

# *Republican National Economic Plan—1861/63*

## **The Morrill Tariff Act of 1861**

### **Overview:**

It was a high protective tariff that increased duties 5%-10%. The increases were designed to raise additional revenue and provide more protection for the prosperous manufacturers.

### **Impact:**

In its first year of operation, the Morrill Tariff increased the effective rate collected on dutiable imports by approximately 70%. In 1860 American tariff rates were among the lowest in the world and also at historical lows by 19th century standards, the average rate for 1857 through 1860 being around 17% overall (ad valorem], or 21% on dutiable items only. The Morrill Tariff immediately raised these averages to about 26% overall or 36% on dutiable items, and further increases by 1865 left the comparable rates at 38% and 48%. Although higher than in the immediate antebellum period, these rates were still significantly lower than between 1825 and 1830, when rates had sometimes been over 50%.

The United States needed much more revenue to support the immense armies and fleets raised to fight the Civil War - over \$400 million just in 1862. The chief source of Federal revenue was the tariff revenues. Therefore Secretary of the Treasury Salmon P. Chase, though a long-time free-trader, worked with Morrill to pass a second tariff bill in summer 1861, raising rates another 10 points in order to generate more revenues.[6] These subsequent bills were primarily revenue driven to meet the war's needs, though they enjoyed the support of protectionists such as Carey, who again assisted Morrill in the bill's drafting.

However, the tariff played only a modest role in financing the war. It was less important than other measures, such as bond sales. Customs revenue was \$345 million from 1861 through 1865, or 43% of all federal tax revenue, while spending on the Army and Navy totalled \$3,065 million. The war was funded by borrowing.

A **protective tariff** became identified with the **Republican Party**.

### **Reception Abroad**

The Morrill Tariff was met with intense hostility in Great Britain, where the free trade movement dominated public opinion. The new tariff schedule heavily penalized British iron, clothing, and manufactured exports with new taxes and sparked public outcry from many British politicians. The expectation of high tax rates probably caused British

shippers to hasten their deliveries before the new rates took effect in the early summer of 1861. When complaints were heard from London, Congress counterattacked. The Senate Finance Committee chairman snapped, "What right has a foreign country to make any question about what we choose to do?"

When the American Civil War broke out in 1861, British public opinion was sympathetic to the Confederacy, in part because of lingering agitation over the tariff. As one diplomatic historian has explained, the Morrill Tariff: [Johnson p 14]

"Not unnaturally gave great displeasure to England. It greatly lessened the profits of the American markets to English manufacturers and merchants, to a degree which caused serious mercantile distress in that country. Moreover, the British nation was then in the first flush of enthusiasm over free trade, and, under the lead of extremists like Cobden and Gladstone, was inclined to regard a protective tariff as essentially and intrinsically immoral, scarcely less so than larceny or murder. Indeed, the tariff was seriously regarded as comparable in offensiveness with slavery itself, and Englishmen were inclined to condemn the North for the one as much as the South for the other. "We do not like slavery," said Palmerston to Adams, "but we want cotton, and we dislike very much your Morrill tariff."

Many prominent British writers condemned the Morrill Tariff in the strongest terms. Economist William Stanley Jevons denounced it as a "retrograde" law. The well known novelist Charles Dickens used his magazine, *All the Year Round*, to attack the new tariff. On December 28, 1861 Dickens published a lengthy article, believed to be written by Henry Morley, which blamed the American Civil War on the Morrill Tariff:

*If it be not slavery, where lies the partition of the interests that has led at last to actual separation of the Southern from the Northern States? ...Every year, for some years back, this or that Southern state had declared that it would submit to this extortion only while it had not the strength for resistance. With the election of Lincoln and an exclusive Northern party taking over the federal government, the time for withdrawal had arrived ... The conflict is between semi-independent communities [in which] every feeling and interest [in the South] calls for political partition, and every pocket interest [in the North] calls for union ... So the case stands, and under all the passion of the parties and the cries of battle lie the two chief moving causes of the struggle. Union means so many millions a year lost to the South; secession means the loss of the same millions to the North. The love of money is the root of this, as of many other evils... [T]he quarrel between the North and South is, as it stands, solely a fiscal quarrel.*

Communist philosopher Karl Marx was among the few writers in Britain who saw slavery as the major cause of the war. Marx wrote extensively in the British press and served as a London correspondent for several North American newspapers including Horace Greeley's *New York Tribune*. Marx reacted to those who blamed the war on Morrill's bill, arguing instead that slavery had induced secession and that the tariff was just a pretext. Marx wrote, in October 1861:

*Naturally, in America everyone knew that from 1846 to 1861 a free trade system prevailed, and that Representative Morrill carried his protectionist tariff through Congress only in 1861, after the rebellion had already broken out. Secession, therefore, did not take place because the Morrill tariff had gone through Congress, but, at most, the Morrill tariff went through Congress because secession had taken place.*

## **The Homestead Act of 1862**

Like Homestead Act and Pacific Railway Act, this act had to wait for Southern Secession to be passed

On January 1, 1863, Daniel Freeman, a Union Army scout, was scheduled to leave Gage County, Nebraska Territory, to report for duty in St. Louis. At a New Year's Eve party the night before, Freeman met some local Land Office officials and convinced a clerk to open the office shortly after midnight in order to file a land claim. In doing so, Freeman became one of the first to take advantage of the opportunities provided by the Homestead Act, a law signed by President Abraham Lincoln on May 20, 1862. At the time of the signing, 11 states had left the Union, and this piece of legislation would continue to have regional and political overtones.

The distribution of Government lands had been an issue since the Revolutionary War. At the time of the Articles of Confederation, the major controversy related to land measurement and pricing. Early methods for allocating unsettled land outside the original 13 colonies were arbitrary and chaotic. Boundaries were established by stepping off plots from geographical landmarks. As a result, overlapping claims and border disputes were common. The Land Ordinance of 1785 finally implemented a standardized system of Federal land surveys that eased boundary conflicts. Using astronomical starting points, territory was divided into a 6-mile square called a township prior to settlement. The township was divided into 36 sections, each measuring 1 square mile or 640 acres each. Sale of public land was viewed as a means to generate revenue for the Government rather than as a way to encourage settlement. Initially, an individual was required to purchase a full section of land at the cost of \$1 per acre for 640 acres. The investment needed to purchase these large plots and the massive amount of physical labor required to clear the land for agriculture were often insurmountable obstacles

By 1800, the minimum lot was halved to 320 acres, and settlers were allowed to pay in 4 installments, but prices remained fixed at \$1.25 an acre until 1854. That year, federal legislation was enacted establishing a graduated scale that adjusted land prices to reflect the desirability of the lot. Lots that had been on the market for 30 years, for example, were reduced to 12 ½ cents per acre. Soon after, extraordinary bonuses were extended to veterans and those interested in settling the Oregon Territory, making homesteading a viable option for some. But basically, national public-land-use policy made land ownership financially unattainable for most would-be homesteaders.

Before and after the Mexican-American war in the mid 1800s, popular pressure to change policy arose from the evolving economy, new demographics, and shifting social climate of early 19th-century America. In the 1830s and 1840s, rising prices for corn, wheat, and cotton enabled large, well-financed farms, particularly the plantations of the South, to force out smaller ventures. Displaced farmers then looked westward to unforested country that offered more affordable development. Prior to the war with Mexico (1846–48), people settling in the West demanded “preemption,” an individual's right to settle land first and pay later (essentially an early form of credit). Eastern economic interests opposed this policy as it was feared that the cheap labor base for the factories would be drained. After the war with Mexico, a number of developments supported the growth of the homestead movement. Economic prosperity drew unprecedented numbers of immigrants to America, many of whom also looked westward for a new life. New canals and roadways reduced western dependence on the harbor in New Orleans, and England's repeal of its corn laws opened new markets to American agriculture.

Despite these developments, legislative efforts to improve homesteading laws faced opposition on multiple fronts. As mentioned above, Northern factories owners feared a mass departure of their cheap labor force and Southern states worried that rapid settlement of western territories would give rise to new states populated by small farmers opposed to slavery. Preemption became national policy in spite of these sectional concerns, but supporting legislation was stymied. Three times—in 1852, 1854, and 1859—the House of Representatives passed homestead legislation, but on each occasion, the Senate defeated the measure. In 1860, a homestead bill providing Federal land grants to western settlers was passed by Congress only to be vetoed by President Buchanan.

With the secession of Southern states from the Union and therefore removal of the slavery issue, finally, in 1862, the Homestead Act was passed and signed into law. The new law established a three-fold homestead acquisition process: filing an application, improving the land, and filing for deed of title. Any U.S. citizen, or intended citizen, who had never borne arms against the U.S. Government could file an application and lay claim to 160 acres of surveyed Government land. For the next 5 years, the homesteader had to live on the land and improve it by building a 12-by-14 dwelling and growing crops. After 5 years, the homesteader could file for his patent (or deed of title) by submitting proof of residency and the required improvements to a local land office.

On January 1, 1863, Daniel Freeman and 417 others filed claims. Many more pioneers followed, populating the land, building towns and schools and creating new states from the territories. In many cases, the schools became the focal point for community life, serving as churches, polling places and social gathering locations. In 1936, the Department of the Interior recognized Freeman as the first claimant and established the Homestead National Monument, near a school built in 1872, on his homestead near Beatrice, Nebraska. Today, the monument is administered by the National Park Service, and the site commemorates the changes to the land and the nation brought about by the Homestead Act of 1862. By 1934, over 1.6 million homestead applications were processed and more than 270 million acres—10 percent of all U.S. lands—passed into the hands of individuals. The passage of the Federal Land Policy and Management Act of

1976 repealed the Homestead Act in the 48 contiguous states, but it did grant a ten-year extension on claims in Alaska.

## **Morrill Land Grant Act of 1862**

- Like Homestead Act and Pacific Railway Act, this act had to wait for Southern Secession to be passed

During the Civil War, the Thirty-Seventh Congress was responsible for a striking amount of landmark legislation. The Homestead Act, the Enrollment Act, and the Internal Revenue Act were passed in a matter of months. Equally important, this energetic Congress also passed the Morrill Land Grant Act (MLGA). The MLGA transformed higher education and was responsible for the establishment of numerous colleges across the country. In this legislation, championed in the Congress by Justin Smith Morrill, the federal government took, for the first time, a leadership role in higher education in the United States.

Morrill, a representative from Vermont, was the most important proponent providing federal assistance for state colleges in Congress before the Civil War. Morrill, the son of a blacksmith, was unable to attend college because his father could not afford the tuition for all of his sons. Leaving school at fifteen, Morrill became a prosperous owner of a general store. He became active in public life and was elected in 1855 as a Whig to the House of Representatives before becoming a leader of the new Republican Party in Vermont. In Congress he rose to a position on the powerful Ways and Means Committee and became one of the most outspoken advocates for the democratic ideal that a college education should be available, at low cost, to all who desired one.

Morrill's thinking was heavily influenced by Jonathan Turner of Illinois College, who had long argued for the establishment of state agricultural colleges through the use of federal land grants. Morrill proposed plans for land grant colleges as early as 1857, and a plan of his passed the House in 1858. The bill faced opposition in the Senate from Southerners objecting to the increased federal role in dictating the course of higher education within the states. Morrill's bill eventually passed the Senate in 1859 in the midst of an economic downturn. President James Buchanan, however, vetoed the bill for both constitutional and economic reasons.

With a new president and the departure of the Southern congressional delegations, Morrill was able in the first Civil War Congress to finally steer his bill to passage. Under the terms of MLGA, the federal government distributed land proportionately to the states, which then sold it. The proceeds of the land sales supported colleges in the instruction of "agriculture and the mechanical arts." Some states used the money from the sale of land to aid existing schools, and other states used the money to establish new colleges and universities. Each state was given 30,000 acres of land for each senator and representative it had in the Congress. Most of the land given to the states was in the West,

where the vast bulk of unsold federal land remained. Additionally, the most populous eastern states, such as New York and Pennsylvania, received a larger share of western land than the western states themselves. This provoked some opposition from western delegations in the Congress, but the simultaneous passage of the Homestead Act secured the support of enough western Republicans to pass the act on July 2, 1862. Although first applied in the Union states, after the Civil War, the MLGA was extended to the former Confederate states.

The passage of this legislation in the midst of war is emblematic of the dynamism and creativity of this Congress, even on nonmilitary matters. President Lincoln, consumed with the day-to-day fighting of the war, gave Congress a remarkably free hand in social and economic legislation. The Morrill Land Grant Act remains one of the great legislative achievements of the Civil War Congress, and countless Americans went to college as a direct result of this law. Through this legislation the state universities of Wisconsin, Illinois, California, Minnesota, and Ohio, as well as dozens of other state institutions were created or expanded. State universities from Maryland to Nebraska to Washington have a Morrill Hall on campus. Morrill was elected to the Senate in 1866, where he remained until he died in office in 1898.

## **Legal Tender Act of 1862**

The U.S. Congress passes the Legal Tender Act, authorizing the use of paper notes to pay the government's bills. This ended the long-standing policy of using only gold or silver in transactions, and it allowed the government to finance the enormously costly war long after its gold and silver reserves were depleted.

Soon after the war began, the federal government began to run low on specie. Several proposals involving the use of bonds were suggested. Finally, Congress began printing money, which the Confederate government had been doing since the beginning of the war. The Legal Tender Act allowed the government to print \$150 million in paper money that was not backed by a similar amount of gold and silver. Many bankers and financial experts predicted doom for the economy, as they believed that there would be little confidence in the scheme. There were also misgivings in Congress, as many legislators worried about a complete collapse of the nation's financial infrastructure.

These notes, called "greenbacks," worked much better than expected. It allowed the government to pay its bills and, by increasing the money in circulation, greased the wheels of northern commerce. The greenbacks were legal tender, which meant that creditors had to accept them at face value. The same year, Congress passed an income tax and steep excise taxes, both of which cooled the inflationary pressures created by the greenbacks.

Another legal tender act passed in 1863, and by war's end nearly a half-billion dollars in greenbacks had been issued. The Legal Tender Act laid the foundation for the creation of a permanent currency in the decades after the Civil War.

## **National Bank Act of 1863**

The National Bank Act of 1863 was designed to create a national banking system, float federal war loans, and establish a national currency. Congress passed the act to help resolve the financial crisis that emerged during the early days of the American Civil War (1861–1865). The fight with the South was expensive and no effective tax program had been drawn up to finance it. In December 1861 banks suspended specie payments (payments in gold or silver coins for paper currency called notes or bills). People could no longer convert bank notes into coins. Government responded by passing the Legal Tender Act (1862), issuing \$150 million in national notes called greenbacks. However, bank notes (paper bills issued by state banks) accounted for most of the currency in circulation.

In order to bring financial stability to the nation and fund the war effort, **the National Bank Act of 1863** was introduced in the Senate in January of that year. Republican congressman from Pennsylvania Thaddeus Stevens (1792–1868) opposed the act; Secretary of the Treasury Salmon Chase (1808–73), aided by Senator John Sherman (1823–1900) of Ohio, promoted it. The bill was approved in the Senate by a close vote of 23 to 21, and the House passed the legislation in February. National banks that were organized under the act were required to purchase government bonds as a condition of start-up. As soon as those bonds were deposited with the federal government, the bank could issue its own notes up to 90 percent of the market value of the bonds on deposit.

The National Bank Act improved but did not solve the nation's financial problems—some of the 1500 state banks, which had all been issuing bank notes, were converted to national banks by additional legislation (that amended the original Bank Act and was passed June 1864). Other state banks were driven out of business or ceased to issue notes after the 1865 passage of a 10 percent federal tax on notes they issued (which made it unprofitable for them to print money). The legislation created \$300 million in national currency in the form of notes issued by the national banks. But because most of this money was distributed in the East, the money supply in other parts of the country remained precarious; the West demanded more money. This issue would dominate American politics in the years after the Civil War. Nevertheless, the nation's banking system stayed largely the same—despite the Panic of 1873—until the passage of the Federal Reserve Act in 1913.

## **Pacific Railroad Act of 1863**

- Like Homestead Act, Morrill Land Grant Act, this act had to wait for Southern Secession to be passed

The Pacific Railroad Act, passed by Congress in 1862 (12 Stat. 489), authorized the construction of the first transcontinental railway line connecting the east and west coasts. The need for a transcontinental railway to facilitate transportation of persons and products across the United States became increasingly clear in the 1850s due to the acquisition of California and the resolution of the Oregon boundary dispute. In 1862, before the secession of the South from the Union, the REPUBLICAN PARTY in Congress was instrumental in enacting legislation that authorized the Union Pacific Railway and the Central Pacific Railroad to construct such a railway. The Union Pacific Railway was to begin construction at Omaha, Nebraska, with the objective of connecting with the Central Pacific Railroad, which was to begin construction at the same time at Sacramento, California. The law provided that after each railroad laid forty miles of track, it was to receive 6,400 acres of public lands and government loans ranging from \$16,000 to \$48,000 per mile of track completed.

Congress passed additional legislation in 1864 to provide more land and money to complete the project. The two lines finally met at Promontory Point, Utah, in 1869, thereby providing a fast means of access from the Missouri River and the Pacific Ocean by rail.

The Union Pacific Railway and the Central Pacific Railroad were merged into the Union Pacific Railroad in 1900 by Edward Harriman.