

Tariffs, Wars, and the Economics of Protection:  
Lessons from the History of American Textile

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Abstract

The fierce tariff struggles of 19<sup>th</sup> century America illuminate the important role trade policy could play in determining the course of history. And as a major player in the protectionist movement, the textile industry was more than knee-deep in the controversy. This paper is organized into two main parts, the first of which provides a brief review of the development of textile protection during the 19<sup>th</sup> century, and its role in shaping the period's political turmoil which culminated in the War Between the States. The second part of this paper seeks to unravel the causes behind Southern hostility against the protective tariff through the lens of Austrian economics, with particular emphasis on its subjective theory of value. The protectionist doctrine, which enforcement is herein argued to be Lincoln's true motivation for war, is further examined from the standpoint of natural rights theory.

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## I. Introduction

As one of the oldest of American industries, the U.S. textile industry was “born” in 1790 when Samuel Slater established his spinning mill in Pawtucket, Rhode Island.<sup>1</sup> The industry experienced its first significant growth during the War of 1812, when non-intercourse law with Great Britain virtually had the young nation scrambling to produce its own clothing. And calls for protection began to emerge soon after the war had ended, to which Congress responded by enacting the Tariff of 1816 in order to protect the newly established American cotton manufacturers from ruinous foreign competition. Almost 200 years later at the dawn of the 21<sup>st</sup> century, the United States Government protected 168,786 jobs in the textile and apparel industry at a cost of roughly \$33.6 billion, making the annual cost per job saved in the industry just shy of \$200,000.<sup>2</sup>

For better or for worse, protectionism has undeniably played an important role in the history and geography of the U.S. textile industry. Furthermore, the saga of American textile reflects the often forgotten fact that protectionism has always plagued American trade policymaking since the first Congress enacted the first ever tariff in 1789. No clearer example could demonstrate the irresistible charm of protectionism than its triumph in early America, a nation whose people just revolted against the protectionist policies of their government. Yet no better example could simultaneously demonstrate the dangers of protectionism than the violent political turmoil behind that triumph. Indeed for much of the 19<sup>th</sup> century, protective tariffs, including those imposed on cotton and woolen goods, were a constant source of fierce political tensions that divided the American people to the point of nullification, secession, and eventually, war. The enduring significance of this popular doctrine in local politics and international relations today needs no further elaboration.

The first part of this paper seeks to trace the development of textile protection in the United States from the industry’s rise during War of 1812 to the beginning of its geographic transition from the New England states to the Southern states at the end of the 19<sup>th</sup> century. Most importantly, we shall examine the role of protectionism in the two major constitutional crisis of 19<sup>th</sup> century America: the South Carolina Nullification Crisis of 1832-1833, and the American Civil War. It is hoped that by momentarily taking a step back in history, the reader would come to appreciate the bitter controversies once

generated by protective tariffs and gain a fresh perspective on the seemingly never ending struggle between free trade and protectionism. The study of tariff controversies in 19<sup>th</sup> century America is an especially worthwhile pursuit, for these events offer us a rare glimpse into the core of the struggle when people from both sides still argued without the security blanket of mathematical models and technical jargons.

The second part of this paper seeks to put history into perspective by drawing critical insights from the Austrian School of economics, grounded in the subjective theory of value, on the various issues involved with the demand for textile protection. Mainstream economic arguments against protectionism have traditionally been constructed on the basis of welfare maximization in terms of material wealth. While the correlation between free trade and prosperity is not challenged by Austrians, such an approach contains a fundamental problem because in reality, value is not derived exclusively from the accumulation of material wealth. It is evident that many advocate protectionism due to faulty economic reasoning, however, we must not dismiss the fact that many others genuinely disagree with the premise of free trade. It is not irrational for people to favor income equality over prosperity, or government policies that confer upon them short-term benefits despite their dire future consequences.<sup>3</sup> And thus the science of economics alone is incapable of making a “neutral” case for free trade. Similarly in the discourse surrounding protectionism, the preservation of certain jobs is often considered to be an end to itself, without any pretext of a greater good. As senators Jesse Helms (R-NC) and Ernest Hollings (D-SC) stressed in April 2002: “Never has there been a more crucial time than now for us to stand up against the reckless destruction of the textile and apparel industry.”<sup>4</sup> The goals of peace and prosperity to the free traders, like saving certain jobs to the protectionists or income equality to the socialists, are subjective ends that originate in the subjective valuation of the individual. Thus without a mutual premise, this debate must necessarily reach a stalemate, for each side may rightfully respond to the other’s argument with a simple: “So what?”

It should be remembered that economics is after all a value-free science, capable of showing whether or not certain policies are conducive to the accomplishment of certain ends, but incapable of making value judgments on what ends are to be pursued. Such, as Rothbard (2002) has shown, is the task of ethics. Given the inherent subjectivity

of individual valuations, and hence the unassailability of both goals from a purely objective standpoint, is this topic then condemned to be fought in political arenas based solely on the subjective judgments of voters and politicians? Perhaps, but much still have to be said before anyone may concede to the whim that power alone decides what is right. This paper does not challenge the subjective ends of those who advocate protectionism, but the means through which those ends are currently being pursued (i.e. government interference of voluntary exchange). Using the protection of American textile as a case in point, this paper contends that the Austrian insight into the subjectivity of value sets an extremely difficult task for anyone who wish defend protectionism from either an ethical or economic standpoint.

## II. Historical Background

### The War of 1812 and the Rise of American Textile

Among its principal causes, the War of 1812 began as a retaliatory act against England's interference with American trade on the high seas. The British navy had at the time captured hundreds of American ships in an effort to stop all commerce with Napoleon.<sup>1</sup> At the beginning of the war, Congress passed an act doubling the duties on all imported goods to pay for the war effort, and they were to remain in place until one year after the conclusion of peace with Great Britain.<sup>2</sup> But non-intercourse law with Great Britain virtually cut off all but illicit foreign trade during the war.<sup>3</sup>

The scarcity of goods brought about by the high tariffs and non-intercourse law prompted many American entrepreneurs to enter manufacturing and satisfy the sudden increase of domestic demand. Yet despite the immense profits available to those who engaged in manufacturing operations, shortages of both necessities and luxuries prevailed as domestic manufacturers could not keep up with the country's wants. And many of the people's daily comforts that they had previously enjoyed through imports were now not to be had at any price.<sup>4</sup>

It is around this time that the textile industry, especially that of cotton, began to grow in America. Unlike the shortage of raw materials experienced by wool manufacturers, the growth of cotton manufacturing was facilitated by the fortunate fact

that its domestic supply of raw materials was quite abundant.<sup>5</sup> The first significant expansion of the industry took place in 1813, when Francis C. Lowell of the Boston Manufacturing Company invented the power loom, which led to the great success of his company located in Waltham, Massachusetts.<sup>6</sup> This success in turn induced close imitations of his company's manufacturing method and launched the speedy growth of the American cotton textile industry. Perhaps just as importantly, it also led to the cooperation of cotton manufacturers in the protection of their interests.<sup>7</sup>

Without British competition, the American textile industry grew from roughly 80,000 spindles in 1811 to 500,000 spindles in 1815.<sup>8</sup> Before the war and the introduction of the power loom, the textile industry had traditionally been limited to yarn spinning. Weaving was still a home industry that occurred mostly in Georgia, Virginia, and the two Carolinas. Indeed, these four states produced more homespun goods than the rest of the nation combined, until factory manufacturing and power looms began to take over some years later.<sup>9</sup>

#### The Movement for a Protective Tariff

The War of 1812 was officially concluded with the ratification of the Treaty of Ghent on February 17, 1815.<sup>1</sup> And with the advent of peace, Americans were once again eager to purchase those goods they had to be without during the war, especially British textiles. British exporters were similarly anxious to sell their accumulated stocks, and total imports jumped from \$12,965,000 in the fiscal year of 1814 to \$113,000,000 in 1815 and \$147,000,000 in 1816.<sup>2</sup> Domestic manufacturers that had enjoyed practically no foreign competition during the war suddenly saw their profits eroded by their superior British competitors. Households that had increased textile manufacturing during the war suspended their work as imports resumed, but the new textile factories could not adapt as easily for they had invested capital at stake.<sup>3</sup>

With the influx of imports returning to American ports, desperate cries from the North's troubled manufacturers began to spread throughout the country. Hezekiah Niles of the *Weekly Register* expressed his concern by likening the government's duty toward the fledgling manufacturers to that of a mother's toward her child:

“There is certainly not much profit in raising children – a woman might earn more money if instead nursing her infant and nourishing it as she ought, she were to cast it on the ground and apply herself to labor. But what would we think of a calculation like that? ... I consider the manufacturers of the United States stand to the government in the precise relation of an infant to its mother – if they are cherished they will repay, in the future peace and prosperity of the country, all that is done for them.”<sup>4</sup>

When Congress met to discuss the requests for a new tariff measure in March of 1816, the key debate expectedly took place upon cotton tariffs.<sup>5</sup> For with the exception of the Boston Manufacturing Company, all American cotton manufacturers, which were still using handlooms at the time, could not compete with British manufacturers that had already been using power looms and producing cloths at roughly twenty five cents a yard.<sup>6</sup> But an even bigger problem was facing the industry, as not even the Boston Manufacturing Company with its power looms could compete with India’s cheap cloths at nine cents a yard.<sup>7</sup>

Mr. Francis C. Lowell of the Boston Manufacturing Company thus proposed the adoption of a “minimum” clause, taxing all cotton goods entering the United States that cost less than 25 cents per square yard as if they were 25 cents per square yard (i.e. India’s nine cent cloth).<sup>8</sup> After much debate, Congress adopted the “minimum” clause and set the duties for cotton goods at 25 percent for the first three years and 20 percent thereafter.<sup>9</sup> Although the bill passed with relatively little resistance compared to future tariff acts, it is nevertheless interesting to note that the strongest opposition came from Mr. Lowell’s own state of Massachusetts, where merchants feared that high tariffs would injure their commercial interests.<sup>10</sup>

### Southern Tolerance to the Tariff of 1816

Given the great hostility expressed by the Southern states toward subsequent Tariff Acts, it is only prudent that we investigate the causes of Southern tolerance toward the Tariff of 1816. Southern resentment against the protective tariff, which primarily served the manufacturing interests of the northern states, had been brewing long before South Carolina eventually decided to nullify the tariffs of 1828 and 1832. Indeed since

the first Congress met in 1789 to enact the first ever tariff, delegates from the Southern states immediately began their opposition against the protectionist flavor of the so-called “revenue tariff”. In a speech that extended for over two days, Mr. Tucker of South Carolina, after attacking what he considered to be excessively high duties for fear of smuggling, argued: “The other reason for which I am opposed to high duties on enumerated articles is, because it tends to the oppression of a certain description of citizens and particular States, in order to promote the advantage of other States and other citizens.”<sup>1</sup> Mr. Maclay, a protectionist senator from Pennsylvania, gave us further accounts of Southern opposition as he wrote the following comments in his journal:

“May 28 – ...Mr. Lee (of Virginia) kept us an hour and a quarter on this business, because the Virginians had hitherto imported their nets from Britain. Once for all, I may remark of him that he has given opposition to every article, especially the protecting duties. He declares openly against the principles of them. Mr. Grayson (also of Virginia) declares against all impost as the most unjust and oppressive mode of taxation...”<sup>2</sup>

“June 11 – Butler (of South Carolina) flamed away and threatened a dissolution of the Union, with regard to his state, as sure as God was in the firmament! He scattered his remarks over the whole impost bill, calling it partial, oppressive, etc., and solely calculated to oppress South Carolina... He degenerated into mere declamation. His state would live or die glorious, etc...”<sup>3</sup>

In light of the impending conflicts, it is important to note that these spirited debates took place over a tariff bill that had an average rate of a mere five percent.<sup>4</sup>

As an exporter of raw cotton and an importer of cotton goods, the South had every reason to attack the Tariff of 1816, which contained relatively high textile duties (as they did against future tariff acts of similar character). It has been argued that much of their support for the tariff was built upon two reasons: first, they agreed on the need to raise revenue to pay for the federal debt incurred during the war, and second, they shared the fear of a new war with Great Britain.<sup>5</sup> John C. Calhoun, who later sided with his state of South Carolina against Andrew Jackson in the Nullification Crisis, declared in anticipation of a new war and in favor of a protective tariff that America was must not again be so poorly able to defend herself as she had been during the War of 1812.<sup>6</sup>

Thomas Jefferson, in his January 9, 1816 letter to Benjamin Austin of Boston expressed his sympathy toward the fledgling textile manufacturers:

“We have experienced what we did not then believe, that there exists both profligacy and power enough to exclude us from the field of interchange with other nations; that to be independent for the comforts of life we must fabricate them ourselves. We must now place the manufacturer by the side of the agriculturists. The former question is suppressed, or, rather, assumes a new form. The grand inquiry now is, Shall we make our own comforts or go without them at the will of a foreign nation? He, therefore, who is now against domestic manufacturers must be for reducing us, either to a dependence on that nation, or to be clothed in skins, and live like wild beasts in dens and caverns; -- I am proud to say am not one of these. Experience has taught me that manufacturers are now as necessary to our independence as to our comfort; and if those who quote me as of a different opinion will keep pace with me in purchasing nothing foreign, when an equivalent of domestic fabric can be obtained without regard to price, it will not be our fault if we do not have a supply at home equal to our demand, and wrest that weapon of distress from the hand which has so long wantonly wielded it.”<sup>7</sup>

It is important to note that although many Southerners eventually voted for the Tariff of 1816, they tried their hardest to keep the tariff rates as low as possible.<sup>8</sup> This fact seems to indicate that Southern patriotism at the time could be characterized more appropriately as an act of charity rather than anything else. For if the South truly cared about the development of Northern manufacturing in preparation for another war against England, then presumably they would have granted any level of tariff necessary for that purpose as the manufacturers themselves had asked (or they could even purchase Northern goods voluntarily without the tariff as Mr. Jefferson proposed). The fact that they tried to keep it as low as possible, which consequently made the Tariff of 1816 ineffective in protecting America’s inefficient manufacturers, seems to go against the fiery spirit of their rhetoric.

The Panic of 1819 and the Return of Southern Hostility toward the Protective Tariff

The War of 1812 brought with it a heavy pressure for the federal government to increase borrowing.<sup>1</sup> At this time, the United States did not have a uniform currency except for specie. The more conservative New England banks had opposed the war and accordingly provided little loan to the federal government. Subsequently, the government came to rely on the ever-growing number of banks in other states that generally run on much looser principles (i.e. those issuing notes without the backing of specie).<sup>2</sup> The continuing expansion of “artificial” bank notes finally led to a government-approved suspension of specie payments outside the New England area in August 1814, which in turn increased the already great number of banks in 1815 even more from 208 to 246 (the original number of banks prior to the war was 88).<sup>3</sup>

With the suspension of specie payments in place, bank notes continued to depreciate as they changed hands with every transaction.<sup>4</sup> General discontentment with the chaotic monetary situation prompted the creation of the Second Bank of the United States, which was required to redeem its notes in specie and thus providing a sound and uniform currency. Alas the Bank was not averse to facilitating its own credit expansion, and by the beginning of 1818 it had issued \$23 million worth of notes with only \$2.5 million worth of specie in the reserve.<sup>5</sup> Meanwhile, the total number of banks had risen to 392.<sup>6</sup>

Faced with the incoming debt repayment for the Louisiana Purchase (amounting to \$4 million in specie), the Second Bank of the United States was forced to increase its specie reserve and consequently began credit contraction in the summer of 1818.<sup>7</sup> The severe contraction of money supply needed to halt inflation in turn generated the Panic of 1819. Prices, especially those of exports, fell drastically. The index of export staples fell from 169 in August 1818 to just 77 in June 1819.<sup>8</sup> Cotton export prices from the South were further depressed by a fall in European demand for agricultural imports due to abundant crops and a similar economic recession in Britain.<sup>9</sup> Large-scale unemployment plagued American cities, affecting especially those in the cotton, woolen, and iron industries.<sup>10</sup>

The Panic of 1819 rejuvenated the movement for a protective tariff, with the textile industry being the leading complainant.<sup>11</sup> Matthew Carey of the Philadelphia Society, who organized the Convention of the Friends of National Industry in the winter

of 1819, argued that the depression was caused by the excessive importation of manufactured goods, which drained American specie in exchange for “worthless fabrics.”<sup>12</sup> Free trade, according to him, brought about the influx of cheap imports, the decay of national industry, the discharge of workmen, the bankruptcy of manufacturers, the failure of merchants, the distress of farmers, and the drain of specie.<sup>13</sup> On the other hand, full protection would lead to a moderation in imports, a prosperous national industry, employment for every person willing and able to work, the disappearance of bankruptcies, a secure home market for agricultural products, and the prosperity of merchants.<sup>14</sup> To the contention of free traders that international competition would force labor to be applied to more efficient industries, Carey countered that people were generally resistant to change, and therefore required protection wherever they were situated.<sup>15</sup>

Some protectionist writers went further and extended their doctrine closer to its logical conclusion. One of them was Matthew Lyon of Kentucky, who proposed a state law prohibiting the “importation” of cotton goods and other manufactured items from other states into Kentucky.<sup>16</sup> Another, more extreme example was the “Mechanic of Detroit”, who blamed the economic hardships of Detroit artisans to the merchants who were “importing” goods that could have been made in Detroit, suggesting that the city should close its border and be made to purchase its own needs locally.<sup>17</sup>

On the other side of the argument, anti-tariff men such as John Taylor of Caroline blamed the plight of manufacturers on the banks, whom he charged had supplied “fictitious capital” to speculative investors and left them without funds in the subsequent credit contraction.<sup>18</sup> John Tyler of Virginia boldly proclaimed the protectionists’ argument for economic independence as “a theory which aims to subvert the ordinances of Heaven itself.”<sup>19</sup> He argued that since man was naturally dependent on man, and thus nation on nation, if every nation wished to rely on its own capacity, the world would soon relapse into another state of vandalism.<sup>20</sup> Mr. Tyler further argued that the manufacturing nations were just as dependent on agricultural nations:

“A manufacturing nation is in every sense dependent on others. Look to England! Cut off from the markets of the world, and misery and ruin await her. Threaten to close your ports against her, and she becomes forthwith alarmed. Close them, and

a great portion of her population are thrown out of employment and reduced to beggary. How is it with an agricultural nation? Other nations are in a great measure dependent on it for food. They may dispense with your silks and gewgaws, but bread they must have.”<sup>21</sup>

Other writers such as “The Friends of Natural Rights” also attacked Matthew Carey for implicitly advocating the destruction of private property rights in America. For under the “Careyan Scheme of Government” they argued,

“It is a vulgar notion that the property which a citizen possesses, actually belongs to him; for he is a mere tenant, laborer, or agent of the government, to whom all the property in the nation legitimately belongs. The government may therefore manage this property according to its own fancy, and shift capitalists and laborers from one employment to another.”<sup>22</sup>

Fierce debates on the constitutionality of a protective tariff would later take center stage as Henry Clay introduced his American System.

The Tariff of 1820, which partly sought to increase cotton and woolen duties from 25 to 33 percent, was bitterly fought among sectional lines. It received the greatest support from the Middle Atlantic States while receiving unanimous opposition from the Southern states.<sup>23</sup> With the threat of a new war now gone, the South renewed its hostility against protectionism, arguing that high tariffs would injure their interests not only by increasing the cost of living, but also by inviting British retaliation against their agricultural exports.<sup>24</sup> The Bill passed in the House but failed in the Senate by only one vote. Senator Harrison Gray Otis of Massachusetts cast the deciding vote against the Bill in light that higher tariffs would cause massive unemployment among his constituents who were involved in the molasses and rum trade.<sup>25</sup> He was later thanked by a public meeting in Boston.<sup>26</sup>

### Henry Clay and the American System

Despite the failure of the protectionists in 1820, Henry Clay of Kentucky, who was then Speaker of the House, remained convinced of the benefits that protection would bring to the American economy. Mr. Clay attributed all the existing evils to the absence of protection to the manufacturers. He pointed out that the country was prosperous during

the war, with agricultural goods in quick demand and shipping in full employment. Peace brought along with it depression, and he argued that if a new war would break out, prosperity would at once be restored.<sup>1</sup> Thus Congress should facilitate the development of a strong home market, and impose to the country in times of peace what her enemy had done in times of war. Once American manufacturers grew stronger under protection, foreign competition could be reintroduced and Americans would enjoy cheap goods thereafter, while simultaneously having important industries at home.

This was the first part of Henry Clay's ambitious economic plan that he proudly called "the American System". The rest required Congress to fund internal improvement projects such as roads and canals to facilitate commerce, and the continuing operation of the Second Bank of the United States to provide a stable currency and credit.<sup>2</sup>

Southerners, smelling that such a feat could only be accomplished at their expense as an importer of manufactured goods, remained hostile to Mr. Clay's nationalist central plan.

During the debate for the Tariff of 1824, some delegates from the Southern states began to openly challenge the constitutionality of a protective tariff, arguing that the power of Congress to impose duties was strictly granted to raise revenue. Mr. Hayne of South Carolina gave the following prophetic warning to the protectionists:

"It must be permitted while on this topic to declare that, however this bill may be modified, still the system is one against which we feel constrained, in behalf of those we represent, to enter our most solemn protest. Considering this scheme of promoting certain employments at the expense of others as unequal, oppressive, and unjust, viewing prohibition as the means and destruction of all foreign commerce the end of this policy, I take this occasion to declare that we shall feel ourselves justified in embracing the very first opportunity of repealing all such laws as may be passed for the promotion of these objects. Whatever interests may grow up under this bill, and whatever capital may be invested, I wish it to be distinctly understood that we will not hold ourselves bound to maintain the system; and if capitalists will, in the face of our protests and in defiance of our solemn warnings, invest their fortunes in pursuits made profitable at our expense, on their own heads be the consequences of their folly!"<sup>3</sup>

A less extreme, yet lucid argument against the protective tariff during the debate was also put forth by Daniel Webster, who made his case after establishing the fact that the freight rate from Sweden at eight dollars per ton was equal to the cost of 50 miles of land transportation in the United States:

“Stockholm, therefore, for the purpose of this argument maybe considered as within fifty miles of Philadelphia. Now it is at once a just and a strong view of this case to consider that there are within fifty miles of our market vast multitudes of persons who are willing to labor in the production of this article for us, at the rate of seven cents per day, while we have no labor which will not command upon the average at least five or six times that amount. The question is, then, shall we buy this article of these manufacturers and suffer our own labor to earn its greater reward, or shall we employ our own labor in a similar manufacture and make up to it, by a tax on consumers, the loss which it must necessarily sustain?”<sup>4</sup>

Despite the strong arguments made by the anti-tariff men, Henry Clay’s plan for a steady home market and a prosperous future for all Americans won just enough support to ensure the passage of the Tariff of 1824. The act favored the textile industry by increasing the “minimum” for cotton goods from 25 to 30 cents per yard, plus an average duty of over 50 percent. The duty for imported woolen goods was raised to 30 percent for one year, and to 33 1/3 percent thereafter.<sup>5</sup>

### The Tariff of Abominations

The movement for the Tariff of 1828 began in Boston, Massachusetts on September 14, 1826 when American woolen manufacturers met to discuss the plight of their industry.<sup>1</sup> The Tariff of 1824 had increased the duties on foreign wool to 50%, which consequently raised the cost of raw materials and offset the advantages of protection procured by the woolen manufacturers themselves. Yet the manufacturers, who shared the vision of Henry Clay’s American System, acknowledged the importance of protecting the wool growers and did not regard the two industries’ interests as antagonistic.<sup>2</sup> Instead, they placed much of the blame on England, whom they argued had purposely lowered their wool duties to destroy American woolen manufacturers. Of course in reality, as Mr. Lee of Boston pointed out, England had lowered her duties on

wool before America raised hers.<sup>3</sup> Furthermore, the American woolen manufacturers were disadvantaged by their relative lack of experience, a high cost of labor, and a consumer preference for imported wools.<sup>4</sup>

In preparation for the next tariff struggle, many meetings were held throughout the South to protest against a further increase in duties. The sentiments of the time were well summarized by the following statement from the citizens of Richland District in South Carolina:

“The duties laid by Congress, of whatever description, are levied in great part on articles purchased by Southern industry and consumed by the South; but these duties are expended almost exclusively for the benefit of other sections of the Union. All the taxes that support the expenditures of the army, of the navy, of the various fortifications, of roads and canals, in whatever proportion we pay them, return to us no more. All that is taken from us is disposed of elsewhere. We are benefited in the South by those expenditures in no way that we can perceive and feel. All that we pay is accumulated in defending and improving distant sections of the Union, and the prosperity of the North is built upon the impoverishment of the South. Although we have long submitted without complaint, the inequality and injustice of this state of things is becoming too glaring to remain unnoticed, and the burdens it imposes on us too heavy to be borne in silence any longer.”<sup>5</sup>

The great 1828 tariff debacle began when supporters of Andrew Jackson, still bitter after their loss in the election of 1824, tried to use the tariff issue to make President John Quincy Adams and his pro-tariff followers look bad by sending a tariff bill on January 31, 1828 to the House of Representatives that was so obnoxious, it was doomed to fail if not in the House, then in the Senate.<sup>6</sup> The bill focused on goods that New England needed such as molasses and hemp, as well as goods that no one had asked protection for, such as pig iron.<sup>7</sup> More importantly, it granted unlimited protection to the wool growers in an attempt to upset the woolen manufacturers.<sup>8</sup> The bill managed to pass through the House by a vote of 105 to 94, despite the fact that some disgusted protectionists voted against it.<sup>9</sup>

But once the bill reached the Senate, the unexpected happened. An amendment was made, sponsored by Senator Martin Van Buren, to make the tariff on woolen goods

more acceptable to the two conflicting parties.<sup>10</sup> The minimum was retained at fifty cents per square yard, and an ad valorem duty was set at 40% for the first year, and 45% thereafter.<sup>11</sup> The bill was finally passed by a vote of 26 to 21, and President Adams signed it into law on May 19, 1828.<sup>12</sup> The Tariff of 1828, branded by enraged Southerners as the “Bill of Abominations”, increased the already high tariff average from 33% in 1824 to a colossal 50%,<sup>13</sup> and subsequently fanned Southern anger into a roaring fire.

### Prelude to Civil War: The South Carolina Nullification Crisis

Amidst a worldwide surplus of cotton production that continued to depress market prices, South Carolina faced a particularly dire economic situation as their declining soil quality made it that much more difficult for them to cope with stiff competition.<sup>1</sup> After Congress passed the Tariff of 1828, talks of nullification in South Carolina began to take a serious turn. While a protective tariff arguably hurt the interest of all consumers throughout the Union, many planters in South Carolina strongly believed that they suffered the burden of protection disproportionately. Their case was well illustrated in George McDuffie’s highly influential “forty-bale theory.”<sup>2</sup> The theory argued that it was impossible for merchants to transfer the entire tax burden to consumers, since consumers were only willing to pay so much for a certain good. And because merchants could raise retail prices for a significantly less amount than the actual increase in duties, they must consequently bear a good part of the tax burden themselves. To recover the loss, this burden was in turn transferred to planters who export their agricultural products, as they received less money from the merchants they dealt with. In other words, although foreign consumers still paid the full amount for agricultural goods from South Carolina, a huge sum of that payment was diverted from the pocket of planters to the customhouse on its way across the United States border (in McDuffie’s argument, a scornful 40% of it).

Drawing on the Compact Theory of the Union, which viewed the Union as a compact between the states (as opposed to individuals), the nullifiers in South Carolina argued that a state could declare any federal law null and void if the state judges find the act unconstitutional.<sup>3</sup> And “when in the course of human events,” something like the Bill

of Abominations should occur, many South Carolinians felt that it was their duty to assert that right.

Andrew Jackson, who was elected President in 1828, made his hostility against the doctrine of nullification very clear early on despite his reputation as a staunch supporter of states' rights. He saw nullification as an attack on the doctrine of majority rule, a principle which he viewed invaluable to the preservation of the Union.<sup>4</sup> His Vice President John C. Calhoun, who was among the leaders of nullification, defended his state in the South Carolina *Exposition and Protest*, which he secretly authored, as he argued:

“No government based on the naked principle, that the majority ought to govern, however true the maxim in its proper sense and under proper restrictions, ever preserved its liberty, even for a single generation... Constitutional government, and the government of a majority are utterly incompatible, it being the sole of a constitution to impose limitations and checks upon the majority.”<sup>5</sup>

Jackson's hostility toward nullification manifested itself from the beginning of his presidency, when he intentionally excluded any South Carolinian from his cabinet in 1829.<sup>6</sup> He further refused to appoint a US District Attorney for South Carolina who advocated the doctrine of nullification, even though that particular individual was supported by a majority of the South Carolina congressional delegation.<sup>7</sup>

Another factor that intensified Jackson's hatred toward South Carolina was his bitter personal conflicts with Calhoun,<sup>8</sup> who disagreed with him on many of his controversial policies, including the adoption of high tariffs, the veto of the Second Bank of the United States, and the distribution of federal surpluses. Jackson was particularly angry at Calhoun's past reaction as the Secretary of War, in which he sought to punish Jackson for disobeying his order. Furthermore, Jackson blamed the social misfortunes of his close friends who were involved in the Peggy Eaton affair on Calhoun and his wife, Floride. The Vice President finally broke with the administration in February, 1831.<sup>9</sup>

At this point, it should be mentioned that Andrew Jackson was not a protectionist in the same sense that Henry Clay was (as evident in his vetoes of the other two components of the American System). Jackson was a strong believer in the principles of limited government who saw himself as a tribune of the people. Historians have argued

that he found the tariff to be a rather confusing issue, and he supported the high tariffs primarily to pay off the national debt as soon as possible.<sup>10</sup> Indeed, to those who did not grasp the dangers associated with fiat money, his veto message against the Second Bank of the United States sounded more similar to Southern protests against the protective tariff:

“It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purposes. Distinctions in society will always exist under every just government. Equality of talents, of education, or of wealth cannot be produced by human institutions. In the full enjoyment of the gifts of Heaven and the fruits of superior industry, economy and virtue, every man is equally entitled to protection by law; but when the law undertake to add to these natural and just advantages artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society – the farmers, mechanics and laborers – who have neither in the time nor the means of securing like favors to themselves, have a right to complain of the injustice of the government. There are no necessary evils in government. Its evils exist only in its abuses. If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing. In the act before me there seems to be a wide and unnecessary departure from this just principles.”<sup>11</sup>

Calhoun’s view of nullification as a peaceful remedy was not shared by the radicals in South Carolina, especially James Hamilton Jr. and George McDuffie.<sup>12</sup> In July 1831 Hamilton organized the Charleston States Rights and Free Trade Association to begin coordinating nullifier activities throughout the state.<sup>13</sup> In fear of a bloody conflict, Congress responded by adopting the Tariff of 1832, which lowered tariffs to 1824 levels and abolished the “minimum” clause.<sup>14</sup> South Carolina refused to yield and in turn made it clear that its opposition was directed against the very principle of a protective tariff, which it deemed discriminatory and unconstitutional. On November 1832, a convention in South Carolina proceeded to pass an ordinance that declared the tariffs of 1828 and 1832 “utterly null and void” to be effective on February 1, 1833.<sup>15</sup> In addition, Governor

Hamilton also asked the legislature to raise a volunteer army of 12,000 to resist any attempt by the federal government to coerce the state into submission.<sup>16</sup> South Carolina was to immediately secede from the Union should a showdown with the federal government take place.<sup>17</sup>

Jackson, who viewed secession as nothing more but a revolutionary right (i.e. one to be crushed with force), wanted blood. He expressed his desire to head down to South Carolina and hang the leaders of nullification, especially Calhoun, for treason.<sup>18</sup>

Jackson's proclamation on December 10, 1832 reiterated his belief that the Union must be preserved at all cost. As Daniel Webster put it, "I have not the slightest doubt, that both General Jackson and Governor (James) Hamilton Jr. fully expect a decision by the sword."<sup>19</sup>

As the deadline of February 1<sup>st</sup> approached, Jackson's seemingly nationalist stance, coupled with his violent tendencies, made many of his supporters who were also proponents of states' rights nervous, but proponents of the American System gave his proclamation a good reception.<sup>20</sup> Many believed that a civil war would ensue if Jackson proceeded to attack South Carolina, since the other Southern states, despite their disapproval of nullification, would not tolerate such actions by the federal government.<sup>21</sup> Jackson's subsequent demand for the Force Bill to be passed, which would allow the President of the United States to enforce a federal law without permission of Congress, created even more fear and confusion, which worked to South Carolina's advantage.

At this point, the focus of the public was shifted from questioning the legitimacy of South Carolina's actions, to questioning the legitimacy of Jackson's plan to invade the rebellious state. Knowing this, the South Carolina nullifiers decided on January 21, 1833 to postpone the execution of its nullification ordinance until after Congress adjourned in early March.<sup>22</sup>

The bloody conflict between Jackson and South Carolina was finally averted with the adoption of Henry Clay's Compromise Tariff in 1833, which reduced the tariff in 2-year intervals over the next decade until it reached an average of 20% in 1842.<sup>23</sup> To appease Jackson, Congress also passed the Force Act, given that the need for him to use force no longer existed.<sup>24</sup> South Carolina's convention subsequently met on March 11,

1833 to withdraw its ordinance of nullification, and in defiance, created a new one nullifying the Force Act.<sup>25</sup>

### Textile Protection prior to the Civil War

The Compromise Tariff of 1833 severely injured the woolen manufacturers, much more so than it did the cotton manufacturers.<sup>1</sup> The Panic of 1837 and its subsequent credit contraction also left the federal government with an enormous debt.<sup>2</sup> Protectionists again blamed the economic distress on the lowering of tariffs, and began pressuring Congress to increase rates immediately. In December 1841, Millard Fillmore of the House Ways and Means Committee introduced a bill that would raise tariffs back to 1832 levels, but it was vetoed by President John Tyler for violating the compromise of 1833. Another attempt was made in July 1842, which met the same end as the previous bill. A third bill was proposed and finally approved by the President on August 30, 1842 in order to raise much needed revenue, despite the “incidental protection” it gave to manufacturers.<sup>3</sup>

The Tariff of 1842 was the most elaborate tariff act of its time, and it raised import duties back to near 1832 levels.<sup>4</sup> Woolen goods were taxed at 40%, and cotton goods at 30%, with a “minimum” of 20 cents per yard for goods in the gray and a “minimum” of 30 cents per yard for all goods that were bleached, dyed, or printed.<sup>5</sup> The succeeding prosperity experienced by textile manufacturers was heralded by protectionists as “the greatest triumph of the protective policy”.<sup>6</sup> The triumph however, was short lived.

The victory of the Democratic Party in the election of 1844 swung the pendulum back to free trade. President James K. Polk declared his hostility against the idea of fostering one branch of industry at the expense of another in his inaugural address, and he further called the Tariff of 1842 “oppressive”, for it placed a greater burden on the poorer classes than on the wealthy.<sup>7</sup> He subsequently appointed Robert J. Walker, an ardent free trader from Mississippi, as his Secretary of the Treasury.<sup>8</sup> The resulting Tariff of 1846, also known as “Walker’s Tariff”, reduced the average duty to 25% and abolished the “minimum” clause.<sup>9</sup>

The Walker Tariff, which remained in force longer than any other tariff acts in the 19<sup>th</sup> century, caused the construction of new cotton mills, which had been encouraged by

the Tariff of 1842, to come “to a complete standstill.”<sup>10</sup> However, the cotton industry in general was faring quite well. Imports of cotton goods rose slightly from \$13,000,000 in 1846 to \$15,500,000 in 1855.<sup>11</sup> The industry was indeed managing a trade surplus in that year, with exports valued at \$16,000,000.<sup>12</sup> On the other hand, a starkly different picture was painted in the woolen industry, which had revived itself under the Tariff of 1842. When the Tariff of 1846 was enacted, there were 1,800 looms in New England weaving fine broadcloths. Within a few years of the tariff’s operation, every one of them had either stopped or diverted production into making inferior grade woolens.<sup>13</sup> The blanket manufacturers were similarly ruined, since the duty on coarse wool as their raw material (which had to be imported) was 10 percent higher than the duty on woolen goods.<sup>14</sup>

The protectionists received their final blow, before their eventual triumph in the coming Civil War, when Franklin Pierce became President in 1853, and the Democrats took full control of the government. The woolen manufacturers, who had no hope of securing increased duties for their protection, in turn asked for a removal of duties from the raw materials they used.<sup>15</sup> Mr. Collamer of Vermont alluded, both jokingly and cynically, to the fact that the woolen manufacturers had now abandoned their supposedly principled support for the wool growers to promote their own interests.<sup>16</sup>

The subsequent Tariff of 1857 lowered most duties by 20 to 25 percent from their 1846 level, and consistent to its original purpose, expanded the free list.<sup>17</sup> Several amendments to place both the lowest and highest grade wool on the free list were rejected, and all wool costing more than 20 cents per pound was left dutiable at 24%.<sup>18</sup> The bill had little trouble moving forward, and it was signed into law on March 3, 1857.<sup>19</sup>

By January 1<sup>st</sup> 1856, the various banks of the United States had issued notes amounting to \$195,747,950, while holding only \$59,719,301 in specie.<sup>20</sup> The tremendous extension of credit and the resulting recklessness in investment led to another economic crisis as the banks began credit contraction in 1857.<sup>21</sup> Just as the previous Panics of 1819 and 1837, the Panic of 1857 brought the two sides of the tariff debate back into conflict. The manufacturing interests cried for higher tariffs to alleviate their distress, while Southerners refused to suffer higher prices when their own incomes were depressed. The fall in income was also reflected in the fall of imports, which dropped from \$348,428,342 in 1856 to just \$263,338,654 in the following year.<sup>22</sup> The need to increase government

revenue finally gave the edge to the protectionist Republican Party, which culminated in the election of Abraham Lincoln in 1860.

In April 1860, Mr. Morrill of Vermont proposed a bill that would increase tariff rates back to 1846 levels, with additional increases for iron and wool.<sup>23</sup> This was arguably done to attract the iron makers of Pennsylvania and wool growers of the West into the Republican Party.<sup>24</sup> Although the bill passed in the House without much difficulty, it was postponed in the Senate by a vote of 25 to 23 due to a motion made by Mr. Hunter of Virginia, who argued that the situation did not demand an increase in taxation since the country was recovering from a crisis, and that imports would rise soon enough to bring back revenue.<sup>25</sup> As in the tradition of Southern speeches against the protective tariff, Mr. Hunter further elaborated his opposition to the principles of the bill.<sup>26</sup> When Congress reassembled in December 1860, South Carolina had seceded from the Union, and the rest of the Deep South soon followed.<sup>27</sup>

### Protectionism and the American Civil War

“Is there any need to offer proof that this odious perversion of the law is a perpetual source of hatred and discord; that it tends to destroy society itself? If such proof is needed, look at the United States. There is no country in the world where the law is kept more within its proper domain: the protection of every person’s liberty and property. As a consequence of this, there appears to be no country in the world where the social order rests on a firmer foundation. But even in the United States, there are two issues – and only two – that have always endangered the public peace.

What are these two issues? They are slavery and tariffs. These are the only two issues where, contrary to the general spirit of the republic of the United States, law has assumed the character of a plunderer.

Slavery is a violation, by law, of liberty. The protective tariff is a violation, by law, of property.

It is a most remarkable fact that this double legal crime – a sorrowful inheritance from the Old World – should be the only issue which can, and perhaps will, lead to the ruin of the Union.”

~ Frédéric Bastiat, observing from Europe in 1850<sup>1</sup>

The election of Abraham Lincoln in 1860 precipitated Southern secession, which finally led to a Civil War between the Northern and Southern states. The war lasted for four gruesome years, costing the lives of 620,000 military men (and thousands more of Southern civilians), out of a nationwide population of only 30 million.<sup>2</sup> One out of every four Southern white males between the age of 20 and 40 died during the war.<sup>3</sup> And although many people today ardently believe that slavery was the main cause of war, a careful consideration of the facts would reveal mercantilism as its true cause (Adams, 1999; DiLorenzo, 2003; Thornton & Ekelund, 2004).

It must be clarified at this point that the act of secession itself did not automatically bring about the declaration of war by the Northern states. Since Americans decided to secede from Great Britain in 1776, the right of secession was understood by a majority of the American public as the most fundamental principle of a government created by consent of the governed.<sup>4</sup> New England itself had contemplated three secession attempts during the administrations of Jefferson and Madison in protest of federal government policies.<sup>5</sup> Indeed, prior to the outbreak of Civil War, there was widespread sentiment in the North for allowing the Southern states to secede peacefully. By late 1860, a great majority of the Northern newspapers were expressing their opposition to the use of force against any state that wanted to secede from the Union.<sup>6</sup> Furthermore, secessionist sentiments were also strong in states such as Maryland, New York, New Jersey, and Delaware, who themselves supported the idea of a Central Confederacy, which Lincoln effectively suppressed through the use of the federal army.<sup>7</sup>

The President eventually managed to stir a patriotic feeling in the North by maneuvering the South Carolinians to fire the first shot at Fort Sumter.<sup>8</sup> His advisers had warned him about the fact that the Confederate States of America would not tolerate a Federal fort in their territory, and thus to avoid war, Fort Sumter should no longer be provisioned. Lincoln promised to do as they advised, but alas he lied.<sup>9</sup> Several Northern newspapers saw through Lincoln's tactic. The *Providence Daily Post* informed its readers on April 13, 1861 that, "For three weeks the administration newspapers have been assuring us that Fort Sumter would be abandoned," but "Mr. Lincoln saw an opportunity

to inaugurate civil war without appearing in the character of an aggressor,” and he took it.<sup>10</sup> Similarly, the *New York Evening Day Book* declared on April 17, 1861 that the affair at Fort Sumter was “a cunningly devised scheme... to arouse, and, if possible, exasperate the northern people against the South.”<sup>11</sup>

Despite the controversies surrounding slavery, the institution was constitutionally secure in 1861.<sup>12</sup> Abolishing slavery was in truth far from being the main cause of war, as the President himself expressed in his own words:

“My paramount object in this struggle is to save the Union, and is not either to save or to destroy slavery. If I could save the Union without freeing any slave I would do it; and if I could save it by freeing some and leaving others alone I would also do that. What I do about slavery, and the colored race, I do because I believe it helps save the Union.”<sup>13</sup>

Lincoln was a master politician who was argued to be “the smartest parliamentarian and cunningest logroller” by his law partner, William Herndon.<sup>14</sup> The abolition of slavery was never Lincoln’s true mission in politics. He said the following statement only two years before his election as president:

“I have no purpose to introduce political and social equality between the white and black races. There is a physical difference between the two, which, in my judgment, will probably forever forbid their living together upon the footing of perfect equality; and inasmuch as it becomes a necessity that there must be a difference, I, as well as Judge Douglass, am in favor of the race to which I belong having the superior position. I have never said anything to the contrary.”<sup>15</sup>

Despite his political genius during the Gettysburg Address in touting that “all men are created equal”, Lincoln had earlier mocked this doctrine arguing that, “I am sorry to say that I have never seen two men of whom it is true. But I must admit I never saw the Siamese Twins, and therefore will not dogmatically say that no man ever saw a proof of this sage aphorism.”<sup>16</sup> Lincoln’s opposition to the extension of slavery into the Western territories was also well explained in his own words: “Whether slavery shall go into Nebraska, or other new territories, is not a matter of exclusive concern to the people who may go there. The whole nation is interested that the best use shall be made of these territories. We want them for the homes of free white people.”<sup>17</sup> He strongly urged the

deportation of all blacks into Liberia, Haiti, and Central America so that “their places... be filled up by white laborers.”<sup>18</sup> Lincoln, according to the renowned abolitionist William Lloyd Garrison (who advocated Northern secession in protest of slavery), “had not a drop of anti-slavery blood in his veins.”<sup>19</sup>

The resistance against blacks moving into the new territories was also observed by Alexis de Tocqueville, who believed that racism was indeed worse in the Northern states than in the South: “the prejudice of race appears to be stronger in the states that have abolished slavery than in those where it still exists; and nowhere is it so intolerant as in those states where servitude has never been known.”<sup>20</sup> Some historians have pointed out that Lincoln’s famous Emancipation Proclamation was arguably done to promote the flailing war effort by trying to incite a slave rebellion in the South, as well as to dissuade Europe, who had recently undergone *peaceful* emancipation, from trading and thus supporting the Southern Confederacy during the war.<sup>21</sup> Lincoln himself admitted this intention:

“Things had gone from bad to worse, until I felt we had reached the end of our rope on the plan we were pursuing; that we had about played our last card, and must change our tactics or lose the game. I now determined upon the adoption of the emancipation policy.”<sup>22</sup>

There is no reason why a sincere abolitionist would exempt thousands of slaves in federally occupied states from emancipation as Lincoln did.<sup>23</sup> Even William Seward, his own Secretary of State, ridiculed the Proclamation by commenting, “We show our sympathy with slavery by emancipating slaves where we cannot reach them and holding them in bondage where we can set them free.”<sup>24</sup> The Emancipation Proclamation ended up causing a series of race riots in New York City, incited by those who could not buy their way out of a draft, and a desertion crisis in the Union Army.<sup>25</sup> As British Colonel Arthur Fremantle observed:

The people who can’t pay \$300 naturally hate being forced to fight in order to liberate the very race who they are most anxious should be slaves. It is their direct interest not only that all slaves should remain slaves, but that the free Northern Negroes who compete with them for labor should be sent to the South also.”<sup>26</sup>

Various Union officers were additionally quoted saying, “If emancipation is to be the policy of this war... I do not care how quick this country goes to pot.” “If anyone thinks that this army is fighting to free the Negro... they are terribly mistaken.” “I don’t want to fire another shot for the Negroes and I wish that all the abolitionists were in hell... I do not fight or want to fight for Lincoln’s Negro proclamation one day longer.”<sup>27</sup>

Why then, did Lincoln want to “save the Union” and wage a war against the Southern states that had peacefully seceded? Lincoln’s real agenda was well summarized in his own words:

“I presume you all know who I am. I am humble Abraham Lincoln. I have been solicited by many friends to become a candidate for the legislature. My politics are short and sweet, like the old woman’s dance. I am in favor of a national bank... in favor of the internal improvements system and a high protective tariff.”<sup>28</sup>

Throughout his political career, Lincoln idolized Henry Clay and his American System, whom he revered as “my beau ideal of a statesman, the man for whom I fought all my humble life.”<sup>29</sup> It is quite easy to understand why both proponents of Clay and Lincoln had been hostile to the idea of Southern secession since the Nullification Crisis in 1832. The South had always subsidized economic development in the North, and by 1860, it was paying more than 80% of the government revenue derived from tariffs (import duties were responsible for 95% of all government revenue at the time).<sup>30</sup> Southern secession would lead not only to the enormous loss of revenue, but also to the loss of a steady home market for Northern manufacturers. Both were of course, indispensable requirements of the American System. As the *Daily Chicago Times* admitted on December 10, 1860:

“The South has furnished near three-fourths of the entire exports of the country. Last year she furnished seventy-two percent of the whole... we have a tariff that protects our manufacturers from thirty to fifty percent, and enables us to consume large quantities of Southern cotton, and to compete in our whole home market with the skilled labor of Europe. This operates to compel the South to pay an indirect bounty to our skilled labor, of millions annually... Let the South adopt the free-trade system, and (the North’s) commerce must be reduced to less than half what it now is.”<sup>31</sup>

Indeed, as proof that Southern hostility against the principle of protectionism was not mere political rhetoric, the new Confederate Constitution of 1861 explicitly outlawed the use of a protective tariff, stating that: “no bounties shall be granted from the Treasury; nor shall any duties or taxes on importations from foreign nations be laid to promote or foster any branch of industry.”<sup>32</sup> The *Boston Transcript* newspaper concurred on March 18, 1861:

“It does not require extraordinary sagacity to perceive that trade is perhaps the controlling motive operating to prevent the return of the seceding States to the Union which they have abandoned. Alleged grievances in regard to slavery were originally the causes for the separation of the cotton states; but the mask has been thrown off, and it is apparent that the people of the principal seceding States are now for commercial independence.”<sup>33</sup>

To stop Southern secession, Lincoln himself offered in his first inaugural address to amend the constitution, making slavery ultimately an untouchable institution by the federal government:

I understand a proposed amendment to the Constitution--which amendment, however, I have not seen--has passed Congress, to the effect that the Federal Government shall never interfere with the domestic institutions of the States, including that of persons held to service. To avoid misconstruction of what I have said, I depart from my purpose not to speak of particular amendments so far as to say that, holding such a provision to now be implied constitutional law, I have no objection to its being made express and irrevocable.<sup>34</sup>

So true to his words, Lincoln was willing to do whatever he needed to do with regard to slavery in order to save the Union, from securing it as a permanent institution to abolishing its existence. Yet there was only one thing that Lincoln would not compromise, and that was the collection of taxes from the Southern states to fulfill his vision of the American System. As he said in the same inaugural address:

“The power confided to me will be used to hold, occupy, and possess the property and places belonging to the Government and to collect the duties and imposts; but beyond what may be necessary for these objects, there will be no invasion, no using of force against or among the people anywhere.”<sup>35</sup>

Thus the tariff, not slavery, was Lincoln's true motivation for war. And just as the European powers suppressed rebellious colonies to maintain their mercantilist system, so did Lincoln and proponents of the American System waged war against Southern secessionists.

### What Goes Around Comes Around: The Geographic Transition of the U.S. Textile Industry

The American Civil War and the corresponding defeat of the Southern states led to the triumph of protectionism for the rest of 19<sup>th</sup> century America.<sup>1</sup> The Tariff of 1867 finally granted high duties for both wool growers and manufacturers, restoring an alliance that had been broken when the Democrats were in power.<sup>2</sup> And after the initial shortage of Southern cotton following the war, textile manufacturing in the New England states began to flourish once again.<sup>3</sup> Intriguingly, the U.S. textile industry also experienced a simultaneous growth in the Southern states.

The rise of Southern cotton manufacturing began in 1880 as textile manufacturers sought to employ cheap Southern labor, which cost approximately 50% lower than their competitors in the North.<sup>4</sup> The successful relocation of textile mills was especially facilitated by the introduction of new technologies that reduced the need for skilled labor, such as the ring spindle and later on, the Northrop automatic loom.<sup>5</sup>

For the next 40 years, the textile industry continued to grow in both regions, although at a much faster pace in the South.<sup>6</sup> But by early 1920s, the pressure of Southern competition at long last began to force the collapse of the Northern textile industry.<sup>7</sup> The remaining mills survived by adopting the ring spindle and shifting production to higher quality products in search of market niches not yet entered by the South.<sup>8</sup> Comparing this situation to the problems experienced by the U.S. textile industry in the late 20<sup>th</sup> century, Nancy Frances Kane (1988) astutely observed:

“...One is struck by the number of similarities between the current trends in world textile production and the earlier case of U.S. textile relocation. Today's southern domestic mills are now in the position of the early – twentieth-century northern mills, as they struggle to remain viable in the increasingly competitive world textile market.

The U.S. industry is currently pursuing strategies reminiscent of the ill-fated North, including a shift to new product lines and modernization of domestic plants. The introduction of highly automated textile equipment has prolonged the life of the domestic industry by increasing labor productivity and reducing labor costs. The industry has also experienced considerable consolidation through trimmed capacity, mergers, and attrition.

Today's Asian mills have the advantages enjoyed by the early Southern mills, including low wages and more modern equipment. As in the case of the American textile relocation, technological changes in textile production have facilitated the shift of production to less-developed economies...<sup>9</sup>

Of course the story would have been much more ironic had she begun her analysis a little further back in history. The North, who had been fighting to keep British textiles out of America to protect its manufacturers, finally lost their textile industry to the South, whom it had exploited for that very reason. And the South, who had been fighting against the protective tariff to the point of nullification, secession, and war, finally found itself in the precarious position of the Northern textile manufacturers, whom it had despised for advocating the very policy it pursued.

### III. Assessing the Violent History of 19<sup>th</sup> Century America: A Logical Inquiry into the Nature of Protectionism

#### The Economics of Textile Protection: An Austrian Perspective

The protection of American textile during the 19<sup>th</sup> century has received a much-deserved attention from several economic historians. The most notable of these scholars are perhaps Edward Stanwood, a self-proclaimed protectionist whose excellent work is cited throughout the first part of this paper, and Frank Taussig, who argued against the need for textile protection in his influential book "The Tariff History of the United States." More recently, Mark Bils (1984), Peter Temin (1988), and Knick Harley (1992) have all challenged Taussig's (1910, p. 136) contention that the American cotton textile industry "was able to meet foreign competition on equal terms" by 1832, and argued that protection was indeed crucial to the industry's survival during the antebellum period.

Coming in defense of free trade, Douglass Irwin (2002<sup>2</sup>) argued that import substitution during the late 19<sup>th</sup> century was never the cause of rapid economic growth observed during that period. In this section we shall observe through the lens of Austrian economics that unfortunately, none of these fine works really address the underlying issue behind the tariff question.

The political struggles of 19<sup>th</sup> century America, which culminated in Southern secession and the War Between the States, were principally centered on one controversial issue: the protective tariff. The tariff question had incited Southern hostility since the first Congress met to discuss the first ever tariff act in 1789, long before slavery became a hot political issue. And the protection of American textile, which played an especially important role in later tariff controversies leading to the Civil War, gives us an excellent opportunity to gaze at the complexities surrounding this issue. What was the protective tariff all about? Why did Southerners view the tariff with such great passion equaled only by the abolitionists' fury toward the institution of slavery? What does economic science have to say about Lincoln's high regard for the protective tariff, which ultimately cost him the lives of hundreds of thousands of his fellow citizens?

Throughout the course of history, progress in human civilization comes only through the advent of change. In the context of an economy, this means the changing of goods and services produced within a particular place, including the methods of production involved. As expected of human nature, many who fail to adjust to the new market situation are normally unsympathetic to idea of having to lose their jobs (or their invested capital), and thus they frequently opt to lobby for protection whenever such an opportunity is present in the legal system. This in turn leads to the resentment of those who feel harmed by their actions, an expression of what Helmut Schoeck (1987) identified as "legitimate envy" (though with considerably less fury today than it was during the 19<sup>th</sup> century). In practice, two opposing sides can argue effectively only when there exists a mutual premise, or else a stalemate would ensue. If, as many people today seem to advocate, saving particular jobs for its own sake (i.e. without the pretext of a greater good) were to be highest priority of trade policy, then a consensus could never be reached between free traders and protectionists. Yet this is a very difficult position to defend both ethically and intellectually, as we shall explore later in this paper (it should

be noted that this statement is made specifically toward the means employed (i.e. government interference through trade policy) as opposed to the goal of saving particular jobs itself).

It is not by mere coincidence that protection was never heralded by proponents of the American System for the simple sake of saving Northern manufacturing jobs. If the reader would bring to mind Henry Clay's home market argument, protection was constantly presented to Southerners as a vehicle of industrialization and economic growth, which benefited the entire country and not just the special interests of Northern manufacturers. As Stanwood (1903, p. 68) insisted, "There has never been a time in the history of the country when the predominant motive to protection was found in a selfish wish of manufacturers that the government should increase their profits by laying heavy duties upon foreign goods." Almost two centuries after the introduction of the American System, we still hear the same sentiments echoed by the many sophisticated defenders of protectionism. So theoretically, there exists a mutual premise in the economic well-being of the country (how this should be measured is an entirely different matter, one to be discussed shortly).

Let us now proceed to examine the protectionist argument based on the above premise. At the outset, there are clearly some inconsistencies, especially from a geographical perspective, that can be observed in the argument for textile protection. Why for example, was the destruction of New England textile communities considered evil when it was done by British manufacturers, but not so when it was done by Southern manufacturers? Both clearly resulted in the same ruinous outcome for New England manufacturing, and those adversely affected would certainly beg to differ about the alleged benefit of the latter. Many case studies have documented the distress experienced by declining textile towns in New England to support this point (see Devino et al, 1966; Kane, 1988; Miernyk, 1955). Proponents of the American System would undoubtedly argue that such is the case because the industry was retained within a common political boundary (i.e. the nation-state). What then, is so important about political boundaries, as opposed to other geographical boundaries, especially considering the fact that they are man-made? And why do most people restrict the economic case for protection to the nation-state level, instead of the state, county, or city level? We shall return to this very

important topic later. For now, we can take its importance for granted and proceed with our analysis of protectionism.

Protectionism is in actual fact one of the simplest of economic problems to understand. Indeed, we can study this phenomenon in a Robinson Crusoe model before the introduction of Friday, let alone money. The 19<sup>th</sup> century French economist Frédéric Bastiat, perhaps the greatest employer of *reductio ad absurdum* in the history of economic science, used this framework quite effectively. His brilliant essay “The Petition of the Candlemakers,” in which French candle makers called for the closing of “all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses” in order to boost the production of candles and almost every other industry in France (Bastiat, 2001, pp. 47-51), ranks among the most devastating critiques of protectionism ever written. Considering that nowadays healthcare expenditures constitute a large chunk of spending in many countries, an updated version of Bastiat’s essay would perhaps ask the question: would the world economy be worse off if all diseases and injuries were to magically disappear from the face of the earth? It is after all an undeniable fact that millions of people who work in that industry and other related industries (from factory workers to insurance agents) would become unemployed. If such a miracle were to occur today, should governments then protect their jobs and spread viruses and injuries in order to promote economic growth? Borrowing the words of Ludwig von Mises, those economists who answer yes to this proposal may call themselves “irresponsible babblers.”

The key to understanding the economics of protection is to first understand the difference between means and ends in the category of human action. An end is the result sought by action, while a means is what serves to the attainment of that end (Mises, 1996<sup>2</sup>, p. 92). The two must never be confused. Consider the following example: suppose for reasons subjective to him, Crusoe decided to dig a hole in the ground. While he was digging the hole with his bare hands, a shovel washed ashore from his shipwreck. This shovel would save him one hour of labor. What should Crusoe do? Should he save his labor from being destroyed by the shovel? Most free traders would answer no, while some proponents of the “shovel-substitution” theory might answer yes. Of course in reality, Crusoe would answer this question one way or the other according to his own

subjective valuation. The economist can say that utilizing the shovel is more conducive to Crusoe having a hole (for it saves him one hour of labor), but to say that he should or should not do so is nothing more than a subjective value judgment. However, the economist who argues that refusing the shovel is more conducive to Crusoe having a hole has clearly made an erroneous economic analysis, for Crusoe could dig the hole with less labor using the shovel than his bare hands.

To make the story more interesting, let us introduce Friday into the model, and imagine the two friends living on their desert island with no other human contact. Our version begins with both individuals agreeing to declare their island independent from the rule of other nations, and since Crusoe recently won a crab-racing contest, he gets to name their island, CrusoeLand. At the moment, there are only two commercial industries in CrusoeLand: food and textile. For exchange purposes, Crusoe tans animal hide for clothing, while Friday fishes for food. The two of them agree to barter one tanned deer hide for 20 cleaned fish, and they trade accordingly. One night, a violent storm sinks a passing ship and the survivors manage to swim ashore to a neighboring island. They soon notice a campfire on CrusoeLand and decided to build a raft to pay a visit. Upon arrival, they are warmly greeted by Crusoe and Friday. But after a long conversation, one of them offers to exchange one tanned deer hide for 15 fish, which Friday accepts. Astonished by Friday's decision, Crusoe immediately sends the foreigners off CrusoeLand at gunpoint. Friday is upset by the action, but Crusoe, who has salvaged a musket from his own ship and well-learned on the virtues of protectionism, warns Friday that he would not tolerate the destruction of the CrusoeLand textile industry. In fear of being shot, Friday succumbs and continues to obtain his buckskins from Crusoe at 20 fish each.

What is the economics of the story? Is the CrusoeLand economy "better off" with textile protection? This seemingly simple question is in fact impossible to answer with the use of mathematics, and further analysis is required before we can arrive to the correct answer (see Rothbard, 1997<sup>2</sup>). Most free traders are content to formulate their defense on the basis that free trade offers the inhabitants of CrusoeLand an easier way to obtain clothing, and thus it allows the labor saved to be directed toward leisure or the satisfaction of other needs. This is undeniably an integral part of economic development, for none of us would be able to do the things we do today if the same amount of labor is

still required to fulfill our basic needs as it was at the dawn of civilization. Similarly, going back to our healthcare miracle we can observe that the labor saved does not represent a loss to the world economy, but a saving that could be directed toward the satisfaction of other needs. Introducing sickness and injuries into a healthy world in the name of economic growth would be analogous to forcing people to refuse sunlight in favor of candles, tractors in favor of shovels, or free air in favor of oxygen tanks. In all these cases, the means have been confused for the end.

This alone however, is not a valid justification for free trade, for the goal of prosperity is nothing more than a subjective value judgment. The French candle makers did not look upon the sun shining its light freely as a blessing, and similarly, Crusoe did not look upon cheap imports, which threatened his present job, as a blessing. To treat Crusoe's refusal to use the shovel or his rejection of the visitor's offer as uneconomic or irrational is erroneous. Human ends are necessarily subjective because human valuation is a purely subjective process. As Mises (2002, p. 38) asserts:

“Valuing is man's emotional reaction to the various states of his environment, both that of the external world and that of the physiological conditions of his body. Man distinguishes between more and less desirable states, as the optimist may express it, or between greater and lesser evils, as the pessimists are prepared to say. He acts when he believes that action can result in substituting a more desirable state for a less desirable.”

In a condition of free trade, our story states that Crusoe would lose his job while Friday trades with the visitor. Of course, this is neither an automatic, nor the only possible outcome. Many economists would readily assume that Friday naturally decided to trade with the visitor because he would then save the labor involved in catching five extra fish. This is certainly a plausible hypothesis (one that would presumably hold true in many cases), but the inherent subjectivity of human valuation dictates that there are many other motives for action beside material wealth. It is indeed possible for Friday to continue trading with Crusoe (voluntarily), perhaps out of friendship, or his obsession with goods “Made in CrusoeLand”, and any other reasons despite the fact that he must expend more of his labor to do so. Again, to treat these ends as uneconomic or irrational is erroneous, for his ends are ultimately subjective. However in our story, Friday instead

preferred to trade with the visitor. We can hypothesize about Friday's actual motive (e.g. a lower price, a new friendship, etc.), but such is unnecessary. From the simplest to the most complicated, action is always directed toward the satisfaction of a certain end, which originated in the subjective valuation of the actor. As a value-free science, economics can only take these subjective ends as an ultimate given. The only conclusion we can systematically derive from Friday's initial action (before Crusoe's protectionist law was enacted) is, that for reasons subjective to him, he placed a higher value in trading with the visitor than any other options available to him at that *particular place and time* (his scale of values, and thus his goals, is not static). And since voluntary exchange has to be mutually beneficial, or else the other party wouldn't engage in the trade, the same conclusion holds true for the visitor. Crusoe or any other outside party could intervene and make Friday change his mind in two ways, either (1) by the use of persuasion (i.e. convincing Friday to choose a different means to his end, or to choose a different end entirely, and thus rearranging his subjective scale of values), or (2) the use of coercion (i.e. forcing Friday to choose between two new set of options: trading with the visitor, or save his person from bodily harm). In dealing with the protective tariff and its enforcement, we inescapably deal with the intervention of force, and thus, coercion.

Since protection is often argued to be equally beneficial to all citizens, including those bearing the burden of higher prices, we must examine whether or not economic theory can justify the use of coercion under the pretext "for their own good." The answer is no. By default, coercion denotes the disagreement of the coerced, or else no such action is necessary. If we begin with the premise that human goals (i.e. their wants) are subjective, these goals can never be added, subtracted, or compared objectively to one another. And thus to say that one's ranking of values is superior to another's (e.g. I believe people should direct their efforts to maximize material wealth) is valid only in the subjective sense. The pretext "for their own good" is thus applicable only in the context of persuasion, where the individual voluntarily acknowledges that the proposed action is a better course to take, and thus simultaneously restructures his or her own subjective ranking of values. As a parallel example to the tariff debate, proponents of slavery often argued that the institution was equally beneficial to the slaves, who generally lived in better conditions than the free laborers of the North (Fogel & Engerman, 1974). If this

subjective valuation, that placed material well-being over liberty, had been shared by the slaves, then slavery would have existed voluntarily. Of course, neither slavery nor protectionism existed voluntarily. Thus in light of the subjectivity of value, the argument “for their own good” is a logical fallacy when applied in defense of coercion. It is for example, impossible for false philanthropists who cherish the institution of slavery to act on their belief without inevitably violating the consent of those enslaved.

The home market argument for textile protection rightly asserts that protection in itself makes no economic sense because it leads to scarcity and higher prices. However, the argument justifies protection if it leads to the strengthening of domestic industry and a decrease in future prices (the pretext of future benefit is also applicable to some other arguments for protection). Regardless of the likelihood for such an outcome, what does economic theory tell us about this scenario? First, we do not know whether or not price is the principal motive behind Friday’s decision to trade with the visitor (since his cost and benefit analysis is ultimately subjective), and hence future prices might not play an important role in his present calculation, making it an invalid justification for anyone to restrict his action with in the first place. Second, even if price were indeed his main motive for action at that particular moment, the irreversibility of time is always an integral part of human action and valuation. A consumer’s time preference indicates how much present consumption is preferred over future consumption (i.e. consumption vs. saving), and such a valuation is ultimately subjective as well. Suppose Crusoe promised Friday that if he supported the CrusoeLand textile industry, he would be able to purchase one tanned deer hide for only 12 fish starting next year, thus saving 3 fish per hide (if Friday had been allowed to trade with the visitor, and assuming that somehow the visitor would not increase his productivity during that same period). Although the production of 12 fish would certainly require less of Friday’s labor than the production of 15 fish, the cost of the five fish he must pay Crusoe during the period of protection remains subjective. Friday might prefer paying 15 fish now to the visitor instead of 20 to Crusoe, and spend the labor he saves for leisure or the production of something else. Thus it is not economically permissible for Crusoe to coerce Friday into sacrificing his present consumption in favor of future consumption, no matter how high the “interest rate” (i.e. future benefit) is.

We now return to our original question: is the CrusoeLand economy better off with textile protection? How do we objectively compare Crusoe's subjective gain from protectionism with Friday's subjective loss? As Rothbard (1997<sup>2</sup>, p. 212) has pointed out, an individual's preferences "are deducible from what he has chosen in action", and thus demonstrated preference "eliminates hypothetical imaginings about individual value scales." (ibid, p. 240) Before the arrival of the visitor, Crusoe and Friday traded voluntarily. From this action we can deduce that for reasons subjective to them (and at that particular moment in time), Friday valued one of Crusoe's tanned deer hides more than 20 of his fish, while Crusoe valued Friday's 20 fish more than his tanned deer hide, and so they traded. After the arrival of the visitor, Friday was presented with a new set of options, three of which include: (1) continue trading with Crusoe, (2) trade with the visitor, and (3) produce his own clothing. After Friday's decision to trade with the visitor, Crusoe was also presented with a new set of options, some of which include: (1) starve, (2) produce his own food, (3) produce something else to trade for food, and (4) coerce Friday into trading with him (assuming that Friday would prefer (i) not trading with the visitor to having a .75 caliber lead ball go through his body, *and* (ii) trading with Crusoe to producing his own clothing once foreign trade is cut off).

Before finally answering the question, let us apply the same problem to a pre-Friday CrusoeLand, with an isolated Crusoe and his newfound shovel. Again, economic science can only take as a given that Crusoe would act one way or the other according to his own subjective ends. From this premise, we can deduce that any act of coercion (not to be confused with persuasion) from an outside party to reverse his decision, be it to use or refuse the shovel for whatever pretext, must then lead to a loss in utility. Because protectionism acts in this very manner, we can see that the true case for free trade does not rest on the subjective valuation of a third party (e.g. increased standard of living, increased productivity, technology transfer, etc.) as mainstream economists often argue, but on the demonstrated preferences of individuals with differing subjective ends. Suppose Crusoe decided to exploit Friday's cowardice by enslaving him, and forced Friday to work harder than he used to. Can the value-free economist conclude that the subsequent increase in the CrusoeLand GDP means that welfare is improved? Certainly not, for we cannot measure Crusoe's subjective gain from the act of coercion and

Friday's subjective loss. This in fact is a similar situation to the one we have on our hands (i.e. the protection of CrusoeLand textile). If we accept the Austrian premise that value is subjective, and thus human ends are subjective, Crusoe's subjective gain from protectionism cannot be added, subtracted, or compared with Friday's subjective loss from the coercive action. But because both slavery and protectionism violate the principle of demonstrated preference, the economist can objectively conclude without making a value judgment on what is good or bad, that the "CrusoeLand economy" is not "better off" with the adoption of either policy. Anyone who disagrees with this conclusion is more than welcomed to present their economic analysis using the same CrusoeLand model employed in this paper.

### The Ethics of Involuntary Textile Protection

Seen from an Austrian (particularly Rothbardian) perspective, those (economists included) who formulate an opinion on the tariff debate can only do so from the standpoint of ethics (i.e. by introducing a value judgment on what is good or bad). It should be noted beforehand that in dealing with ethics, we have stepped outside the realm of economics. And we now deal with the various non-economic arguments that seek to justify the intervention of force embodied in the practice of involuntary textile protection. As pointed out earlier, many people today seem to favor protectionism for the simple sake of saving *certain* jobs, especially when thousands of them are at stake such as in the case of the U.S. textile industry. While the goal of saving particular jobs is not conducive to "economic growth" (i.e. material wealth), from the standpoint of a value-free science such as economics, it is certainly as valid as any other subjective valuations, including the accumulation of material wealth itself. Yet favoring protectionism as a means to that end is neither an intellectually nor ethically sound position to take. The fact remains that textile jobs are not an end to themselves, for if they were, textile manufacturers could continue operating regardless of their profitability, and no conflict would have ever ensued. But since voluntary exchange takes place only when both parties perceive a benefit from the trade, producers do not have a final say on what goods or services are to be produced in the market, nor on how efficiently they are to be produced. Entrepreneurial profit and loss in this voluntary system ensure that scarce resources are

allocated in accordance with the demands of society. They are, as Mises (1996, p. 25) pointed out, “the instruments by means of which the consumers keep a tight rein on all business activities.” And just as importantly, the free market allows individuals, each with their own subjective ends, to live peacefully with one another.

The protection of jobs threatened by either foreign or domestic competition is economically justifiable when undertaken as a voluntary act, as some people may place a higher value on helping a certain group of troubled workers, or purchasing domestic goods as a patriotic gesture, than on cheaper prices. However, this justification does not extend itself to the current system of involuntary protection. Much like the institution of slavery, protectionism coerces individuals to serve the interest of another against their will. And at the same time, it robs individuals from the fruits of their labor through the resulting increase in prices, as well as their freedom to peaceful exchange with one another. One cannot consistently attack slavery without also attacking protectionism, for the two are based on the same naked principle: that one person may encroach upon another’s right to life, liberty, and property outside the context of legitimate self-defense. Thus Bastiat promptly identified both slavery and protectionism as a perversion of the law, for naturally the law should have protected individuals from a violation of their liberty and property instead of legalizing such acts. And is this not the very reason why local businesses could not lawfully impose tariffs on one another whenever they fail to compete? Every corner of society would soon be plagued by violence and poverty if every individual were deemed to possess the right to plunder one another to further their own interests.

Nowadays, we increasingly hear cries against “unfair trade” whenever foreign competitors are granted artificial advantages through subsidies and other government privileges. Is there really a case for the protective tariff under such circumstances? If there were in fact such a case, then logically we must also outlaw all forms of international charity. But that would be absurd. For example, should local food vendors in hungry countries be allowed to impose protective tariffs on free food given by international donors (the ultimate subsidy of all)? Clearly not, for the giving and receiving of free food still constitute a voluntary transfer of property, and no act of aggression has been performed against the local vendors, who have no right whatsoever

to the property of their consumers and the international donors. If the recipients of free food shared the subjective valuation of the local vendors, that foreign subsidies are evil for the loss of business it causes, then they could voluntarily reject such undesirable goods. Again, people engage in voluntary exchange according to their own goals and consumer time preferences that are ultimately subjective.

Another very important component of the argument for textile protection is the consideration for national security. After all, clothing is one of the most basic of human necessities. Let us examine this argument. If the production of textile is crucial to one's economic security, why should the case for protection be limited to the national level? Why shouldn't every state, city, village, or household be forced to engage in textile manufacturing? Indeed, why aren't most individuals today producing their own textiles? The truth is that without trade and the division of labor, we would all be living in perpetual poverty. And there is certainly nothing secure about such a predicament. Yet if every individual does not need to produce their own textile in order to be secure, why should the exchange of textiles be limited to the national level instead of the global? What is it about the nation-state that makes it an indispensable geographical boundary for economic security?

It is argued that a nation must be able to clothe itself in case foreign trade is cut off. Considering that in 1820 Southerners refused to protect the Northern textile industry when most of their textile imports came from a former enemy (whom they just fought a war with), this becomes an even more difficult position to defend when we have many peaceful international suppliers as is the case today (and certainly to claim that the prospect for war against our international textile suppliers is equal or greater today than it was in 1820 is unsubstantiated rhetoric). Of course in the free market, anyone who perceives otherwise is free to invest their capital into the domestic textile industry, and reap entrepreneurial profit should their predicted scenario happens. Yet this simple fact seems lost in the argument.

Nevertheless we ask the question: why for example, is it important for the economic security of a New Yorker who does not make his own clothing, to have his shirt made in South Carolina instead of Mexico? He clearly has no direct control over either production, or the production of any other person in any other location for that

matter. Indeed, all of them produce and sell clothing with their own best interests in mind, not because anybody forces them to. Why is trade within a political border considered safer? Is it because Mexico could legally impose a trade embargo while South Carolina could not? But such difference is a mere political illusion, for South Carolina “could not” impose an embargo only because the federal government would crush such a rebellion with force, as it has done before in the Civil War. And if coercion were truly the source of economic security, then our New Yorker might as well trade with whoever offers him the best deal regardless of nationality, and invade that producer in case of an embargo. There is certainly no logical reason why invading a fellow citizen is morally superior to invading a foreign person (regardless of the fact that it would be easier to do so). We can see that ultimately, the argument for self-sufficiency is applicable only to the individual, for other than that it is a mere pretext for the ability to coerce another person into submission. And aside from the internal conflicts it generates, equating national “self-sufficiency” with national security is an especially dangerous impulse, since any nation that is geographically disadvantaged due to its location or size (and thus could not provide for its ever-increasing wants) would then try to conquer other nations in order to bring more resources under its rule and achieve the goal of self-sufficiency.

The protectionist argument for economic security grows even weaker once we acknowledge the simple fact that the protective tariff is an act of coercion. Crusoe, who is convinced on the necessity of protecting the CrusoeLand textile industry for the economic security of its inhabitants, decides to enact a protectionist law. Thus supposedly, this law is made for the public good, including Friday’s own security. But if Friday were to forcefully resist this law, and tells Crusoe “over my dead body!” Crusoe must then coerce Friday into submission and if necessary (depending on the intensity Friday’s resistance), kill him. Again we encounter the fallacy of a law enacted “for their own good.” This hypothetical case almost became a reality in the winter of 1832-1833, when South Carolina nullified the Tariff of 1828 & 1832, and it finally did in 1861 when Lincoln denied Southerners their right to withdraw from his protectionist master plan.

In a market economy, those who seek economic betterment can only do so through an act of persuasion, by offering goods and services that are demanded by others in society. Conflicts arise when individuals seek to exploit the coercive power of the state

to further their own interests at the expense of another. And when a people still possess the spirit of resistance, as was the case in both the American Revolution and the War Between the States, these conflicts would escalate into violent upheavals. Theoretically, what is the likelihood of war under a free market, as opposed to a world full of protectionist economies? Which condition is more conducive to ensuring the abundant supply of goods and services needed by the individual, and thus promoting his or her economic security? We saw that New England was opposed to the War of 1812 to the point of contemplating their third secession attempt because the war had injured its commerce, and likewise, the South revived its hostility against the protective tariff as soon as there was no more threat of a new war with Great Britain. Because of its mutually beneficial nature, trade diminishes the reasons for war. Throughout the history of mankind, human beings have always had the option to pursue their interests peacefully through voluntary production and exchange, or coercively through aggression, slavery, and protectionism. The latter course of actions, whether legalized or not, could never sow the seeds of peace for they disrupt the peaceful and voluntary interaction of individuals. As history itself has revealed, they sow only the seeds of war.

#### IV. Conclusion

The arguments for and against protectionism can be separated into two categories: those dealing with economics, and those dealing with ethics. Starting with the premise that human ends are subjective, Austrian School economics deduces that no coercive interference of voluntary exchange could ever be justified from the standpoint of welfare economics. However as a value-free science, economics does not have the ability to promote neither free trade nor protectionism. The economic case for free trade is not to be determined through empirical testing, using a third party subjective end as the dependent variable (e.g. does free trade promote productivity, technology transfer, higher standard of living, income equality, peace, etc?). On the contrary, the “case” is made through deductive reasoning based on the a priori knowledge that human action, in this case voluntary exchange, is always directed toward the accomplishment of a certain end, which originates in the subjective valuation of the actor. Thus any act of coercion that violates the demonstrated preference of individuals can never improve their “social

utility.” Protectionism can only be justified from an economic standpoint when undertaken as a voluntary act, where the individual demonstrates that he or she prefers the more expensive domestic product through voluntary exchange.

This paper went beyond the realm of economics in promoting the cause of free trade, and no argument promoting the subjective goals of peace, prosperity, equality, etc. could ever be value-free. But unlike that of free trade, the ethical case for protectionism can only be made on the premise that an equality of rights among human beings does not exist, that some individuals, acting as a majority or sheer force, possess the right to violate another individual’s life, liberty, and property outside the context of legitimate self-defense. This means that the rights of the individual exist only in accordance with the consent of those in power. We are reminded by the violent history of 19<sup>th</sup> century America that the state acts only through the intervention of force. The protective tariff was not, and never is an act of persuasion. If coercion were ever deemed justifiable outside the context of legitimate self defense, then it follows that there existed no principled difference between the legalization of slavery and the protective tariff, for the rights of the aggressor were not violated in either case to warrant their aggression. And such perversions of the law cannot be justified based simply on their victims’ ignorance or passivity. This paper defends free trade on the premise that Crusoe does not have the right to violate Friday’s life, liberty, and property outside the context of legitimate self-defense, and that the same applies to Friday. Only in this sense can every individual be considered equal, for as Andrew Jackson asserted in his veto message, they are naturally unequal in everything else.

Notes

### Introduction

1. Northrup & Turney, 2003, p. 383
2. Federal Reserve Bank of Dallas, 2002, p.19

3. See Rothbard, 2002, pp. 206-214
4. as cited in Ikenson, 2003, p. 9

#### The War of 1812 and the Rise of American Textile

1. Northrup & Turney, 2003, p. 419
2. Stanwood, 1903, p. 112
3. Ibid., p. 130
4. Ibid.
5. Ibid., p. 129
6. Ibid.
7. Ibid.
8. Northrup & Turney, p. 384
9. Ibid.

#### The Movement for a Protective Tariff

1. Stanwood, 1903, p. 131
2. Rothbard, 1962, p. 4
3. Ibid., p. 5
4. as cited in Stanwood, 1903, p. 132
5. Stanwood, 1903, p. 140
6. Northrup & Turney, 2003, p. 360
7. Stanwood, 1903, p. 141
8. Northrup & Turney, 2003, p. 360
9. Northrup & Turney, 2003<sup>2</sup>, p. 19
10. Northrup & Turney, 2003, p. 360

#### Southern Tolerance to the Tariff of 1816

1. as cited in Stanwood, 1903, p. 52
2. Ibid., p. 56
3. Ibid., p. 58
4. Northrup & Turney, 2003, p. 357

5. Preyer, 1959, p. 311
6. Ibid., p. 313
7. as cited in Stanwood, 1903, pp. 133-134
8. Preyer, 1959, p. 314

The Panic of 1819 and the Return of Southern Hostility toward the Protective Tariff

1. Rothbard, 1962, p. 3
2. Ibid.
3. Ibid., p. 4
4. Ibid., p. 7
5. Ibid., p. 8
6. Ibid.
7. Ibid., p. 11
8. Ibid., p. 13
9. Ibid.
10. Ibid., pp. 15-16
11. Ibid., p. 159
12. as cited in Rothbard, 1962, p. 161
13. Rothbard, 1962, p. 161
14. Ibid.
15. Ibid., p. 162
16. Ibid., p. 171
17. Ibid.
18. Ibid., pp. 174-175
19. as cited in Stanwood, 1903, p. 187
20. Stanwood, 1903, pp. 187-188
21. as cited in Stanwood, 1903, p. 188
22. as cited in Rothbard, 1962, p. 173
23. Northrup & Turney, 2003, pp. 361-362
24. Ibid., p. 362
25. Rothbard, 1962, p. 173; Stanwood, 1903, p. 172

26. Stanwood, 1903, p. 172

#### Henry Clay and the American System

1. Stanwood, 1903, p. 211
2. Northrup & Turney, 2003, p. 22
3. as cited in Stanwood, 1903, p. 236
4. as cited in Stanwood, 1903, p. 234
5. Northrup & Turney, 2003, p. 362

#### The Tariff of Abominations

1. Stanwood, 1903, p. 253
2. Ibid., p. 254
3. Ibid., p. 279
4. Ibid., p. 280
5. as cited in Stanwood, 1903, p. 261
6. Northrup & Turney, 2003, p. 363
7. Ibid.
8. Stanwood, 1903, p. 271
9. Ibid., pp. 281-282
10. Northrup & Turney, 2003, p. 364
11. Northrup & Turney, 2003<sup>2</sup>, p. 29
12. Stanwood, 1903, p. 288
13. Northrup & Turney, 2003, pp. 364-365

#### Prelude to Civil War: The South Carolina Nullification Crisis

1. Freehling, 1968, p. x
2. Ibid., p. 104
3. Northrup & Turney, 2003, p. 283
4. Ellis, 1987, p. 46
5. as cited in Ellis, 1987, p. 46
6. Ellis, 1987, p. 48

7. Ibid., p. 49
8. See Ellis, 1987, pp. 51-63
9. Ibid., p. 63
10. Ibid., p. 42
11. as cited in Ellis, 1987, pp. 39-40
12. Ellis, 1987, p. 67
13. Ibid., p. 65
14. Ibid., p. 75
15. Ibid., p. 76
16. Ibid., p. 75
17. Ibid., p. 48
18. Ibid., p. 78
19. as cited in Ellis, 1987, pp. 78-79
20. See Ellis, 1987, pp. 84-89
21. Ibid., p. 91
22. Ibid., p. 98
23. Ibid., p. 168
24. Ibid., p. 176
25. Ibid., p. 177

#### Textile Protection prior to the Civil War

1. Stanwood, 1903<sup>2</sup>, p. 33
2. Northrup & Turney, 2003, p. 367
3. See Stanwood, 1903<sup>2</sup>, pp. 20-28
4. Ibid., p. 28
5. Ibid., p. 29
6. as cited in Stanwood, 1903<sup>2</sup>, p. 34
7. Stanwood, 1903<sup>2</sup>, pp. 41-43
8. Ibid., p. 41
9. Northrup & Turney, 2003, p. 369; Stanwood, 1903<sup>2</sup>, p. 71
10. as cited in Stanwood, 1903<sup>2</sup>, p. 91

11. Stanwood, 1903<sup>2</sup>, p. 91
12. Ibid.
13. Ibid., p. 92
14. Ibid.
15. Ibid., p. 95
16. Ibid., p. 105
17. Northrup & Turney, 2003, p. 370
18. Northrup & Turney, 2003<sup>2</sup>, p. 71
19. Stanwood, 1903<sup>2</sup>, p. 108
20. Ibid., p. 113
21. Ibid., p. 114
22. Ibid., p. 115
23. Ibid., p. 120
24. Northrup & Turney, 2003, p. 265
25. Stanwood, 1903<sup>2</sup>, p. 122
26. Ibid.
27. Ibid., p. 123

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1. Bastiat, 1998, pp. 14-15
2. DiLorenzo, 2003, p. 52
3. Ibid., p. 53
4. See DiLorenzo, 2003, pp. 85-93
5. See DiLorenzo, 2003, pp. 93-101
6. See DiLorenzo, 2003, pp. 106-110
7. See DiLorenzo, 2003, pp. 101-106
8. Ibid., p. 118
9. Ibid., p. 119
10. as cited in DiLorenzo, 2003, p. 120
11. as cited in DiLorenzo, 2003, p. 123
12. DiLorenzo, 2003, p. 123

13. as cited in DiLorenzo, 2003, p. 35 (emphasis added)
14. as cited in DiLorenzo, 2003, p. 11
15. as cited in DiLorenzo, 2003, p. 11
16. as cited in DiLorenzo, 2003, p. 12
17. as cited in DiLorenzo, 2003, p. 21 (emphasis added)
18. as cited in DiLorenzo, 2003, p. 18
19. as cited in DiLorenzo, 2003, p. 19
20. as cited in DiLorenzo, 2003, pp. 25-26
21. DiLorenzo, 2003, pp. 37-38
22. as cited in Adams, 1999, p. 330
23. DiLorenzo, 2003, pp. 35-36
24. as cited in DiLorenzo, 2003, p. 26
25. DiLorenzo, 2003, p. 43
26. as cited in DiLorenzo, 2003, p. 44
27. as cited in DiLorenzo, 2003, pp. 45-46
28. as cited in DiLorenzo, 2003, p. 54
29. as cited in DiLorenzo, 2003, pp. 13-14
30. DiLorenzo, 2003, p. 126; Thornton & Ekelund Jr., 2004, p. 13
31. as cited in DiLorenzo, 2003, pp. 242-243
32. as cited in DiLorenzo, 2003, p. 240
33. as cited in Adams, 1999, p. 339
34. Lincoln, 1861 (emphasis added)
35. Ibid. (emphasis added)

What Goes Around Comes Around: The Geographic Transition of the U.S. Textile Industry

1. Northrup & Turney, 2003, p. 385
2. Ibid., p. 374
3. Ibid., p. 385
4. Kane, 1988, p. 9
5. Ibid., pp. 22-23

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9. Ibid., p. 160

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