

THE “CONFEDERATE” BLOCKADE OF THE SOUTH

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Commercial non-intercourse was greeted as the strongest weapon of coercion, but proved to be a useless one . . . it was used as an adjunct to military operations, and in so far as it was effective—in the case of the South, whether as a result of the Federal blockade or of Confederate legislation—it weakened the country for waging war effectively by shutting off foreign supplies. (Schwab 1969, p. 265)

There is no shortage of theories to explain the victory of the Union government over the Confederate government,¹ but most explanations rest on the conclusion that the North defeated the South because it was larger in terms of labor and capital.² Corollary views are that the Confederacy was underdeveloped in terms of national identity and government structure or that slavery and free trade made the South deficient in industrial capital and free labor to arm and fill the ranks of its army.³ In contrast, the economic analysis of war is not based primarily on the quantity of resources, but on the ability to use those resources efficiently for both military and civilian purposes.⁴

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¹On the continuing interest in this question, see especially Boritt (1992) and Gallagher (1997).

²For examples of the “Traditional View,” see Jones (1909), Beringer, et al. (1986), and Current (1960, p. 22), who argued that the differences in resources was too great for the South to win and that “God was on the side of the heaviest battalions.”

³See, for example, Owsley (1925) for the prominent view that “states’ rights” prevented the Confederate government from obtaining necessary supplies and soldiers.

⁴This view, as adopted within the Austrian School, is expressed in Mises (1949).

Some historians have come to believe that the South had sufficient resources to achieve independence, but they blame its defeat on the incompetence of Confederate leaders. These historians claim that the Confederacy should have pursued a more aggressive interventionist economic policy with the goal of creating a powerful central government capable of transferring more resources from the economy to the military.⁵ Louise Hill (1936) described the Confederacy as “the most successful demonstration of State Socialism to be found up to the time in modern civilization,” suggesting that the Confederacy lost because it failed to adopt socialism and, in particular, failed to nationalize international trade in a timely manner.

Given that the smaller and poorly equipped armies of the Confederacy regularly defeated or fought to a stalemate the larger and better-equipped armies from the North, it is apparent that some additional economic factors determined the ultimate outcome of the Civil War. It is here that the Union blockade of the Confederacy takes center stage. Blockades are notoriously difficult and costly to enforce, and at the outbreak of hostilities the Confederacy had a distinct naval advantage with its extremely long coastline offering numerous established ports and deep-water harbors. The Union did have more ships and sailors than the Confederacy at the beginning of the war, and the overall number of ships and sailors ensured that it would only be a “paper” blockade.⁶

As the war progressed, the Union expanded its navy, blockade fleets, and bases of operation on the Southern coast. International trade with the South fell dramatically when the war began, and private trade was nearly extinguished by the end of the war. A large number of writers have found the decrease in international trade to be a significant contributing factor in the economic and military collapse of the Confederacy.⁷ As a cornerstone of Union war

⁵President Jefferson Davis has been often criticized for his leadership. The complaints directed toward him usually center on the failure or delay in obtaining the traditional resources for war, such as nationalization of transportation (railroads), heavy taxation, blockade regulations, and the conscripting of slaves. Note that this explanation becomes, in effect, a “states’-rights” argument because all of these failures rested on Davis’s reluctance to infringe on the sovereignty of the states, impinge on private property, or to violate international law.

⁶At the beginning of the Civil War, the Union could only launch three steamers and lost nearly three hundred naval officers because of allegiance to the Confederacy. The South had more than three thousand miles of coastline, with Bermuda, Nassau, Havana, and Mexico within short distance of its borders.

⁷Bern Anderson (1962), E. Merton Coulter (1950), Mary Elizabeth Massey (1952, 1965), Charles Roland (1960), and James Soley (1883). No one to our knowledge claims that the blockade did not play a role in the Union victory. Noted historians Frank Owsley (1931) and Frank Vandiver (ed., 1947) found the Union blockade to be ineffective, as did many high officials in the Confederate government (Beringer, et al., pp. 58-59). However,

strategy, the blockade would have appeared to be the first and most important blow struck by the Union.⁸ The blockade not only directly thwarted the Southern economy but also contributed to the demoralization of the Southern people by encouraging the importation of luxury goods during the war.⁹ Civil War scholar John Schwab described the blockade as the "most powerful tool at the command of the Federal government in its effort to subdue the South." Schwab concluded:

[W]e lean to ascribing to the navy the larger share in undermining the power of resistance on the part of the South. It was the blockade rather than the ravages of the army that sapped the industrial strength of the Confederacy. (1969, p. 236)

However, while the presence of the blockade fleet was certainly a necessary condition to shutting down international trade, it was not sufficient. The blockade fleet made it more costly to transport goods, but the percentage of blockade-runners that were actually captured by the Union blockade fleet was small.¹⁰ Important research has now shown that the Union blockaders posed little threat to the blockade-runners. The blockade fleet did have an economic incentive to capture blockade-runners because the "prize" would be divided between the officers and crew. However, those same incentives meant that the blockaders did not want to harm the blockade-running ships for fear of destroying valuable prizes, particularly the outgoing vessels that were loaded with cotton. International law protected captured members of the crew, who were typically released in port and available for more blockade running. The risk of death or injury faced by blockade-running crews was significantly less than those faced by Confederate soldiers (Neely 1986).

We show that Southern trade and the Southern economy were primarily harmed by the Confederate government's economic and military policies. The Union blockade fleet and coastal bases were a necessary condition, but it was the

these conclusions are based on the fact that the government was capable of getting most of its supplies across the blockade, but ignores the fact that the government was able to do so only by crowding out private trade with extreme measures and at high cost.

⁸General Winfield Scott, commander of the Union army at the beginning of the conflict, devised the "Anaconda Plan" that consisted of four main elements: (1) conducting a naval blockade of the Southern coast; (2) opening the Mississippi River, thereby severing the South into two parts; (3) applying military pressure and controlling territory along the land border, and ultimately invading the center of the South; and (4) capturing the Confederate capital. Scott's planning foreshadowed both the course and length of the conflict.

⁹Ekelund and Thornton (1992) show that blockade-runners resorted to shipping more "luxury" goods (goods with high value relative to size and weight) in response to a tightening blockade, a response to economic incentives dubbed the "Rhett Butler effect."

¹⁰As described in the data provided by Price (1948, 1951, 1955). Lebergott (1981) estimates the probability of capture at 16.5 percent.

policies of the Confederate government that made the closure of international trade and the destruction of the Southern economy possible. These misguided policies, more than any other factor, explain the unusual and unexpected effectiveness of the blockade in reducing trade and, ultimately in the defeat of the Confederacy, a result we label the "Confederate blockade of the South."¹¹ This conclusion extends Stromberg's (1979) thesis that the Confederacy died of over-centralization, a position more fully elaborated by Hummel (1996).

SOUTHERN ECONOMY AND CONFEDERATE POLICY

Prior to the Civil War, resources in the South were allocated almost exclusively on the basis of comparative advantage and free trade. As a result, the South grew rapidly and developed a thriving agricultural economy with a comparative advantage in cotton. Cotton was the fuel of the Industrial Revolution, and the South was the largest producer and exporter of raw cotton. It also produced other export crops, such as rice, sugar, tobacco, and large amounts of meat and grain. However, it only produced limited amounts of manufactured goods.

According to Lerner's estimates, the value of Southern manufacturing in 1860 was \$155.5 million. The bulk of this manufacturing was based on agriculture or locational cost advantages. The number of manufacturing firms in the South represented 14.7 percent of the national total in 1860, but Southern products represented only 8.2 percent of the total manufacturing value, indicating that Southern manufacturing, on average, was based on a smaller scale of production than manufacturing in the North. The gross farm income of the South in 1859 was \$575.5 million (\$277.6 million in cotton alone), or almost four times that of manufacturing. The comparative advantage of the antebellum Southern economy was clearly in agriculture (Lerner 1959, pp. 93 and 102).

While the Northern economy was relatively diversified, the Southern economy was highly specialized in the production of export crops. The Confederate government could have adopted a strategy that exploited their comparative advantage in international trade, but instead adopted a *de facto* strategy of *ersatz*¹² where a nation abandons international trade in favor of

¹¹This result is consistent with Lebergott (1981), who estimated that the overall rate of *ex ante* profit, adjusting for costs and risks, was about the same as the rate of profit of new capital employed in England during the war. In other words, markets worked and blockade-runners were rational. In addition, Lebergott found that many successful blockade-runners only made one round trip through the blockade. He suggests that the risks and lack of profit deterred the successful runners from additional trips and limited the extent of the cotton trade. We agree, and suggest it was the "Confederate" blockade that was the reason for these insufficient profits, an explanation that is implicit in Lebergott (1981, see esp. pp. 868 and 877).

¹²*Ersatz* refers to substitution, usually an artificial and inferior substitute or imitation, when the preferred good is not available. See Massey (1952) for a description of *ersatz* measures taken in the South during the Civil War.

domestic production and the use of inferior substitutes for goods that it cannot produce. The Confederacy's "King Cotton" philosophy led to the adoption of policies such as protectionism and the cotton embargo that discouraged the production and export of cotton. In addition, the Confederate government impressed merchant ships and acquired naval vessels, not for the purpose of breaking the blockade and enhancing international trade, but only to protect cities and the industrial plants that they contained. By the end of the war, the Confederate and state governments were involved in the domestic manufacture of every element of military hardware and weaponry, and they controlled large sections of the economy, including railroads and international trade. Germany followed this type of ersatz policy during both the world wars and suffered greatly, even though it was a relatively large and diverse economy. The economic suffering from a policy of ersatz would be expected to be relatively more severe in the highly specialized economy of the South.¹³

KING COTTON AND THE COTTON EMBARGO

Before the war, David Christy argued in *Cotton is King* that cotton produced on Southern plantations fueled the Industrial Revolution and was therefore a powerful economic tool in international affairs. According to this view, "King Cotton" controlled textile manufacturing both in the North and in England where as many as five million workers were employed. Advocates of this thesis thought that in the event of an invasion or blockade by the North, an embargo would cause a shortage of cotton in Europe, devastate the European and Northern textile industries, and force England and France to break the blockade.¹⁴ According to Owsley (1931, pp. 15-17), "King Cotton became a cardinal principle upon which the men who were to lead the South out of the Union and to guide its destiny through the Civil War were almost unanimously agreed."

In the early days of the Confederacy, advocates of King Cotton petitioned Congress for cotton embargo legislation. While they were unsuccessful in obtaining this legislation, Jefferson Davis and his administration lent "tacit approval" to the embargo (Wise 1988, p. 28). More direct success was achieved at state and local levels, where state laws were passed and citizen

¹³Mises (1949, p. 829) points out that the American Civil War was really the first war where the problems of the international division of labor played a decisive role.

¹⁴This boycott concept does have some grounding in American experience. It was used somewhat successfully at the beginning of the American Revolution, although it was unsuccessful when Jefferson employed it against the British during the Napoleonic Wars. Britain would probably have succumbed to the cotton embargo if not for contrary interests, such as their demand for Northern wheat and munitions sales.

committees applied extralegal pressure against cotton export (Schwab 1969, pp. 250-01). As a result, a de facto embargo on the export of cotton was established in the early years of the war. According to Civil War historians Randall and Donald, "The extraordinary difficulty of getting cotton out of Southern ports in 1861 justified the Southern representations abroad that an 'air-tight embargo' on the export of cotton had been put into effect."¹⁵ At the same time the threat posed by an effective blockade was virtually ignored (Wise 1988, p. 25).

The failure of the Confederate government to act decisively, one way or the other, had a negative effect on its overall foreign policy by creating the impression in Europe that King Cotton was nothing but a paper monarch because cotton was readily available. Europeans, anticipating a disruption in the supply of cotton, established large inventories prior to the actual beginning of the war.¹⁶ Concurrently, the embargo helped provide evidence that Lincoln's "paper" blockade was legal because the importation of Southern cotton into Europe was greatly diminished. In other words, the South would have been better off had the Confederacy either strictly enforced a comprehensive embargo or aggressively stimulated the export of cotton. On the one hand, a comprehensive and binding embargo might have threatened European textile interests by changing market expectations and driving the price of cotton in Europe to extremely high levels. On the other, a policy of aggressive exports would have provided clear evidence that the Union had imposed an illegal "paper" blockade and permitted European intervention to end the blockade. Either policy would have increased the possibility of European intervention early in the war, and most experts agree that an end to the blockade would have meant an end to the war.

IMPRESSMENT POLICY AND BLOCKADE-RUNNING

The Confederate policy of impressing goods for military use at below-market prices created bitter feelings toward the government on the part of those who

¹⁵Randall and Donald (1969, p. 501). In the first year of the war, exports of cotton declined by more than 99 percent. "During the season 1860-1 New Orleans exported one and a half million bales of cotton; during the following season the amount fell to 11,000. The total exports of Southern cotton during the same time fell from two millions of bales to 13,000." Production of cotton remained high early in the war, with almost four million bales produced in 1861 (Schwab 1969, pp. 238, 279). These wartime numbers are "official" figures that are probably much less than the actual exports due to the chaotic conditions, evasion of the cotton tax, and other restrictions.

¹⁶In addition to being able to draw down its inventory of cotton, England faced a drop in demand for its cotton products, and was suffering from a shortfall in wheat production (which it imported from the Union). As the war progressed, labor shifted from cotton textiles to munitions and war goods. The increase in the price of cotton resulted in new sources of supply, from such faraway places as Egypt and India (see Surdam 1998).

were adversely affected.¹⁷ It also resulted in an overall decrease in the supply of provisions, hoarding by civilians and the military alike, general waste, and in some areas the policy deteriorated into mere robbery (Schwab 1969, pp. 202-07). And yet when historians turn their attention to the impressment of ships as a naval procurement policy, it is often viewed as necessary and a generally beneficial aspect of the war effort. In reality, the impressments of ships had the same predictable effects and helped increase the effectiveness of the blockade.

According to economic theory, obtaining ships via impressments will decrease the total supply of ships available for either naval or commercial purposes, because below-market prices discourage future production and supply. Combined with the faulty cotton embargo, the impressments of ships in Southern ports greatly curtailed the South's international trade at a time when the blockade was ineffective and when European goods such as marine engines, railroad machinery, rifled cannons, and repeating rifles could have been imported at costs much lower than later in the war. Between 1860 and 1864, the cost of transporting goods through the blockade increased by 5,000 percent.¹⁸

After ships of foreign ownership had departed Southern harbors in 1861, there were only ten oceangoing steamers in the Confederacy. Several of these steamers were immediately seized or impressed by the government, and all of them would "eventually be taken over by the Confederate Navy" (Lebergott 1983, p. 26). The ships that could have been used to help defeat the paper blockade of 1861 were seized by the Confederate and state governments. This not only prevented their use for profitable purposes, but it established a precedent that threatened potential suppliers of steamers and thus curtailed the availability of a crucial resource to run or break the blockade.

Impressments typically result in wasted resources because government officials are able to consume resources at below-market prices; therefore, it is not surprising that the impressed ships of the South were not very effective military instruments for the Confederacy.¹⁹ Two of the largest and newest

¹⁷See for example, Lebergott (1983, pp. 70-73). He argues for the traditional view that the North won because of its size advantage and because the South was overly concerned with laissez-faire philosophy, but his evidence on impressments policy actually supports the view that Confederate policy distorted production and reduced economic output.

¹⁸See Lebergott (1983) for details of the rapid increase in transportation charges. He estimates that the specie cost of transport increased by almost 5,000 percent from 1860 to January 1864.

¹⁹The waste generally occurs because officials remove too many resources from the economy at the below-market prices and allocate them to lowered value uses. In many cases, impressed ships were quickly and unnecessarily destroyed, captured, or put to unproductive purposes.

steamers were seized by the navy of Virginia and turned over to the Confederate States Navy. The *Jamestown*, renamed the *Thomas Jefferson*, was sunk as an obstruction in the James River, while the *Yorktown*, built in 1859, became the home of the Confederate Naval Academy. The largest available steamer, the *Nashville*, was seized at the start of the war for the Confederate navy, but only contributed to the war effort after it was sold to private interests in 1862 (Lebergott 1983, pp. 26 and 230).

A policy of obtaining goods via impressments means that suppliers are forced to give up their production in return for prices below those that would be set in the market and thus they are not being compensated for the true economic costs and risks they face. When production is not profitable, suppliers are unwilling to produce, and market prices rise even higher. Confederate impressments clearly made Southerners less willing to supply vital goods such as corn. Although unrecognized by historians, the policy of impressing ships likewise diminished the supply of ships. For example, the Confederacy found foreign producers reluctant to provide ships. Also, domestic shipbuilders often demanded lucrative terms in their contracts with the Confederate government. The Confederacy was thus forced into high-cost government-run production in order to obtain the desired number of ships. These well-known problems were due, at least in part, to poorly devised Confederate policy.

NAVAL POLICY AND SHIPBUILDING

Confederate Secretary of the Navy Stephen Mallory stated (in retrospect) that, given their limited resources and the overwhelming resources of their opponent, the Confederate States Navy “accomplished more than could have been looked or hoped for; and if I have ever felt any surprise connected with its operations, it was that we accomplished so much.” However, even he had to admit that only one in a thousand Southerners appreciated the navy’s contribution to the war effort (Mallory 1867). The principal historians of the Confederate States Navy emphasize the tremendous difficulties it faced, the successes it achieved, and its inventive spirit. Their ingenuity resulted in the introduction of ironclad ships, torpedo boats, mines, and even the submarine. However, all of these historians clearly agree that the Confederate States Navy, in the end, was a failure because it did not lift the blockade and relatively few of its ships were ever put into effective action.²⁰

One of the most significant economic failures of the Confederate States Navy was its often-cited success: the ironclad. Initially the Confederacy planned to purchase its sea-going navy abroad and build numerous small

²⁰See Still (1985, 1987), Luraghi (1996), and Soley (1883, p. 24) who considered the activities of the Confederate navy to be “little less than phenomenal.”

wooden gunboats for the defense of harbors and rivers.²¹ This made economic sense because Southern shipyards were capable of making small wooden gunboats but were at a comparative disadvantage to Europe in the construction of effective war ships. However, the success of the *Virginia* and the *Atlanta* convinced Secretary Mallory and the Confederate government officials that an all out effort should be placed on building a fleet of fifty ironclad ships. This fleet would patrol and defend the coastal and river cities and destroy the Union blockade.²² The South simply did not have the shipyards, raw materials, mechanical inputs, skilled labor, and, most important, the time to build this fleet (Still 1987). As a result, the Confederate ironclad-building program was not successful and even more significantly, the ships that were built were built at a high opportunity cost, especially in terms of iron. Construction was begun on approximately fifty ironclads, but only twenty-two were completed; most of these were captured or destroyed shortly after being commissioned. Some of the ironclads had longer but less eventful careers in harbor defense. Ironically, several ironclads had more productive careers in the Union navy after being captured.

Lost within the calculations for the ironclad-building program was the opportunity cost of local material acquisition and construction to the Southern economy and war effort.²³ The South was iron-poor and was forced

²¹The steam-powered wooden gunboats would be of light draft and sit low in the water so as to be difficult to hit. There would be no crew accommodations of any kind, and storage would be limited to coal and munitions. The gunboats had the advantages of being "easily" constructed throughout the South and requiring a small crew. The gunboats could also have served in support of the land forces, enhanced communication, and served in reconnaissance. Originally designed to carry two rifled pivot guns, the design could have been adapted for carrying a large rifled cannon, mortar, ram, torpedo, floating mines, fire boats, and signal rockets. The gunboats might have been further protected by installing more powerful engines or some cotton or iron cladding as experience or circumstances dictated.

²²We note that a policy of protecting the cities rather than opening the blockade had a negative impact on privateering. We also note that a more successful privateer effort by the Confederacy would also have reduced the effectiveness of the blockade by diverting blockaders toward the protection of commercial shipping. Privateering was stymied early in the war by Lincoln's efforts to hang privateers, and later in the war by the lack of open ports (either Confederate or European) in which the privateers could claim and sell their prizes.

²³We do not argue that the Confederacy did not need any ironclads. A successful harbor defense would require ironclads of the floating battery type as a supplement to harbor mines, underwater obstructions, and forts with powerful rifled cannons capable of sinking ironclads at a distance. Floating batteries were slow-moving or anchored ships, nearly impregnable to shot or ram. They could block ship channels to an invading armada with a small number of guns, if supplemented with mines, obstructions, and forts. (The batteries did not necessarily have to stop ironclads, only to stop or prevent wooden ships and troop carriers from passing.) Seagoing ironclads to lift the blockade would have been best procured in Europe or built in New Orleans, had the city not been lost so early in the war.

to defend its only major ironworks in Richmond “at all costs.” Confederate and state governments engaged in costly efforts to stimulate iron production, but these efforts diverted precious labor away from its comparative advantage and resulted in little additional iron supply. The high cost of iron was revealed in the cannibalization and depreciation of the South’s railroad system. The Confederate government used the prewar supply of replacement rails and the iron rails of existing lines to build and clad ships. The dismantling of railroads, the inability to build new rail connections, and the depreciation of the remaining rail system was an important factor in the defeat of the Confederacy.²⁴

The Confederate States Navy plan to build ironclads instead of building gunboats and purchasing blockade busters abroad was a major economic mistake.²⁵ This plan did not protect the Southern economy or open the blockade and contributed directly to military defeat by diverting essential resources into iron production and shipbuilding. The redeployment of iron rails and engineers away from the railroad system to the ironclad-building program undermined the South’s military advantage of interior lines of transportation by which soldiers and materials could be quickly moved from one point of attack to another.²⁶

PROTECTIONISM

Broadly speaking, the South had a tradition of classical liberalism that supported free trade and a free-market economy, while Northern economic philosophy was more interventionist. The North supported funding the federal government via tariffs that protected their manufacturing industries, while the South opposed high tariffs because it meant higher prices for the goods they purchased and a lower return on their exports. The tariff revenue, however, made up the bulk of federal funds, most of which was spent in the Northern states. In fact, the ongoing dispute in Congress over tariffs was a primary reason for the secession of the Southern states. The Morrill Tariff, subsequently, became the impetus for Lincoln’s call to arms.²⁷ Indeed, Republican government both during and after the war maintained what economist Frank Taussig

²⁴See especially, Turner (1953) and Johnston (1959). According to Ransom (1989, pp. 194-95), “The problem was that the transportation network of the Confederacy was not up to the task of moving large quantities of supplies to the armies of Virginia. . . . Eventually, the wear and tear of heavy use without adequate repairs took its toll.”

²⁵They did plan at the beginning of the war to buy navy ships in Europe to break the blockade, but the plans were changed. Also, late in the war, they proceeded to buy a blockade-running fleet, but only a few of these ships participated materially in the war effort.

²⁶Many commentators, including General Robert E. Lee, complained that new and existing rail connections between interior cities should have been made a priority.

²⁷See Denson (1997), DiLorenzo (1998), and Adams (2000).

(1888, pp. 341-42) described as "very high protective duties." Given its prewar stance, it is ironic that by the end of the war the Confederacy would enact many protectionist-type policies of its own. However, these policies were designed to increase government revenue, not to protect the domestic industries of the South.

Confederate and state governments greatly expanded their interventionism during the war and transformed a largely free-market, agricultural economy into one of pervasive government intervention.²⁸ Protectionist policies such as regulations, taxes, and prohibitions were enacted during the war that discouraged international trade, on which the Southern economy was so dependent, and increased the apparent effectiveness of the Union blockade.²⁹ Confederate and state governments also competed in the blockade-running business, further dampening the profit expectations of blockade-runners.³⁰

Early in the war there was a great deal of free-trade agitation.³¹ In fact, legislation was presented to the Provisional Confederate Congress that would have created a free-trade policy, but it was defeated. A similar bill was presented to the First Confederate Congress, and although favorably received in the House of Representatives, the Senate did not act on it before the session ended. After that, sentiment moved toward greater, rather than less, protectionism (Schwab 1969, pp. 245-46).³²

In mid-February 1861, the Provisional Confederate Congress retained the Customs officials of the United States *and* the existing tariff laws, although it did establish a "free list" for food, provisions, and army supplies, as well as all goods purchased before the end of that month.³³ At the end of February, a tax on the export of cotton was enacted that provided for a levy of one-eighth

²⁸See for example Hummel (1996, esp. chap. 9).

²⁹It is worth noting that Confederate policies were often evaded, especially its taxes on imports and exports, but this does not eliminate the cost of the policy or remove their negative economic impacts on the incentives to produce and distribute goods.

³⁰This dampening of expectations might have been particularly acute near the end of the war as Confederate ports were falling into enemy hands and as new Confederate blockade-runners were expected to come into service. The resulting severe constraint on port services would have made private blockade-running extremely tenuous.

³¹For example, the Commercial and Financial Convention in association with the Convention of Cotton Planters recommended complete free trade during its convention of October 14-16, 1861.

³²One private citizen who attempted to establish the volunteer navy of the Confederate States was "hampered by the difficult export regulations" in getting his cotton sold. He was also stymied by the blockade, which had become more effective while he was awaiting permission from the Confederate Congress (Robinson 1990, p. 335).

³³If this free trade window had been expanded from ten days to ten months, it could have had a material impact on the outcome of the war by alerting Europeans of the opportunity to import goods duty free at a time when the blockade was particularly ineffective.

of one cent per pound. Two weeks later, a 15 percent ad valorem tax was placed on imported coal, iron, paper, and lumber. The tariff was further “elaborated” less than one week later. Both the import and export duties failed to raise revenues, which is a clear indication of their negative impact on trade.³⁴ The Confederacy also placed heavy taxes on foreign credits in an attempt to tax the “extravagant” profits of blockade-runners (Schwab, 1969, p. 243). The Cotton Bureau of the Confederate States of America required a permit to export cotton. The bureau used these permits to purchase cotton from farmers, and the farmers in turn sold the permits to blockade-runners. The net effect was to double the cost of cotton purchased for export within the Confederacy (Lebergott 1981, pp. 868-69).

Obviously, protectionism had the effect of making it more difficult to import and export goods and materials needed by individuals, businesses, and governments because it reduced income from international trade and reduced the number of ships engaged in blockade-running. The protectionist regime also created the scenario in which the implicit costs of smuggling would rise. As Lebergott (p. 877) notes, to earn normal profits a blockade-runner must not only be well run, but must also be “well connected, with few problems readily acquiring cotton on time, and getting clearances,” requirements that depended on special connection and government bureaucrats, not business efficiency. As a consequence, protectionism would force the Southern economy to rely more heavily on the policy of ersatz.

REGULATION, PROHIBITION, AND NATIONALIZATION

As the war continued and the blockade tightened, the interventionist tide continued to swell in the South as both Confederate and state governments entered the blockade-running business. The Confederate government operated four steamers out of Wilmington, North Carolina to run the blockade with cotton and return with arms, munitions, and provisions. Governor Vance of North Carolina established a state-run blockade-running operation in 1862, while Georgia and South Carolina entered into joint ventures to reap the profits of blockade-running and, in part, to exempt local firms from the onerous Confederate requirement that blockade-runners set aside 50 percent of cargo space for use by the Confederate government.³⁵

³⁴The export duty on cotton was optimistically estimated to result in revenues of \$20 million, but only brought in approximately \$6,000 in specie during the war. Treasury Secretary Memminger estimated that the tariff would bring in \$25 million per year, but it had raised only \$1 million by September of 1864 (Schwab 1969, pp. 240-42).

³⁵The case of the *Little Ada* is the most revealing illustration of the “partial blockade of our own Executive,” as expressed by President Davis. Governor Brown of Georgia refused to allow the Confederate government space on the *Little Ada*, and President Davis

In response to public dissatisfaction over the import of luxury goods, legislation was passed in February 1864 that forbade the import of many luxury items, including alcohol. This prohibition, which is generally viewed by historians as a policy that was "too little and too late" in regulating the blockade-runners, had a doubly negative impact on the war effort.

First, luxury goods are high in monetary value relative to their bulk, and, therefore they contributed greatly to profits. Many of the captains, officers, and crew of blockade-runners were allowed to bring in a small number of goods on their own account in order to enhance their pay and the prospects of a successful voyage. They almost always imported luxury goods, which gave them the greatest return. By outlawing luxury imports, the Confederacy was unwittingly decreasing the supply and increasing the price of blockade-running services.

Second, the act prohibited the import of beer, spirits, and wine, which, when combined with state prohibitions of alcoholic beverages, created an extreme scarcity for products that traditionally had been served to sailors and soldiers as part of their food rations. Whiskey was a practical substitute or supplement for bread and in fact surpassed bread in terms of being a more durable, transportable, and versatile grain product, especially under battlefield conditions. General Joseph E. Johnston, for example, decided to use whiskey to make up for deficiencies in the meat rations of his men. Alcohol was a regular component of a sailor's rations (as recommended by the Surgeon General) and was, of course, an indispensable medical commodity.³⁶

The Confederate Congress also authorized the Treasury Department in February 1864 to regulate the export of cotton, tobacco, military and naval stores, rice, and sugar. Shortly thereafter, the Congress required half of the outgoing and incoming cargo space to be reserved for the Confederate government. This legislation had a highly negative impact on blockade-running and the economic viability of the South.³⁷ Shortly after the passage of

refused the ship clearance to run the blockade. During the ensuing political squabble the presence of the ship was reported to the Union blockaders who, in a surprise raid, captured the ship in port but were ironically denied their prize by the Confederates who were blockading *in the Little Ada!*

³⁶According to Robinson (1931, pp. 51-53), most states had passed prohibitory laws during 1862 and as a result, "the price of whiskey jumped skyward." In addition to industrial uses, the War Department used "considerable amounts of whiskey" in hospitals and to produce medicines (see also Frank 1955). The regular issue of whiskey had to be suspended in 1863 because of a short supply. According to Durkin (1987, p. 329), Secretary of the Navy Mallory even tried to establish a distillery in South Carolina to produce whiskey for navy use.

³⁷Data from Price (1948, pp. 232, 236) on blockade attempts through Carolina ports in 1863 and 1864 carry the presumption that attempted runs sharply diminished between these two years (from 515 in 1863 to 387 in 1864). The number of runs through the blockade at Wilmington by steam-powered ships was about the same the year before

the legislation, Captain Roberts, one of the most successful blockade-runners, ceased all blockade-running, saying:

The game, indeed, was fast drawing to a close. Its decline was caused in the first instance by the impolitic behaviour of the people at Wilmington, who, professedly acting under orders from the Confederate Government at Richmond, pressed the blockade-runners into their service to carry out cotton on Government account in such an arbitrary manner, that the profit to their owners, who had been put to an enormous expense and risk in sending vessels in, was so much reduced that the ventures hardly paid. (1967, p. 51)

Another famous and successful blockade-runner was Thomas Taylor, who made twenty-eight trips through the blockade. One of his very first recollections in his chronicle of events was the Confederate government's 1864 act to limit freight on private account and its prohibition on imported luxuries. Unlike Captain Roberts, Taylor (1971, p. 139) continued to run the blockade because he had negotiated a secret profit arrangement with the Confederate commissary-general that compensated him for the 1864 legislation. Late in the war, despite his best efforts to the contrary, Taylor accurately predicted the downfall of the Confederacy.³⁸ As he put it, blockade-running should have been encouraged rather than discouraged by "having obstacles thrown in the way."

I am convinced that *the conditions of affairs would have been altered very materially*, and perhaps would have led to the South obtaining what it had shed so much blood to gain, viz. its independence. (pp. 137-38, emphasis added)³⁹

It seems that blockade-runners could adjust to the advances of the Union blockade, but not to the economic constraints of Confederate legislation.⁴⁰ As Captain Roberts (1967, p. 51) explains, "The enterprise had lost much of its charm; for, unromantic as it may seem, much of that charm consisted in

the legislation as the year after. Given that most other ports were occupied or effectively blockaded in 1864 and 1865 and that a number of new private and public steamers had come on line in 1864, we would have expected blockade-running into Wilmington to have substantially increased.

³⁸Taylor wrote to his superiors on January 15, 1865, "I never saw things look so gloomy, and I think spring will finish them unless they make a change for the better." He noted that he had successfully delivered all of the Whitworth guns to Fort Fisher and food "enough to feed Lee's army for a month" (pp. 137-38).

³⁹It has been suggested that Taylor was the real-life model for Margaret Mitchell's character of Rhett Butler. It is interesting to note that even Rhett Butler withdrew from blockade-running during the period after the 1864 legislation.

⁴⁰Browning (1980, pp. 175-79) found that, despite a tremendous increase in the number of blockading vessels off Wilmington, the number of blockade-runners captured each month stayed about the same.

money-making." Bradlee (1974, p. 62) also acknowledges that the restrictive legislation caused a reduction in blockade-running, a reduction that caused critical shortages and logistical bottlenecks in late 1864 and early 1865.⁴¹

CONCLUSION

In order for the Confederacy to achieve independence it had to survive long enough for the Union government to be defeated politically.⁴² The South had a military comparative advantage in defense and an economic comparative advantage in the production and trade of cotton, but the Confederacy failed to consistently employ these advantages and therefore contributed to its own demise.⁴³

Despite a prewar philosophy that emphasized free trade, the Confederate government enacted legislation that served to suppress international trade.⁴⁴

⁴¹Prior to the war, the South produced enough meat for its population, but most of the meat was produced in Texas and could not be transported effectively during the war to Virginia. Therefore the blockade of the Gulf of Mexico forced Virginia to rely heavily on meat run through the blockade at Wilmington and through enemy lines. The reduced flow of goods through the blockade, combined with General U.S. Grant's termination of the meat-for-cotton trade, starved Lee's army out of the trenches around Petersburg and Richmond (also see Surdam 1993).

⁴²The election of 1864 was such an opportunity. According to Anderson and Tollison (1991, pp. 223-24), "Lincoln sensed that his reelection was in doubt" during the summer of 1864 and that only the votes of "loyal" troops prevented the election from going to the peace-oriented Democratic ticket headed up by George McClellan, who had been discharged by Lincoln as commander of Union forces. Of lesser note were the elections in Ohio in 1863 where, according to Roseboom (1952, p. 44), a Peace Democrat victory could have had "dire effects for the cause of the Union, or . . . might have hampered the states war effort. Even more important, the peace movement all over the North would have been immeasurably strengthened and Union morale dealt a devastating blow." As Lincoln put it, Ohio had saved the Union.

⁴³In a similar vein, David Surdam (1994a, 1994b, 1998) has demonstrated that the underlying world demand for Southern cotton remained strong and that if the Confederacy had continued to trade but used its price-setting power on cotton that much of the cost of the war could have been shifted onto the consumers of cotton while at the same time increasing manpower for the army. This would have required the Confederate government to organize a cartel-like institution that would reduce output and increase the price received for Southern cotton with the resulting profits used to pay for the war effort. The combination of financial viability and an enlarged military or civilian work force would have made the Confederacy a more formidable opponent.

⁴⁴The Southern disposition toward a Jeffersonian or libertarian-type society can be seen in the "improvements" made in the Confederate Constitution (see DeRosa 1991 and Holcombe 1992 for a description of the differences between the U.S. Constitution and the Confederate Constitution). Secession was a "revolutionary experience," but the Confederate government adopted the tactics, if not the doctrines of state socialism (see Thomas 1992, p. 65).

The King Cotton embargo only added to the credibility and legality of Lincoln's blockade and lost the best opportunity to export cotton, establish credit in Europe, import war materials, and achieve recognition and support from England and France. Impressments of steam-powered ships in the Confederacy restricted blockade-running and privateering but contributed little to the effort for independence. Most importantly, the policy of impressments had a chilling effect on the supply of ships in the Confederacy throughout the rest of the Civil War. The Confederate States Navy ironclad-building policy did not contribute materially to lifting of the blockade and resulted in the rapid depreciation of the Southern railroad network.⁴⁵ Finally, the Confederate government imposed policies that greatly reduced the incentives for international trade, including tariffs, prohibitions on luxury goods and alcohol, trade regulations, and government cargo allotments on all private blockade-runners. The combination of these policies, which is by no means an exhaustive list of policies that harmed the Southern economy, created what was, in effect, a Confederate blockade of the South.⁴⁶

Ironically, these policies are the same policies that many historians have argued would have produced victory for the Confederacy had they been pursued earlier and more vigorously. This article demonstrates that the economic theory of war did apply to the American Civil War and supports the overcentralization thesis of Stromberg and Hummel over the "traditional view" of Confederate defeat as merely a matter of who had the largest army.

It is important to note that the economic theory of war does not necessarily displace the historical explanations that rest on such factors as internal dissension, a failure of leadership or diplomacy, the demise of the railroads or the economy, or some combination of these factors. Rather, economic theory, properly applied, provides an approach in which all of these factors can be properly understood—each the result of interventionist government policy and each contributing to an understanding of the overall Confederate defeat.⁴⁷ In

⁴⁵If submarines such as the *Hunley*, which sunk the USS *Housatonic* off the coast of Charleston, South Carolina could have been improved and produced in sufficient numbers, the blockade could have been broken or sufficiently weakened to open international trade. The submarines were small, with no engine, and did not require large amounts of precious iron or labor. The strategy for the submarine was to break the blockade and open trade rather than protection of domestic manufacturing.

⁴⁶We believe that Confederate government policy was the most significant deterrent to trade, but whether the Union blockade or Confederate policy had the greater effect is not material to the argument. The South lost a lot, but it did not lose by much.

⁴⁷To put it in simple economic terms, economic theory has a comparative advantage in the description and understanding of causes while history has the comparative advantage in the description and recording of effects.

addition, this article provides insight into how Confederate defeat might have been avoided had policy been pursued on the basis of the free-trade philosophy of the prewar South.⁴⁸

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⁴⁸Rather than extending the killing and suffering of the war, a laissez-faire approach to international trade policy on the part of the Confederate government might have shortened the war and reduced the amount of death and destruction. On the limited government philosophy of the founders of the Confederacy see Rable (1994). We have not explained the failure of the Confederacy to adopt this strategy or why it did adopt the failed ersatz strategy, but we do hope to address these issues in future research.

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