

How the Civil War Changed America's Money System

By Katherine Li

About 38 million notes are printed each day by The Bureau of Engraving and Printing (“Facts about US Money”). With so many notes being printed, when was paper money first established as a currency in the United States? The answer might be a surprising one: paper money made its appearance as United States currency during the Civil War in 1863 (Goldfield 305). Not only was there a bloody war being fought between the North and the South, the United States was in a financial disaster as well. Paper money was first established as United States currency from the problems during the Civil War, created with distinct characteristics, then argued over during and after the war.

Paper money was first established as United States currency from the problems during the Civil War. The main currency in the United States before the war was either minted with precious metals or redeemable for silver or gold coins (“Greenbacks”). Consequently, it was very difficult to make US coins. The Union also had many issues that pushed it to make paper money. With all the money needed to supply the war, there was a shortage of coins. Also, the government issued bonds, sold to the general public instead of banks. These bonds didn't help to cover the war's expenses (Goldfield 305). Therefore, many Union soldiers in the Civil War didn't even get paid. Colonel Thomas Wentworth Higginson said, “...The consequent fact that there are men here who have remained 8 months without pay... Now, if Gen. Saxton can possibly secure the payment of the regiment, even for the month they have been in camp, all this distrust would vanish, and the recruits would at once flow in, I doubt not” (Higginson 55). As a

result of the shortage of money, many soldiers had not received their pay for their service in the war. Without collecting what they expected to receive, many soldiers were having doubts about the reliability of their army. They could start having ideas of running away or rebelling, which would lead to even more chaos. Furthermore, from the shortage of money, not a lot of soldiers were enlisting into the war. If the soldiers were finally given their pay, even a little, Colonel Higginson was certain that new recruits would flow in. With this financial disaster, the United States needed to find a better way to accumulate money.

The Confederacy had its problems with their currency as well. Banks used to loan coins to the Confederate government at the start of the Civil War, so trading was very common, especially soldiers who bartered with coffee or tobacco instead of money. States issued their own notes, and merchants tried to use tokens to deal with the coin shortages (“Civil War Money Facts”).

Paper money as United States currency was issued out with distinct characteristics. The first of these paper bills were called Demand Notes, that came in 5, 10, and 20 dollar increments that were printed in 1861. (“Civil War Money Facts”). These demand notes looked very different from the money we have today (See picture 1). The Union first printed out US demand notes, with distinct features on the bill. The President of the United States, Abraham Lincoln, is shown on the 10 dollar demand note here, with the date July 17, 1861 written over his picture, which is the date the government passed the act to issue national loans. The Act says, “That the Secretary of the Treasury be, and he is hereby, authorized to borrow on the credit of the United States, within twelve months from the passage of this act, a sum not exceeding two hundred and fifty millions of dollars...” (“A Century of Lawmaking for a New Nation: U.S. Congressional

Documents and Debates, 1774 - 1875"). It is saying that the government is allowed to issue bonds, or national loans, as long as it does not exceed two hundred fifty million dollars. There is also a unique serial number at the bottom left, like the serial numbers we have today, and words at the bottom reading "Receivable in payment of all public dues." This meant that the money was only temporary and was to be a makeshift exchange for government payment. In 1862, the government passed the Legal Tender Act of 1862 ("Legal Tender Act"). American Samuel T. Spear wrote about the Legal Tender Act saying, "With such a monetary 'millennium all the industries of the land are to be blest. Printed bits of paper, made money by the naked force of statute law, constitute the beginning, the middle, and the end of the whole system" (Spear 101). By this, he is saying that paper money would definitely be better than coins. The start of the use of paper money, or "greenbacks," would be the best way to go, marking the beginning, middle, and end of the United States currency system. Spear definitely thinks Americans would be happy to start using paper money since he thinks they are more convenient than coins. The National Banks Act in 1863 introduced a system where banks could distribute paper notes on holdings of government bonds. This was the first time the United States established the federal dollar as its currency. The National Banking Act created a system of banks that were chartered by the government instead of states. This law also helped the government in financing the Civil War. This Act was the "blest" mentioned by Spear ("National Banking Acts of 1863 and 1864").

While Union paper money was called "greenbacks," Confederate paper money was called a "greyback." The first one was released in April 1861, when the Confederacy was only a couple months old, and the Civil War was just breaking out ("Confederate States Dollar"). These pictures also had many distinct features (See pictures 2 and 3). As shown in picture 1, all the

different bills have different designs on them, with signatures and pictures on all of the notes. Some of them include pictures of naval ships, slaves, and historical figures. Picture 2 shows a picture of a 100 dollar Confederate bill. Across the top, there are slaves working on a field. However, they look relatively happy, enjoying their work, which we now know is not true. Although there are many differences between the Union bill and the Confederate bill, both caused lots of problems and outrage during and after the war.

The use of paper money was argued over during and after the war. The value of greenbacks constantly rose and then fell during the war, as a consequence of people not being confident in the ability of the government to work successfully. These notes gave the government lots of needed funds, and expanded the supply of money, which lowered the value of the money. If the money supply is increased, the value of the money will decrease. This caused inflation when the price of money decreases, in both the North and the South. As inflation increased, borrowing was easier, encouraging investments in industry in the North, and agricultural expansion in the South. When the war ended, many people debated whether they should continue the use of greenbacks (“Greenbacks”). In 1866, Congress took away some of the nation’s greenback supply, which resulted in a fall of the national economy. However, the Public Credit Act was still passed afterward, saying greenbacks and bonds issued during the war would be redeemed with gold or silver coins over the next ten years (Goldfield 434). Many people, mostly Western farmers, wanted the government to issue more greenbacks. They eventually formed their own group, the Greenback Party, in 1874. Even though a large amount of greenbacks issued by the government would cause inflation, the Greenback Party argued that this would reduce debts and increase profits of farmers, creating economic success. (“Greenbacks”).

However, many people did not agree (See picture 4). Even during the war, inflation was a big problem. In picture 4, somebody is auctioning off a gold piece in Virginia, in hopes of gaining more money. As explained in Forbes magazine, “When you pay more for something, the person on the other side of the register is also getting more... In fact, it is the very attempt to capture more income that is at the heart of the inflationary process under these circumstances” (“What Actually Causes Inflation (and Who Gains from It)”). This strategy was most likely used during and after the Civil War, creating arguments. Nonetheless, Greenbacks were an important part of our nation’s money supply until the early twentieth century, when Federal Reserve notes, or dollars, became the presiding form of paper currency in the United States (“Greenbacks”).

Paper money was first established as United States currency from the problems during the Civil War, created with distinct characteristics, then argued over during and after the war. The Union and the Confederacy had issues that pushed it into printing paper money. The money that was printed had unique designs on the bill, and the printing of paper money was fought over during and after the war. However, they created a lasting impact on the American economy and changed our currency forever.

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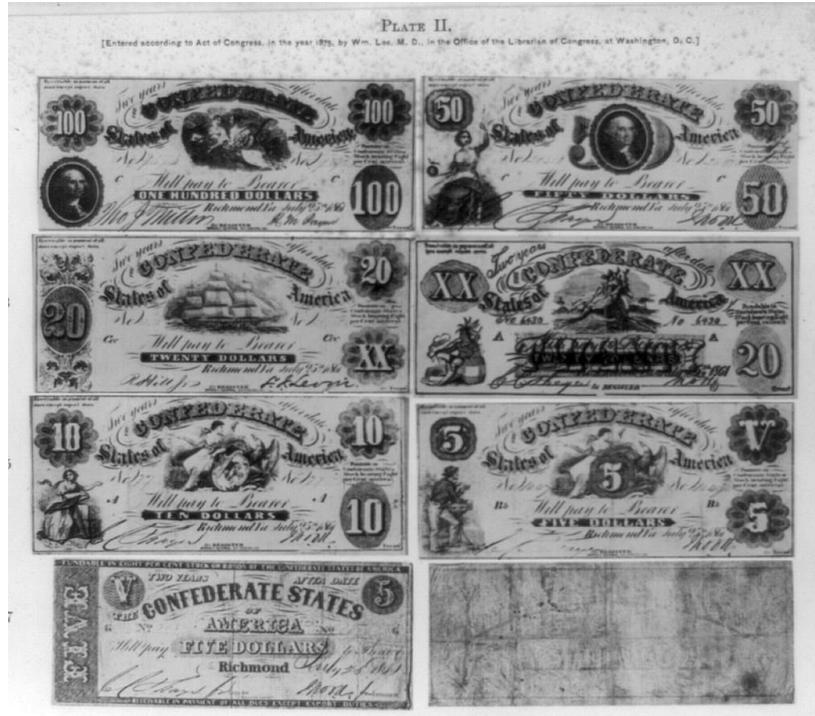
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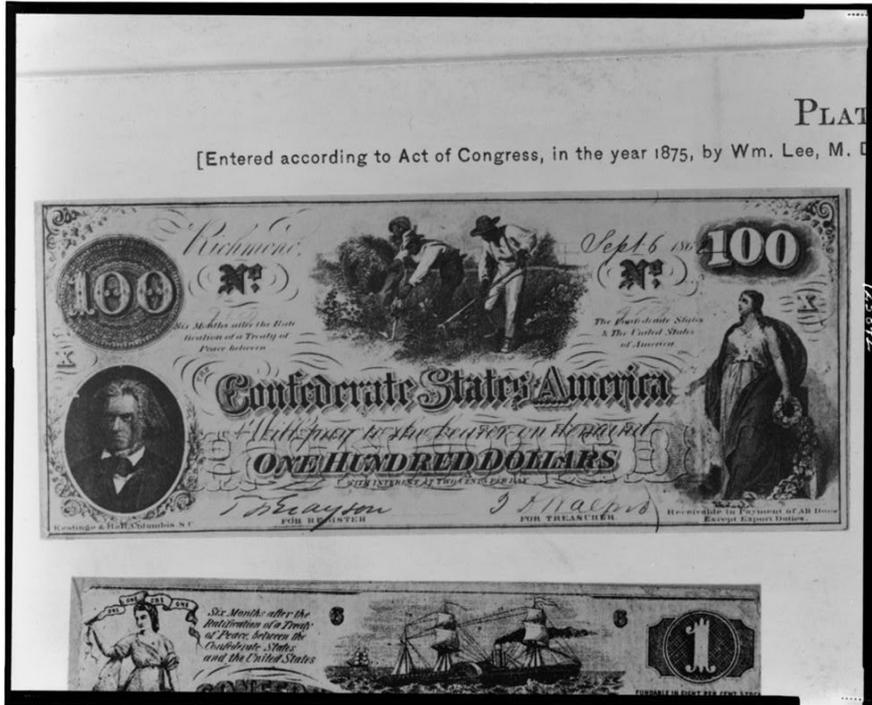
Appendix

Picture 1



Eight Confederate Bills ranging from 5 to 100 dollars, around 1875.

Picture 2



A Confederate 100 dollar bill, around 1875.

Picture 3



A 10 dollar demand note in 1861.

Picture 4



An inflation crisis in the Southern States during the Civil War. There is an auction of a 25 gold piece at Danville, Virginia. This is a sketch by a Union prisoner which was published in Frank Leslie's Weekly of February 13, 1864.