

Greenbacks in the American Civil War

The National Banking Acts of 1863 and 1864

Andrew Jackson might have won the battle over the money trust with the death of the Second Bank of the United States in 1836, but, the war that would determine the fate of who would control America's money supply was far from over. Fractional reserve lending was still being practiced by numerous state chartered banks, causing the kind of instability which this form of economics always thrives on. When people's homes get repossessed, others pick them up for a fraction of their worth. Depression is good news to the lender; but warfare, the biggest debt generator, is even better, as it renders the borrower increasingly subservient to the lender. If the money trust couldn't get its cherished central bank back with a license to print money, a war it would have to be.

On the 12th of April, 1861, this economic war began. In an unprecedented step in the United States, President Abraham Lincoln and Congress imposed the personal income tax on earners. This had been necessitated to build an army and wage war against the secessionist Confederate States of America.

Predictably, Lincoln, needing more money to finance Union troops, travelled to New York, accompanied by his Secretary of the Treasury, to apply for the necessary loans. The banks offered loans at high interest rates, varying from 24% to 36%. Lincoln, not willing to indebt to such a large extent the posterity of his country, refused to borrow money at such high rates.

Faced without any practical solutions, an old friend of Lincoln, Colonel Edmond Dick Taylor, was put in charge of solving the problem of how to finance the war enterprise. Colonel Taylor is quoted as having said to President Lincoln:

"Why, Lincoln, that is easy! Just get Congress to pass a bill authorising the printing of full legal tender treasury notes... and pay your soldiers with them and go ahead and win your war with them also."

~ Edmund Dick Taylor

When Lincoln asked Taylor if the American people, let alone his troops, would accept the new notes, Colonel Taylor quipped:

"The people or anyone else will not have any choice in the matter, if you make them full legal tender. They will have the full sanction of the government and be just as good as any money."

~ Edmund Dick Taylor

Lincoln implemented this idea, giving birth to newly-created United States notes that became more popularly known as "greenbacks". The currency notes were interest-free legal tender money, synonymous for its use in the American Civil War.

To distinguish them from other bank notes, they were trademarked with green ink and a red seal on the back. Lincoln's Administration would ultimately obtain the approval of Congress to issue in circulation up to U.S. \$450,000,000 in incremental stages.

Halfway into the campaign, with war expenditures far exceeding projections, coupled with United States notes depreciating in value in relation to precious metals, problems set in with insufficient cash-flow to see Union troops through as victors.

Come 1863, Abraham Lincoln, together with his Secretary of the Treasury, Salmon P. Chase, proposed a bill to the House altering the way in which the federal government would raise money to fund the war. This bill came to be known as the National Bank Act. United States notes had been the primary source of money, however, not the only source. Bonds were also issued to increase the supply of liquidity. Because banks had depleted gold reserves, the National Bank Act was given the go-ahead to entice banks into buying government issued treasury bonds with their own newly created currency, National Bank notes. These would replace the United States notes over time.

Because a lot of United States notes were printed during the war, and the currency had lost value, inflationary trends hit the economy, thus augmenting the high cost of living throughout unionist America. History recounts that Lincoln was not particularly fond of this currency. In a letter he wrote to Congress on the 20th of January, 1863, he said:

“While giving this approval, however, I think it my duty to express my sincere regret that it has been found necessary to authorize so large an additional issue of United States notes, when this circulation and that of the suspended banks together have become already so redundant as to increase prices beyond real values, thereby augmenting the cost of living, to the injury of labour, and the cost of supplies, to the injury of the whole country. It seems very plain that continued issues of United States notes, without any check to the issues of suspended banks, and without adequate provision for the raising of money by loans, and for funding the issues, so as to keep them within due limits, must soon produce disastrous consequences; and this matter appears to me so important that I feel bound to avail myself of this occasion to ask the special attention of Congress to it.”

~ Abraham Lincoln

Lincoln promoted the bills of the National Banking Acts of 1863 and 1864. A specialist tax organization, Tax Analysts, eloquently describes the system:

“Federal taxes were also instrumental in instituting a system of national banking during the war. The National Banking Acts of 1863 and 1864 imposed a system of “free banking”—banks established by general incorporation as opposed to specific charters—on a national level. State banks were granted national charters and allowed to issue National Bank notes [these notes were separate from greenbacks]. One third of a national bank’s capital had to consist of federal bonds, since the new national notes were to be backed by federal bonds. The National Banking Acts thus served as another means to induce bankers to purchase bonds. In an attempt to avoid increased regulation, however, many state banks declined to seek national charters. To remedy this problem, the 1864 act imposed a 10 per cent tax on state bank notes to drive them out of existence. As a result of this tax, the number of national banks tripled by the war’s end, while their purchase of U.S. bonds nearly quadrupled.”

~ Tax Analysts

Greenbacks continued to circulate until the passing of the Riegle Improvement Act of 1994, with the Treasury retiring the final stock of \$100 United States notes in 1996.