a far stronger industrial base.
[10] Emory Q. Hawk, *Economic History of the South* (New York: Prentice-Hall, 1934), 310.

slavery, despite that only one-fourth of southern families owned slaves. The income generated from slavery had secondary and tertiary effects; transportation, banking, government, and urban and legal services prospered from slavery.[12]

Among the quarter of southern families that owned slaves, there were few who belonged to the planter class—those who owned twenty or more slaves. With 1.5 million heads of families in 1860, only forty-six thousand were considered planters. More specifically, belonging to the planter class included the ownership of a considerable amount of acreage (a minimum of five hundred acres). About 340 slaveholders owned more than 250 slaves. Almost all these elite planters owned land that in more than one county, and about one third held property in more than one state. For example, Edward Lloyd IV of Maryland owned plantations in Mississippi and Louisiana. However, these men were rare exceptions. An estimated 60 percent of slaveholders owned five slaves or less.[13]

Planter interests prevailed in the South. Planters exercised hegemony in southern society while many non-planter whites showed deference for planter values and ideology.[14] Southerners blended the traits of aristocracy and

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[12] James Huston*, Calculating the Value of the Union: Slavery, Property Rights, and the Economic origins of the Civil War* (Chapel Hill: The University of North Carolina Press, 2003), 27 ; Emory M. Thomas, *The Confederate Nation 1861-1865* (New York: Harper & Row, 1979), 6.
[13] William Kauffman Scarborough, *Masters of the Big House: Elite Slaveholders of the Mid-Nineteenth-Century South*. Baton Rouge: Louisiana State University Press, 2003. 456-484.; Thomas, *The Confederate Nation*, 6.
[14]In Frank Lawrence Owsley's classic study *Plain Folk of the Old South*. Baton Rouge: Louisiana State University Press, 1949., he argues that planters depended on non-slaveholding whites politically for votes, economically for vital skills and jobs, and socially for companionship and respect. Owsley's argument counters earlier accounts by Frederick Law Olmstead and historian U.B. Phillips of plain southerners as minor figures. More recent scholarship includes Mark Wetherington's book *Plain Folk's Fight: The Civil War and Reconstruction in Piney Woods Georgia*.Chapel Hill: University of North Carolina Press, 2005. Wetherington argues that the common folk fought for more than the region's elites. Fearing emancipation would bring slaves

democracy within the same social structure. This was due in part to the ambition of common people to someday enter the slaveholding class. For nonslaveholding whites, buying a slave was a way of coming into a society that traditionally excluded them. Take the example of John M. Tibeats of Rapides Parish, Louisiana. In 1842, Tibeats purchased what he believed to be a slave, but turned out to be Solomon Northrup, a kidnapped free black from New York. Later recording his experiences in *Twelve Years a Slave* (1853), Northrup described Tibeats as "a small, crabbed, quick-tempered, spiteful man. He had no fixed residence that I ever heard of, but passed from one plantation to another, wherever he could find employment. *He was without standing in the community, not esteemed by white men, nor even respected by slaves* (emphasis added)."[15] The possibility of one day owning slaves kept many common people loyal to the slaveholder society.[16]

Taxation

The antebellum South enjoyed a relatively light tax burden. On a national level, between 1817 and 1861, Congress levied no taxes other than the tariff. Therefore, the history of antebellum taxation occurs mostly on a state and local

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from the plantations to subsistence areas, common folk fought to keep the antebellum patriarchy intact.

[15] Solomon Northrup, *Twelve Years a Slave* (Baton Rouge: Louisiana State University Press, 1968), 74.

[16] Walter Johnson, *Soul By Soul: Life Inside the Antebellum Slave Market* (Cambridge, MA: Harvard University Press, 1999), 80.

level.[17] Only three states, Virginia, Alabama, and North Carolina, attempted to levy an income tax. In Virginia, land outside of towns was taxed at given rate on each one hundred dollars of its assessed value. Personal property was taxed by a system of specific levies. For instance, in 1849, horses, mules, and colts were taxed at ten cents, gold watches at one dollar and so on. In 1843, Virginia enacted an income tax law and became the first state to do so. It was entirely supplemental and was regarded as an experiment. In 1842, the state taxed dividends on bank stocks, and in 1844 the general assembly adopted a collateral inheritance tax. This, however, was no more than a fiscal curiosity and a feeble effort by the state to extend their taxing power. In 1852, various real estate taxes were grouped into a single property tax at eighteen cents per hundred dollars of property. By 1856, the tax was forty cents. In the same year, the rate of tax on slaves over the age of twelve was $1.20. General property tax remained the most important, yielding 90.4 percent of the total state tax of Virginia.[18]

Alabama's constitution specified, "All lands liable to taxation in this state shall be taxed in proportion to their value."[19] At first, Alabama's taxation was nominal; enough to satisfy the needs of a simple economy. However, following the Panic of 1837 and the subsequent depression, the state legislature enacted an income tax of 0.5 percent on certain business incomes. In 1848, the tax was broadened to "every person of whatever craft, employment or profession except

[17] Robin L. Einhorn, *American Taxation, American Slavery* (Chicago: University of Chicago Press, 2006), 201.
[18] Hawk, *Economic History of the South*, 370-373.
[19] *Constitution of the State of Alabama Dec 6, 1819* (Huntsville, *1819*).

artisans and manual laborers."[20] In 1848, the state enacted an inheritance tax of 2 percent. Tax rates on slaves varied, with a high of $1.10 assessed on slaves between age fifteen and age thirty. Cotton plantations and storage warehouses were taxed at 1 percent of their income.[21]

In North Carolina, land, poll, and license taxes compromised the majority of tax receipts until the 1840s. Like Alabama, the tax system widened in scope after the Panic of 1837. In 1847, the state authorized an inheritance tax of 1 percent. In 1849, an income tax was levied on interest and profits.[22]

The other southern states taxed in various ways: South Carolina's tax revenue came from land, slaves, securities, and licenses on businesses and professions. In Georgia, land was divided by classes and taxed on a per acre basis. In addition, there were various license taxes common to other states. Florida adopted a general property tax, as well as a license and a poll tax common to other states. Mississippi enacted a land and personal property tax, and a host of license taxes. Louisiana's revenue came from a tax on land, specific taxes on slaves, livestock, and vehicles, as well as license taxes on certain businesses and professions. In Texas, there was a general property tax, occupational tax, and poll tax. However, at no time were the revenues from taxation adequate to meet ordinary state expenditures. The rate of state taxation never exceeded one fifth of 1 percent. In Arkansas, the chief sources of state revenue were taxes on land,—levied at the rate of one quarter of 1 percent—

[20] Edwin R. A. Seligman, *The Income Tax: A Study of the History. Theory, and Practice of Income Taxation at Home and Abroad* (New York: The Macmillan Company, 1911), 405.
[21] Hawk, *Economic History of the South*, 374-375.; Seligman, *The Income Tax,* 405.
[22] Hawk, *Economic History of the South*, 377.

slave taxes, and various license taxes. Missouri had a general property tax and continually expanded license taxes. In Kentucky, the property tax was their greatest source of revenue. Finally, Tennessee was funded by a land tax, a poll tax, and various license taxes.[23]

Owing to the hegemony of the planter class, "uniformity" clauses were added to several taxation schemes. These clauses dictated the scope of taxation, removing state taxation from legislative interference and majority rule. These clauses required that different forms of property be assessed in a uniform fashion and taxed at identical rates.[24] Not limited to the South, by 1860, twenty of thirty-three states had adopted similar clauses.[25] Beginning with Missouri in 1820, uniformity clauses spread to Tennessee, Arkansas, Florida, Louisiana, and Texas. These clauses emerged from political bargains struck between slaveholders and the yeomanry. In exchange for greater political access—which included abolishing suffrage restrictions and a reallocation of legislatures— the yeomanry agreed to uniformity clauses guaranteeing "that democratized legislatures taxed slaves at the same rates as other forms of property—such as the land and livestock of the yeomen."[26] What this meant was that if a non-slaveholding majority decided to tax slavery out of existence, it would be mutually assured destruction. The same taxes levied on slaves would be levied on their property. Indeed, this was only a problem in states where the non-slaveholding

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[23] Ibid., 376-380.
[24] Stephen Mihm, "The Peculiar Origins of American Taxation: Review of Robin L. Einhorn, American Taxation, American Slavery," *Reviews in American History* 34 (2006): 458.
[25] Einhorn, *American Taxation*, 202.
[26] Ibid., 203-204.; Mihm, "The Peculiar Origins of American Taxation," 458.

majority could pose a serious political threat. Alabama, Georgia, Mississippi, and South Carolina did not pass uniformity clauses as they were unnecessary.[27]

One notices that the rate of taxation on various items was generally kept within one or two percentage points. Due to the powerful hegemony of planter class, taxation in the antebellum South was kept minimal out of fear of damaging the profits of slaveholders.[28] To be sure, the yeomanry also opposed taxes that disturbed subsistence farming.   On a national level, slaveholders vociferously defended the protection of slave property from *ad valorem* taxation. They had reason to feel this way. Their lands and slaves formed the basis for both the economy and the tax structure of the South. Cotton engendered a myriad of wealth-giving pursuits. By virtue of their occupation, the planter minority felt they were already contributing their fair share. And any productive tax would certainly have to tap into slave assets—one of the largest resources of the southern economy.[29]

Capital Market Reputation

Owing in part to past failures in repaying both foreign and domestic debt, the antebellum South had a poor capital market reputation, or securities market. In the 1830s several southern states issued debt on the New York, Philadelphia and London stock exchanges to raise capital for the establishment of Southern

[27] Ibid., 458.
[28] Huston*, Calculating the Value of the Union*, 46.
[29] George Ruble Woolfolk "Taxes and Slavery in the Ante Bellum South," *Journal of Southern History,* 26 (May 1960): 196.; Rose Razaghain, "Financing the Civil War: The Confederacy's Financial Strategy," *Yale ICF Working Paper,* 04-45 (2005), 3.

banks. With the Panic of 1837 and depression that followed, many Southern banks were forced to close or suspend interest payments. Arkansas, Florida, Louisiana, and Mississippi partially defaulted on bonds issued in London. This damaged their credibility on markets abroad. Jefferson Davis, then a U.S. senator from Mississippi, openly championed repudiation of state debt. In the 1830s, Mississippi floated $7 million in state bonds to establish the Planters' and Union bank. Due to the depression, the banks suspended interest payments in 1841. By 1842, the state had repudiated the Union bank bond, and voted by plebiscite to default on the Planters' bank bond in 1852. Davis offered no forgiveness to bondholders on the London. In a series of exchanges with *The Times* of London regarding Mississippi's national default, Davis "ridiculed the 'crocodile tears' which had been shed over the 'ruined creditors' and stated that Mississippi was not afraid of the verdict of the civilized world."[30]

Banking

The antebellum United States had a tumultuous national banking history. The first American bank (1791-1811) was not renewed. The second bank (1816-1832) saw Andrew Jackson veto its recharter. A proposal for a third bank was vetoed twice in 1841. The Independent Treasury (1840-1841) was quickly

[30] Mark D. Weidenmier, "Gunboats, Reputation, and Sovereign Repayment: Lessons from the Southern Confederacy," *National Bureau of Economic Research, Working Paper,* 10960 (2004):1,5. This incident was the only time in Davis' career where he played a prominent role in economic controversy. He had never claimed to be an economist; in his mind he was first and foremost a soldier. His formative years and practically his entire public career was spent one way or another with the military.

repealed, though, when reestablished in 1846, remained until the Civil War. When Andrew Jackson refused to recharter the Second Bank of the United States, the country entered a period known as the "Free Banking Era." From 1837 to 1863, states with free banking laws allowed banks to form without seeking special legislation. Banks could also issue their own notes, directed by state authorities on the basis of state capital requirements. On demand, banks had to redeem their notes with specie from the U.S. Treasury. Newspapers and other financial publications indicated the market value and validity of free bank notes. Notes were backed by securities, and the risk involved with these securities dictated their value.[31] In the South, the primary designation of Southern banks was to lend planters money for expenditures that were economically feasible and socially acceptable in a slave society, such as the movement of crops or the purchase of land and slaves.[32]

During these first seventy years of U.S. banking and financial systems, opposition remained sharply divided along regional and political lines. Federalists, Whigs, and Republicans supported a national bank. Democratic-Republicans, Jacksonians, and Democrats were staunchly opposed. They only supported the Treasury as a "necessary evil." Regionally, northerners were mostly strong supporters of a national bank. Southerners, both as members of the Democratic Party and staunch states' rights advocates, were opponents.[33]

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[31] "A lesson from the free banking era". *Federal Reserve Bank of St. Louis - Regional Economist* (April 1996). http://findarticles.com/p/articles/mi_qa3678/is_199604/ai_n8755671/ (Accessed June 24, 2009).

[32] Eugene D. Genovese, *The Political Economy of Slavery: Studies in the Economy and Society of the Slave South* (New York: Vintage Books, 1961), 21.

[33] Razaghain, "Financing the Civil War," 6.

Christopher Gustavus Memminger

On February 3, 1861, representatives from South Carolina, Mississippi, Florida, Alabama, Georgia, and Louisiana assembled in Montgomery, Alabama, to create the Confederate States of America. Within five days, the temporary government adopted both a political structure and constitution. On February 9, the Constitutional convention elected Jefferson Davis as President of the Confederacy. Davis appointed Christopher Memminger, a lawyer from Charleston, South Carolina, as the Confederacy's Secretary of the Treasury.[34] His previous qualification was his term as chairman of the Ways and Means Committee in the South Carolina House of Representatives. Davis had originally chosen the popular Georgia Senator Robert Toombs. However, he became Secretary of State when the man chosen for that position, Robert Barnwell, declined. As a replacement for Secretary, Barnwell suggested Memminger.[35] This suggestion was not due to his financial experience, but to give South Carolina a position in the Confederate cabinet.[36]

It is debatable whether Memminger was fit for the Treasury Department. Some years after the Civil War, Davis stated "Memminger… had a high reputation for knowledge of finance. He bore an unimpeachable character for integrity and close attention to duties… [as] Secretary of the Treasury… he

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[34] E. Merton Coulter, *A History of the South Volume VII: The Confederate States of America 1861-1865.* Louisiana State University Press, 1950, 49.
[35] Ball, *Financial Failure*, 28.
[36] Ibid., 149.

proved himself worthy of the trust."[37] Henry D. Capers, Memminger's biographer and Chief Clerk of the Treasury, saw him as a man of limited power executing the will of the Confederate Congress, "Memminger was but an executive officer. At no time was he given unlimited authority to act as his judgment alone would dictate in the management of the Confederate finances… On the contrary, he was never more than an officer executing the will of Congress."[38] Some critiques of Memminger were not as measured. Edward A. Pollard of the Richmond *Examiner* stated, "The mind of the Secretary, so juvenile in financial matters, failed… to understand the simple idea of values, in the shape of credit."[39]

Memminger entered public office with a seriousness of purpose. His work ethic and high moral standards led Pollard to consider him "a zealot in religion."[40] Whatever else can be said of him, he did not lack the courage of his convictions. In 1835, 117 of 118 members of the Carolina legislature voted to "guard against the introduction of free Negroes and persons of color into this State, upon principles of public policy affecting her safety and her most vital interests." Memminger was the only vote in opposition.[41]

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[37] Richard Cecil Todd, *Confederate Finance* (Athens, GA: The University of Georgia Press, 1954), 1.
[38] Ibid., 2.
[39] Ibid. In *Confederate Finance*, Todd quotes J.C. Schwab, who claims that Memminger "had displayed no peculiar fitness for the position of an organizer and head of the Confederate finances…while holding that position, his leadership evoked much hostile criticism and little commendation." Todd contends that other statesmen could have filled the position, but it is doubtful whether they would have been more successful.
[40] Ball, *Financial Failure*, 29.
[41] Henry D. Capers, *The Life and Times of C.G. Memminger* (Richmond, Everett Waddey Co., 1893), 189-190.; Ball, *Financial Failure*, 30. Despite Capers's tepid comments on Memminger's service in the Treasury, he speaks very highly of the legislature incident. He writes, "Single and alone Mr. Memminger appears upon the record, the only vote in opposition to the resolutions as reported by the committee. There is not such another record in the history of the legislation of South Carolina. It expresses more of moral heroism, the sterling character, and firm adherence to the honest conviction of a sincere man than his biographer could present in terms of the

There was no lack of legislative experience in the Confederacy as a whole. During the first Congressional Congress, individuals who served previously in the U.S. Congress commanded forty-five of 106 House seats and thirteen of twenty-six Senate seats respectively. Senate President Alexander H. Stephens had served seven terms in the U.S. House, while Speaker of the House Thomas S. Bocock served eight.[42] Memminger lured experienced United States Treasury officials from Washington, including Philip Clayton, an Assistant Secretary in James Buchanan's administration, Charles T. Jones, who brought valuable forms and instruction books, and W.H.S. Taylor, who worked twenty-five years as second auditor in the United States government.[43]

Conclusion

The antebellum South's economic climate influenced Confederate financial policy. As an agrarian, low tax regime, with a banking system designated for, and dominated by, planter interests, the South entered the Civil War with an inadequate fiscal strategy. Southern political ideology dominated economics. The antebellum ideological camp that supported states' rights, an agrarian economy, and slavery—integrated into the Democratic-Republican, Jacksonian, and Democratic parties, and dominated by southerners—saw no

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English language." Ball sees it differently, "totally lacking in humor outside his circle of friends, he also lacked the technique of polite refusal; it was a personality flaw that greatly complicated his relations with the Congress."

[42] Jeffrey A. Jenkins, "Examining the Bonding Effects of Party: A Comparative Analysis of Roll-Call Voting in the U.S. and Confederate Houses," *Midwest Political Science Association* 43 (October 1999): 1150.

[43] Coulter, *The Confederate States of America 1861-1865,* 174.; Razaghian, "Financing the Civil War", 23.

reason to compromise their views after secession. The Confederacy was a one-party state. However, while northern industrial capitalism was measured in days, southern agrarian economics was measured in years—a troublesome prospect in a war that required quick-ready funds.[44]

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Memminger's tenure as Treasurer began in Montgomery in an office without a desk, chair, or writing paper. His clerk Henry D. Capers—later his biographer—drew funds from Memminger's own private bank account to furnish his headquarters. His first funding request required him to float a loan at the Central Bank of Alabama on his own personal credit. It was a telling precursor of events to come.[45]

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[44] Razaghain, "Financing the Civil War," 3.
[45] Ball, *Financial Failure and Confederate Defeat*, 112.

Chapter II

Taxation

"Let our authorities then fearlessly task and stretch the public credit to the utmost, in order to carry on the war so that taxation may not crush to earth our already overburdened people"[46]

Wilmington (Del.) Journal, April 9, 1863.

The Confederacy's tax program was wholly inadequate to finance a nation at war. Less than 4 percent of the Confederacy's total revenue came from taxes. Even in 1861, with Confederate morale at its zenith, Congress authorized a tax of just ½ percent on property. From here, Congress found any excuse to delay or defer taxation until 1863, when the Confederacy's probability of winning the war had declined significantly. Only then did states that had the most to lose from emancipation favor increasing taxes.[47]

[46] *Wilmington Journal*, April 9, 1863. As quoted in Eugene M. Lerner, "The Monetary and Fiscal Programs of the Confederate Government, 1861-1865." *Journal of Political Economy*, 62 (December 1954): 506-522, 510.
[47] Razaghain, "Financing the Civil War," 3.

Tariff and Blockade

The Confederacy originally settled on an import tariff to finance the new nation. Outside of South Carolina, tariffs were inoffensive. They threatened neither the slaveholding class nor states' rights advocates. Furthermore, given the relatively low volume of southern imports from Britain, there was little chance of British retaliation.[48]

However, when war broke, Abraham Lincoln declared the Confederacy's coasts blockaded. The Union Navy guarded ports south of North Carolina. In time, the Union extended the blockade to include the coasts of North Carolina, Virginia, Wilmington, Charleston, Tampa, and Mobile. The Confederate Treasury estimated that duties from the import tariff would equal $25 million dollars per year, yet between July 1, 1861 and January 13, 1862, they totaled just $63,000. As the provisional Congress had already floated a loan of $15 million in February 1861, Memminger knew revenue from the tariff would not even make interest charges on the Confederate debt.[49]

[48] Razaghian, "Financing the Civil War," 9.
[49] Todd, *Confederate Finance*, 124.; Ball, *Financial Failure*, 204. For a good outline on the effectiveness of the Union blockade, see David G. Surdam, *Northern Naval Superiority and the Economics of the American Civil War* (Columbia, SC: University of South Carolina Press), 201.

Direct Taxation and Cotton

On May 10, 1861, Memminger called for a means of direct taxation, recommending for the following fiscal year Congress levy a property tax of $15 million. Memminger believed a strong taxation program would lessen the possibility of inflation. Congress disagreed, suggesting $10 million an adequate amount. They believed southerners would vigorously oppose a more ambitious tax program. They were also uneasy about adopting a system of direct taxation. In their mind, actual collections were best left to individual states.[50]

A number of factors accounted for Congress's distaste of ambitious tax schemes. One was planter hegemony carried over from the antebellum period. Though supporting the Confederacy to preserve their economic, social, and political interests, they had no intention of altering their way of life to preserve it. They were unwilling to make the sacrifices necessary of them in wartime.[51] More important, however, was the southern faith in Cotton. While urging the Virginia Convention to secede in 1861, former president John Tyler warned the North "You cannot do without the cotton States…. The foundation of all the exchanges of the world, the clothing of the world, the commerce of the world, proceeds chiefly from them."[52] In referencing the Union blockade, Senator Iverson of Georgia stated, "We can live, if need be, without commerce, but when you shut out our cotton from the looms of Europe we shall see whether other

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[50] Lerner, "The Monetary and Fiscal Programs of the Confederate Government, 1861-1865", 508.
[51] Ball, *Financial Failure*, 6.
[52] Tyler, Lyon G. *Letters and Times of the Tylers*. 2 Vols. (Richmond, 1884-1885): II, 483, 627, as quoted in Stanley Lebergott, "Why the South Lost: Commercial Purpose in the Confederacy, 1861-1865," *Journal of American History*, 70 (June 1983): 59.

nations will not have something to do on that subject."[53] Southerners believed that if the South halted cotton production, Britain and France would intervene. Again, John Tyler stated, "An embargo of a single year would produce in Europe a greater amount of suffering than a fifty years' war"[54]

The same rhetoric was echoed overseas. A London cotton reporter for *DeBow's review* in 1860 wrote:

> If a war should, at any time, break out between England and America, a general insurrection take place among the slaves, disease sweep off those slaves by death, or the cotton crop fall short in quantity, whether from severe frosts, disease of the plant or other possible causes, our mills would be stopped for want of cotton, employers would be ruined, and famine would stalk abroad among the hundreds and thousands of work-people who are, at present, fortunately well employed.[55]

The London *Times*, April 29, 1861 reported, "So nearly are our interests intertwined with America that civil war in the States means destitution in Lancashire"[56] In France, an estimated 700,000 workers were dependent on the cotton industry.[57]

Though there were other cotton producing areas on the globe, none compared in quality and practicability to that of the South. An editor writing for the London *Economist* in 1859 noted that Brazil, Egypt and the West Indies all grew cotton, "but as an imimediate [*sic*] and practical question of supply, it is confined to America and British India." But even India had its problems, "The conditions of supply from India differ very much from those which attach to and

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[53] Charles H. Westley. *The Collapse of the Confederacy.* (Washington, D.C.: The Associated Publishers, 1937), 110.
[54] Ibid., 59.
[55] "The Cotton Supply of England," *Debow's Review, Agricultural, Commercial, Industrial Progress and Resources* 28 (October 1860): 472.
[56] Westley. *The Collapse of the Confederacy.*, 109.
[57] Ibid., 109.

determine the supply from America. In India there is no limit to the quantity of labor. There may be said to be little or none to the quantity of land. The obstacle is of another kind; it lies almost exclusively in lack of cheap transit." Another article in the London *Economist* on April 13, 1861 noted that Indian cotton yielded more waste, lost more in spinning, and was unusually full of dust and dirt. Moreover, it was likely to appear thin after washing. American cotton was less likely to break in spinning machinery and yielded ten to twenty percent more yarn.[58]

Despite all the praise and posturing, the South seriously miscalculated their cotton coercion strategy. The years 1859 and 1860 saw unusually large cotton crops, totaling 8,322,856 bales. In May 1861, England had manufactured and stored over 300 million pounds of cotton at home and in India, "the mill power at work [in Great Britain] was producing considerably more Yarn and Cloth than the markets of the world could take off, [causing] an accumulation of stocks in the hands of Spinners, Manufacturers and Merchants at Manchester."[59] Added to that was an enormous supply of raw cotton—1,105,780 bales in June, 1861, compared to 636,960 in June, 1859. France had 143,345 bales on December 31, 1861, compared to 46,750 in 1859. If the South planned to coerce the powers of Europe in the war by withholding cotton, they could not have picked a worse year.[60]

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[58] Westley. *The Collapse of the Confederacy.*; Charles William Burkett & Clarence Hamilton Pope, *Cotton Its Cultivation, Marketing, Manufacture, and the Problems of the Cotton World*. (New York: Doubleday, Page & Company, 1906), 28.
[59] Maurice Williams, *The Position of the Cotton Trade at the Close of February 1863; the Cotton Trade of 1861* (Liverpool, 1863), as quoted in Lebergott, "Why the South Lost," 61.
[60] Frank Owsley, *King Cotton Diplomacy: Foreign Relations of the Confederate States of America.* (Chicago: University of Chicago Press, 1931), 146-148.

Memminger Surveys the South

Congress requested Memminger set out to assess each state and procure the "value of the property, the revenue system, and the amount collected during the last fiscal year in each of the Confederate States."[61] This was no easy task. The Confederacy, a newly formed nation at war, lacked a unified internal revenue system and had no established machinery for tax collection. Memminger's report to Howell Cobb on July 24 read:

> The revenue system adopted in the several States is so difficult that it is impossible to reduce it into one form. Even the valuation of lands in some of them is made upon an arbitrary rule, without reference to their real value. Some of the States levy a poll tax on each slave; others value them, and impose an *ad valorem* tax. The subjects of taxation in each State are so various that they can be classified only by rejecting all except the principal items, which are set forth in the accompanying schedule. I have, therefore, concluded that I would best promote the design of Congress by ascertaining as nearly as possible the value of the general items thus classified, and leaving out the various subjects of which no return is made in many of the States.[62]

From this mess, Memminger settled on six "principal items" for taxation: slaves, real estate, merchandise, bank stocks, railroad and other stocks, and money at interest. With "the gross value of property in the States of [the] Confederacy [at] $5,202,176,109," Memminger concluded that "a tax of only fifty cents on each hundred dollars of property would raise twenty-six millions of dollars."[63] This was much larger than the $10 million Congress originally settled

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[61] C.G. Memminger, *Report of the Secretary of the Treasury to Congress Submitting Information from the Various State Governments in Regard to the Value of the Property, the Revenue System, and the Amount Collected during the Last Fiscal Year in Each of the Confederate States*, (Richmond: Confederate States of America Department of the Treasury, 1861).
[62] Ibid.
[63] Ibid.

on, but in Memminger's words "events which have occurred since the adjournment of Congress require a larger sum than was then supposed. At least twenty-five millions of dollars ought to be raised for the wants of the Government, and to sustain its credit in taking up…loans…. There should be a supply of means abundantly sufficient to pay the interest and part of the principal of such loans."[64]

Based on Memminger's suggestions, Congress passed the War Tax Act of August 19, 1861. Its passage was timely; Congress authorized an issue of treasury notes up to $100 million on the same day.[65] The war tax was a tax on property equal to ½ percent of assessed value, exempting those holding less than $500 in property. As it was up to individual states to collect taxes, Memminger appointed a chief collector for each state. Collectors were responsible for dividing each state into collection districts and appointing assessors to appraise all taxable property before November 1, 1861. Assessment forms were due no later than December 1. Actual collections were to take place April 1, 1862. If states paid the full-assessed sum prior to April 1, 1862, they received a 10 percent discount to compensate for collection expenses.[66]

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64 Ibid.
65 *Journal of the Congress of the Confederate States of America, 1861-1865*, (Washington, DC: Government Print Office, 1904-1905), 371.
66 Todd, *Confederate Finance*, 132.; Ball, *Financial Failure*, 223.

Opinion

Public opinion on the war tax was mixed. The Richmond *Examiner* declared that the government was an inappropriate vehicle for direct taxation, and that the Confederacy should finance their war with loans, not taxes. The Asheville *News* ran an editorial that roared "DIRECT TAXATION WAS TYRANNY."[67] Others supported the tax. *DeBow's Review* ran an article in their October-November issue stating

> Without a scheme of internal taxation, the whole dependence of the Government, for its own support and for the extraordinary expenses of the war, would be upon loans and the credit of the Confederacy in the form of treasury notes. There must surely be some limit beyond when the expedient of borrowing cannot be carried. Without some revenue from other sources, even the interest on the former loans must be paid with borrowed money, and thus, the mass of indebtedness would so be accumulated to such an extent that, if the ability of the people to lend were not exhausted, the public credit would be ruinously impaired and the Confederacy ultimately reduced to discredit or bankruptcy.[68]

Tax Collection in the States

Collection moved slowly. Forms came to assessors late because paper was scarce. Many printers and binders had joined the army. It took Memminger almost a month to present a list of nominees for Chief Collector to President Davis. A month after that, Memminger was still getting his staff qualified. His final list was not ready until December 13, 1861. After four months of organization, Congress accepted this list and authorized further postponements if necessary.[69]

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[67] Ball, *Financial Failure*, 221.
[68] "The War Tax," *Debow's Review*, 31 (October-November 1861): 436.
[69] Lerner, "Monetary and Fiscal Programs," 509.

States'rights sentiments echoed throughout the Confederate taxation plan, as tax collection was left to individual states. Alabama Governor Andrew B. Moore stated

> The State should never concede to the General Government the exercise of powers not delegated in the Constitution, and they should never, except in cases of absolute necessity, consent to the exercise of power or to perform duties which do not properly belong to them… The collection of this tax by the state would be an onerous and unpleasant duty, as it imposes upon the state the necessity of enforcing the laws of the Confederate government against her own citizens.[70]

By April 11, 1862, Alabama's chief collector had neither completed the personnel needed for his organization—his officers and sub officers—, nor distributed the necessary forms and instructions. On this day, Union forces captured Huntsville—his residence—forcing him to flee. His papers and documents were left behind. He wasted two more months until the new Governor, John Gill Shorter, dismissed him. In the end, Alabama borrowed the money from their state banks to pay the tax.[71]

In Arkansas, fifteen of fifty-five collection districts fell to the enemy. This made returns from these areas impossible. In addition, four hundred thousand dollars in taxes were illegally paid to a Confederate General's Quartermaster. This issue had not been settled as late as January 1863.[72]

Tennessee's proximity to enemy forces placed it in a bad position. The state's chief collector became gravely ill shortly after his appointment. After a significant delay and no improvement in the collector's health, there was a second appointment. However, before the second collector could qualify and

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[70] Ibid.
[71] C.G. Memminger, *Report of the Secretary of the Treasury January 10, 1863* (Richmond: Treasury Department of the Confederate States of America, 1863).
[72] Ibid.

appoint his sub-committee, Nashville fell to Union forces. Tax collection in the presence of the enemy was difficult, if not impossible, and the government had to flee. Of Tennessee's $2,205,000 assessment, the Treasury had collected just $1,499,766 by July 1863.[73]

Virginia's proximity to the enemy caused the same collection problems as Arkansas. Furthermore, chief collector Colonel H.T. Garnett quarreled over taxation he believed to be "unjust, unequal and oppressive." For him, the problem was that "climate, soil and other causes, especially affecting slave property on the borders, adjacent to non-slaveholding territory all operate to depress or elevate values to such a degree that it is difficult to establish a just rule in the application of one price to all the same class."[74] By July 1863, Virginia's outstanding balance was second only to Tennessee, with $341,738 still owed on a $2,466,738 assessment.[75]

Assessment of the War Tax of 1861

In total, out of a $19,418,392 assessment, $17,446,736 was collected—almost 90 percent. This meant, on paper, the War Tax Act of 1861 was a success. The majority of the outstanding balance came from areas where it was difficult or impossible to collect. However, several factors indicated that the tax was not successful. First, it was collected slowly. By July 1862, only two of eleven states had made full returns. Six states had made no returns at all.

[73] Ibid.; Todd, *Confederate Finance*, 133.
[74] Memminger, *Report January 10, 1863.*
[75] Ibid.

Second, the 10 percent discount offered for timely payment was too large. For example, in Mississippi, actual cost of collections was closer to 2 percent. Another problem was the mobilization of a competent collections staff. The task of training collectors for the appraisal and levy of taxes took time. Added to this, the stipend offered to collectors was too inadequate to attract any real talent.[76]

The most notable failure of the tax was the means by which the states settled their balances. Of the eleven Confederate states, only three—South Carolina, Mississippi, and Texas—actually collected the money. Other states assumed the obligations of their citizens and provided the funds themselves. These payments were not in specie. In Arkansas, the legislature assumed the tax, and due to a lack of incorporated banks, borrowed the money by issuing its own warrants at 8 percent interest. Alabama borrowed all its money from state banks. Other states floated securities to pay their balances. Therefore, a part of the tax was, in fact, a loan introduced by the states.[77] Reasons for success in Texas and Mississippi came from their passive resistance. They forced the Confederacy to collect it themselves. The issue of states' rights led states to assume the tax to prevent hardship and inconvenience. Only 1.7 percent of the Confederacy's total revenue—including loans and Treasury notes— came from the war tax of 1861.[78]

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[76] Ball, *Financial Failure*, 226. The government had not even made a provision for travel expenses or postage.

[77] J.C. Schwab, "The Finances of the Confederate States," *Political Science Quarterly* 7 (March 1892): 41.

[78] Lerner, "Money and Fiscal Programs," 510.

A Necessity Deferred

For two years the Confederacy implemented no new taxes, despite a petition by Memminger in March, 1862. Meanwhile, the Secretary of the United States Treasury recommended a tax of $50 million. Congress believed this amount was too low. Instead, the Union Tax Act of July 25, 1862 intended to levy $150 million in taxes.[79]

Memminger issued a Report of the Secretary of the Treasury on January 10, 1863, recommending—among other items—a new war tax on property and income. Memminger knew the Tax Act of 1861 was insufficient, and that the Confederacy needed to secure further tax revenue as a basis for loans. Memminger preferred income taxes to stamp, excises, licenses, and the like. Such taxes "call[ed] for a machinery vexatious in its character and expensive in its operation," whereas machinery established for the War Tax Act of 1861 could be used again.[80] Memminger insisted on a joint property/income tax as taxing property exclusively hurt those whose property yielded no income. However, he was also aware of how easily it was to avoid paying income tax—in his words, an "insecure resource." Therefore, both means of taxation provided the government with two revenue streams while burdening the public as little as possible.[81]

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[79] Cong. Globe, 37th Cong., 2d Sess. 1863, 3034-3040.
[80] Report of January 10, 1863. 10.
[81] Ibid., 11.

Memminger recommended the war tax be payable in Treasury notes, for reason that the government could absorb part of the first issue, adding value to the currency— “If sixty millions of notes could be thus called in, the benefits resulting would fully counterbalance every possible hardship. The currency would promptly recover its value, the bonds would become an object of investment instead of being thrown on the market, and a sure and steady system of finance would be established.”[82] In addition, forcing citizens to pay property taxes in currency provided a disincentive for subsistence living and a barter economy. This was essential for the Confederacy to survive as a note-issuing enterprise.

Census estimates from 1860 on the value of all property in the Confederacy equaled $4.6 billion. Memminger rounded this number to $4 billion in his report, for reason that the previous estimate did not factor in property captured by advancing Union armies. Considering this, and other administrative difficulties, Memminger concluded a 1 percent property tax could yield $36 million— almost double that of the last war tax. Added to this was a 10 percent income tax, derived by calculating a 7 percent “average of interest in the Confederate States” from $4 billion.[83]

Memminger made special provisions for an earlier decision by the Confederate Court of South Carolina regarding the power of Congress to tax state bonds. According to the report, “The very large amount of money invested in this form was included in the war tax act of the last year, and the tax thereon was paid everywhere, except by those who raised the question in South

[82] Ibid., 11.
[83] Ibid., 12.

Carolina."[84] Memminger suggested Congress circumvent this ruling by taxing income on bonds directly in the hands of South Carolinians, "The taxing power over income in the hands of the citizen for consumption may be distinguished from that over State bonds, specifically as property."[85] However, until Congress established a Confederate Supreme Court, any attempt to tax bonds in South Carolina was useless. The estimated loss on South Carolina's ruling totaled $1 million. That a Supreme Court had not yet assembled to deal with this ruling gives credence to the sorry mess Memminger inherited.

Anticipating Congress's protestation over dramatic tax measures, Memminger's report included a petition calling for its necessity. Memminger asked for a tax that would go above what was necessary to pay the interest on the public debt. He also urged Congress to continue to make portions of the debt "payable every six months after the probable termination of the war," rather than utilizing a sinking fund.[86] On this, Memminger provided the example of William Pitt the Younger's introduction of a sinking fund in 1786 to decrease England's national debt. In arrears after the rebellion of the American colonies, Pitt's sinking fund put a portion of the nation's annual tax revenue into a fund where the principle could generate interest. Eventually, the interest would be such that it could decrease or eliminate the debt. The problem was that the fund provided too great a temptation for the government

> The sinking funds devised by Mr. Pitt, and the great statesmen of his times, have proved deficient, not in principle, but in administration. The principle upon which they rest is the annual raising of an amount beyond the interest for the purpose of eventually

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[84] Ibid., 11.
[85] Ibid., 11.
[86] Ibid., 13.

discharging the principle. The punctual investment of those surplus sums at compound interest by the mere operation of numbers, would be certain to discharge the debt in a given time. The failure of this plan, in its effects upon the public debt of England, arose from defects in its administration. As the invested fund increased in amount, it offered constant temptation to the Government to make use of it, and the party in power often preferred inventing pretexts to seize upon it, or to court public favor by calling off unpopular taxes required for its increase rather than continue or augment those taxes. Besides, the neglect to make punctual investments as the interest accrued had a constant tendency to reduce compound interest to simple; and thus it was found impossible, in a long course of years, to preserve the fund inviolate, or to maintain the constant supply from taxes, which the plan demanded.[87]

Memminger's report also addressed the issue of salaries. Indeed, this should have been dealt with in 1861. The stipend offered then was too inadequate to attract any real talent. Added to this was the temptation for a poorly paid official to steal —" It is not a wise policy to confide large money arrangements to officers who are badly paid."[88] Patriotism alone was an inadequate counterbalance to modest stipends.

Support for Memminger's Plan

The overall tone of Memminger's report indicated his determinedness to make Congress enthusiastic about taxation. And this time, the Southern press rallied behind him. Newspapers claimed there was strong support for taxation; that it should be the burden of every citizen. The *Richmond Enquirer* recommended a tax of $200 million and criticized the Confederate government for 'taxation without representation,' holding taxation as a last resort while note values depreciated. The paper's editor wrote, "Did ever nation before crave and

[87] Ibid., 12.
[88] Ibid., 15.

pray to be heavily and immediately taxed as this people is craving now… For God's sake tax us." One Georgia editor wrote, "The error in the beginning was in not taxing heavily and severely enough. The Congressman who is afraid of taxing the people is and ought to be regarded as a public enemy."[89]

Memminger even had the support of some politicians who believed that taxation was better than inflation—left unchecked, inflation was a far harsher tax. Inflation also did more damage to military and civil morale than did an income tax. Most of all, the tyranny of taxation was little compared to the seizures by the Union and Confederate armies. William M. Browne, former Acting Secretary of State criticized Congress for its apprehension about taxation: "they are afraid to pass a good tax bill & nothing else can save us from ruin." Senator Hershel V. Johnson of Georgia warned that if Congress refused to tax, "universal ruin would be the consequence." Even President Davis rallied behind his treasurer, calling on Congress to tax.[90]

A House and Senate Divided

Despite pleadings from both Memminger and the press, it was not until February 25, 1863 that the House Ways and Means Committee suggested a bill levying a 1 percent property tax, an income tax, and a series of license taxes. The Senate was strongly opposed to property taxes. Under the Provisional government, direct taxation was constitutional. However, the permanent

[89] Todd, *Confederate Finance*, 138.; Ball, *Financial Failure and Confederate Defeat*, 231.; Coulter, *A History of the South Volume VII: The Confederate States of America 1861-186.* 176.
[90] Todd., 136.; Ball., 231. ; Coulter*.,. 176.*

government could only levy direct taxes according to representation, and the limit on the census was February 1865. On March 11, the issue came to a head House of Representatives. Muscoe Garnett of Virginia offered the resolution that, "in laying direct taxes we are bound to observe that clause of the Constitution which declares that 'No capitation or other direct tax shall be laid unless in proportion to the census or enumeration hereinbefore directed to be taken.'"[91] Willis Machen of Kentucky moved to amend Garnett's resolution by striking it out and replacing it with the words "That, in the opinion of this House, the first section of the bill for raising taxes is constitutional."[92] Augustus Garland of Arkansas tried to table the motion but was defeated 21-53. When put to a final vote, the House approved Machen's amendment 36-35.[93]

However, when the House forwarded the bill to the Senate, they chose a stricter constitutionalist view. The House asked for a 14 percent tax on incomes up to $10,000, and 24 percent afterwards—income under $500 was exempt. The Senate recommended a 5 percent tax on incomes between $500 and $1500, 10 percent on incomes between $1500 and $10,000, 12 ½ percent on incomes between $10,000 and $15,000, and 15 percent on figures in excess of $15,000. At this point, Memminger issued a special report urging for tax-in-kind on agricultural income, to which the Senate obliged. They provided for a tax of one-tenth of agricultural products.[94]

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[91] *Journal of the Confederate Congress*. House, Vol. 6. 173.
[92] Ibid., 174.
[93] Ball, *Financial Failure and Confederate Defeat*, 234.
[94] Todd, *Confederate Finance*, 139-140.

Congress Approves the Bill

Congress approved a second war tax act on April 24, 1863. A joint House-Senate committee labored for weeks on an acceptable compromise. Instead of taxes on land and slaves, the provision taxed every other conceivable item. The assessment was scheduled for July 1, 1863 and payable October 1, 1863. The tax act provided the Treasury with the following:

I. An 8 percent property tax levied on all naval stores, salt, wines and liquors, tobacco, cotton, wool, sugar, molasses, syrup, rice, and all other agricultural items beyond what was necessary for home consumption. The same 8 percent tax applied to all monies on hand or on deposit. A 1 percent tax applied to all credits at home or abroad not employed in business.

II. A license tax levied on a variety of occupations, trades and businesses including bankers, auctioneers, retail dealers, tobacconists, peddlers, jewelers, apothecaries, photographers, confectioners, wholesale liquor dealers, pawnbrokers, distillers, butchers, bakers, hotels, theaters, circuses, jugglers, bowling alleys, stables lawyers, physicians, surgeons, and dentists. The tax rate varied between $50 and $500 according to profitability. In some instances, the tax rate was substituted with a tax on production or percentage or sales.

III. An income tax on salaries and other incomes payable every January 1. Salaries of $1500 or less were taxed at 1 percent, with 2 percent on salaries above $1500. Military, naval, and salaries below $1000 were exempt. In addition, income from other sources was taxed as follows: Incomes less than

$500 were exempt. Incomes from $500 and $1500 were taxed at 5 percent, with 10 percent on the excess up to $5000, 12 ½ percent on the excess up to $10,000, and 15 percent on all income over $10,000.

IV. A 10 percent tax on profits from the sale of the following items: food products, iron, shoes, blankets, and cotton cloth. This was a tax on wholesale, not retail profits, levied in 1863.

V. A tax-in-kind of one-tenth of the agricultural produce in 1863. Farmers were to deliver the goods to post-quartermasters no later than March 1, 1864.[95] Money from the first four items went to tax collectors, while the agricultural produce went directly to the army. Cotton went to agents of the Confederate Treasury.

Collection

On May 15, 1863, Memminger gave instructions to his collection agents. His instructions placed particular emphasis on neglect. Mindful of the 1861 collection fiasco, Memminger stated,

> If any person shall refuse or neglect to give lists or make return, within the time required by the assessor, for the collection district within which he may reside, the assessor may enter upon his premises, and upon view, or from state tax lists, any other record or documents, or by any other lawful ways and means, shall make a list, of all his taxable property, and duly assess the value thereof, and the tax thereon, and where there is no sufficient excuse, from sickness or other avoidable cause, he shall add

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[95] *Tax and Assessment Acts, And Amendments. The Tax Act of 24th April 1863, as Amended. An Act to amend an Act entitled "An Act to lay taxes for the common defence and carry on the Government of the Confederate States," approved April 24, 1863*. (Richmond: Treasury Department of the Confederate States of America, 1863).; Hawk, *Economic History of the South*, 410-411.; Todd, Confederate Finance, 140-141.; John Christopher Schwab, *The Confederate States of America 1861-1865: A Financial and Industrial History of the South during the Civil War*. (New York: Charles Scribner's Sons, 1901), 292-293.

twenty-five per cent. [*sic*] to the amount assessed, and shall report the same as a good and sufficient list to the collector.[96]

The tax remained in effect until 1865, save the 10 percent profit tax and 8 percent tax on naval stores and agricultural products, which ended in 1863.[97]

In order to assess and collect the war tax, Congress approved a new office, the Office of the Commissioner of Taxes, "for the purpose of superintending the collection of internal duties or taxes imposed… by laws, and of assessing the same."[98] On July 2, Thompson Allan was appointed Chief Commissioner. His duties involved supervising and enforcing the laws pertaining to the assessment and collection of taxes.

The Treasury divided each state into collection districts supervised by a State Collector. State collectors appointed district supervisors, who then appointed appraisers to assess taxable items in their districts. All assessments were made by officers of the Confederate Government. As the machinery required was similar to that of 1861, it was set up quickly. Yet the sheer complexity of the new tax produced considerable slowdown. There were three different collection periods. Dozens of items existed under various headings. Many liabilities could only be assessed on the good faith of the taxpayer—no other evidence existed. The tax laws themselves were so ambiguous that assessors had to frequently rely on the authority of Commissioner Allan. Indeed,

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[96] Christopher G. Memminger, *Instructions For Collectors of Taxes. May 15, 1863.* (Richmond: Treasury Department of the Confederate States of America, 1863)
[97] Schwab, *The Confederate States of America*, 293.
[98] Todd, *Confederate Finance*, 144.

this caused such a delay that on December 23, 1863 a new set of instructions replaced all previous orders in attempt to expedite collections.[99]

<u>Opposition</u>

As mentioned, though the Provisional constitution gave Congress nearly unlimited power to tax, the Permanent constitution held stricter provisions. It stated, "Representatives and Direct Taxes shall be apportioned among the several States which may be included within this Confederacy, according to their respective numbers, which shall be determined by adding to the whole number of free persons, including those bound to service for a term of years and excluding Indians not taxed, three-fifths of all slaves."[100] As such, objections echoed throughout the South. The *Charleston Mercury* called the tax unconstitutional—it was direct, not apportioned as stated in the constitution. Others tried to cheat the system, with distillers, speculators, and traders evading the tax entirely. President Davis acknowledged the problem of direct taxation, yet argued that until the 1865 Census, apportionment was impossible.[101]

Still, the issue of direct taxation was a minor quibble when compared to the Tax-in-Kind—a tax loathed and disparaged by planters and small-farmers. One serious criticism lay in its unequal assessment. Invading northern armies often disrupted collections. In Arkansas, a treasury agent tried to contact A.B.

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[99] Ibid., 144. ; Coulter, *A History of the South*, 180.
[100] *Confederate Permanent Constitution.* Article I, Section 2, Paragraph 3.
[101] Schwab, *The Confederate States of America*, 294.

Greenwood, the state's permanent collector. The agent later reported, "Mr. Greenwood fled with his property from the state to avoid capture by the enemy and has settled in Texas."[102] Other isolated or hard-to-reach districts went free. This aroused the bitterness of small farmers in easily accessible regions—most of whom had never paid a tax-in-kind. The produce collected was also mismanaged; much of it was stolen or left to rot in storehouses. It was impossible to collect hay on small farms, as most farmers had no means of bailing it. As a protection against fraud, all officers were reported to the Quartermaster General. However, there were several instances of unauthorized persons collecting the Tax-in-Kind.[103]

The tax was so unpopular in North Carolina that it was vehemently denounced it at public meetings. One resolution declared, "the act of Congress, in secret session, without consulting with their constituents at home, taking from the hard laborers of the Confederacy one-tenth of the people's living, instead of taking back their own currency in tax, is unjust and tyrannical." Another stated, "we pledge ourselves to each other to resist, to the bitter end, any such monarchical tax—any such contempt to our State—to pay such a tax to a Virginia tithing man." North Carolinians were willing to pay taxes in Treasury notes, but not produce.[104]

Southern hatred towards the Tax-in-Kind should not have surprised Memminger. The best economic literature of the day spoke against it. Jean

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[102] Lerner, *"Monetary and Fiscal Programs of the Confederate Government,"* 510.
[103] Coulter, *A History of the South*, 180.; Todd, *Confederate Finance*, 147.
[104] Seligman, *The Income Tax*, 489.

Baptiste Say's *A Treatise on Political Economy or the Production Distribution and Consumption of Wealth* (1830)—a work widely read and respected in the South— stated that a tax-in-kind was "of all others, the most inequitable; for it makes no allowance for the advances in the course of production, but is taken upon the gross, instead of net profits." It is likely that Memminger read the treatise, as he listed his arguments for a produce tax in the same order as Say. Indeed, Memminger even made provisions for inequities by providing some exemptions. However, Say's objections went further: a tax-in-kind was difficult to collect; it required a legion of agents who were easy prey for temptation and corruption; it also required a vast number of storehouses to avoid spoilage and distressed sales. In the Twentieth Century, Eugene Lerner remarked that taxes-in-kind are highly inflationary. Though real goods are removed from the market, the money supply remains constant.[105] However, Memminger had little choice. The timing of his tax-in-kind recommendation coincided with the Senate's protestation of the House's income tax rate and the smaller senatorial offer. The need of military provisions was such that the Tax-in-Kind was the best means of securing it. Attempting to pay for produce with devalued Treasury notes delayed supplies from reaching the front lines. And it was far better than impressment—the most hated of all taxes. In a letter to Jefferson Davis on November 26, 1863, Secretary of War James A. Seddon wrote, "numerous difficulties of Quartermaster's and Commissary Departments have necessitated 'large necessary purchases and transportation of forage and subsistence'… wide

[105] Ball, *Financial Failure and Confederate Defeat*, 233-234.; Lerner, "Monetary and Fiscal Programs of the Confederate Government," 513.

spread speculation has forced impressment*, 'the evils attending it are, however, very great… [it] is evidently a harsh unequal, and odious mode of supply' and 'the sorest test' of patriotism"* [emphasis added].[106]

Congress Relaxes the Tax-in-Kind

Congress relaxed the much-hated Tax-in-Kind on both December 28, 1863 and January 30, 1864. The former allowed farmers to settle the tax on sweet potatoes in money—a considerable element of total southern production. The latter called for a similar provision on tobacco. These acts were less a kind gesture than a provision to alleviate transportation problems. By the end of 1863, produce collected by the Tax-in-Kind equaled just over $5 million. North Carolina, Georgia, and Alabama contributed the most—almost two-thirds of produce collected came from these three states. In his report of October 28, 1864, the Commissioner of Taxes estimated revenue from the Tax-in-Kind totaled over $140 million. This number is misleading, however, as inflation distorts the true figure. In specie, total produce collected was closer to $7 million.

[106] Lynda Lasswell Crist, Kenneth H. Williams, Peggy L. Dillard, eds. *The Papers of Jefferson Davis: Volume 10, October 1863-August 1864*, (Baton Rouge, Louisiana State University, 1999), 89. Douglas Ball argues that higher direct taxes would have forced goods onto the market. In the words of William Gregg, a prominent textile manufacturer in South Carolina, "There are plenty of planters who abound in provisions, have no call for money, and refuse to sell at all…. A heavy Confederate tax would serve to stir up all such." During a period of 86 percent inflation, an 8 percent tax on merchandise and agricultural produce was not enough to encourage speculators or investors to sell their goods. Ball suggests a 50 percent tax would have forced cash sales. However, when the House asked for just 24 percent, the Senate trimmed it to 15 percent. One can imagine the senatorial uproar had the House passed a 50 percent tax bill.

This equaled approximately 30 million pounds of rations—enough to feed an army of one million for a month.[107]

New Recommendations

On December 7, 1863, Memminger issued a report outlining the current monetary and fiscal problems of the Confederate government. Already, the Tax Act of 1863 was insufficient; "the large increase in prices, and the consequent increase of demands on the government clearly show already that the tax, if even now realized, would be wholly inadequate to supply these demands."[108] An oversupply of devalued currency, coupled with a lack of supply, warranted the following recommendation: 1. The currency must be reduced; 2. The supplies must be raised; 3. The measures to attain these ends must be prompt and certain. While the main goal of Memminger's January 10 suggestion was a reduction of the currency, hostility towards taxes and the government's ever-increasing needs meant that taxation payable in a worthless currency would do little. At this point, the currency had already "attained dimensions of-five times its proper size." Memminger estimated the Confederacy's needs for 1864 at $400 million, and proposed raising $100 million in taxes—loans would account for the remained $300 million. Assessing taxable property at $3 billion, Memminger recommended raising property taxes to 5 percent and issuing a new corporate

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[107] Schwab, *The Confederate States of America*, 297-298.; Todd, *Confederate Finance*, 148.
[108] Christopher G. Memminger, *Report of the Secretary of the Treasury: December 7, 1863.* (Richmond: Treasury Department of the Confederate States of America, 1863), 7.

profit tax— one-half of the tax required in specie or bond. He estimated tax proceeds at $120 million. Half of this would purchase supplies, and the other half would pay the interest on a new billion-dollar loan. The benefits of requiring half the tax in specie or bond were twofold: first, it would reduce the amount of Treasury notes in circulation; second, settling taxes in government bonds would create a demand for them. Memminger also addressed the constitutional challenges to direct taxation. Here, Memminger was blunt, “There is a general power to lay taxes which becomes subject to a special limitation as soon as an enumeration could be had. That enumeration is ordered to be taken within three years; but it is prevented from being taken by the presence of a public enemy. Under such a state of things the limitations must be considered as in suspense, and the general power may be exercised.”[109] In Memminger’s reasoning, an apportioned tax would fall exclusively on unoccupied portions of a state. The least occupied states would pay the most in taxes, and therefore, “the greatest sufferers would be required to bear the heaviest burden.[110]

By April 29, 1864, receipts from the previous tax act totaled $82,262,349.83. Each state contributed the following: Georgia, $22.3 million; Virginia, $21.5 million; South Carolina, $12.5 million, North Carolina, $10; Alabama, $9.5 million; Texas, $3 million; Mississippi, $2 million; Florida, $1 million; Louisiana, $200,000; Tennessee, $141,000. Arkansas paid nothing.[111]

[109] Ibid., 15.
[110] Ibid., 3-17.; Lerner, “Monetary and Fiscal Programs of the Confederate Government: 1861-1865,” 511.
[111]Ibid., 511.; Seligman, *The Income Tax*, 490-491.; Todd, *Confederate Finance*, 145.

On Memminger's recommendation, Congress approved a new general tax law on February 17, 1864. It was a continuation of the previous tax act, with some modifications. Congress accepted Memminger's 5 percent property tax, and allowed for payment in bonds—which were taxed for the first time. Corporations were taxed at 25 percent, after a 25 percent discount. There was a 10 percent tax on gold and silver plate and jewelry. The new law suspended the income tax from property, as well as the 8 percent tax on agricultural products. It also suspended the 1 percent tax on credits at home or abroad not employed in business. Real property was assessed at its 1861 value—unless sold after 1863, for which it was assessed at its current value. Another key feature was a rebate system. The 5 percent tax on agricultural property was credited against the Tax-in-Kind, while the income tax was credited against the tax on property. The law called for assessment upon passage, with taxes due July 1. States west of the Mississippi received a 90-day extension.[112]

"So Intelligent a Class"

The laws were poorly conceived and unfair. Doubtless, they were the product of congressional planter hegemony. Bankers protested that the new laws favored agricultural interests and punished the banking system. As banks could discharge the 10 percent specie tax in Treasury notes worth 4-5 cents on the dollar, Congress levied a tax-in-kind on their coin. A banker was therefore

[112] *Laws of Congress In Regard To Taxes, Currency And Conscription, Passed February 1864*. (Richmond: James E. Goode, Senate Printer, 1864) 3-35.; Todd, *Confederate Finance*, 150.

required to surrender one-tenth of his money in coin. In comparison, officers appraised property at its 1860 gold evaluation, unless sold after 1863. According to Ball, "a farm worth $10,000 in 1860 was, at the beginning of 1864, worth something over $200,000 in treasury notes. Yet its assessed tax was only $500 in paper, worth something like $20 in coin."[113] In the months preceding the new act, the *Richmond Examiner* and other newspapers called for heavier taxation as the only means of restoring the devalued currency. Had Congress omitted all exemptions, suspensions, and the liberal rebate system, receipts would have been 300 percent higher.[114]

Memminger's Last Report

This was the last tax act of the Confederacy. On May 2, Memminger, clearly unhappy with the new tax laws, issued a report on the Treasury's financial situation. It requested three amendments to the present tax act: "1. That which allows the value of the tax in kind to be deducted from the tax of five per cent. [*sic*] on agricultural property. 2. That which repeals the income tax for the present year on incomes derived from property taxed as capital. 3. That which discriminates as to the date to which assessments are to have reference."[115] He limited his recommendations for the sake of simplicity, but criticized other

[113] Ball, *Financial Failure and Confederate* Defeat, 237.
[114] Schwab, *Confederate States of America*, 299-300.; Ball, *Financial Failure and Confederate Defeat,* 237.
[115] Christopher G. Memminger, *Report of Secretary of Treasury: May 2, 1864*. (Richmond: Treasury Department, 1864): 11.

aspects of the tax law. He noted that the only revenue expected for the coming year was from the Tax-in-Kind: "Two kinds of taxes have been provided, those in money and those in kind. The money taxes to be paid during the current year have been devoted by Congress almost entirely to the support of the currency."[116] He also pointed out the inequity between agricultural and non-agricultural assessments. While the Treasury assessed the former at 1860 levels, the latter accounted for depreciation,

> [I]n the assessment of agricultural and other property…. the latter is assessed at its value in Treasury notes, which are acknowledged to be depreciated at least to one-third their face, the former is assessed at values which prevailed when Treasury notes were nearly at par with specie. This inequality creates discontent in the public mind, and cannot be maintained…. Doubtless it was supposed that legislation of this kind would reach the speculator and extortioner [*sic*]. But it will be found that most of these classes have escaped the tax by taking refuge in agricultural investments; while thousands of widows and orphans and loyal citizens, who have invested their all in stocks and securities, are deprived of their means of support.[117]

Finally, he called attention to the $82 million dollars collected from internal taxation, stressing that, "the difficulties which are encountered in the collection can only be estimated by any one who will inspect the mass of papers which are required for each return, and the inquiries necessary to be made of each individual taxpayer. The results of the tax will probably confirm the recommendation already made of a resort to a more simple system of taxation."[118]

Congress adopted none of the Secretary's recommendations. By now he was a discredited figure, largely ignored. On June 14, the last day of the

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[116] Ibid., 9.
[117] Ibid., 13.
[118] Ibid., 13.; Seligman, *The Income Tax*, 492.

session, Congress repealed the tax on bank deposits—shifting it to depositors—and allowed the specie tax to be paid in specie or Treasury notes. However, this amendment came largely at the insistence of the bankers. On June 15, Memminger resigned.[119]

Conclusion

Less than 4 percent of the Confederacy's total revenue came from taxes. The Union, on the other hand, financed 20 percent of the war with taxes.[120] The inadequacies in Confederate tax programs were largely the products of southern political ideology dating back to the Jacksonian period. Planters, who would bear the heaviest burden of any tax program, were unaccustomed to taxation outside the state and local sphere. Cotton planters believed they were already contributing their fair share by growing a staple that supplied a number of profitable secondary and tertiary operations. Public opinion was strongly divided on the power of the government to tax individuals. And Congress, consisting of 40 percent planters, frustrated Memminger's efforts to enact effective taxation. This is not to say Memminger was a brilliant politician and financier. Indeed, he was a nebbish, with a limited ability to get others to see his point of view. He also shared the same unfounded optimism in the southern cause, as every other politician and public citizen did. But even the most competent financier would have found too many factors working against him. Had the Congress and the states complied with heavy taxation schemes, it would not erase other internal

[119] Ball, *Financial Failure and Confederate Defeat*, 238.; Todd, *Confederate Finance*, 154.
[120] Razaghian, "Financing the Civil War: The Confederacy's Financial Strategy," 1.

problems such as lack of equipment, supplies, and the Union disrupting assessments in certain areas.[121] As Edwin R. Seligman states in *The Income Tax* (1911), "what might have happened with the Confederate income tax under more favorable auspices is a useless speculation."[122]

[121] Ball, *Financial Failure and Confederate Defeat*, 226.
[122] Seligman, *The Income Tax*, 492.

Chapter III

Loans

"Our Treasury cannot be guided by experience, since history furnishes no parallel of circumstances. It must feel its way."[123]

C.G. Memminger, December 24, 1861.

The Confederacy's first financing measures were fitting for a nation not yet at war. On February 28, 1861, the Provisional Congress adopted a measure to raise not more than $15 million. The government's financial needs were immediate and temporary. As war broke, and expenses mounted, the Confederacy sought a better means of financing. An ambitious $100 million loan program passed at a period of high southern élan. Planter zeal led to many generous subscriptions. However, the blockade damaged the marketability of cotton, which constituted 90 percent of the produce loan. Planters soon demanded that the Confederacy purchase all their cotton in Treasury notes. A prohibitively expensive notion, Memminger did not oblige. As a result, many planters cancelled their subscriptions, choosing instead sell their produce independently. In 1863, a Confederate loan in Europe generated £1,759,894 for

[123] Ernest A. Smith, "The History of the Confederate Treasury," *Southern History Association*, 5 (January, 1901), 1-236, 15.

the purchase of arms and supplies. While historians are divided on how successful the "Erlanger Loan," actually was, much of it was out of Memminger's hands.

Rudimentary Acts of Patriotism

On February 9, 1861 the general assembly in Montgomery, Alabama approved a $500,000 Treasury note loan for use by the Southern Congress. When Memminger took office nine days later, his first funding request came from Captian Deas of DeKalb County, Georgia. It was a requisition for blankets and rations for 100 men. Without any cash on hand, Memminger went to the Central Bank of Alabama where he floated a loan on his own personal credit. This act of patriotism on behalf of the Secretary was not the only one. The Confederacy received numerous donations in 1861 including money, clothing, and food. One southern woman even suggested that women donate their hair to settle the Confederate debt. It was calculated that the hair could be sold abroad for $40 million in specie.[124]

On February 28, 1861, the Provisional Congress adopted an "Act to raise money for the support of the Government and to provide for the defense of the Confederate States of America." The act authorized the Secretary, on consent of

[124] Todd, *Confederate Finance*, 25. Schwab, Todd, and Ball all confirm the promise of $500,000 from the Alabama government. However, Ball notes, "Although otherwise well-informed Confederate Historians continue to confuse the promise wit h the fact, neither the records of Alabama nor of the Confederacy show any indication that this loan was ever made. " Ball, Financial *Failure and Confederate Defeat*, 112.; Schwab, *The Confederate States of America*, 6.

the President, to borrow "on the credit of the Confederate States, a sum not exceeding fifteen millions of dollars, or so much thereof as in his opinion the exigencies of the public service may require… for the support of the Government and for the defences [*sic*] of the Confederate States."[125] Issue certificates were either stocks or bonds, and bore 8 percent interest payable semi-annually in specie. After five years, and with three months public notice, the Confederacy could pay any portion on the bonds or stocks. Congress levied a duty of one-eighth of 1 percent on all raw cotton exported from the Confederacy payable in specie or interest coupons. All proceeds from the duty were "specially pledged to the due payment of interest and principal of the loan." The duty would cease upon the loan's cancellation. To promote cancellation, Congress authorized a sinking fund to provide for the loan—which was never carried out.[126]

Memminger knew that loans and paper money backed by loans were a poor means of financing. Without taxation, the Confederacy would end in ruin. However, in 1861, the government's financial needs were immediate and temporary. There would be plenty of time for fiscal prudence when the situation returned to normal.[127]

Memminger set out in preparation for the sale of the stocks and bonds. He arranged to float $5 million in bonds and obtain payment in specie. The bonds were modeled after those issued by the United States Treasury and were

[125] *Acts and Resolutions of the First Session of the Provisional Congress of the Confederate States, Held At Montgomery, Alabama*, (Richmond: Enquirer Book and Job Press, 1861), 64.
[126] Ibid., 64-65.; Todd, *Confederate Finance*, 26.
[127] Thomas, *The Confederate Nation*, 73.

printed in denominations of one thousand dollars, five hundred dollars, one hundred dollars, and fifty dollars. Memminger appointed commissioners in each state to encourage subscriptions, often recruiting prominent citizens and other leading businessmen. He hoped that the new debt would stimulate southern patriotism by making citizens creditors. In the North, he hoped that New Yorkers would pick up one million dollars worth, which would fare well in European diplomacy. The first public announcement of the loan came on March 16, 1861. An advertisement printed in southern newspapers read, "Five millions of this most advantageous investment will be offered to the public on April 17th ensuing, and every citizen throughout the Confederate States will have the opportunity of taking a share of the benefit, and at the same time of sustaining the cause of the country."[128] The stipulations of the investment called for 5 percent payment in specie at the time of subscription, and the remaining 95 percent in specie on or before May 1, 1861.[129]

The bond was successful, despite some problems. Commissioners assured subscribers that the duty on exports provided enough revenue to meet interest on the loan, and an additional one million dollars per year was added to the sinking fund. Commissioners subscribed over $5 million in one day. However, a suspension of specie payments by many southern banks in early 1861 obstructed easy access to specie. Soon investors found they could not acquire enough coin to pay the initial subscription costs. The Treasury could not

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[128] "Loan for the Defense of the Confederate States," an advertisement prepared March 16, 1861 and published in numerous Southern newspapers. Quoted from Todd, *Confederate Finance*, 26.
[129] Thomas, *The Confederate Nation*, 73.; Schwab, T*he Confederate States of America*, 7.

accept payment in banknotes at face value as several state banks were insolvent. Luckily, the initial success of the loan caused a reversal in coin suspension. In early April, Charleston banks agreed to redeem in specie their outstanding banknotes, and other banks followed suit.[130]

The Loan and the Planters

Following the hostilities at Fort Sumter, Memminger asked Davis to authorize the remaining $10 million for subscription given the "present aspect of our relations [with the North]." Davis agreed, and on April 22, 1861, the Treasury informed commissioners to subscribe the full amount. Thus far, the loan was a great success, receiving an enthusiastic response from the banking community in Savannah, New Orleans, and Charleston. On May 7, Memminger wrote to the Commissioners of the Loan to thank them for their "zealous and effective services." However, there was work to be done. The loan had not yet reached the planters. Memminger stated:

> The commercial community and the banks have already responded with patriotic alacrity; but they have means and loyalty which will doubtless respond again. The planting community are further removed from the centres [*sic*] of trade, and have not yet been reached. Permit me to suggest an effort on your part to bring the subject distinctly before them…. Few among them realize that a State Treasury, like their own rivers, will over flow by multiplying drops. [131]

[130] Ibid., 8.
[131] "Memminger to the Central Board of Commissioners for the Loan for each State, May 7, 1861" As quoted in Todd, *Confederate Finance*, 29

Yet the primary factor in the lack of planter investments was money. Commissioners J.W. Garrot and James L. Price wrote the Secretary some days before stating, "Many of our planters of large means are not only willing but anxious to aid their country by taking the proposed loan, but for want of money, they find it utterly impossible to do so…. We fear that we shall not be able to dispose of much more stock, unless the terms are in some way modified or relaxed." Memminger, however, saw no need to modify subscription plans, and instead placed greater emphasis on commercial and banking interests. The entrance of Virginia, Tennessee, and North Carolina into the Confederacy aided his strategy.[132]

Memminger's First Report

Memminger's first Report of the Secretary of the Treasury on May 10, 1861 outlined a total deficit of $38,001,050 by the end of the year. He called on Congress to provide the Treasury with $13,152,503 by October 1, and an additional $24,838,547 by the end of December. Even this sum, he believed, "in all probability, [would] be increased by the increased dimensions which the war is assuming; so that the provision to be made should be full."[133] Up to May 1, Confederate revenues consisted almost exclusively of funds seized from United States mints and customs houses in the South, equaling just over $1 million dollars. Memminger expected no assistance from the duties collected up to October 1 as, "imports and exports are limited at the Southern ports to the period

[132]Ibid., 30.
[133] Christopher G. Memminger, *Report of May 10, 1861, Finances of the Confederate States* (Montgomery, AL: Confederate States of America Department of the Treasury, 1861).

at which the crop begins to move forward."[134] Therefore, he called for other sources of revenue in loans and taxes. Memminger requested a war tax not exceeding $15 million, an issue of Treasury notes not exceeding $20 million, and an import tariff at 12 ½ percent. Making provisions for the lack of money among planters, Memminger also called for a $50 million loan at 8 percent interest "to accept from citizens who may tender any resources which can be made available as a means of credit, upon such terms as he shall deem for the public interest"[135]

On May 16, 1861, Congress passed legislation providing $50 million in 20-year 8 percent bonds. The legislation stated that the bonds were for "specie, military stores, or for the proceeds of sales of raw produce or manufactured articles to be paid in the form of specie or with foreign bills of exchange." Congress authorized for immediate use $20 million in bonds, issued in non-interest bearing Treasury notes, accepted for all taxes save the export duty on cotton.[136]

Generating Planter Interest

While the $15 million loan was brought mostly to the attention of the bankers, the $50 million loan was directed more to the planters and farmers. Most citizens in the Confederacy had no available money, but plenty of provisions the Treasury could use in lieu of money. At once, the Treasury issued subscription lists in rural areas, on which every planter could indicate the portion

[134] Ibid.
[135] Ibid.; Schwab, *The Confederate States of America*, 9.
[136] Todd, *Confederate Finance*, 31.

of his crop he wished to lend the government. Two different lists were prepared: the first for cotton and tobacco, the second for provisions and military stores. Memminger beseeched his staff that "no disturbance shall be made of the usual arrangement of each planter for selling his crop; but that he shall simply indicate the portion he is willing to subscribe, the time and place of delivery, and the factor in whose hands it is placed for sale."[137]

Commissioners received an enthusiastic response from planters. Subscriptions ranged from one-quarter to the whole of a crop. In some instances, planters asked for their subscriptions to remain in effect annually until the end of the war. Memminger was pleased. In a letter to John A. Jordan, the Secretary wrote, "The Government is cheered by similar reports from every quarter and the people seem to be vying with each other in a noble rivalry of patriotic zeal." President Davis, too, expressed his pleasure with subscriptions in an address to the Provisional Congress, "In the single article of cotton, the subscriptions to the loan proposed by the Government cannot fall short of fifty millions of dollars, and will probably exceed that amount; and scarcely an article required for the consumption of the Army is provided otherwise than by subscription to the produce loan…"[138]

[137] Ibid., 32.; C.G. Memminger, *Communication in Respect to the Produce Loan, June 18, 1861.* (Richmond: Treasury Department of the Confederate States of America 1861).
[138] C.G. Memminger, *Memminger to John A. Jordan, Little Rock Arkansas, July 23, 1861.* Treasury Department: Confederate States of America.; Richardson, *Messages and Papers of the Confederacy*, I, 123. Quoted in Todd, *Confederate Finance*, 34.

An Updated Scheme

Owing to its success, Congress updated this scheme on August 19, 1861 with a $100 million loan—also known as the "Produce Loan." Again, this loan was aimed at the planters. The bonds bore 8 percent interest and were due in 20 years. Memminger wanted 50 percent of subscriptions in produce—essentially planters turning over their food and cotton to the government. The other half was allocated for subscription in Treasury notes or banknotes. As a financial strategy, the reason for securing half the loan in produce was to secure agricultural supplies without the use of the currency.[139]

Planting Interests

There were several problems with the new loan. If the blockade continued, the value of cotton would lessen. Some planters believed that the Government might withhold payment until the blockade afforded them a favorable price. The Secretary received numerous complaints regarding fixed sale dates and forced sales. Memminger attempted to lessen these fears. In a letter to General W.W. Harllee, which he suggested for general circulation, he stated:

> If the blockade be not broken, the crop will remain unsold and neither the owner nor the Government will realize any proceeds of sale until that difficulty be removed. If this difficulty should remain permanent, or if there should be reasonable ground to apprehend the continuance of the blockade, it will become proper to adopt some other scheme of finance providing for that contingency.[140]

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[139] Schwab, *Confederate States of America*, 12-13

[140] Todd, *Confederate Finance*, 36.

Cotton planters also pressed the Government to purchase all their cotton. This, it was reasoned, would accomplish one of two things: that the Confederacy use the cotton as a basis for the value of bonds or currency; or that Confederacy could send it abroad before the blockade closed too tightly. With the Government purchasing all of the South's cotton, it would give planters a market and money with which they could settle taxes and other debts. Alexander Stephens, Judah P. Benjamin, Joseph E. Johnson, and other civil and military leaders strongly suggested the Confederacy ship the cotton abroad and steadily increase its price. They believed the entire war could be funded this way, while providing relief for the planters.[141]

Secretary Memminger saw otherwise. In a letter to the commissioners penned October 15, 1861, he addressed two common enquiries: whether the Government would continue with subscriptions as the blockade tightened; and whether the Government would authorize promises of aid to the planters as a means of producing more subscriptions. Memminger believed that subscriptions should continue through the blockade as they "are quite as valuable to the Government during the blockade, as after it." He dismissed the notion that the Government had physical control of the produce itself, clarifying that:

> The subscription is confined to the proceeds of sales, and contains an order on the commission merchant, or factor of the planter, to pay over to the Treasurer the amount subscribed, in exchange for Confederate Bonds. The transaction is simply an agreement by the planter to lend the Government so much money; and, in order to

[141] Coulter, *Confederate States of America*, 166.

complete the transaction, a time and place are appointed when and where the parties may meet to carry it out.[142]

As far as Memminger was concerned, it was not so important when subscriptions were carried out. It was assumed they would be carried out at some time, "Whether that time be December or June is simply a question of convenience, and works no injury to either party. The Government is sure of the eventual payment, and derives from that certainty so much credit; and it loses nothing, because it gives its bond only when the money is paid."[143] As to whether the Government would authorize promises of aid to the planters as a means of producing more subscriptions, Memminger's answer was simple, "No power is granted to any Department to lend money for the relief of any interest." Memminger was open to any alterations in the Provisional Constitution that would provide aid in the future, if "the financial necessities of the country demand the change."[144]

Chastising Planter Dominance

The Secretary's letter addressed two other notions: that the Government should purchase the South's entire cotton crop; and that the Government should advance income on behalf of the value of cotton. Placing transportation and management issues aside, Memminger estimated the entire value of the cotton

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[142] C.G. Memminger, *A Letter to The Commissioners Appointed to Receive Subscriptions to the Produce Loan, October 15, 1861*. (Richmond: Confederate States of America Treasury Department, 1861).
[143] Ibid.
[144] Ibid.

crop at $200 million. Subtracting subscriptions at $50 million, and adding to the amount other agricultural products "which would certainly claim the same benefit," the amount totaled approximately $175 million. As for an advance, he estimated that at a price of less than 5 cents per pound, an advance would equal $100 million. By taking even the least objectionable sum—which, if found disagreeable, would negate the larger sum—it would require $100 million in Treasury notes "distributed among the planting community upon the pledge of the forthcoming crop." Memminger chastised the arrogance of the planting community:

> The first remarkable feature in this scheme is, that it proposes that a new Government, yet struggling for existence, should reject all the lessons of experience, and undertake that which no Government, however long established, has yet succeeded in effecting. The "organization of labor" has called forth many ingenious attempts, both speculative and practical, among well-established Governments, but always with disastrous failure. With us, however, the experiment is proposed to a new Government, which is engaged in a gigantic war, and which must rely on credit to furnish means to carry on that war. Our enemies are in possession of all the munitions and work-shops which have been collected during forty-five years of peace—their fleets have been built up at our joint expense. With all these on hand, they yet are obliged to expend nearly ten millions of dollars per week to carry on the war. Can we expect to contend with them at less than half that expenditure? *Supposing that it may require 200 millions of dollars; then the proposal is, that, at a time when we are called upon to raise this large sum for the support of the Government, we shall raise a further sum of 100 millions, for the benefit of the planting interest* [Emphasis added].[145]

Indeed, the planting interests demanded too much from the Government. The same citizens who were unwilling to alter their lifestyle to preserve the Confederacy were asking special favors of it. Memminger saw no need for Government intervention in private interests, especially those of a privileged group. Referring to them as "so intelligent a class," he believed that if they banded together to secure their own subsistence, relief would come. The

[145] Ibid.

Government needed every Treasury note it could get. Supporting planters by an increase in Treasury notes would "hazard [the] entire credit and stability" of the Government.[146]

In respect to payment in Treasury notes, the Confederacy purchased the bulk of its cotton with bonds. Indeed, bonds were used for the purchase of food, arms, and transportation costs. Motivated by a desire to borrow money in Europe, Memminger earlier recommended that Congress accept articles from the Produce loan in exchange for bonds, in part to utilize foreign aid to lift the blockade, and in part to silence the planters' demands in purchasing the entire cotton crop.[147]

A Full Subscription

By November 25, 1861, the $15 million loan had been completed. Memminger thanked the commissioners for their service, and requested their continued diligence in acquiring subscriptions. The Secretary noted that the loan relied completely on the patriotism and resources of the people.

As for the $100 million loan, it met with some success by the end of 1861. According to historian J.C. Schwab, "Over 400,000 bales of cotton had been offered, 1000 hogsheads of tobacco, 5000 bushels of wheat, 270,000 bushels of rice, 1000 hogsheads of sugar and molasses, and about $1,000,000 worth of

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[146] Ibid.
[147] Ball, *Financial Failure and Confederate Defeat*, 84-85.; Todd, *Confederate Finance*, 41. Ball argues that the Confederate government's use of bonds for the purchase of cotton discredits Memminger's Treasury note argument. Todd argues that the Secretary earlier recommended that congress adopt Treasury notes for the purchase of cotton.

other produce; also $1,000,000 in money, that is, in treasury notes or banknotes."[148] Cotton accounted for nine tenths of the total subscription. In all, bonds accounted for $31 million or 22 percent of total receipts in 1861.[149]

Collections/Problems

At the beginning of 1862, the Produce loan office had not yet received any proceeds from subscriptions. As there were frequent reports and rumors that planters were selling their already subscribed produce, the Government worked frantically to carry out nationwide collections. In January, J.D.B. DeBow, Chief Commissioner of the Produce loan, reported that collections were ready to begin. Whereas Memminger initially settled on a volunteer subscription and collection program to reduce corruption, there were so many areas left unsolicited that he agreed to a commission: $1,000 on the first $100,000 collected, up to a maximum of $4,000.[150]

Changes

On March 14, 1862, Memminger issued a report calling for several changes to the Produce Loan, as the initial terms were confusing. Many planters assumed that cash or bonds were imminent—not "confined to the proceeds of sales." As such, more and more planters cancelled their subscriptions, choosing

[148] Schwab, *Confederate States of America*, 12-13.
[149] Ibid., 12-13.
[150] Ball, *Financial Failure and Confederate Defeat*, 83.

instead sell their produce independently.[151] To alleviate this, the Secretary recommended that produce subscriptions "be taken for this loan of all articles … [and] exchanged for…bonds." He also asked, "That cotton and tobacco, and other agricultural products subscribed to the produce loan… be accepted at a valuation in exchange for the bonds to such extent and under such regulations as my be determined by Congress—the Secretary of the Treasury to have authority to ship, or sell, or procure advances upon such produce for the use of the government."[152] Memminger believed this scheme was more in tune with the "wants of the community." He wrote, "The planting community will more readily be induced to take bonds which they can use in payment, or which will be paid up at short periods, and which from the small amount of money-capital usually seeking investment in bonds, they can expect to realize promptly by the usual method of sale." More and more, it was Memminger accommodating the planting interests, but he had little choice. Patriotism was not enough of an inducement for planters to sell.[153]

Memminger's report also called for an increase in bonds, amounting to $164 million. He estimated Government expenses for the following nine months at $215 million. To raise this amount, he counted on $18 million still available in

[151] Ibid., 83
[152] C.G. Memminger, *Review of the Financial Measures of the Provisional Government, March 14, 1862.* (Richmond: Treasury Department of the Confederate States of America, 1862).
[153] Ibid.

bonds, and $20 million from taxes. He proposed to raise the remaining $176 million through new bonds and taxes.[154]

On April 18, 1862, Congress extended the amount of bonds, stocks, and Treasury notes issued to $250 million. Three days later, Congress passed a law allocating $35 million for planters to exchange their goods for 8 percent bonds. Under the law, the Secretary could "issue PRODUCE CERTIFICATES, which shall entitle the party to whom issued, or his endorsee, to receive the produce therein set forth, and to ship the same to any neutral port, in conformity with the laws of the Confederate States."[155]

More Problems

The new detailed regulations were issued to agents on May 21, 1862. Agents were directed to purchase cotton almost exclusively with bonds (as much as they could get). Planters had the option to settle their subscriptions in kind or in Treasury notes. In return, they would receive either bonds or certificates of stock. As it was difficult for planters to ship their cotton through the blockade, they were more than willing to exchange it.[156]

As per usual, agents received several complaints in regards to the new loan. Some planters complained of a price inequity in different states. DeBow, who was now a General Agent for subscriptions in New Orleans, stated:

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[154] Schwab, *The Confederate States of America*, 22-23.
[155] Todd, *Confederate Finance*, 42.
[156] Ibid., 42-43.

> The market price of cotton is determined by the competition of private buyers and where these are willing to give 12, 15 or 17 cents it has not been found that parties are inclined to accept a lower figure from the Government. This competition is again determined by the relative safety of the article from the torch and the enemy, and whilst capital is willing to bid 15 and 17 cents in the heart of South Carolina, Georgia, and Alabama, it has not approached those figures in sections further to the West.[157]

Other planters refused to sell entirely, unless part of the transaction occurred in negotiable Treasury notes. Memminger informed his agents, "You are instructed to make your purchases with Bonds as *far* as practicable and whenever parties selling refuse to receive payment entirely in Bonds you are authorized to make payment in cash not to exceed in any case more than one-half of the whole cost"[158]

On January 9, 1863, Archibald Roane, Principal Clerk of the Produce Loan Office, gave a report on the whole amount of Produce Loan subscriptions—most occurring in 1861. The Treasury procured 431,347 bales of cotton totaling $21,567,350. Added to cash and miscellaneous items at $1,503,555, the amount totaled $23,070,905.[159] This was a far cry from the $50 million expected. In a report on October 2, 1862, Memminger admitted that the Produce Loan was a failure. It was both slow in collecting produce and unsuccessful as a means of converting currency into bonds. Much of it was out of Memminger's hands. Agents could not draw the support of the people through most of 1862. Moreover, they had made only moderate progress in collecting the earliest subscriptions.[160]

[157] Ibid., 43.
[158] Ibid., 44.
[159] Ibid. 46.
[160] Smith, "The History of the Confederate Treasury," 104.

Exhausting Credit Abroad

At the beginning of the war the Confederacy employed several contractors, purchasing agents, and blockade-runners who secured armaments and supplies in Europe. By the fall of 1862, the Confederacy had exhausted their credit abroad and failed at securing European intervention. The Confederacy hoped to stem the tide by raising new funds and reestablishing credit overseas.[161]

Exchanging bonds for produce had put no real money into the Treasury. Many viewed the Government's massive supply of cotton from the Produce Loan as a "white elephant." However, as blockade runners began shipping cargoes of cotton to Nassau en route to England, the Treasury saw an opportunity for using the staple as a basis for credit.[162]

At the beginning of 1862, Memminger instructed his collection agents to see if any merchants in their districts could secure a credit in England sustained on the basis of cotton. Memminger had floated the idea of using cotton as a basis for credit as early as May 1, 1861. His plan was to pledge cotton to English banking houses, promising shipment upon removal of the blockade. On learning of the Secretary's desires, the Richmond *Examiner* ran a favorable piece on the idea of using cotton for credit in Europe, "If a million bales of cotton could be offered at a fair price, to meet the demand in France, that Government would

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[161] Judith Fenner Gentry, "A Confederate Success in Europe: The Erlanger Loan," *The Journal of Southern History,* 36 (May 1970): 157.; Frank Owsley, *King Cotton Diplomacy,* 390-394.
[162] Hawk, Economic History of the South, 404-405.

purchase it on delivery in this country. This would necessitate the Emperor to raise the blockade and take possession of the purchase…."[163]

A rumor that the Confederacy was considering cotton bonds reached France and England around the time they exhausted their oversupply from 1860. By 1862, the demand for cotton in Europe was so large that it was selling for 25 pence or 50 cents per pound. Consider that in January 1863, cotton in Richmond was selling between 16 and 22 cents per pound. Any eagerness by the Confederacy to obtain cotton-based credit overseas was equally matched by European demand.[164]

At first, the Treasury issued 1,500 Cotton Certificates for use in Europe, each valued at $1000. James M. Mason, Commissioner to Great Britain, determined that the price of cotton be fixed at 5 pence sterling. The certificates were "demandable only after peace, and within six months thereafter," as it was "impossible to deliver cotton in any great amount till then." The Government also agreed to transport the cotton at any time during the war with the bondholder assuming the cost of transportation. Memminger believed Cotton Certificates were the best means of raising funds abroad. On November 7, 1862, Memminger wrote to the Secretary of the Navy, S.R. Mallory stating:

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[163] Smith, "The History of the Confederate Treasury," 19.; Todd, *Confederate Finance*, 41.

[164] United States. *Official Records of the Union and Confederate Navies in the War of the Rebellion*. Washington: Government Print Office, 1922. Series 2, Volume III, 570.; *O.R.N.*, Ser. 2, Vol. III, 654-656.; Ball. *Financial Failure and Confederate Defeat*, 77-78. Ball writes, "The suggestion that Benjamin handled the negotiation because Memminger was incompetent is not sustained by the available evidence. Benjamin was probably selected not only because he spoke fluent French, but was cynical enough not to lose his equanimity while rejecting the shady proposals of the French bankers." Indeed, Memminger became indignant when he discovered that Erlanger's agent visited the treasury to offer Edward Elmore a job for $6,000—three times his yearly salary. Frank Owsley characterizes Benjamin as "astute" and Memminger as "measly."

> The embarrassment which my agents meet with is from being obliged to purchase with bonds. This difficulty could be removed by your placing at my disposal the money which you wish to remit to Europe. With that my agents would buy cotton, and upon these purchases, Cotton Certificates could be issued and sent to Europe, and their proceeds placed to the credit of your agent in Europe.[165]

However, a serious blunder arose when the War Department used its own agents to expedite cotton purchases. Secretary of War Judah P. Benjamin, too, pledged cotton as a means of collateral. On January 17, 1862, Benjamin wrote E. J. Forestall of New Orleans, a representative of a foreign banking house, asking for one million dollars for deposit in England. In addition to the payment of interest and commission, the War Department would "place in the hands of the agent of such house on this side such number of bales of cotton as might be agreed to be sufficient to cover the advance."[166] Over time, war agents began competing with produce loan agents which increased prices and encouraged planters to hold out for the best deal.[167]

The Erlanger Loan

The Confederacy did manage one substantial loan in Europe. In March 1863, they floated a £3 million loan with the French Banking house Emile Erlanger and Company of Paris. Known as the "Erlanger Loan," it was the only foreign loan floated during the Civil War.[168]

[165] Todd, *Confederate Finance*, 45.
[166] Ibid., 386.
[167] Todd, *Confederate Finance*, 46.
[168] Gentry, "A Confederate Success in Europe: The Erlanger Loan," 157.

Several European banking-houses proposed offers, the largest one coming from Emile Erlanger and Company of Paris. On October 28, 1862, John Slidell, representative of the Confederacy in France, wrote Benjamin discussing the terms of the Erlanger loan. The Confederacy was to sell £5 million 8 percent bonds to Messrs. Emile Erlanger & Co. at seventy pounds per each hundred pound nominal bond (70 percent).

That Benjamin handled negotiations instead of Memminger was not due to any incompetence on part of the Secretary, but that Benjamin spoke fluent French, and was a shrewd negotiator. Memminger would receive the terms of the contract and add his own modifications; however, much of the diplomacy was out of his hands.[169]

The Confederacy found the initial terms of the loan unsatisfactory. On January 15, 1863, Benjamin wrote Slidell stating his dissatisfaction:

> A loan at 70 per cent, with an allowance of 5 per cent commission, and a discount on the deferred payments at the rate of 8 per cent per annum, was found to leave a net result of about 61 per cent. To pay the capital on demand at 6 pence per pound would therefore in reality have resulted in selling cotton at that rate with a deduction of 39 per cent. In other words, we would have obtained for each pound of cotton 61 per cent on 6 pence, or about 3 ⅔ pence per pound…. This was so much lower than other offers, and would have required such an enormous quantity of cotton to pay the $25,000,000 of nominal capital… that it was impossible to accept the proposals.[170]

However, Slidell believed the proposal had other benefits. A foreign loan had political advantages. On October 28, 1862, Slidell met with Napoleon III petitioning for French recognition of the Confederacy. He portrayed the Confederacy as, "a thoroughly united people, ready and willing to make every sacrifice and submit of every privation for the establishment of their

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[169] O.R.N., Ser. 2, Vol. III, pp. 654-656. Ball, *Financial Failure and Confederate Defeat,* 77-78.
[170] Ibid., 654-656.

independence."[171] The Emperor's sympathies were with the Confederacy— he was particularly impressed with Major General Stuart's cavalry march into Pennsylvania. However, any action without England's consent would drive them to side with the United States. Slidell wrote, "The condition of affairs in Europe [were] very unsatisfactory, especially in Italy and Greece; that if he [Napoleon III] acted alone, England, instead of following his example, would endeavor to embroil with the United States and that French commerce would be destroyed."[172] Yet monetary recognition could prove as powerful as diplomatic recognition, and the Erlanger loan was a strong endorsement of Sothern nationalism. Erlanger himself was sympathetic to the Southern cause—he would eventually marry Slidell's daughter. Indeed, a financial interest independent of Britain might engender French political recognition.[173]

Benjamin was cautious. From an economic standpoint, the loan was poor financing. Politically, however, he too saw an advantage. In Benjamin's words, "The profits by the takers of this loan will be enormous and when you become aware of the condition of things on this side you will be convinced that they are quite sufficient to effect the political purposes you anticipate."[174]

After much bargaining, Emile Erlanger and Company agreed on the final terms of the loan. They were better than anticipated. Erlanger and Company would float a twenty-year loan of £3 million in Europe. Erlanger and Co. would

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[171] Ibid., 574.
[172] Ibid., 575. As for British intervention, Slidell noted, "I had no hope of any friendly action from England until the time should arrive when it would become a matter of indifference."
[173] Emory M. Thomas. *The Confederate Nation 1861-1865*. (New York: Harper and Row Publishers, 1979), 187.
[174] Owsley, *King Cotton Diplomacy*, 396.; O.R.N., Ser. 2, Vol. III, 654-656.

pay 72 percent of the loan's face value to the Confederacy (£2,160,000) on September 23, 1863. The Confederate bonds paid 7 percent interest semiannually with an offering price 10 percent below face value—equaling an 8 percent yield. In addition, there were semi-annual drawing on the bonds that paid investors one-fortieth of the principal. The bonds were backed by New Orleans middling cotton at a price of six pence per pound. At the time, the going rate for cotton in England was over twenty pence per pound. Memminger understood that keeping cotton at six pence would prevent purchasers from buying directly from the Confederacy at domestic prices. The Confederacy promised to deliver the cotton within ten miles of a railway station or navigable waterway in the South.

The deal weighed in favor of Erlanger and Co., which can be attributed to a number of factors. Firstly, In seeking European loans, the Confederacy had to choose among what was offered. It was not in current practice to "shop-around" for a better deal.[175] Second, given European financial practices of the 1860s, the Confederacy would have received similar offers from other houses. Those that specialized in high-risk undertakings demanded proportional compensation. Third, European creditors were still mindful of Davis's credit repudiation. As late as 1859, a standard European investment guide stated "The name of Mississippi is a byword and reproach upon American state credit."[176] And at least Erlanger and Co. were upfront about the tremendous profit they stood to make. Other

[175] William O. Brown Jr., Richard C.K. Burdekin, "Turning Points in the U.S. Civil War: A British Perspective," *Journal of Economic History,* 60 (March 2000): 216-217.; Ball, *Financial Failure and Confederate Defeat,* 76-77.
[176] Lebergott, "Why the South Lost," 63.

houses cheated them surreptitiously. For example, Isaac, Campbell and Company, who supplied the Confederacy with armaments and other war materials, kept a double set of books, quoting the real price of goods sold and the price charged to the Confederacy. As described by Owsley, "the firm only chuckled and observed that that was their only chance of insuring themselves against loss."[177]

The Erlanger loan was initially successful. Subscriptions opened March 18, 1863 in London, Liverpool, Amsterdam, Paris, and Frankfurt, with the bonds priced at 90 percent their face value. In three days, the bonds were five times oversubscribed and the loan quoted between 92 ¾ and 95. Yet early successes were short-lived. By March 23, the price fell below 90. Though Erlanger and Co. attempted to stabilize the bond by buying more, they ran out of capital by April 5. The Confederacy authorized Erlanger and Co. to purchase bonds on their account, and as such, the Confederacy had to buy back over half their issue by May 14. Afterwards, prices remained relatively stable, until news from Gettysburg and Vicksburg saw the bond fall to 60. From here, bond prices fluctuated with the news from the front. Recurring rumors of the fall of Charleston drove prices down, while recurring rumors of blockade repulsion drove prices upward. In December 1863, the battle of Chattanooga temporarily pushed bond prices to 37—their lowest point until 1865.

Such was the speculative nature of the bonds that they did not rely on cotton prices abroad. The Federal blockade so hindered the supply of cotton that

[177] Gentry, "A Confederate Success in Europe: The Erlanger Loan," 178-179.; Owsley, *King Cotton Diplomacy*, 392.

could reach Europe that it was uncertain whether the Confederacy could deliver if the bonds were redeemed. As such, prices rose and fell with war news—dubious or not. Rumors of Confederate victory, an armistice with the Union, or a successful cotton shipment through the blockade saw prices rise throughout a good portion of 1864.[178]

The net cash income from the Erlanger loan equaled £1,759,894. Though the initial loan was for £3 million, a 90 percent bond minus Erlanger's profits and commission of £546,371 equaled a total possible net income of just £2,153,629. Investors considered the Erlanger loan a good investment until 1865, when it was obvious that the Confederacy would lose the war. A bond for £1,000 that promised forty thousand pounds of cotton worth £4,000 was attractive in spite of the blockade—especially given the demand for cotton in Europe. Though historians are divided on how successful the bond actually was, to its credit, it provided the Confederacy with much needed capital to purchase war supplies.[179]

Conclusion

The Confederacy purchased almost no cotton in 1864-1865. Planters had no desire to sell to a declining state when they could speculate for greater gain

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[178] Gentry, "A Confederate Success in Europe: The Erlanger Loan," 157-163.; Schwab, *The Confederate States of America*, 36.

[179] Gentry, "A Confederate Success in Europe: The Erlanger Loan," 178. Gentry provides her estimate after examination of six previous estimates by historians John Bigelow, Richard Cecil Todd, Richard Irwin Lester, John C. Schwab, Frank Lawrence Owsley, and Samuel Bernard Thompson.; Ball, *Financial Failure and Confederate Defeat*, 75-79.

on the open market.[180] The Confederacy did sell a substantial amount of bonds; however, these sales were due to the inflated state of the currency and a lack of alternative investment. The Produce Loan, in its original conception, failed because it required the sales of produce in exchange for bonds. With the Confederate coasts blockaded, there was no market. Appeasing the planting interests by purchasing all their cotton in Treasury notes was prohibitively expensive, and therefore fiscally unsound. However, this aroused the ire of the planters, who in turn sold their produce independently on a more favorable market. Agents could not draw the support of the people through most of 1862. By this point, the Confederacy had begun its precipitous financial decline.

[180] Coulter, *The Confederate States of America*, 168.

Chapter IV

Treasury Notes

"The fact is… that this paper [money]… represents zero every place in the world except in the Confederate States where it is imposed, and that if the North ever arrives at its ends, everyone will be almost literally ruined in the South"[181]

Alfred Paul, French Consul at Richmond, December 8, 1861.

Given the massive expenditures of the Confederacy, coupled with inadequate revenue from taxes and loans, paper currency became the only viable option. The Confederate Treasury issued over seventy different types of notes during the war, totaling $1.5 *billion*—an incomprehensible sum in its day. Added to this were Treasury notes issued by state and county governments, banks, insurance companies, textile mills, and other businesses. This over-saturation of Treasury bills caused such an appalling rate of inflation that the citizenry suffered. For example, in North Carolina, between 1862 and 1865, the price of wheat rose 1700 percent, bacon rose 2500 percent, and flour almost 2800 percent. By 1865 a pair of shoes cost $600. Memminger warned Congress on several occasions of the danger in funding a nation with Treasury

[181] Gordon Wright, "Economic Conditions in the Confederacy as Seen by the French Consuls," *Journal of Southern History*, 7 (May, 1941): 195-214, 208.

notes. But the fiscal burdens of the Confederacy left the Secretary with little choice.[182]

Confederate Banking System

The Confederacy did not have a national banking system of its own and made no serious attempt to introduce one. Their credit was insufficient, and most southerners had long been opposed to a national bank. Each Confederate state, though loyal to the southern cause, guarded its own financial interests closely. The Confederate Constitution stated that, "No state shall… make anything but gold and silver coin a tender in payment of debts…."[183] However, as neither the central government nor the state banks had adequate gold and silver for minting coins, they ignored this restriction.[184] Furthermore, the Confederacy issued no provision to make paper currency legal tender. All paper currencies were either promissory notes or interest-bearing notes backed by the faith of the people. The value of paper currency rose and fell precipitously on war news, rumors, financial news, and the like.

Before 1861, New York had been the nation's banking center. On April 24, 1861, southern funds deposited in New York banks were seized by order of

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[182] Ibid., 208.
[183] Confederate Constitution Article I, Section 10.
[184] R. Neil Fulghum, "Currency: Introduction: Money for the Southern Cause" *Documenting the American South*, (2004).http://docsouth.unc.edu/imls/currency/index.html. (Accessed May 28, 2009)

the Federal Government. Count E. de Méjan, a French Consul and Confederate sympathizer in New Orleans reported on the incident:

> The activity of the banks has almost ceased; the funds which are deposited in the New York banks were in fact seized on the 24th of this month by order of the Federal government, but released at the suggestion of influential financiers who have interests here either in capital or in real property, and who feared, not without reason, that this seizure made in the North would be followed by an analogous seizure in the South….[185]

However, even this return of funds left the South short of specie. Estimates vary on how much specie the South actually held. Schwab claims the South held $26 million in coin, while Ball claims the South held just $8.65 million. Regardless, they utilized neither figure to the fullest. The Confederate Government used $1.6 million in coin for business expenses in 1861. They used an additional $1.6 million to pay down the public debt before a specie suspension in September 1862. Though Memminger often warned of the dangers of inflation, this lack of specie hampered the Confederacy's ability to keep inflation down.[186]

State Currencies

Here is the breakdown of state currencies during the war: On February 9, 1861, before the Confederate Government launched its paper money policy, Alabama issued $1 million in State treasury notes. The following year this amount was raised to $3.5 million. Florida's banknote issue was in excess of $100,000 at the beginning of 1861. By the end of the year, the state legislature issued $1 million in treasury notes, and in 1862, a further issue of $300,000.

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[185] Wright, "Economic Conditions in the Confederacy as Seen by the French Consuls," 207.
[186] Ibid., 207.; Ball, *Financial Failure and Confederate Defeat*, 129.

Georgia delayed action until 1862 when it issued $1 million in a wide variety of denominations. After that, the state ordered an indefinite issue of treasury notes to meet its expenses. By the fall of 1864, $18 million in treasury notes were outstanding—all redeemable for Confederate treasury notes. In Louisiana, before the capture of New Orleans, the state had $7 million in notes outstanding. Mississippi authorized $1 million in treasury notes in January, 1861, and a $5 million issue by year's end. The state exhausted this issue by paying out planters who asked for advances. There was a further issue of $2.5 million in 1862, and $2 million in 1864. In North Carolina, the state began with $3.25 million in notes, issuing $1.8 million additional notes in September, 1861, and $3 million in December. The following year, the State treasury issued $4.4 million in large and small treasury notes. In 1863, the treasury issued $400,000, and in 1864, $3 million. By the end of the war, the State treasurer calculated that $8.5 million in treasury notes were issued during the last four years. Finally, in Virginia, the state began with $1 million in large denominations, increased to $4 million in June 1861, and totally replaced by non-interest bearing treasury notes in December. In March, 1862, $1.3 million were issued. After that, both houses failed any further attempts to increase State treasury notes. Coupled with state issued notes were those issued by individual cities, businesses, corporations, merchants, saloon keepers, butchers, bakers, and every other conceivable enterprise—including private citizens.[187]

[187] Schwab, *Confederate States of America*, 149-153 One niggling problem was that a lack of small currency made transactions under $1 difficult. Many people turned to twenty-cent postage stamps, which they often cut in half. However, more popular was the "shinplaster," It was a small paper note ranging in denomination from five to fifty cents—though, according to E. Merton

Immediate Cash

Even a good program of blockade-running, taxes, and loan financing required some use of Treasury notes to meet immediate and residual expenses. Though the Provisional Congress attempted to finance the new nation early through the $15 million loan on February 28, 1861, it put no immediate cash in Memminger's hand. On March 9, Congress authorized a $1 million issue of one-year 3.65 percent Treasury notes in denominations no less than $50. A contract was made with the National Bank Note Company of New York and on April 2, 1861, 607 sheets of Treasury notes arrived in Montgomery. These notes acted more like bonds, as they had to be endorsed each time they were passed around. Their circulation was small. Half of the notes issued were in denominations of $500 and $1000, and would be exchanged for smaller notes or used as collateral. Memminger believed there were too many $1000 notes and not enough $50 and $100 notes. He stated, "Our calls will be for the smaller issues".[188]

Coulter, one person claimed to have seen a two-cent note redeemable in persimmons. Shinplasters were common throughout the free-banking era in the United States. In 1837, the *Niles Register* exclaimed, "[these] abominations are becoming as plentiful, and will prove as troublesome, as the frogs of Egypt." (Schwab, *Confederate States of America*, 159.) In the Confederacy, tobacconists, grocers, barbers, innkeepers, and milk-dealers issued shinplasters—often redeemable for their own goods. However, many shinplasters were fraudulent; issued by businesses that were impossible to locate. The Confederate government took no measures towards repressing shinplasters. One Virginian exclaimed, "We are cursed with the most infernal currency in the world. The state is literally overrun with trash, and may be wholly worthless, certainly it is emitted without any authority of law."[187] However, by 1863, inflation devalued the shinplaster to the point where even beggars refused them.(Coulter, *The Confederate States of America*, 155.)

[188] Schwab, *The Confederate States of America*, 161.; Coulter, *The Confederate States of America*, 153.; Todd, *Confederate Finance*, 91.

However, when war broke, U.S. authorities seized the plates used for printing Confederate Treasury notes. Memminger turned to printers in the South, looking for those who could most accurately recreate the notes printed by the National Bank Note Company. Memminger instructed George B. Clitherall of Mobile to proceed to New Orleans, where he, upon thorough investigation, entered into a contract with S. Schmidt on May 13, 1861. On May 16, the Treasury asked Schmidt to engrave and print $20 million in Treasury notes. In the meantime, Memminger wrote various banking institutions for a temporary loan of their bank notes. On June 3, 1861, a bankers' convention in Atlanta approved a loan of their own issue until the Treasury procured its own notes.[189]

Schmidt, working alongside his young son and one other man, could not produce enough engraved notes to satisfy the Treasury. In fact, for the first two months of Schmidt's contract, he produced nothing at all. Memminger sent agents throughout the nation, and to England, to acquire skilled workmen, materials, and machinery. He gave 10,000 sheets of bank-note paper to the New Orleans lithographic establishment of J. Manouvrier. However, lithographs were inferior in quality and easy to counterfeit. Memminger wanted all lithographs withdrawn as soon as engraved notes entered circulation.[190]

Such was the experience with printing in the early days of the South. The Confederacy had no printing establishments comparable to the North, and their resources were meager. Many printers and binders left their workplaces for the army, and there was a shortage of paper, ink, plates, lithograph stones, and

[189] Ibid., 91-93.
[190] Ibid., 93-94

presses. Memminger had to lend printers money, recruit their workers, and acquire their supplies. In November, 1861, Memminger reported that on October 24, the supply of Treasury notes had fallen behind demand by almost $12 million; "The daily requisitions continued to exceed the supply by nearly fifty per cent., and the difficulty, therefore, became greater every day."[191] By July 1863, Memminger expanded his note signing bureau from seventy-two employees to 262. Still, they struggled to produce enough paper currency.[192]

Mounting Government Expenses

The Treasury's request for $20 million in Treasury notes on May 16, 1861 was their first issue of non-interest bearing notes. They were issued in denominations not less that $5 and exchangeable at par for 10-year 8 percent bonds. A popular issue, by November they Treasury distributed over $17 million of these notes in spite of printing shortages.[193]

After the Battle of Manassas in July, 1861, Memminger advised Congress that the inflated dimensions of the war required new and immediate funding, "The fact that so much of the first Loan remains undisposed proves that Bonds cannot

[191] C.G. Memminger, *Condition of the Treasury Department: November 20, 1861*. (Richmond: Confederate States of America, 1861).
[192] Lerner, "The Monetary and Fiscal Programs of the Confederate Government: 1861-1865," 520.; Ball, *Financial Failure*, 113-114.
[193] Todd, *Confederate Finance*, 104.

be relied on as a resource immediately available."[194] Memminger allayed fears of inflation stating,

> The apprehension of danger to the currency does not appear to be well founded. Taking an average of six years, up to 1858, the circulation and deposits in the banks of the eight Confederate States where banks exist was about eighty-five millions, with eighteen and a half millions of coin. It would be not unreasonable, therefore, to assume that at present a circulation could be sustained of one hundred millions….[195]

On this recommendation, Congress authorized an issue of $100 million in Treasury notes on August, 19, 1861. The passage came on the same day as the $100 million loan. It was believed that these bonds would guard against redundancy as people would convert their money into bonds at a higher rate of interest.

On December 24, 1861, Congress authorized a further issue of $50 million in Treasury notes, bringing the total to $150 million. In the words of Memminger's biographer, "as the exigencies of the war increased the issue of treasury notes were rendered necessary." To prevent redundancy, Congress authorized $30 million in 20-year 6 percent Call Certificates, with contained semi-annual interest payments, available for purchase in money.[196]

By the end 1861, the issue of Treasury notes bordered on $125 million. To put this in perspective, on January 1, 1859, the aggregate of notes in Southern banks equaled $60 million. Note depreciation began early. In the first few months of the Confederacy, paper money was at par with gold. By August, it was at an 8 percent discount. By November, it was at a 15 percent discount.

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[194] C.G.Memminger, *Memminger to Howell Cobb July 29, 1861*. *Confederate Treasury Reports* (Richmond: Confederate States of America, 1861).
[195] Ibid.
[196] Lerner, "The Monetary and Fiscal Programs of the Confederate Government: 1861-1865," 520.; Todd, *Confederate Finance*, 105. ; Capers, *The Life and Times of C.G. Memminger*, 341.

The following February, a 25 percent discount. On July 19, 1861, 10 percent of the total Confederate debt represented Treasury notes. By November 16, 1861, it was over 63 percent. There was little Memminger could do to alleviate the situation. Loan and tariff receipts were insufficient and there was no tax revenue. Total expenses for the fiscal year ending February 18, 1862 equaled $165,490,573.91. Of this, $105,603,795.49, or 76 percent was settled with Treasury notes.[197]

Notes as Legal Tender

Early on, the Provisional Congress raised the question of making Treasury notes legal tender. On May 11,1861, James D. Denègre, President of the Citizens' Bank of New Orleans, wrote to Memminger urging that Treasury notes not become legal tender. In his words, "It would be worse than the evils of war, and would destroy our banks and demoralize the community." On July 8, E.J. Forstall, in a long letter to Duncan F. Kenner, chairman of the Ways and Means Committee, wrote, "A plan is now agitating making Treasury notes legal tender; this would be bankruptcy to begin with, the destruction of public and private credit, and all confidence between man and man." Others supported a legal tender act. In a letter to President Davis on July 10, William C. Smedes of Vicksburg claimed that a legal tender law was the only refuge of merchants and

[197] Smith, "The History of the Confederate Treasury," 22.; Todd, *Confederate Finance*,105.

planters from the capitalists of the North and Europe. Despite all this, there was no urgency to enact legal tender legislation in 1861.[198]

At the beginning of 1862, as Government expenses ballooned, there was serious talk among the Permanent Confederate Congress of making paper currency legal tender. In early March, a legal tender bill was introduced in the Senate. The Senate asked Secretary Memminger to give his opinion of the bill. In a letter to L.J. Gatrell, Chairman of the Judiciary Committee, Memminger wrote,

> Treasury notes are now the accepted currency of the whole country, and circulate at par with bank notes. They, therefore, need no assistance at present to enable the to perform the function of legal tender. A law of Congress making their acceptance compulsory, will immediately induce the enquiry into the reasons for such a law. It will be asked Why enforce by penalty that which is freely done by every one? And it will be difficult to escape the conclusion which will be drawn, that the law makers anticipate an expected refusal; and this anticipation involves suspicion of the notes…. It is plain that no law is necessary to produce a voluntary act."[199]

Ultimately, the Judiciary Committee of the House was divided on the constitutionality of the bill. Five believed it was unconstitutional, while four believed it was constitutional. Several other legal tender bills entered the House throughout the remainder of the war, but none passed. Indeed, the only available record of Jefferson Davis's views on legal tender indicates that he would have vetoed the motion.[200]

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[198] Schwab, *The Confederate States of America*, 86-87.

[199] C.G. Memminger, *Making Treasury Notes Legal Tender, March 13, 1862,* (Richmond: Treasury Department, 1862).

[200] Schwab, *The Confederate States of America*, 90-95. In a letter to General Lee, Davis mentions that Treasury notes are already legal tender in practice, and there is no need to enact a law.

An Increase in Notes

In Memminger's Report to Congress on March 14, 1862, he discussed the Treasury note situation. As the expenditures for the next fiscal year were estimated at $215 million, Memminger recommended increasing the supply of Treasury notes by $50 million. However, he understood the implications of this action,

> Experience has also established that this is the most dangerous of all the methods of raising money. The danger arises from the fact that, in borrowing money in this form, the government interferes with the measures of value. The amount of currency usually circulating in a country forms its measures of value. While this consists of gold and silver, it cannot become redundant, because any excess would immediately be exported to other countries. But when a currency has no value except in one country, this security against excess is lost, and every addition becomes permanent circulation. Every money-value must re-adjust itself to this increase, and the result is, that to obtain a comparatively small amount of money, the values of the entire property of the community are changed. The government itself, in time of war, becomes the greatest sufferer…. it buys at inflated prices which itself has produced, and loses more in its payments than the amount it has attempted to raise by currency. The relations of debtor and creditor are disturbed by every successive issue, and the result is the prostration of public credit and private confidence. The facility with which a government paper currency may be issued, offers strong temptations to resort to it in difficult times. But the disastrous consequences which have always attended its over-issue, warn us to mark with care the boundaries within which it should be confined.[201]

In spite of his own advice, Memminger justified the increase in paper currency as the Government still held the confidence of the people. In his words, "So long as the public confidence can be preserved, this effect would attend a currency receivable at all points par."[202] But he was leery of asking for any amount over

[201] C.G. Memminger, *Review of the Financial Measures of the Provisional Government: March 14, 1862*, (Richmond, Treasury Department, 1862). Historian Eugene M. Lerner paints an overly-rosy picture of Memminger in this instance, alluding to his warning on the dangers of over-issue without mentioning his recommendation of an additional $50 million in Treasury notes.
[202] Ibid.

$200 million, at which he urged Congress to "pause…until we can see the effects upon the country."[203]

Congress enacted Memminger's recommendation on April 18, 1862, again offering an exchange on notes for $50 million in 10-year, 6 percent Call Certificates—extended to $100 million on September 23. These Call Certificates were quite successful. By December 31, The Treasury had issued over $59 million in Call Certificates.[204]

However, the Confederacy failed to unload its massive bond issue. The only successful loan had been original $15 million loan. On April 9, 1862, Memminger claimed that the current $181 million bond issue was an asset no power or skill could convert into cash. Whenever a section was threatened by the enemy, the people would accept nothing but Treasury notes. When the Secretary urged that war requisitions be paid for half cash and half bonds, officers reported that the owners of supplies would not accept any payment in bonds. Friction developed between Memminger and the War and Navy Departments when they accused him of discrimination. On May 10, 1862, Memminger stated that if the whole expense of the Government was settled in notes, they would exhaust their $50 million issue in sixty days.[205] Indeed, by June, only a few million dollars remained unsubscribed on the $200 million note issue. Memminger warned that if debts piled above this amount, the President must use executive power to meet the emergency.[206]

[203] Ibid.
[204] Todd, *Confederate Finance*, 107.
[205] Smith, "The History of the Confederate Treasury," 28
[206] Ibid., 28-29.

On September 23, 1862, Congress made several reforms to the issue of bonds, notes and stocks. They authorized Memminger to issue "such additional amount of the same as may be required to pay the appropriations made by Congress at its last and present sessions." Seven days later, Memminger showed the amount of issues at over $283 million, and claimed that he needed an additional $150 million to cover expenses by the end of the year, bringing the total to $433 million.[207]

In October, Memminger wrote to Davis, "When it is remembered that the circulation of all the Confederate States before the present war was less than 100 millions, it becomes obvious that the large quantity of money in circulation today must produce depreciation and final disaster."[208] To abate the Confederacy's swollen issue, the Secretary recommended a forced loan of 1/5 of all incomes, and a reduction in the interest rate on bonds fundable by Treasury notes.[209]

Congress ignored this first recommendation but approved the second. On October 13, 1862, they approved "An act to reduce the rate of interest on the funded debt of the Confederate States." It stipulated that all notes issued after December 1, should be fundable in 7 percent bonds—a one percent drop. The act's sole purpose was to ease inflation. Memminger admitted that this was an infringement on the contract written on each note, but stated, "A limitation of time

[207] Todd, *Confederate Finance*, 109.
[208] Lerner, "Monetary and Fiscal Programs of the Confederate Government," 520.
[209] Todd, *Confederate Finance*, 109.

for the performance of contracts has never been considered an infringement where sufficient opportunity is given to claim performance."[210]

As with the Produce Loan, there was a lack of cohesive fiscal strategy between departments. Memminger's financial plan competed with War and Navy officials who had substantial problems of their own. Consider that in Arkansas in 1862, Army funds and stores were almost depleted. Indebtedness to civilian suppliers reached insurmountable levels. In October 1862, General Theophilus Holmes wrote to Secretary George W. Randolph stating, "Certified accounts are scattered broadcast throughout the entire country, and many are held by persons in indigent circumstances, who, having sold to agents of the Government all their subsistence, have now neither provisions nor money with which to purchase what are required for the support of their families… The people refuse to sell any more to the Government on credit." Memminger's suggestion that war requisitions be paid for half cash and half bonds would have provided little comfort for the civilian creditors.[211]

Supply Shortage, Note Abundance

Shortages in food, supplies, and labor had plagued the Confederacy since the blockade. The war robbed the South of a massive labor pool. General Clement A. Evans estimated that 40 percent of white males military age had joined the army. Now, with a precipitous increase in the money supply, the price

[210] Ball, *Financial Failure and Confederate Defeat*, 179.
[211] Harry N. Scheiber, "The Pay of Troops and Confederate Morale in the Trans-Mississippi West," *Arkansas Historical Quarterly*, 18 (Winter, 1959), 350-365, 352.

of many goods inflated to unobtainable levels. Though the inflationary trend was acerbated by shortages, it also aggravated shortages. For thirty-one months, from October 1861 to March 1864, the general price index in the Confederacy rose at a rate of 10 percent a month. Prices rose much faster than wages. On January 10, 1863, Memminger estimated that real incomes in the South had declined by 40 percent. Southern laborers had to take on second jobs or work longer hours to maintain their prewar standard of living. Even wives and children entered the workforce to supplement the family income. By 1862, some firms demanded customers offer a commodity along with Treasury notes. Many of the Confederacy's poorer citizens went without food or clothing as they could not afford them.[212]

Currency Reduction

As prices rose, so did Government expenses. As the real value of money fell, lenders refused to extend credit without a guarantee of repayment in gold. By December 1862, Treasury notes were worth thirty-three cents to the gold dollar. On January 10, 1863, Memminger recommended a two-thirds withdrawal of Treasury notes, "Prices will reach the height adjusted by the scale of issues, and they can only be restored to their usual condition by a return to the normal standard of currency. In other words, the only remedy for an inflated currency is

[212] Eugene M. Lerner, "Money, Prices, and Wages in the Confederacy, 1861-1865," *Journal of Political Economy*, 63 (February 1955), 20-40, 20-37.; Mary Elizabeth Massey, "The Effect of Shortages on the Confederate Homefront," *Arkansas Historical Quarterly*, 9 (Autumn, 1950), 179-193, 178-179.

a reduction of the circulating medium."[213] In an unfortunate irony, he also requested authority to issue an additional $200 million in Treasury notes to meet Government expenses.[214]

Congress embodied Memminger's recommendations within the Act of March 23, 1863. Congress stipulated that all notes fundable in 7 percent bonds were to be turned in August 1, 1863, that the December 1, 1862 issue was fundable in 4 percent bonds, and that Call Certificates would be converted into funded debt. Congress also gave Memminger the authority to issue $50 million a month in non-interest bearing Treasury notes.

Neither the interest reduction of October 13, 1862 nor the currency reduction of March 23, 1863 succeeded in reducing the currency. Though the Government sold over $224 million worth of 8 and 7 percent bonds before August 1, 1863, Memminger was issuing over $50 million a month to keep pace with government expenses. Given the extensive military operations in the summer and fall of 1863, the March 23 reduction managed to remove just $21 million in notes. By September 30, 1863, non-interest bearing notes in circulation totaled $616 million.[215]

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[213] C.G. Memminger, *Memminger to Thomas S. Bocock: January 10, 1863. Confederate Treasury Reports* (Richmond: Confederate States of America, 1863).
[214] Todd, *Confederate Finance*, 110.
[215] Ball, *Financial Failure and Confederate Defeat*, 182-183; Todd, *Confederate Finance*, 111.

Shock and Demoralization

By the end of 1863, the Confederate currency had sunk so low that even the optimistic President Davis was alarmed. In December, Treasury notes were worth just five cents to the gold dollar. The public referred to them as “rags” and “fodder.” One Georgian stated that, “An oak leaf will be worth just as much as the promise of the Confederate treasury to pay one dollar.” That same year, United States greenbacks made their way into the South, competing with the Confederate issue. It was a situation both humiliating and demoralizing for the Confederacy. After the battle of Gettysburg, it took four Confederate dollars to purchase one greenback dollar. In 1864, Congress passed a law forbidding transactions with U.S. notes, but the need for stable currency was so great that even the Government began collecting its own supply.[216]

The Act of February 17, 1864

In his Report of December 7, 1863, Memminger again recommended a reduction in currency, “In the present expanded state of the currency it would not be expedient to reduce the circulation to its proper normal standard…. it is presumed that a reduction of the entire volume to 200 millions will be sufficient. After the war, measures may be adopted for such further reduction as may then be proper.”[217] Memminger advocated four items: exchanging outstanding

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[216] Coulter, *The Confederate States of America*,155.
[217] Memminger, *Report of the Treasury, December 7, 1863*.

Treasury notes for a new issue of 6 percent, twenty-year bonds; requiring every note-holder to present their treasury notes for funding by April 1, 1864; abolishing the ability to pay taxes with the notes; and for the notes to remain only as evidence of debt payable after October 1, 1864. The plan would allow for a three month delay for regions west of the Mississippi. President Davis rallied behind his Secretary, asking Congress to give the matter their full and immediate attention.[218]

Congress, however, was full of competing and contradictory remedies. Those in opposition felt the Secretary's policies put too great a value on Treasury notes. They also objected to exchanging non-interest bearing Treasury notes for interest-bearing government securities. Congressmen Frances S. Lyon and H.W. Bruce suggested levying a 50 percent tax on the currency, and fund the remainder in 5 or 6 percent bonds. This proposal met with popular approval in the House. Indeed, the idea of taxing currency was a disguised form of debt repudiation. Under a proposed tax bill, the old issue could be exchanged for new notes or bonds on scales ranging between five and twenty-one. The House voted to tax the notes, but the Senate rejected it. Afterwards, a joint Senate-House committee met to reach a compromise.[219]

On February 16, 1864, the Senate-House Conference Committee drafted a compromise bill that combined features of Memminger's plan, coupled with several Congressional amendments. The next day, Congress passed "An Act to reduce the currency and to authorize a new issue of notes and bonds." In what

[218] Ball, *Financial Failure and Confederate Defeat*, 183.; Smith, "The History of the Confederate Treasury," 143.
[219] Ibid., 187.; Ibid., 145.

Capers later described as “a jumble, resulting from confusion of ideas, that at best, was a compromise between opposing factions,” the act attempted to reduce Treasury notes by coercing note holders to either fund their notes in 20-year 4 percent registered bonds or exchange them at a rate of 3:2.[220] Notes were divided into four classes: those of 50 cents, $1, and $2; notes of $5; notes above $5 but below $100; and notes above $100. Fifty cent, $1 and $2 notes were unaffected. Five dollar notes were received at par through either coercion scheme until July 1, east of the Mississippi, and October 1, west of the Mississippi. After this, the notes were fundable at two-thirds their value until January 1, 1865, at which date the Government would tax them at 100 percent. Notes above $5 fell under a similar scheme but their receivable date was April 1, 1864, east of the Mississippi, and July 1, 1864 west of the Mississippi. One-hundred dollar notes were only receivable in bonds. Those not received by April 1, and July 1 respectively were taxed at 33.3 percent plus 10 percent each month afterward until funded. Notes above $100 were also taxed at 33.3 percent but were exchangeable for bonds until January 1. Outside of illustrating how Memminger’s fiscal suggestions had to compete with Congress’s, at this late date, it mattered little what was suggested.[221]

The publication of the reduction act caused panic in commercial circles. Southerners attempted to reduce their cash, which drove already inflated prices higher. The general price index in the South rose 23 percent in the month period between February and March, 1864. On March 10, Governor Brown declared,

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[220] Capers, *Life and Times of C.G. Memminger*, 347-348.
[221] Smith, “The History of the Confederate Treasury,” 146.; Todd, *Confederate Finance*, 113.

“The act has shaken the confidence in the justice and competence of Congress. The country was prepared to pay cheerfully a heavy tax, but it did not expect repudiation and bad faith.”[222]

Currency reform took effect by May, 1864, and prices in the South fell between 10 and 50 percent. Flour in Macon went from $125 to $75 dollars per sack. Butter in Mobile went from $10 to $5 a pound. Theater tickets in Richmond went from $5 to $2. These discounted prices remained for six months before rising back to pre-reform levels. [223]

The old currency, though nominally repudiated, circulated to the very end. Aided by a public indifference, it often held as much value as the new currency. Coulter describes the process enacted on the old currency, “All old money received by the Treasury was mutilated by a machine which bit out a semicircular hole and was then consigned to the furnace; but even so, now and then, a bill was secretly extracted on its road to destruction, patched up, and passed.” Due to the imperfect record keeping of the Confederacy during its final years, there is reason to believe that the Government paid out some of the old issue.[224]

Conclusion

In November, 1864, newly appointed Secretary of the Treasury George Trenholm publicly declared the currency reform a failure. The next month,

[222] Smith, “The History of the Confederate Treasury,” 146.
[223] Lerner, “Monetary and Fiscal Programs,” 522.; Coulter, *The Confederate States of America*,163.
[224] Ibid., 162.

Treasury notes were worth 2.6 cents to the gold dollar. It was no secret that the Confederacy's finances were irreversibly broken. Months earlier, on April, 1864, Vice President Alexander H. Stephens spoke privately to Secretary of War Seddon, stating, "Our finances are now a wreck. Past all hope, in my judgment." At the same time, Congressman William W. Boyce of South Carolina also acknowledged that the South's finances were ruined.[225] Fifty-four percent of the Confederacy's total revenue came from the printing press. Throughout 1861, Treasury notes were the Confederacy's primary source of income.[226] The failure in confining the currency within appropriate limits, and reducing its size when it became too large, were matters outside of Memminger's control. Both these factors relied on a shrewd and successful taxation program.

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[225] Ibid., 162.

[226] R. Neil Fulghum, "The Southern Homefront 1861-1865. Introduction: Moneys for the Southern Cause" http://docsouth.unc.edu/imls/currency/index.html (Accessed April 12, 2009)

Conclusion

When Congress approved the Funding Act of February 1864—substantially different from Memminger's original plan—the Secretary stated his desire to resign. In his words, "the public service would be promoted by the appointment of a successor whose views of financial policy accorded better… with the legislation… adopted."[227] President Davis objected to Memminger's resignation, citing the difficulty in finding a suitable replacement on such short notice. On May 27, Representative H.S. Foote of Tennessee introduced a resolution calling for the Secretary's resignation. The resolution was referred to the Committee of Ways and Means. However, the Committee never made a report. It was assumed that Memminger would resign at the end of the session.

On June 15, 1864, Secretary Memminger resigned. Reasons as to why he had not resigned immediately after the Funding Act were twofold. The first was, "a repugnance to any act which could be construed into an abandonment of a post of duty assigned to me during a struggle in which I felt that every citizen owed to his country whatever sacrifice or service was demanded of him." The funding machinery required for the act was so complex that "No new head of the Department, however competent, would have been able to acquire sufficient

[227] Todd, Confederate Finance, 78.

knowledge of office details in time to have carried out the provisions of this act."[228] The second reason was the confidence placed in him by President Davis: "you honored me with such confidence as you have manifested… while your whole energies were still taxed by the great and varied responsibilities attendant upon the office in which Providence has placed you."[229]

The Confederacy's economic structure was too primitive for a sophisticated financial policy. A lack of paper and complex financial machinery saw economic programs move slowly. A small number of wealthy planters held disproportionate influence in southern economic affairs. They had no intention of being patriotic if it damaged their profits. Also, southern economic isolation engendered by the Union blockade disrupted the cotton market.

Southerners rigorously opposed taxation that was essential to providing a legitimate source of revenue to meet interest payments. Taxes made up just 4 percent of the Confederacy's total revenue. The Union, on the other hand, financed 20 percent of the war in taxes—a strategy sustainable for the long term.[230]

Memminger's financial wisdom was constantly at odds with a southern states' rights, agrarian political ideology. Here, Memminger is not blameless. His weak early financial schemes toed the party line, and he had the same optimistic expectations as the rest of Congress. To Memminger's credit, he fought hard to establish heavy taxes in 1863. However, by then it was too late.

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[228] Capers, *Life and Times of C.G. Memminger*, 366.
[229] Ibid, 366.
[230] Razaghian, "Financing the Civil War," 1.

Even had Memminger been a brilliant financial mind with a gift for oratory, it would not have made any difference. Considering how despised and mishandled the War Tax of 1861 was in the states, a supportive Congress could not sway public opinion mired in an antebellum slave-based, states' rights, agrarian political economy. Changes in public opinion take time—something the Confederacy did not have.

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Candidate for the Degree of

Master of Arts

Thesis: BEYOND THE CAPACITY OF ANY MAN: CHRISTOPHER GUSTAVUS MEMMINGER AND THE FINANCIALPROGRAMS OF THE CONFEDERATE STATES OF AMERICA

Major Field: History

Biographical:

Education: Graduated from Holy Trinity Academy, Okotoks, Alberta, Canada in June, 2002; received the Bachelor of Arts Degree in History from the University of Calgary, Calgary, Alberta, Canada, in November, 2006; completed the requirements for the Master of Arts in History at Oklahoma State University, Stillwater, Oklahoma in December, 2009.

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Institution: Oklahoma State University Location: Stillwater, Oklahoma

Title of Study: BEYOND THE CAPACITY OF ANY MAN: CHRISTOPHER GUSTAVUS MEMMINGER AND THE FINANCIAL PROGRAMS OF THE CONFEDERATE STATES OF AMERICA

Pages in Study: 105 Candidate for the Degree of Master of Arts

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Scope and Method of Study: The purpose of this study was to argue that the scope and talent needed to pursue an effective financial policy within the Confederacy was beyond the capacity of any man. This study also provides a partial defense of Secretary of the Treasury Christopher Gustavus Memminger. Primary source research was largely dependent on Christopher Gustavus Memminger's government documents. The secondary material follows the works of J.C. Schwab *The Confederate States of America* (1901), Richard Cecil Todd *Confederate Finance* (1954), and Douglas B. Ball *Financial Failure and Confederate Defeat* (1991).

Findings and Conclusions: The Confederacy's economic structure was too primitive for a sophisticated financial policy. A lack of paper and complex financial machinery saw economic programs move slowly. A small number of wealthy planters held disproportionate influence in southern economic affairs. Southern economic isolation engendered by the Union blockade disrupted the cotton market. Southerners rigorously opposed taxation that was essential to providing a legitimate source of revenue to meet interest payments. Taxes made up just 4 percent of the Confederacy's total revenue. Memminger's financial wisdom was constantly at odds with southern states ' rights, agrarian political ideology. Moreover, Memminger's early financial schemes toed the party line, and radiated the same optimistic expectations as the rest of Congress. Though Memminger fought hard to establish heavy taxes in 1863, it was too late.

Adviser's Approval ____