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Commodity Production as an Explanatory Variable in the Outbreak of the American Civil War

Working Paper No. 42

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Abstract: This inquiry seeks to establish that the American South's comparative advantage in primary commodity production can be identified as an explanatory variable in the outbreak of the American Civil War. In addition, this inquiry seeks to illustrate the positive historical correlation between a state's reliance on primary commodity production and its propensity to generate extreme outcomes—namely, institutional inequality, conflict, and civil war. Furthermore, this inquiry seeks to demonstrate that civil wars can be primarily understood as a function of a rebelling force's economic motivations and explores the concept of King Cotton, westward expansion, and the South's ultimate secession from the Union as a function of the winner's curse.

***Journal of Economic Literature* Classification Codes:** N11, N41, N51

Key Words: American Civil War, Antebellum South, King Cotton,
Primary Commodity Production, Winner's Curse

This inquiry seeks to establish that the American South's comparative advantage in primary commodity production can be identified as an explanatory variable in the outbreak of the American Civil War. In addition, this inquiry seeks to illustrate the positive historical correlation between a state's reliance on primary commodity production and its propensity to generate extreme outcomes—namely, institutional inequality, conflict, and civil war. Furthermore, this inquiry seeks to demonstrate that civil wars can be primarily understood as a function of a rebelling force's economic motivations and explores the South's secession from the Union as a function of the winner's curse. The aforementioned assertions will be analyzed in three sections: the economics of primary commodity production in the colonial and antebellum South, the historical relationship between primary commodity production, inequality, and civil war, and the relationship between King Cotton, westward expansion, the winner's curse, and the outbreak of the American Civil War.

Building Tensions: Economics of Commodity Production in the American South

Even during the colonial era, differing comparative advantages help to explain the distributions of commodity production across territories. Over time, those differences would lead to the emergence of distinct regions. From the founding of the American colonies differences in factor endowments were evident between North and South. The South's comparative advantage was in commodity production and the North's in manufacturing finished goods and small-holder agriculture. Two distinct economies emerged over time, each incentivizing drastically different societies due to their respective sources of capital, forms of labor, organization of production, and institutions. The evolution of economic tensions between the North and South, finds its genesis in the South's comparative advantage in commodity production.

In *American Economic History, Eighth Edition*, Johnathan Hughes and Louis Cain (2011, 29-35) examine the factor endowments and comparative advantages within the regions of Colonial America and how those variables affected the economic development of each region. The authors (2011, 33) state that the Southern Colonies had factor endowments of highly productive soil, favorable climate, abundant arable land, and raw materials. Hughes and Cain (2011, 33) aver that the highly productive land and favorable climate of the Southern Colonies allowed for enough output not only for subsistence farming, but for the additional production of highly marketable commodities—an ability absent in the New England and Mid-Atlantic (Northern Colonies), due to their own comparative advantages. The authors (2011, 33) denote that Southern exports of tobacco, rice, and indigo became increasingly robust during the colonial period, largely driven by British demand for the exotic commodities. Furthermore, the authors (2011, 33) explain that as the demand for Southern commodities rose, so too did the South's demand for labor. African slave labor would fill that demand.

Hughes and Cain (2011, 11 & 33-34) state that slavery was a response to the need for labor in all the American Colonies, being successively legalized by Britain, beginning with Virginia in 1619 and ending with Georgia in 1749. However, the vast majority of slave labor in the American Colonies was utilized in the South's production of commodities. In 1770, 31.5 percent of Maryland's and 60.5 percent of South Carolina's—the Southern Colonies with the fewest and greatest amount of slaves respectively—populations were comprised of black slaves (see Table 2.2). Conversely, in 1770, 11.7 percent of New York's and 1 percent of New Hampshire's—the Northern Colonies with the greatest and fewest slaves respectively— populations were comprised of black slaves (see Table 2.2). The authors (2011, 33 & 170) assert that the South's use of slave labor, as opposed to other forms of labor, emanates from the insufficient numbers of indentured servants to achieve scale production and the fact that European immigrants desired and had the ability to obtain their own land. The robust economic impacts of the Southern Colonies' commodity exports were evident by the late-colonial period, as in 1774, the Southern Colonies had higher per capita incomes than the Northern Colonies, both when including and excluding slaves as a form of capital (see Table

3.3). The South's reliance on commodity production during the colonial period shaped its economy and society, which would further be manifested in statehood.

Cotton and the South are inextricably linked in the collective American psyche. However, in 1790, the United States' cotton output was nearly non-existent, producing only 3,000 bales (see Table 9.6). Eli Whitney's 1793 invention, the cotton gin, proved to be a catalyst for substantial change in both the supply of and demand for cotton. The factor endowments of the South in combination with the production efficiency of the American cotton gin, left the region uniquely and lucratively positioned to dominate the cotton industry. However, similar to the colonial period, in order for the South to meet the vast and increasing demand for cotton, they needed an increasingly large pool of labor. While slavery was extensively used in Colonial America, the South's production of cotton further fueled and ingrained the institution, evidenced by the population of Southern slaves increasing from 690,000 in 1790 to 4,097,000 in 1860—the era of peak cotton production (see Table 9.7). Concurrently, the United States' average annual cotton exports increased from 94,000,000 pounds between 1815 and 1820 to 1,180,000,000 pounds between 1851 and 1860 (see Table 9.5).

Hughes and Cain (2011, 176) assert that cotton was the most important export for the United States throughout the entirety of the nineteenth century, due to its ability to generate cash through international trade, which in turn enabled the

United States to buy crucial goods from abroad. The authors (2011, 176) put forth that in the years prior to the Civil War, more than half of the United States' ability to buy goods from abroad was explicitly generated by raw cotton exports. The increased demand for cotton emanated from its usefulness as a textile in the manufacturing of clothing and other finished goods. Furthermore, the value a firm could add by manufacturing raw cotton into finished goods was greater than in all other industries in 1860 and incentivized the widespread use of cotton in manufacturing (see Figure 11.2). The primary manufacturers of textiles were Britain and to a lesser degree the industrializing American North, thus, both were dependent on Southern cotton production. Hughes and Cain (2011, 177) emphasize how fundamental textile manufacturing—and therefore Southern cotton—was to the British economy, relating that in 1860, roughly 14 percent of England's entire labor force was either directly or indirectly involved in the manufacturing of cotton textiles. Moreover, the authors (2011, 177) state that throughout the decades of the nineteenth century, British industry relied on the American South for roughly 80 percent of its raw cotton. In addition, the South had long depended on Britain for its imported manufactured goods, much more so than the North had (see Figure 2.3), exemplifying the South's deep economic ties to Britain. As the South's production of cotton continued to grow, economic inequality grew within the South; the causes of this inequality will be examined in the following section.

Inequality and Civil War in Commodity-Based Economies

The American Civil War serves as an example of a conflict that can be judged as distinct and also complex. However, significant evidence exists that economies based on commodity production at the time of their emergence have an increased propensity for economic and institutional inequality. Furthermore, evidence indicates that modern economies based on commodity production have a greater likelihood of becoming embroiled in civil war. This section will draw from Kenneth L. Sokoloff and Stanley L. Engerman's "Institutions, Factor Endowments, and Paths of Development in the New World," and Paul Collier and Anke Hoeffler's "Greed and Grievance in Civil War," in an attempt to illustrate the broad historical tendency that states with economies based on primary commodity production have a propensity to produce inegalitarian institutions and civil wars over time. Furthermore, through the isolation of these broad historical tendencies, one can extrapolate that primary commodity production serves as an explanatory variable in the outbreak of the American Civil War.

Kenneth L. Sokoloff and Stanley L. Engerman (2000, 217-232) assert that the variance in primary commodity production amongst the New World colonies at their advent—emanating from the differences in their respective factor endowments—spawned disparate levels of economic and institutional inequality and thus, future economic success. The authors (2000, 223) assert that the

American Colonies, and later the United States, benefitted from favorable factor endowments that incentivized egalitarian political and economic institutions—a thesis which this inquiry holds in the affirmative. However, the authors (2000, 221-223) do not use the Southern Colonies as support for their thesis, rather utilizing the Mid-Atlantic, New England, and Canadian colonies as the crux of their argument—and acknowledging the dissimilar conditions in the Southern Colonies. This inquiry asserts the authors' thesis can be applied to explain the discrepancy between the North and South in terms of economic and political egalitarianism.

Barbados and Cuba are used as examples by Sokoloff and Engerman (2000, 221-223) to illustrate that New World commodity-based economies produced inegalitarian institutions and declining economic success over time. The authors (2000, 221) state that Cuba and Barbados had factor endowments of fertile soil, arable land, and favorable climate, similar to those of the Southern Colonies—though the former was more productive, with a greater ability to achieve scale economies. While the authors (2000, 223) relate that Southern colonial commodity exports of tobacco, rice, and indigo achieved modest gains at increasing levels of scale, the South's subsequent production of cotton during statehood became increasingly lucrative at greater scales. The latter fact is evidenced by data provided in William N. Parker's *The Structure of the Cotton Economy of the Antebellum South*. Parker's data illustrates that in 1849 and 1859 cotton output per slave was positively correlated with the number of slaves on a given farm or plantation (see Table 2). It must be noted that Parker (1970, 46) emphasizes while true economies of scale were likely, the constraints of existing data make it difficult to distinguish the degree to which individual cotton share and differences in crop mix between small-holder farms and large-holder plantations factored in to the aforementioned correlation. Regardless, the incentives of cotton production at scale are illustrated by the concentration of farm value in the Cotton South. Parker's data suggests that in 1850, the richest 5 percent of the Cotton South's population controlled 42.4 percent of the region's farm value (see Table 6). Conversely, in 1850, the poorest 50 percent of the Cotton South's population controlled only 7.8 percent of the region's farm value (see Table 6). Sokoloff and Engerman (2000, 221) put forth that the same correlation was true for the New World commodity-based economies. Furthermore, the authors (2000, 221) explain that due to the efficiency of primary commodity production at scale, plantations increased in size, necessitating increasing amounts of slave labor with unequal levels of human capital. This created a cycle wherein the discrepancy in wealth, political power, and human capital between laborers and those who controlled the production of commodities became increasingly augmented over time.

It is evident that there are numerous similarities between the commodity-based economies of the New World and the Southern American Colonies.

However, the similarities are somewhat confounding as under the conditions described one would expect a slave-uprising—akin to the Haitian Revolution—to be the natural result, as African-American slaves were the population being oppressed, subjugated, and exploited. This inquiry asserts that it is not specific types of grievance or specific holders of grievances, the relative ability for agents to act upon grievances, or the forms of labor available for commodity production at a given point in time, that accelerates conflict within commodity-based economies. Rather, it is the production of commodities that creates inherently destabilizing effects. The work of Paul Collier and Anke Hoeffler, mentioned above, will further elucidate the aforementioned point and how primary commodity production serves as an explanatory variable in the American Civil War.

In Paul Collier and Anke Hoeffler's (2004, 580) "Greed and Grievance in Civil War," the authors provide econometric data which illuminates a strong, positive correlation between exporters of primary commodities and the risk of civil war. Furthermore, the authors (2004, 580) emphasize that their model indicates that "peak danger," in terms of the potential for conflict, occurs when a state's primary commodity exports represent 33% or more of its GDP. Collier and Hoeffler's (2004, 565) data set includes 161 states—with drastically different forms of government, types of economies, and labor sources (see Table 1)—between the period of 1960 to 1999 and distinguishes 79 civil wars. While the authors' data covers a drastically different time period than that of the pre-Civil War South, extrapolating their findings to apply to the American Civil War, provides insight into the explanatory nature of Southern primary commodity production in the onset of the American Civil War.

Collier and Hoeffler (2004, 564-565) define two distinct sources of rebellion, motive and opportunity. The authors (2004, 564-565) describe the former as being associated with "grievances"—political sources of rebellion—and the latter being associated with "greed"—economic sources of rebellion. The authors' (2004, 563-565) detailed comparison of the two sources of rebellion reveals the difficulty in explaining conflicts that are based on grievances, not only qualitatively, but also quantitatively. Regarding qualitative difficulty, the authors (2004, 563-565) relay that the ability to refine the "motive-opportunity dichotomy," such as adding perceptions to the model, increases the difficulty in observing explanatory variables. For example, Collier and Hoeffler (2004, 564-565) discuss the possibility of misrepresentation or exaggeration of grievances. If those possibilities are applied to the Civil War, one is left with subjectivity. In Gavin Wright's (1978, 130-131) *The Political Economy of the Cotton South: Households, Markets, and Wealth in the Nineteenth Century*, the author relates that Southerners strenuously complained about "Northern oppression," emanating from tariffs that favored Northern industry. A shocking claim in modern context—as

African American slaves were being directly oppressed by the institutions of the South. However, one's perception of one's reality is inherently subjective, as too is another's perception of another's reality. For perceived grievances to have explanatory power, Collier and Hoeffler (2004, 589) state that such grievances have to remain similar over time and within societies. The authors (2004, 563) relate that their data affirms the negligible explanatory power of "political and social variables that are most obviously related to grievances." This finding is quite interesting when applied to the South. Considering that the South lost the Civil War and that it was the rebelling force in the conflict, the authors (2004, 564) would consider the South as having acted on a perceived economic opportunity, which was in fact illusory. The authors (2004, 564) compare this phenomenon to the "winner's curse:" the propensity of winning auction bids to surpass the item's actual value—the winner's curse in relation to the South will be explored further in the succeeding section. The chief findings of Collier and Hoeffler (2004, 589)—a positive correlation between exporters of primary commodities and the risk of civil war, largely originating from economic opportunity—reinforce the notion that economic reliance on primary commodity production has a propensity to generate violent conflict within states.

Outbreak: King Cotton, Westward Expansion, and the Winner's Curse

The South's dependence on commodity production not only engendered disparate economies between the industrializing North and agrarian South, it contributed to the outbreak of the Civil War. This inquiry has endeavored to illustrate that states economically dependent on primary commodity production have been prone to institutional inequality, conflict, and civil war throughout history—from the institutional inequality and violence evident in the primary commodity-based economies of the New World to the propensity for civil war within modern states specializing in primary commodity production. Furthermore, this inquiry has sought to demonstrate that rebelling forces' motivations can be best understood through the prism of economic opportunity, rather than stated political grievances. When applied this model provides perspective into the outbreak of the Civil War and the South's role as the instigating and rebelling force. This section will analyze primary commodity production's relationship to the outbreak of the Civil War, through addressing the South's concept of King Cotton, westward expansion, the winner's curse, and the outbreak of the Civil War.

The concept and strategy of King Cotton was straightforward: the South's dominance in the production and exportation of cotton, in conjunction with the ever-increasing demand for cotton on the international market and Southern cotton's importance to Great Britain's textile industry, assured that the South would prove victorious in a war against the North. Gavin Wright (1978, 146-147) affirms that by 1860 “King Cotton thinking” was widely accepted throughout the Southern States, resting on the belief that Britain “would have to intervene on the side of the South” in the event of a civil war. This is reasonable considering the above stated fact that throughout the decades of the nineteenth century, British industry relied on the American South for roughly 80 percent of its raw cotton. Additionally, the South was heavily reliant on British manufactured goods, fostering economic interdependence amongst the pair. Moreover, Hughes and Cain (2011, 177) state that it was not irrational for Southerners to believe in the concept of King Cotton, as in 1860, demand for Southern cotton remained robust and was forecasted to persist. Further analyzing the economic position of the South in the late antebellum period provides fundamental context for Southern belief in the power of King Cotton.

In Roger L. Ransom’s (1989, 48-63) *Conflict and Compromise: The Political Economy of Slavery, Emancipation, and the American Civil War*, the author presents research that provides insight into the South’s confidence in King Cotton. In 1860, the South’s free population possessed higher per capita incomes than the North’s free population (see Figure 3.2). Moreover, Ransom (1989, 46-47) asserts that “on the eve of the Civil War” Southern slaveholders had scant reason to doubt the economic viability of slavery; as between 1845 and 1860, the average price of slaves drastically increased, reaching an all-time high in 1860 (see Figure 3.1). The South's economic power was tangible and highly concentrated. For example, Ransom (1989, 63) avers that in 1860, the most affluent 10 percent of Southern farmers controlled roughly "60 percent of all agricultural wealth," that same demographic in the North controlled only "36 percent of all agricultural wealth." This illustrates not only the opulence of Southern plantations, but the extremity of the South's economic inequality. The South's wealth, dominance in cotton production, economic ties to Britain, rational expectation that demand for cotton would remain robust, high per capita incomes, and belief in the continued economic viability of slavery, suggests that the South's confidence in the concept of King Cotton was rational. Furthermore, considering the above mentioned model of Collier and Hoeffler, the South's motivation for secession would emanate from a perceived economic opportunity, one which was in fact illusory—the winner's curse. This inquiry asserts that the South's perceived economic opportunity for secession was not only in maintaining its economic dominance through the creation of its own state—which would ensure the continuation of the institution of slavery and therefore the Southern cotton industry—but crucially, in expanding cotton production into the newly formed Western states.

American westward expansion and the subsequent formation of new states led to their inevitable designation as being either free or slave states. Hughes and

Cain (2011, 170) relay that the designation of free and slave states—and the tensions between the North and South arising therefrom—was one of the most significant factors contributing to the outbreak of the Civil War. This highlights Southern primary commodity production as an explanatory variable in the outbreak of the Civil War, as this inquiry has striven to evidence that the South's disproportionate use of slave labor emanated from and was directly linked to its comparative advantage in primary commodity production. Moreover, Hughes and Cain (2011, 170 & 186) put forth that by the 1850's the incompatibility of the two economic systems was palpable and the prospect for compromise between North and South on the issue of slavery and westward expansion was bleak. The authors (2011, 185-186) maintain that the contention was centered around the South's assertion that lands west of Missouri "were a common property resource" and that they were equally entitled to it under the federal Constitution. Hughes and Cain (2011, 186) establish that with election of President Abraham Lincoln in November 1860—supported by Northerners resolute on preventing slavery's expansion into the West—the South's secession was imminent, and began in December of the same year.

The South's hubristic secession from the Union not only establishes the South's confidence in King Cotton, it elucidates the concept of the South's rebellion as a function of the winner's curse. In Richard H. Thaler's "Anomalies:

The Winner's Curse," the author (1988, 192) defines and demonstrates the phenomenon of the winner's curse primarily through the lens of "common value auctions"—an auction wherein all parties hold the auctioned item at uniform values. However, Thaler (1988, 201) provides significant insight into the broad application of the winner's curse within the study of behavioral economics, stating that the existence of a "cognitive illusion"—"a mental task that induces a substantial majority of subjects to make a systematic error"—is essential for the presence of the winner's curse. Furthermore, the models of common value auctions and civil war are not fundamentally dissimilar; to function, both require parties to compete over an object held at equal value—a state and the resources therein would be no exception. In conjunction with Collier and Hoeffler's assertion that the winner's curse can be a contributing factor to the emergence of civil war, Thaler's research provides the possibility that widespread Southern confidence in King Cotton was a manifestation of cognitive illusion. As has been established, the South ostensibly had rational reasons to believe in their ability to emerge victorious in a war with the North. However, Southern confidence in the power King Cotton was misplaced, as the Confederacy was defeated in April of 1865. The South's perceived economic gains from its rebellion—expansion of its cotton empire into the West and continuance of its institutions through the establishment of its own state—were in fact illusory, exemplifying the winner's curse.

The relationship between the South's comparative advantage in primary commodity production and the outbreak of the American Civil War is tangible. The economic power the South attained through its domination of the raw cotton industry, propelled its misconceived notion that the power of King Cotton would assure Southern victory in civil war against the North. Moreover, the South's desire to expand its cotton production, and therefore slavery, westward, was one of the most significant factors in the outbreak of the Civil War.

Conclusion

This inquiry has sought to establish that the American South's comparative advantage in primary commodity production can be identified as an explanatory variable in the outbreak of the American Civil War. In evidencing the stated thesis this inquiry has endeavored to illustrate the positive historical correlation between a state's reliance on primary commodity production and its propensity to generate extreme outcomes—namely, institutional inequality, conflict, and civil war. Furthermore, this inquiry has put forth that civil wars can be primarily understood as a function of a rebelling force's economic opportunity and motivation, and explored the South's concept of King Cotton, westward expansion, and its ultimate secession from the Union as a function of the winner's curse. In summation, one cannot explain the American Civil War without the variable of the South's comparative advantage in primary commodity production, as the effects and influence of primary commodity production lay at the center of Southern economic decision making which accelerated the onset of the Civil War.

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