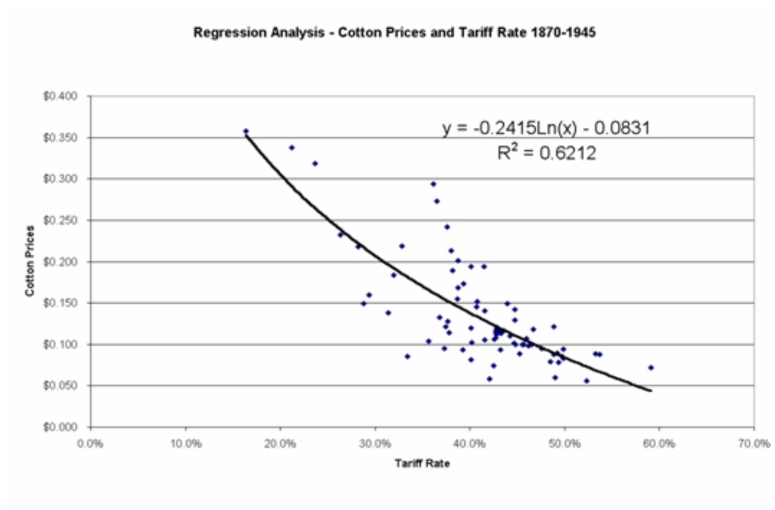
Cotton Prices and the Tariff

Planters knew that when tariff rates go up, cotton prices go down. They also knew that, when in power, the Republicans would raise tariff rates. Cotton prices would consequently fall to ruinous levels. They would face poverty--certain and severe.

The following chart shows the relationship between the tariff rate and cotton prices over the period of years after the Republicans came to power and after the war's effect on prices had begun to settle.



There are no high cotton prices at high tariff rates and no low cotton prices at low tariff rates. Fluctuations due to super-abundant harvests, crop failures and depredations by the boll weevil are small compared to the enormous impact of high tariff rates. The rise of tariff rates from the lowest at 15% to the highest at 55% causes cotton prices to fall from 35 cents per pound to about 5 cents per pound.

That is an eighty-five percent drop in income for the southern cotton plantations. This is the drop in nominal prices. The actual purchasing power of cotton to buy other commodities and adjustment of cotton prices for the general price level require consideration of some additional factors.

That would be a spectacular and ruinous drop in income for any business. Moreover, the planters would be unable to lay off their workers. Their workers, the slaves, still had to be fed, clothed, housed and provided with health care.

Based on Representative George Smith Houston's estimate of increased revenue to be gained by the increased tariff rates in the Morrill Tariff Bill of 1860 and the relationship shown above, each dollar of increased federal revenue by the tariff would cause the South more than three dollars in lost cotton and tobacco revenue alone.

Tax money always has to be taken *from* somewhere. When it is taken, it comes with a multiplied loss to the free-market activity from which it is taken.

Exactly how rising tariff rates could cause cotton prices to fall was not obvious to many in the North. After all, the North had to pay the same tariff rate on its imports as did the South. How could such a tax be a reason for the South, but not the North, to secede from the Union? Moreover, cotton was an export product and there were no federal taxes on exports. How could taxes on imports affect the price of exported cotton?

The answer lies in the fact that the South, unlike the North, was dependent on foreign trade for the majority of its income. Southerners earned most of their money by selling cotton and tobacco to foreigners. Europe, Britain much more than the other nations, purchased the lion's share of southern cotton.

The high tariffs imposed on U.S. imports severely diminished European ability to earn dollars by exporting their goods to us. A large portion of the revenues from sales of their goods to us would not go into European pockets but to the U.S. Treasury instead. The Europeans would have fewer dollars left over with which to buy our agricultural products. With fewer dollars in European pockets available for the purchase of cotton, the price of cotton must plunge in order to meet the reduced amount of money available in the market for its purchase. The South, therefore, liked low import tax rates because the low import taxes meant that foreigners had more money left over to bid for cotton. Under low tariff rates, high cotton prices would be a sure thing.

The example of the transactions of a British supercargo in the New York port makes the mathematics come alive for easy understanding. There are two examples, one without a tariff and one with the tariff.

In the first example, with free trade (that is, without a tariff), a ship from Liverpool, England, ties up at the wharf in New York. The supercargo, that is, the ship's officer who has charge of the cargo and its sale and purchase, watches while his ship is unloaded. Cranes lift bundles of bar iron and packages of woolen fabric from the hold and over the sides of the ship, depositing them on the dock. From there they are carried into the warehouse. The warehouseman pays the supercargo for the merchandise the sum $10,000.

The supercargo takes the money and walks over to the cotton exchange. He says, "Gentlemen, I will take $10,000 worth of cotton for my return trip to Liverpool."

The cotton broker says, "Sir, demand is heavy and cotton is at 35 cents per pound." "For $10,000 I can give you 28,857 pounds of cotton. That will be about fifty-eight 500-pound bales." "Do you have room in your hold, Sir?"

"Yes. I will take it all," says the supercargo. "Load up my ship." The cotton is loaded on board and the captain sails on the morning tide out of the harbor back to Liverpool with the load of cotton destined for the British cotton mills.

Then the United States government imposes a forty-percent tariff on iron and woolen fabric.

On its next trip, the ship from Liverpool again ties up at the wharf in New York. Bundles of bar iron and packages of woolen fabric again are unloaded from the hold to the dock and are carried into the warehouse. The warehouseman pays the supercargo $10,000 for the merchandise.

Now the supercargo must go to the U.S. Customs office and pay the customs officer forty-percent of the money, $4,000. He is left with only six-thousand dollars in his wallet.

Arriving at the cotton exchange, he says to the cotton broker, "I'm sorry, Sir, but your government has taken away a large share of the proceeds from the iron and woolens. Now I only have $6,000 left to give you for a load of cotton."

The cotton broker is anguished, because his normal percentage commission will yield less money for him than before. He cannot say, simply, "I'm sorry, but I will just have to sell it to someone else." He already knows that every other foreign buyer is in the same situation. The tariff has cut into their income in the same way.

The broker knows that he cannot just withhold the cotton. He can't let it sit in the warehouse, especially when there is no prospect of better business conditions tomorrow. He must sell the cotton for whatever money there is in the market to purchase it. The price of the cotton must decline accordingly. Now, the price of that fifty-eight bales of cotton has declined to $6,000 or twenty-one cents per pound. It is a forty-percent reduction in cotton revenue.

The planter's loss of cotton income is immediate and devastating.

The downward-sloping line on the scatter chart is the single most important fact to learn with respect to the cause of the U.S. Civil War. It should be memorized--imprinted on the brain--by anyone who wants to explain or merely understand the War, for it is the foundation upon which all other events arose.

During the period of years represented in the chart above, the tariff rate was never less than 15%. However, the slope of the curve leaves little doubt that with a free-trade tariff rate of zero, cotton prices would have made the cotton South a very wealthy nation. Southerners sensed that this was so. This is why Lincoln's secret emissary, Stephen Hurlbut, reported to him that the secessionists expected "a golden era."

Economists are accustomed to adjust series over years for the variations in purchasing power general price level. Comparison of the raw cotton price series to other price series, such as general price level, wheat prices, tobacco prices and metal products wholesale price indices yields interesting insight.

Tariffs are a moral violation. Agitation of northern manufacturers for increased tariff rates is a fundamental violation of the Golden Rule of human relations: "Do unto others as you would have them do unto you." Northern manufacturers sought to use the government as an instrument to interfere with southern international trade to benefit their own domestic commerce. Northern manufacturers would never have stood for such severe declines in their own prosperity as they inflicted on the South by means of the protective tariff.

A national constitution that allows its legislators to impose such a tax as a tariff is inherently defective. Because the tariff benefits a few but must be taken in multiple from the pockets of others, inequality built into it. It creates a struggle for power to control the tariff rate. It causes strife where there would otherwise be none.