

## **BOOK REVIEWS**

Edited by N. Stephan Kinsella\*

**MARK THORNTON AND ROBERT B. EKELUND, JR. *TARIFFS, BLOCKADES, AND INFLATION: THE ECONOMICS OF THE CIVIL WAR.* WILMINGTON, DEL: SCHOLARLY RESOURCES, INC., 2004. Pp. xxix, 124.**

Economics, the science of human action, can help us understand almost every aspect of life, including war. This is why *Tariffs, Blockades, and Inflation: The Economics of the Civil War*, by Mark Thornton and Robert B. Ekelund, Jr., is a marvelous contribution to our understanding of the single most defining event in American history: the War Between the States.

Thornton and Ekelund rigorously apply the basic principles of Austrian economics and public choice theory to illuminate some of the central causes and consequences of the war, including the dispute over the extension of slavery into the new territories, the tariff, central banking, wartime inflation, and the Union blockade, as well as the birth of “Lincoln’s New Deal,” the massive expansion of the federal government that occurred during and after the Lincoln administration.

They do a superb job of explaining one of the themes of my own book, *The Real Lincoln*,<sup>1</sup> that the ideological debate over centralized versus decentralized government, with the Hamiltonians pitted against the Jeffersonians at the time of the founding, manifested itself in a seventy-year debate over *economic* policy. Specifically, the debate evolved around the efficacy of protectionist tariffs, central banking, tax subsidies for corporations, and federal land policy. There is no way that

---

\*General Counsel, Applied Optoelectronics, Inc. To submit reviews for this section, visit [www.stephankinsella.com/jls](http://www.stephankinsella.com/jls).

<sup>1</sup>Thomas J. DiLorenzo, *The Real Lincoln: A New Look at Abraham Lincoln, His Agenda, and an Unnecessary War* (New York: Three Rivers Press, 2003).

one can have a full understanding of these defining issues in American history without some background in economics, and Thornton and Ekelund provide their readers with the necessary background.

With each of these policies, there were sharp divisions between north and south from the very beginning of the republic. For example, although there were some northern free traders and southern protectionists, by the 1850s, the majority of support for protectionism came from the north while southerners were largely opposed to it. This was due to the fact that the north was increasingly industrialized, whereas the south was an agricultural society that relied most heavily on selling its cash crops—tobacco, cotton, and rice—on international markets.

At the time, the south contributed less than 15% of the nation's manufacturing output, so protectionism primarily benefited northern manufacturers from international competition, at the expense of the south. If those northern manufacturers had to pay more themselves for other "protected" items, they could easily pass on most of these costs to their customers—many of whom were southerners—since the demand for their products was rendered more inelastic by protectionism.

The south, on the other hand, simply paid through the nose. Since southern farmers sold some three-fourths of what they produced on world markets, they simply had to eat the costs of tariffs, and were unable to raise their prices to any significant extent in response to the higher tariff rates that made clothing, farm tools and machinery, and many other manufactured items more expensive.

Thornton and Ekelund refer to recent scholarship by Paul Collier and Anke Hoefler that shows "certain economic and democratic factors are related to the occurrence of modern civil wars, such as income, population, ethnic division, natural resources, and exports" (p. xvi). Most importantly, "countries that had a high share of primary exports compared to GDP . . . were more likely to experience a rebellion."<sup>2</sup> This was precisely the situation of the south in 1860. Thus, our authors conclude, "the American Civil War is not separate and unique from the pattern of human history related to civil wars" (p. xvi).

After a short primer on the economics of opportunity cost, specialization, trade, supply and demand, and rent seeking and interest groups, Thornton and Ekelund apply these principles to explain the

---

<sup>2</sup>Paul Collier and Anke Hoefler, "On Economic Causes of Civil War," *Oxford Economic Papers* 50 (1998), p. 571.

economic interests behind the war. They disavow the current politically correct interpretation of much of the history profession that the one and only cause of the war was slavery. Instead, they take the scholarly high road by recognizing that the War Between the States, like virtually all other wars, was brought about by “a multiplicity of issues,” and that “those economic interests and the interest groups surrounding them were the key factors in explaining these events” (p. 2).

In addition to the tariff, as discussed above, views on federal land policy were also sharply divided between north and south. Southerners generally favored federal land sales rather than giveaways, so as to make it less likely that tariffs would be raised to finance the federal government. Since the north benefited from protectionist tariffs, and northern political elites wanted to reap the political gains that would come from giving away free land, they were mostly in favor of the giveaways.

The same division occurred with regard to the dispute over central banking: most of the opposition came from the south, with leaders such as John C. Calhoun, Andrew Jackson, and their followers, whereas the northern business elite wanted a central bank that could issue fiat money that was not necessarily redeemable in gold or silver.

Thornton and Ekelund correctly point out that “the tariff became the single most important domestic economic issue prior to the Civil War” (p. 10), and was “a major factor in the coming of the Civil War” (p. 19). They make their point with a chart showing that the tariff accounted for 95 percent of all federal tax revenues in 1860s. This is undoubtedly why Abraham Lincoln announced to a Pittsburgh audience some two weeks before being inaugurated as president that “the tariff is to government what bread is to the family.” He said this while making a stump speech in favor of the Morrill Tariff, which roughly doubled the average tariff rate just days before he took office. (He would eventually sign several other tariff bills that raised the average rate to almost 50 percent).

The North/South split over the tariff began with the tariff increase of 1824, sponsored by Lincoln’s political idol, Whig party leader Henry Clay. Thornton and Ekelund point out that of 209 U.S. House of Representatives votes, only three southern congressmen voted for the Clay tariff of 1824. Of 46 senate votes, only two yes votes came from southern senators. A similar vote pattern prevailed when the House voted on the Morrill Tariff during the 1859–60 session. The South voted its self-interest, and that self-interest was free trade.

Thornton and Ekelund argue that the tariff was of paramount importance to southern secessionists due to “tariff uncertainty.” Beginning in 1824, there were wide swings in tariff rates, with periods of high rates leading to the effective economic plundering of the south. With the ascendancy of the Republican Party and the election of Lincoln, the writing was on the wall that there would be a “politically driven return to high protective tariffs on manufactured goods” (p. 23). Once the war started, “the Yankees were for the most part fighting not to abolish slavery, but for their economic interests and to preserve the Union” (p. 24).

The authors correctly state that the extension of slavery into the new territories was as important as any issue at the outset of the war. It is disappointing, however, that they do not elaborate on the specific economic and political reasons that the Republican Party and its leader, Lincoln, gave for their opposition. Thornton and Ekelund stated very clearly that the Republicans supported the constitutional protection of *southern* slavery but opposed its *extension* because: 1) they wanted to protect the jobs of white workers from competition from both slaves and free blacks; and 2) the Three-Fifths Clause of the Constitution, which counted every five slaves as three persons for purposes of determining the number of congressional representatives in each state, would cause an artificial inflation of Democratic Party representation in Congress if slavery were introduced into the territories.

The Republicans were much more dogmatic in their opposition to the extension of slavery than most southerners were in favoring it. New Englanders had been especially severe in attempting to eliminate free blacks from their midst, and they did not want them to occupy the territories. Many northern states, like Illinois, actually made it illegal for free blacks to migrate into the state.

One point that is never made is that by seceding, the south lost any hope of extending slavery into the territories of the United States. Once southerners formed their own government, they would have needed the permission of the U.S. government to enter the country and bring slaves with them. By seceding, they abandoned that prospect altogether, which suggests that the stories told by Abraham Lincoln—that the “slave power” was threatening not only to bring slavery to the territories, but to the entire north (as he said in his Cooper Union speech)—were nonsense.

The second chapter is a sterling example of the use of applied microeconomics to understand the effectiveness of a major tool of

Lincoln's war on the south: the naval blockade. Two weeks after Fort Sumter, Lincoln announced a naval blockade of the southern ports, and this chapter discusses the economic, political, and social impact of the blockade. The authors refer to Lincoln's proclamation, but it would have been useful to include it in an appendix. Lincoln gives a clear reason for the blockade—which was clearly an act of war directed mostly at civilians—in the proclamation: tariff collection. With secession, Lincoln reasoned, the constitutional requirement of uniform taxation among all the states was violated. Therefore, he was blockading the ports—and waging war in general—for the purpose of tax collection. In his First Inaugural Address, he promised an invasion of any state that failed to collect the newly-doubled tariff rate, and his blockade announcement was a matter of delivering on that promise.

Thornton and Ekelund analyze the economic effects of the blockade in the context of what economists call the “Alchian-Allen effect,” named after UCLA economists Armen Alchian and William Allen. For example, consider two substitute products, whiskey and beer. Whiskey costs \$10, and an equivalent amount of beer, in terms of weight and alcohol content, costs \$5. The relative price ratio is two to one. Now assume that there is a \$5 per unit tax added to both items. Whiskey costs \$15 and beer goes for \$10. The relative price ratio has declined to 1.5. Whiskey is *relatively* cheaper, which will increase the amount consumers purchase of it compared to beer. Sellers will comply by supplying relatively more whiskey and less beer.

In the context of Lincoln's blockade, blockade running became necessary to maintain imports. This creates an additional cost to importing all goods, and is similar to a tax on imports. The Alchian-Allen effect comes into play; higher-priced “luxury” items imported from abroad all of a sudden become *relatively* cheaper. Consequently, the southern blockade runners began importing more luxury goods relative to “necessities,” which the authors label the “Rhett Butler effect” after the blockade-running character in *Gone with the Wind*.

The Rhett Butler effect was debilitating to the southern war effort, and the authors show that a series of government interventions by the Confederate government made the situation even worse. Some goods were “impressed” or essentially confiscated but paid for at below-market prices. This led to shortages of these goods. An import ban on certain luxury goods, coupled with price controls on them, created a very unpopular whiskey shortage! Exports of cotton, tobacco, rice, sugar, and other items were regulated as well, which further distorted

the markets for those items. All of these interventions harmed rather than helped the southern economy, hindering the war effort. As our authors write: “In short, the Confederacy failed to employ its economic strength—a free market, cotton-based economy” (p. 54). In other words, the Confederate government proved once again the old truth that war is the mother of the state.

The third chapter is a state-of-the-art survey of the literature on money creation and inflation, north and south, during the war. Both sides inflated to finance the war effort, with the south relying much more heavily on printing currency compared to debt and taxation as a means of financing the war. Being invaded by the largest and best-equipped army in the history of the world, and with a much more modest tax base than the north, it was inevitable that the Confederate government would resort to inflationary finance on a large scale.

Perhaps most importantly, Thornton and Ekelund describe “a sea change in the institutions of money and banking” that occurred because of the war.

Before the war, the monetary system was essentially a private system with gold and silver coins circulating as the medium of exchange. The vast bulk of money consisted of privately issued bank notes. . . . After the war, money was dominated by government greenbacks, and the free coinage of silver was ended in 1873. (p. 76)

Lincoln’s National Currency Acts introduced massive federal regulation of banking which, prior to the war, was largely an unregulated free market. With the banking system much more heavily controlled by the federal government in the post-war era, “panics occurred more often, were more domestic in nature, and had more severe and widespread effects” (p. 77). The authors correctly conclude that the nationalization of the money supply during the Lincoln administration was “a major political victory for the Hamiltonian and Whig tradition that sought government control of money and banking and the promotion of government debt and easy credit policies” (p. 78). This, of course, was a policy that Abraham Lincoln fought for in the trenches of the Whig and Republican parties from the moment he entered politics in 1832.

The fourth and final chapter brings economics to bear on the question of the consequences of the war. All war is destructive of both labor and capital, and is therefore impoverishing to all sides. Thornton and Ekelund remind us that there is no such thing as an overall “war

## Book Reviews

prosperity,” even though specific individuals, such as those who sell armaments, may prosper.

The triumph of the Republican Party led to several decades of mercantilism, with high tariffs (in the 45–50 percent average tariff range until 1913), corporate welfare for railroads and other politically favored industries, increased government debt, and inflationary finance, all of which created an ever-bigger rent-seeking society in America.

The most interesting revelation in the fourth chapter is that the phrase “New Deal” was not coined by Franklin D. Roosevelt but by a Raleigh, North Carolina newspaper in 1865 that tried to convince its readers to rejoin the union so as to take advantage of all the income-transfer programs that had been created by the Lincoln administration. “Lincoln’s New Deal” included such items as numerous tariff increases, the first income tax, the Homestead Act, an expanded postal monopoly, the U.S. Department of Agriculture, railroad subsidies, national banking legislation, land grant legislation, the Comptroller of the Currency, and many other interventions. “The Civil War and Lincoln’s New Deal,” our authors conclude, “can be characterized as one of the first and most important episodes in the growth of government” in the U.S. (p. 100).

Thornton and Ekelund have broken new ground in understanding some of the economic causes and consequences of the War between the States. Their book can be useful in any course on the “Civil War,” most of which ignore the very substantial literature on the economics of the war. It can also be used in courses on “defense economics” that are taught at various colleges and universities. The outstanding applied microeconomics in *Tariffs, Blockades, and Inflation* has much to contribute to the analysis of *any* wartime situation, not only the American war of 1861–65. The book is short—only 101 pages of text—but this is an advantage in today’s university teaching environment. Moreover, there is a very useful bibliographical essay at the end that describes literature on the economics of the war in general, and the economics of slavery, secession, blockades, money and banking, reconstruction, and war and the growth of government. There is a goldmine of information here for all those who want to gain a better economic perspective of the most defining event in all of American history.

THOMAS J. DILORENZO  
Loyola College in Maryland  
tdilo@aol.com