

The economic impact of the American Civil War

Posted on September 19, 2018

Introduction

The American Civil War was a major turning point in American economic history. Some historians also consider it to be the Second [American Revolution](#), as it brought about a high number of changes in the way things were run in the country. The constitution was changed, and a number of changes also happened due to industrial developments. Even though this was majorly a social war, it had a strong economic impact as well. The American Civil War was a striking achievement for the capitalist and industrial society, which can be considered as the impact with the most consequences.

Perhaps the most important thing to discuss in terms of economic history is how the war was actually financed and what problems the leaders faced in financing the war. Other important questions are the economic costs of the war and the economic causes that led to the war in the first place. The American Civil War marked a climax in American history as Northerners were successful in eliminating slavery while Southerners lost because they let alone their farms and sent their laborers to fight the war. However, the way brought the South and North together.

Cotton Industries

At this point in time, slavery was on the rise, and the value of slaves was around three million dollars. The slaves also accounted for more than half of the agricultural force in the eleven states that made the Confederacy. The importance of slavery in the cotton regions was even higher because the investment made in slaves by the capitalists was equal to the investment made in lands and farm buildings. The value of slaves in the United States kept increasing, even though the numbers fluctuated from year to year. It becomes important to note that the total value of three million dollars increased to three billion dollars in a period of 56 years. Most historians highlight that slave labor was the strong foundation of the economic prosperity that the Southern side of the United States went through (Collier, 1999).

The Northern side also made a great amount of capital investment in slave labor, which was one of the reasons why cotton production was extremely high in the first half of the nineteenth century. A high volume of cotton was produced and sent to countries such as Europe and Great Britain. The significance of the situation increased as the people of the South were willing to risk the outbreak of war only because they had invested too much capital into slavery, and Abraham Lincoln's reforms were not of the same nature. Thus, it is established that a large chunk of capita before the war even

began was invested in slavery, and this rapidly fuelled the beginning of the Civil War.

The overall economy faced a lot of growth with the income generated by the exporting of cotton. The flow of trade all over the United States was beneficial because the South had decided to focus mainly on the production of cotton. In a cyclical manner, the North and South sides gained from each other, as the South side demanded consumption of imported goods from the North, and the North benefited from exporting Southern cotton to fulfill demands of it abroad. In Great Britain and the United States, the textile industries made great gains from the export and high production of cotton. Since the supply of their raw material was swift and of good quality, the quality of the products was also good. This way, they were able to lower the cost of products that they sold to their general consumers. This expansion of production and the provision of low-cost products to customers were only done because of the availability of slave labor in the South of the United States. Since the cotton production markets grew in the United States as well as the markets abroad, more people started to be employed. This created the need for more food and allowed the expansion of food industries in the Northern part of the United States.

Land Policy

There was a major heated debate going on about the use of Western lands for farming, which was to be carried out by the slaves and unpaid labor. How farming was done in the region greatly depended on how the government handed out the land to the people. Those living on the Northern side wanted the land to be accommodated by families who could also work on the farms as laborers, and for this, they wanted to divide the land into small sections and give them to the families for a lesser amount of money, but this worried the Southerners because they thought that if this happens, then they will not be able to accommodate the slave owners who wanted to build large farms. In the end, a bill was passed to settle the issue, which was agreed upon by both the Northerners and the Westerners.

Transportation Improvements

In the Northern and North Western parts of the USA, huge support for developments in transportation could be seen soon after the Erie Canal was built. These internal improvements were sponsored by the government and also included the formation of railroads. Since the Southern region did not need much of these improvements and it did not benefit the Southerners at all, they found these improvements to be some kind of trade between the East and the West regions. These doubts held by the Southerners were evident in the friction between the regions.

The Tariff

The tariff on imports also caused a dispute between the Southerners and the Northerners. The Southerners were against the high duties that they were charged on the necessary imports, but

those in the Northeast supported the tariffs as they protected them from importing cheap goods from the British (Kang, 2005). The Westerners supported the Southerners because the tariffs increased the expense of imports, but at the same time, they needed the tariffs because of the revenue they could generate. This issue was settled by agreeing on a tariff that was sufficient to generate enough revenue and not be too highly focused on the East and the West. However, this further raged the Southerners, who thought it to be a favor of the West to the North and against the South.

Banking

When the banks started to develop, and the people were unsure of whether the government needed to regulate them, all the banks that did exist were located in the Northeast, while there was not much need for banks in the South, and hence, the Southerners did not even support the regulation of banks. The West was again divided by the idea of the banks being owned by the Easterners who would dominate them, but the farmers needed the banking services.

Many historians viewed this conflict between the North and the South as a conflict of modernization whereby the North was moving towards industrialization, and the South strongly opposed it because they believed that it would threaten their existing culture and violate the property rights of the slaves.

Finally, all these differences in interests led the Southerners to withdraw from the Union, but the Northerners, rather than letting the dissatisfied Southerners fight a war against them. In economic terms, there is no way that it can be claimed that the war resulted in more gains than its costs. The justifications given above provided support for those who believed that it was right for the South to fight because the system of slavery was at risk. When historians compared the costs of the war with the compensation cost to control slavery, which was around the ratio of 3:5, economically, the war made sense.

The Costs Of The War

The costs of the war can be divided into the direct and indirect cost categories. The direct costs consist of the government expenditure in addition to the monetary losses from the infrastructure and the human capital whereas the indirect costs include the aftermath of the war for which there are no certain calculations available.

Financing The War

The civil war immensely strained the economic resources, unlike any other war that America had been a part of. To meet the finances for the war, the governments of both sides were on the verge of borrowing. In this situation, the Union had a better chance because of its developed markets, which could produce the goods as required, while the South could not produce military goods and relied on

help from the foreign markets to finance them. The North was successful in financing the war without reducing its consumption, and even though, at that time, the debts seemed to be huge, their economy proved to be sufficient to pay them off. The finances at the time of the war also led to some changes in the US banking system. The bill to create a national banking system was finally passed.

The efforts of the government to finance the war in the South were far more disorganized than in the North. The Southern government failed to finance their expenses through their taxes (Fearon, 2003). As the war continued, the revenue generated from tax turned out to be only eleven percent of the total revenue. Moreover, the revenue that was generated was mostly spent on issuing the currency. One-third of the revenue was generated from the printing press, and the rest came in the form of bonds sold in foreign countries. After a while, paying off the interest on bonds squeezed out most of the government expenditure. As a result of borrowing and printing notes, inflation rose up high in the South, so much so that it encouraged people to use the barter system. This reflected how badly the Southern economy had collapsed as a result of the war. This inflation directly affected the wage earners as their purchasing power was reduced.

Conclusion

The better size of the markets that fell under the North side meant they could utilize their resources more effectively as compared to the South, who largely depended on foreign resources and self-produced their goods and services to be used in the war as their local economy collapsed in the end. With billions of dollars spent on war and a huge number of lives lost, the Northerners were able to successfully end slavery and preserve the Union. The real reason for the failure of the South, according to many historians, was their lack of concern for their farms, which they showed by sending off most of their labor force to fight the war. The shortage of labor convinced the landlords that the system of free labor could not work. As a result, the landlords were forced to convert their agriculture-only farms into staple crop-producing farms. The crop output failed drastically and resulted in the fall of per capita income in the South, and this loss has still not been recovered to date.

Bibliography

Collier, P. (1999). On the economic consequences of civil war. *Oxford Economic Papers*, 168-183.

Fearon, J. D. (2003). Ethnicity, insurgency, and civil war. *American Political Science Review*, 75-90.

Kang, S. &. (2005). Civil war destruction and the prospects for economic growth. *Journal of Politics*, 88-109.