

The Revenue Imperative

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Review

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Flaherty, Jane *The Revenue Imperative*. Pickering and Chatto, \$99.00 ISBN 9781851968989

Examining the Federal Financial Policy

When I teach my Civil War course, I devote a full lecture to the topic of Union finance. Reflecting conventional wisdom, I tell my students that the nationalistic ideology of the Republican Party helped shape key financial measures, including the Morrill Tariff and the national banking system. I also stress that Union tax policy—which relied heavily on excise taxes on alcohol, tobacco, and other consumer goods—was highly regressive. Such tax policies, I inform my class, foreshadowed the Gilded Age, when high tariffs consistently favored the interests of big business instead of ordinary consumers.

According to Jane’s Flaherty’s provocative *The Revenue Imperative*, I need to do some major revisions. She argues that Republicans generally cast aside ideology and pragmatically experimented with various revenue measures to fund the war’s staggering costs. The unyielding dictates of total war—and not the Republican’s pre-war platform—determined fiscal policy. Congress raised tariffs, for example, to raise revenue rather than to protect domestic manufacturers. She also argues that wartime taxes may not have been as regressive as some historians have thought. The two measures that generated the most revenue for the Union—a general tax on manufactured products and an income tax—were far more progressive than excise taxes on spirits and tobacco.

While I was not completely persuaded by Flaherty’s arguments, I learned a great deal from *The Revenue Imperative*. Flaherty does an excellent job establishing the antebellum context for Union finance. Key leaders such as Salmon Chase believed in the U.S. tradition of financing extraordinary war expenses via debt, while using taxes to fund the ordinary expenses of government. This system of “Dutch Finance”—so named because it originated

during the reign of King William III—had been the British model of war finance since the Glorious Revolution. One key point that Flaherty explains well is how the mismanagement of the Buchanan administration made Dutch Finance harder to implement during the war itself. Thanks to the Panic of 1857 and widespread corruption, the U.S. had run significant deficits during every year of Buchanan's term. The Morrill Tariff—signed into law by Buchanan just before Lincoln took office—was designed to primarily to raise revenue. Tariffs continued to play a key role in Union finance, Flaherty argues, not because of protectionism (thought that certainly a secondary motive), but primarily because merchants paid tariffs duties in specie (gold and silver coins), which the Union desperately needed to pay the interest on its mushrooming debt.

The importance of tariffs highlights a key challenge for Union fiscal policy: raising enough ready money to pay interest on the current debt while making credible promises of repayment on future debt. One of the strengths of *The Revenue Imperative* is that it goes through the range of tax policies that Union policymakers considered. A general tax on manufactured goods, income taxes, excise taxes, and taxes on state bank notes (which helped drive many state banks out of business and contributed to the establishment of a national banking system) all played a significant role. Flaherty indicates that the most productive (from the standpoint of generating revenue) was the general tax on manufactured production. The general tax on manufacturing—which ranged from three to five percent—worked in conjunction with higher tariffs: whether consumers chose domestic or foreign goods, they indirectly contributed to the northern war effort. Taken together, these taxes provided enough revenue to allow the Union to sell a huge number of bonds, mostly within the Union itself. Periodic cash crunches, though, sometimes forced the Treasury Department to issue fiat currency in the form of Greenbacks, which contributed to the significant inflationary pressures that bedeviled the Union economy during the war.

I found the *The Revenue Imperative* engaging and interesting—it is clearly written and informed by a deep reading of the huge literature on Civil War finance. I remained unconvinced, however, of some of the overarching arguments. The evidence on the relatively progressive nature of Union taxation is hardly compelling, especially since the general tax on manufacturing fell heavily on consumers. The rich could easily afford to pay another five percent on manufactured goods, while the poor and middle class could not. Nor is it clear that pragmatism (rather than ideology) shaped Union policy. Taken to its logical extreme, Flaherty's argument implies that all political parties would have

implemented the same financial policies. But would war Democrats have implemented the same mix of policies (including establishing a national banking system) as Republican legislators and the Lincoln administration? The answer to that question is not obvious; perhaps more attention to the arguments of Democrats and their alternatives would have buttressed Flaherty's position. In the end, I may not revise the central themes of my lecture as much as Flaherty would like, but at the same time it will be richer because of her book.

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