

Confederate Finance

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On January 29, 1863, the Confederate Congress authorized the borrowing of fifteen million dollars. This was a huge amount of money in a day when the average southern soldier drew a pay of eleven dollars per month. This large loan was usually referred to as the Erlanger Loan as it was provided by the French firm of Emile Erlanger and Company. The negotiations for the loan had begun in October 1862 and the Confederate side had been represented by John Slidell, the emissary engaged in the famous Mason and Slidell incident.

As the Confederate government formed in 1861, many realized that the lack of a central currency or the means of making one was going to be a problem. The urgent need for sustaining the machinery of war meant that funds must be acquired and quickly. The most obvious methods consisted of tariffs, taxation, loans or seizure of existing funds. Taxation was not an immediate option as then Secretary of the Treasury Christopher Memminger realized that he had no mechanism in place to collect a direct tax.

The gold in the US mints at New Orleans, Louisiana, Charlotte, North Carolina, and Dahlonega, Georgia was seized early on as were funds at various Federal custom houses located throughout the South. The amount confiscated was helpful for some initial needs, though the nitric acid in the mints turned out to be even more useful in the long run for the Confederate military effort.

Tariffs on imports and exports were originally envisioned by the Confederate Congress as being a sustainable and large source of revenue, but the Union blockade and the Southern effort

to withhold cotton from Europe in hopes of leveraging diplomatic recognition combined to make the revenues fairly small. These import and export duties also increased the level of smuggling.

About twenty-one percent of Confederate revenues were raised through loans, mainly in the form of so-called Cotton Bonds. These bonds were convertible into bales of cotton, with the provision that the cotton be picked up at a southern port. Despite this strange caveat, the bonds were popular in Britain as many hoped that peace would come sooner rather than later.

The main way in which the Confederates financed the war was by means of printing more money. This accounted for about sixty percent of total revenues between 1862 and 1865. While the Union doubled their money supply during the war, the Confederates increased theirs by a factor of twenty. This led to outrageous inflation, particularly in the last year of the war. The Confederate dollar, which could be bought for 90 U.S. cents at the beginning of the war, was worth less than two cents by the end of the war. This inflation was not only caused by the massive amount of money being printed, but also by loss of consumer confidence due to the increasing military setbacks experienced by the Southern armies.

One of the quirks of the Confederacy was that it was a nation composed of states that really did not want to be part of a strong central government. This belief in strong states rights made it difficult to consider any kind of national tax, although a War Tax was imposed in 1861. The tax was on all property valued at more than \$500 and slaves were considered as part of this tax. The difficulties in collecting the tax meant that this was never a substantial or dependable source of revenue.