

Civil War Finance and Tax Policy: North vs. South

Richard C. K. Burdekin

Claremont McKenna College, Claremont, USA

Although the Southern Confederacy's financial failure is nearly as well-known as its eventual military defeat, lack of tax revenue did not necessarily doom the South. The South was able to stand toe-to-toe with the North through the end of 1862 and initially found more ready buyers for its bonds than did the North. Reliance on the printing press worked until the public became unwilling to continue holding Confederate Treasury notes after the tide of the war shifted in favor of the North. The South was never going to be able to match the North's deep tax base. From a business perspective, its main missed opportunity was actually the decision to embargo its own cotton crop at the beginning of the war. The government's belated move to organize cotton exports in 1864 was three years too late.

Keywords: American Civil War, Confederacy, financial policy

"No man can tell where the war this day commenced will end; but I will prophesy that the flag which now flaunts the breeze here will float over the dome of their old Capitol at Washington, before the first of May."

(Pope Walker, Confederate Secretary of War, April 12, 1861)¹

"The present seems to be the most propitious time, since the commencement of the war, for the Confederate Army to enter Maryland ... The army is not properly equipped for an invasion of an enemy's territory. It lacks much of the material of war, is feeble in transportation, the animals being much reduced, and the men are poorly provided with clothes, and in thousands of instances are destitute of shoes. Still, we cannot afford to be idle, and though weaker than our opponents in men and military equipments, must endeavor to harass if we cannot destroy them. I am aware that the movement is attended with much risk, yet I do not consider success impossible, and shall endeavor to guard it from loss."

(General Robert E. Lee, September 3, 1862)²

Introduction

The question of the inevitability of Confederate defeat in the American Civil War involves not just military strategy but also financial policymaking. Ball (1991, p. 17), for example, concludes that the "Confederate government had it well with its power to prolong its resistance to a point where independence or at least a compromise peace might have been achieved." Ball's (1991) argument that massively enhanced tax policies were a feasible means to that end implies that the South simply lacked the will to mimic Northern fiscal policy. Meanwhile, Ron and Valeonti (2023) argue that the South's lower tax collections reflected a lack of 'democratic governance,' in turn "linking more democratic governments with greater taxation" (p. 270).

This paper re-examines the state of Confederate financing during the American Civil War, demonstrating that, even without meaningful tax revenue, it was able to match the North through 1862. It was easier for the

Acknowledgement: The author thanks Farrokh Langdana for helpful comments.

Richard C. K. Burdekin, Ph.D., Jonathan B. Lovelace Professor of Economics, Robert Day School of Economics & Finance, Claremont McKenna College, Claremont, California, USA.

¹ Quotation from Owls-Glass (1865, p. 16).

² See Lee (1862, pp. 373-75).

South to find buyers for its government bonds than the North—until the tide of war shifted after the major battles at the end of 1862 and the summer of 1863. Although the South's situation was, of course, not sustainable in the case of a long-drawn out conflict, the available evidence suggests that it could have won a short war. Moreover, it is highly unlikely that taxes were a feasible substitute for continued success on the battlefield. The discontent triggered by the North's own taxes would surely have only been magnified in the South had the government tried to extract analogous levels of tax revenue from a much smaller tax base. A more realistic means of buttressing the war effort was available through the revenue that could have been raised from the South's cotton crop, however (Lester, 1974). Had the Confederacy not waited so long to organize the export of cotton to Europe, there would have been more time to secure victory on the battlefield.

Tax Policy in North and South During the Civil War

No matter the level of democracy, no-one would seriously advocate funding massive war-driven spending increases entirely, or even primarily, through taxes. It was understood well before the Civil War that debt finance offers the preferred means of funding temporary spending increases. The case for avoiding excessive tax increases in such times was well laid out, even prior to the War of 1812, by US Treasury Secretary Albert Gallatin (1807, p. 360):

Taxes are paid by the great mass of the citizens, and immediately affect almost every individual of the community: loans are supplied by capitals previously accumulated by a few individuals ... [T]he losses and privations caused by the war should not be aggravated by taxes beyond what is strictly necessary.

In the North, problems with bond finance forced the government to resort to the issuance of unbacked paper money, or “greenbacks,” in 1862. Hall and Sargent (2021, p. 854) summarize the situation as follows:

Union military defeats ... led to a collapse in confidence in the Union military and Treasury. Northern banks were reluctant to purchase more Treasury securities at par, while the Treasury was unwilling to repeat its War of 1812 policy of selling bonds below their par values. By December 30, banks in New York, Boston and Philadelphia suspended specie payments and the federal government quickly followed.

The desperate financial position in 1862 gave rise not only to unprecedented government paper money issuance but also to a wide variety of new taxes. Although a new income tax was introduced, through 1863 the vast majority of the revenue came from import duties plus excise taxes on manufacturers, spirits, tobacco and railroads (Giroux, 2012). There were ongoing increases in both tariffs and sales taxes throughout the war (Pani, 2025, p. 202). Nevertheless, Hall and Sargent's (2021, p. 839) decomposition of Union revenue during the Civil War shows tax revenues accounting for just 6.8% overall—as compared to 59.6% from debt growth and 19.6% from money growth.

The regressive nature of many of these taxes led to concerns that rising inequality in the North was undermining support for the war. Real wages in the North had fallen by 15% through 1863, with discontent over wage levels sparking a series of strikes and work stoppages between October 1862 and June 1863 (Lowenstein, 2022). This was followed by outright revolt during the New York City draft riots of July 1863. Resistance to conscription was compounded by hostility towards the regime's upper echelons:

[L]aborers and industrial workers ... were ardent foes of the Republican government and all its works, emancipation and federal taxation no less than the draft. They regarded the strike as their most potent weapon against Republican rule and continued to tour the city closing factories and laboring sites.

(Bernstein, 1990, p. 25)

Whereas the North was experiencing difficulties with debt finance owing to military reverses, this same situation naturally benefitted Confederate bond sales. As noted by Hall and Sargent (2021), during 1862 Confederate interest-bearing debt issuance dominated non-interest-bearing money issuance by a factor of more than two to one. Although this was non-sustainable in the long run without accompanying tax finance, it is unrealistic to assume that a more tax-based policy could have solved the Confederacy's problems (Ball, 1991; Ron & Valeonti, 2023). Jefferson Davis, and the government in Richmond, had to face the fact that a major impetus behind secession had been the securing of freedom from outside control. Attempting to replace dictates from Washington with dictates from Richmond was always going to be a difficult endeavor.

The importance of raising taxes was clearly recognized by Treasury Secretary Memminger who, on July 20, 1861, stated: "The Treasury Notes and bonds authorized by the laws already passed are based upon the declaration of Congress that ... a [direct] tax would be raised."³ Although the Confederate Congress' reluctance to force such taxes upon the individual states may indeed have been part of a less effective fiscal policy, it was not, in itself, a death knell for the Confederacy's prospects. After all, the Confederacy showed itself able to sustain its war effort at least as effectively, if not more effectively, than the North during the early part of the war. The financial situation unraveled only after the South's military position markedly deteriorated from the end of 1862. No conceivable level of taxation could have allowed the South to come close to matching the North's resources in a long-drawn out conflict. The South had to win quickly to survive.

Why Taxes Cannot Tell the Whole Story

As of the close of 1862, the expenditure shares of GDP were at similar levels in both North and South and each side had relied heavily on money finance. The subsequent deterioration in the Confederacy's financial position did not occur in a vacuum but rather was another casualty of the worsening military situation. The Confederacy had to achieve the kind of swift victory envisaged in the aftermath of the April 1861 capture of Fort Sumter.⁴ After 1862, fears that their currency would lose value prompted holders to spend it at a faster rate. This extra spending pressure, in turn, added to the acceleration in prices, making such fears self-fulfilling. The Confederacy ended up facing a situation where the inflation rate rose even faster than the money supply.

The worsening inflation position reflected a loss of confidence that the South would prevail. The failure of General Lee's advance into Maryland in September 1862 was especially significant. The Fall of 1862 was the only time during the Civil War that the Confederacy was able to mount offensives in both the eastern and western theaters simultaneously. Just as Lee was forced to turn back after the bloody conflict at Sharpsburg/Antietam, in the west General Bragg's Army of Mississippi withdrew to Tennessee after the October 8, 1862 Battle of Perryville in Kentucky. Lee's disastrous defeat at Gettysburg in July 1863 was then followed by the loss of Atlanta in September 1864, which left Lincoln's reelection in November 1864 all but certain. In Ransom's (2005, pp. 178-179) assessment, Confederate victory at Gettysburg alone would have materially slowed the rate of price increase by boosting morale and raising people's confidence in the currency.⁵

³ Memminger's report can be found in Carlson (2023, pp. 279-280).

⁴ The Confederate perspective was somewhat analogous to the Empire of Japan's hopes that the December 7, 1941 attack on Pearl Harbor would deliver a knockout blow. As with the Confederacy, the Empire of Japan simply lacked the resources to sustain a long-drawn-out conflict with the United States.

⁵ Razaghian (2005, p. 16) observes that, whereas "[t]he initial financial strategy pursued by the Confederacy might have seemed adequate and politically feasible at the beginning of the war," the situation changed drastically in 1863 due not only to financial factors but also "England's neutrality, the Union's military advances, and the Emancipation Proclamation that freed more and more slaves as the war progressed."

There was actually little change in the Confederacy's reliance on deficit financing over the course of the Civil War. Its command over real resources shifted dramatically after 1862, however. Price increases now outstripped the rise in raw spending levels and the purchasing power of the Confederate budget fell. As shown in Burdekin and Langdana (1995, chapter 4), the Confederacy's declining command over real resources occurred in conjunction with real money balances falling back from their late 1862 high water mark.⁶ Real money balances had peaked right after the September 1862 battle of Sharpsburg/Antietam in Maryland, which ended General Lee's invasion of the North. The attendant hopes for a decisive victory on Northern soil that could have prompted peace negotiations explained why General Lee was willing to risk this move in the first place (Lee, 1862). While real money balances afterwards declined in the South, the North's improving military position helped its real money supply more than double between 1862 and 1863 (Table 1). Given that the Confederacy's tax levels were never of material significance, it is hard to attribute the contrasting post-1862 trends to fiscal factors alone. The only true solution was a quick victory given the Confederacy's limited resources and pool of recruits.

Table 1

Nominal and Real Money Stocks for North and South During the American Civil War

	<i>1861</i>	<i>1862</i>	<i>1863</i>	<i>1864</i>	<i>1865</i>
<i>Eastern Confederacy</i>					
Nominal Money Stock	50	290	683	717	--
Real Money Stock	45	76	52	18	--
<i>Northern States</i>					
Nominal Money Stock	202	333	630	827	957
Real Money Stock	213	287	394	346	506

Notes: The Confederate money stock comprises Treasury notes plus state and private bank issues in seven states as of July each year. The Northern money stock figures comprise legal tender Treasury notes plus state and national bank issues as of the end of the fiscal year on June 30th. Real money stock values are in January-April 1861 dollars (obtained by dividing the nominal series by each year's July wholesale price index). All numbers are expressed in millions of dollars.

Sources: Burdekin and Langdana (1995, p. 63); Godfrey (1978, pp. 118-119); Lerner (1955, p. 24); Mitchell (1903, pp. 179, 256).

What Else Could Have Been Done?

Although the lack of fiscal revenue extracted by the Confederacy is self-evident, it does not automatically follow that this was the actual cause of Confederate defeat. Besides being more successful on the battlefield, what else could the Confederacy have done? The biggest misstep was probably the decision to withhold the nation's cotton output rather than exporting it before the North's naval blockade was firmly established. The words of South Carolina Senator James Hammond (1858) sum up the established mindset behind this strategy: "No you dare not make war on cotton. No power on earth dares to make war upon it. Cotton is king!" As a result, not only did the Confederacy spurn a major source of revenue but also, far from precipitating British intervention, it ended up generating new profits for holders of surplus cotton in England and elsewhere (Owsley, 1931). Weidenmier (2005) adds that this belief in "King Cotton" also lay behind the Confederacy's decision not to attempt any debt offerings in international capital market during the first two years of the war.

⁶ Confederate Treasury notes were, in fact, promissory notes stipulating that the bearer would receive the face value six months after a peace treaty ratified Southern independence. As hopes for this outcome faded, so too did the public's willingness to hold these notes.

Although the Confederacy did float a cotton loan in Europe in 1863, the prices of the bonds fell sharply after Confederate defeat at Gettysburg in July 1863 (Brown & Burdekin, 2000; Weidenmier, 2000). Funds actually received by the Confederacy from this loan were also partially offset by repurchases, redemptions and commissions. The tax-in-kind that was introduced on April 24, 1863 used a more direct approach to gaining resources by taking 10% of produce directly from farmers (Burdekin & Langdana, 1993).⁷ While boosting tax revenue, it negatively impacted agricultural production as farmers attempted to escape the “tithe” and also exacerbated the move away from a cash-based economy. Only in 1864 did the Confederacy finally seek to profit more effectively from the rising price of cotton.⁸ Under the new 1864 plan, however, government-owned blockade runners were to be used to ship cotton to Europe in exchange for war materiel under new centralized authority:

On 6 February 1864, the Confederate congress passed a law prohibiting the shipment of cotton except under permit from the President ... the government put agents into the field ... [and] [b]y autumn all purchasing had come under centralized authority.

(Lester, 1974, pp. 140-141).

The decision to hold back cotton rather than exporting it to obtain desperately needed arms and other resources from Europe was, from an economic point of view, perhaps the Confederacy’s most serious strategic error. The 1864 measures were simply too little, too late. In the absence of cotton revenue and with only very limited tax receipts, another question is whether the Confederacy may have relied not too much on revenue from money creation, but too little. Cutsinger and Ingber (2019) calculate that the various monetary reforms aimed at reducing the amount of money in circulation reduced the Confederacy’s flow of seigniorage by 57% or more. The most major of these reforms reduced the money supply in the Eastern Confederacy by one-third when it took effect in April 1864 (Burdekin & Weidenmier, 2001). While temporarily slowing inflation, the successive currency reform acts also triggered surging commodity prices as noteholders rushed to spend the money before their exchange rights were reduced (Burdekin & Weidenmier, 2003).

Conclusions

The Confederacy’s financial capability did not fall irrevocably behind that of the North until after 1862. It was not so much the reliance on the printing press that doomed the Confederacy, but rather the public’s unwillingness to continue holding this money after the missed opportunity in Maryland in 1862—and even more so after the outright defeat in Gettysburg in 1863. After that it was too late to escape the spiral towards financial collapse and defeat. In the final analysis, the Confederacy did not win quickly enough to outlast the North’s vastly more abundant resources. Although Ball (1991) justifiably points to a series of errors in Confederate financial policy, a tax-based solution could never have been more than a chimera. Cotton offered the most realistic means of buying more time, but even this could not have offset the negative effects of military setbacks for long. Simply put, the North could survive a wave of military defeats, but the South could not.

⁷ The new tax was to collect “one tenth of the annual produce of the corn, wheat, rice, oats, rye, barley, sugar, molasses of cane, cotton, tobacco, wool, peas, beans, cured hay, fodder, and of pork, the tithe of which is to be commuted for bacon ...” (Hunter, 1863).

⁸ Prior to this, Ball (1991, p. 96) observes that the only cotton shipped on the government’s account had been a single cargo of 428 bales.

References

- Ball, D. B. (1991). *Financial failure and Confederate defeat*. Urbana and Chicago, University of Illinois Press.
- Bernstein, I. (1990). *The New York City draft riots: Their significance for American society and politics in the age of the Civil War*. New York, Oxford University Press.
- Brown, W. O., Jr., & Burdekin, R. C. K. (2000). Turning points in the U.S. Civil War: A British perspective. *Journal of Economic History*, 60(1), 216-231.
- Burdekin, R. C. K., & Langdana, F. K. (1993). War finance in the Southern Confederacy, 1861-1865. *Explorations in Economic History*, 30(3), 352-376.
- Burdekin, R. C. K., & Langdana, F. K. (1995). *Confidence, credibility and macroeconomic policy: Past, present, future*. London and New York, Routledge.
- Burdekin, R. C. K., & Weidemier, M. D. (2001). Inflation is always and everywhere a monetary phenomenon: Richmond vs. Houston in 1864. *American Economic Review*, 91(5), 1621-1630.
- Burdekin, R. C. K., & Weidemier, M. D. (2003). Suppressing asset price inflation: The Confederate experience, 1861-1865. *Economic Inquiry*, 41(3), 420-432.
- Carlson, R. D. (ed.). (2023). *Congress of states: Proceedings of the provisional congress of the Confederate States of America*. Tuscaloosa, University of Alabama Press.
- Cutsinger, B. P., & Ingber, J. S. (2019). Seigniorage in the Civil War South. *Explorations in Economic History*, 72, 74-92.
- Gallatin, A. (1807). *Reports of the Secretary of the Treasury: Report on the finances*. November [https://fraser.stlouisfed.org/title/annual-report-secretary-treasury-state-finances-194/report-finances-november-1807-5646]
- Giroux, G. (2012). Financing the American Civil War: Developing new tax sources. *Accounting History*, 17(1), 83-104.
- Godfrey, J. M. (1978). *Monetary expansion in the Confederacy*. New York, Arno Press.
- Hall, G. J., & Sargent, T. J. (2021). Debt and taxes in Eight U.S. wars and two insurrections. In A. Bisin and G. Federico (Eds.), *The handbook of historical economics* (pp. 825-880). Cambridge, Mass., Academic Press.
- Hammond, J. H. (1858). Speech of the Honorable John H. Hammond, of South Carolina, on the admission of Kansas under the Lecompton Constitution. Delivered in the Senate of the United States, March 4, 1858 (Washington, Lemuel Towers).
- Hunter, R. M. T. (1863). *Report of the committee on finance on the bill (H.R. 18) to lay taxes for the common defense, and carry on the government of the Confederate States*. Senate Report, No. 9, Richmond, April 6.
- Lee, R. E. (1862). Robert E. Lee to Jefferson Davis: 3d September 1862, Rice University. *The Papers of Jefferson Davis*, 8, 373-375.
- Lerner, E. M. (1955). Money, prices, and wages in the Confederacy, 1861-65. *Journal of Political Economy*, 63(1), 20-40.
- Lester, R. I. (1974). An aspect of Confederate finance during the American Civil War: The Erlanger loan and the plan of 1864. *Business History*, 16(2), 130-144.
- Lowenstein, R. (2022). *Ways and means: Lincoln and his cabinet and the financing of the Civil War*. New York, Penguin Press.
- Mitchell, W. C. (1903). *A history of the Greenbacks, with special reference to the economic consequences of their issue: 1862-65*. Chicago, University of Chicago Press.
- Owls-Glass [anonymous]. (1865). *Rebel Brag and British Bluster; a record of unfulfilled prophecies, baffled schemes, and disappointed hopes, with echoes of very insignificant thunder*. New York, American News Company.
- Owsley, F. L. (1931). *King Cotton diplomacy: Foreign relations of the Confederate States of America*. Chicago, University of Chicago Press.
- Pani, E. (2025). *Torn Asunder: Republican crises and civil wars in the United States and Mexico, 1848-1867*. Chapel Hill, University of North Carolina Press.
- Ransom, R. L. (2005). *The Confederate States of America: What might have been*. New York, W.W. Norton.
- Razaghian, R. (2005). Financing the Civil War: The Confederacy's financial strategy. *Yale ICF Working Paper No. 04-45*, New Haven, Connecticut.
- Ron, A., & Valeonti, S. (2023). The money war: Democracy, taxes and inflation in the U.S. Civil War. *Cambridge Journal of Economics*, 47(2), 263-288.
- Weidemier, M. D. (2000). The market for Confederate cotton bonds. *Explorations in Economic History*, 37(1), 76-97.
- Weidemier, M. D. (2005). Gunboats, reputation, and Sovereign repayment: Lessons from the Southern Confederacy. *Journal of International Economics*, 66(2), 407-422.