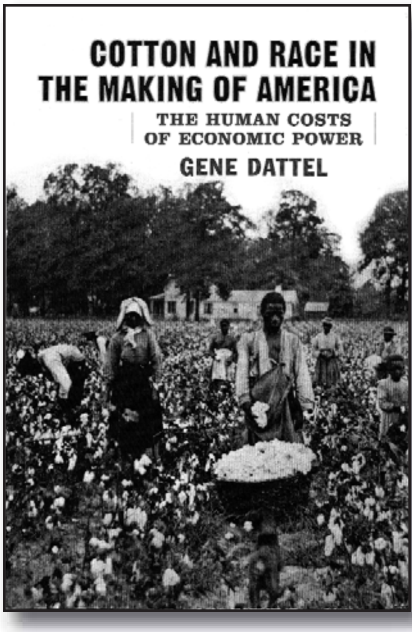
Cotton, the Oil of the Nineteenth Century



Gene Dattel's *new book is* Cotton and Race in the Making of America *(Ivan R. Dee, 2009).*

Important lessons of history.

BY GENE DATTEL

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What if you discovered that a foreign country had deliberately attempted to jeopardize millions of jobs in one region of the country? No, this was not an OPEC oil embargo designed to counteract American support of Israel. The target was in fact England, the instigator was the Confederacy, and the strategy involved the curtailment of cotton exports during the Civil War.

In 1861, the newly formed Confederate States of America, attempting to force England into the Civil War as an ally or as the instigator of a compromise that would acknowledge Southern independence, unanimously adopted King Cotton diplomacy. The South cut off England's supply of cotton, the essential fuel for the British textile manufacturers.

In the nineteenth century, cotton was comparable in power to oil in today's global economy. Its political clout paralleled that of oil as described in Daniel Yergin's Pulitzer Prize-winning book, *The Prize:*

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The Epic Quest for Oil, Money and Power. The West understandably fears the political and economic power of oil and chaffs under its dependency on the Middle East, Russia, Nigeria, and Venezuela. We speak in emotionally charged language—an "energy crisis"—yet we pay scant attention to the impact, both devastating and constructive, of King Cotton, the most important determinant of American history in the nineteenth century. Cotton prolonged America's most serious social tragedy, slavery, and slave-produced cotton caused the American Civil War, our bloodiest conflict which almost destroyed the nation. Slavery was on the road to extinction before the cotton gin intervened to blindside the goals of the Founding Fathers.

The cotton/oil analogy begins with the same players—producer and consumer—and a similar dynamic of dependency and monopolistic (or oligopolistic) suppliers. On the eve of the American Civil War, Britain, the most powerful nation in the world, relied on slave-produced American cotton for over 80 percent of its essential industrial raw material. English textile mills accounted for 40 percent of Britain's exports. One-fifth of Britain's twenty-two million people were directly or indirectly involved with cotton textiles. The British textile industry was concentrated in one region, Lancashire, and Britain was thoroughly vulnerable to a disruption in the supply of cotton.

"No industry," Eric Hobsbawm writes, "could compare in importance with cotton in the first phase of British industrialization." The young Karl Marx, in 1846, wrote unambiguously about the significance of cotton and the relationship between cotton and slavery: "Without cotton, you have no modern industry…Without slavery, you have no cotton." The British were rightfully alarmed about their precarious dependency. *Blackwood's Magazine* in 1853 bemoaned the fate of "millions in every manufacturing country in Europe within the power of an oligarchy of planters."

The South reveled in its allegiance to King Cotton. After all, slave-produced cotton accounted for almost half of America's exports before the Civil War. Nobel Prize-winning economist Douglass North dubbed cotton, "the major independent influence on the evolving pattern of [American interregional trade]." Slave-produced cotton provided the export surplus the young nation desperately needed to gain its financial "sea legs," brought commercial ascendancy to New York City, was the driving force for territorial expansion in the Old Southwest, and fostered trade between Europe and the United States. No other commodity or industry acquired such regal status. Cotton was the leading American export from 1803 to 1937.

No one would have taken the South seriously without cotton; the South would not have taken itself seriously without cotton. Cotton gave enormous credibility to the American South, just as oil or natural gas confers status to the Middle East, Russia, and Venezuela.

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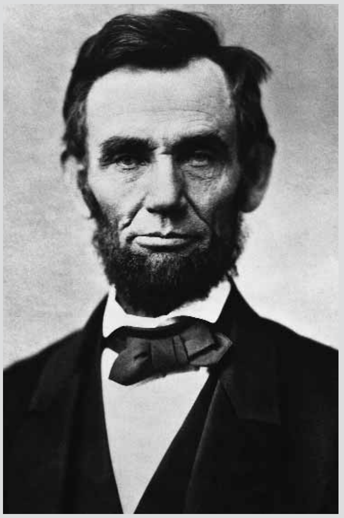
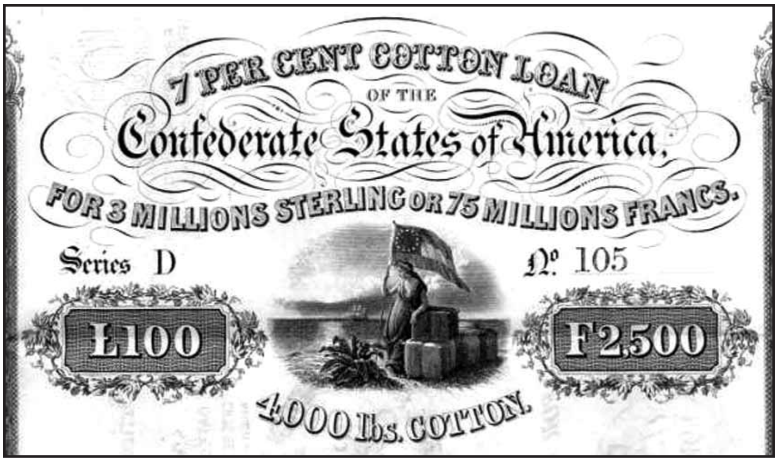
Corruption and the "White Gold"

The price of cotton became a serious inducement to corruption during the war. Union armies, both soldiers and officers, succumbed to the temptations of smuggling. General William Tecumseh Sherman, in 1862, summarized the unbridled competition for cotton: "[T]hat ten cents would buy a pound of cotton; that four cents would take it to Boston, where it would receive thirty cents in gold. The bait was tempting and it spread like fire." **President Abraham Lincoln** tolerated the corrupt, federally sponsored domestic trade which would keep cotton from going to England. He was "thankful that so much good can be got out of pecuniary greed." The rampant corruption attendant to the oil world would have come as no surprise to Lincoln.

—G. Dattel



Abraham Lincoln



The Confederacy issued a cotton-backed bond, the **Erlanger Bond**, *in the spring of 1863. A forerunner of modern finance, the bond carried a 7 percent coupon and was convertible into either of two currencies, French francs or British sterling. It could be redeemed for cotton at Southern ports (after running the blockade). The instrument was traded on exchanges in London, Liverpool, Paris, Frankfurt, and Amsterdam. Investors included members of Parliament, a director of the Bank of England, statesman William Gladstone, and the editor of the* London Times.

South Carolina Senator James Henry Hammond, in 1858, famously and arrogantly questioned whether England or “any sane nation…dare make war on cotton. Cotton is King.” Hammond was merely echoing the threat posted by the Liverpool partner of Nicholas Biddle, head of the Bank of the United States in 1839. “Cotton,” for him, would “be much more effectual in bringing [England] to terms than all the disciplined troops America could bring into the field.” The Philadelphian Biddle was in the midst of manipulating the cotton market to drive the price up. Both the North and South were irresistibly attracted to military analogies in their reference for King Cotton.

Playing its only card, the Confederacy became a ruthless cartel. Only a few months after declaring itself a nation, it implemented an embargo on the shipment of cotton abroad. The Confederate Congress authorized the burning of thousands of bales of cotton at Southern ports. Each state passed laws to create a cotton shortage. In 1862, Southerners witnessed the bizarre sight of cotton bales deliberately set on fire. Louisiana forbade cotton from being transported into New Orleans after October 10, 1861. Through control of both oil and cotton, governments have been able to directly impact the economies of industrial nations by withholding, or threatening to withhold supplies.

Ironically, President Lincoln at the outset of war immediately installed a blockade to prevent cotton from reaching England. He knew of the immense value of cotton for the South. The result was an odd juxtaposition of policies, both of which were designed to stop cotton from leaving the South.

King Cotton diplomacy did create a devastating “cotton famine” in the Lancashire area. A large stockpile of over one million bales of cotton forestalled the hardship until after the Union had stopped Confederate advances at Antietam in the fall of 1862. It is inexplicable that the South did not know of this cotton stockpile.

Like the oil oligopolies, the cotton monopoly caused an economic and political backlash among dependent countries. In each case, there was much passionate rhetoric about alternative supply sources. England did manage to import considerable cotton from India during the war, but afterward the American South resumed its dominant position as the leading exporter of cotton until the 1930s.

Much to the dismay of America, England did proclaim neutrality—an informal recognition of the Confederacy. It would have been delighted to see America dismantled. England’s failure to intervene formally on behalf of the South had little to do with the morality on the question of slavery. England was concerned about an American invasion of Canada in retribution.

Despite the ineffective cotton embargo tactic, King Cotton had a huge impact on the war and its aftermath. Like oil, cotton could be used to barter for armaments. As the price of cotton moved from ten cents a pound to $1.90 a pound in 1864, blockade runners risked capture to bring cotton to England in return for arms for the Confederacy. Expected profits of 300 to 500 percent were an irresistible inducement. Blockade runners were built, repaired, and retrofitted in England and manned by British crews.

The amount of arms purchased for cotton was staggering. One ship, the CSS *Fingal*, transported “15,000 Enfield rifles, more than two million cartridges, 24,000 pounds of powder…seven tons of artillery shells…” into Savannah, Georgia, on November 12, 1861. The payload

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was carried by rail to Tennessee for Confederate soliders at the bloody battle of Shiloh. Munitions and supplies continued to pour into the Confederacy until the last Southern port of Wilmington, North Carolina, was closed in January 1865.

English-built raiders—the notorious *Alabama,* the *Florida,* and the *Shenandoah*—devastated the American merchant marine. Their construction took place in Liverpool's massive Birkenhead Ironworks for all to see. England halted its sale of ships to the Confederacy only when the Union threatened war. After the war, the United States forced England to participate in a reparations conference where it demanded Canada, Nassau, and $2 billion before settling for $15 million in 1872. The English munitions business parallels the deals struck by various European nations, Russia, China, and North Korea in exchange for oil, access to oil, or oil-related profits.

Ultimately, the Confederacy realized that cotton was far more valuable as a financing vehicle than as an embargo strategy. And thus with no other options available, the Confederacy issued a cotton-backed bond, the Erlanger Bond, in the spring of 1863 (see "Southern Hospitality," *TIE,* March/April 1997).

Securitization, multi-currency features, and the international bond market were alive and well in the 1860s. Cotton was the enticement for the Erlanger Bond, a forerunner of modern finance that carried a 7 percent coupon and was convertible into either of two currencies, French francs or British sterling. It could be redeemed for cotton at Southern ports (after running the blockade). The instrument was traded on exchanges in London, Liverpool, Paris, Frankfurt, and Amsterdam. Nothing could better demonstrate the power and international appeal of cotton. Investors included members of Parliament, a director of the Bank of England, statesman William Gladstone, and the editor of the *London Times.*

The price of cotton became a serious inducement to corruption during the war. Union armies, both soldiers and officers, succumbed to the temptations of smuggling. General William Tecumseh Sherman, in 1862, summarized the unbridled competition for cotton: "[T]hat ten cents would buy a pound of cotton; that four cents would take it to Boston, where it would receive thirty cents in gold. The bait was tempting and it spread like fire." Lincoln tolerated the corrupt, federally sponsored domestic trade which would keep cotton from going to England. He was "thankful that so much good can be got out of pecuniary greed." The rampant corruption attendant to the oil world would have come as no surprise to Lincoln.

Both cotton and oil were tempting revenue sources for invading armies. After the Civil War, the victorious American government punished the South by imposing a tax of 2.5 cents on each pound of cotton raised. The punitive and destructive tax was repealed in 1868. The young French journalist Georges Clemenceau, who would later become France's prime minister, wrote of the ill-conceived cotton tax that it raised American cotton prices, made American cotton less competitive in world markets, and inhibited production. Likewise, America had visions of financing its incursion into Iraq in 2003 by tapping that country's oil revenues. This revenue scheme, like the cotton tax as America painfully discovered, proved to be impossible to execute.

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Like today's oil producers, the American South in the Civil War was a prisoner of price. What if the price of cotton had collapsed in the 1850s? Could the South have embarked on a war which cost six hundred thousand lives and injured another six hundred thousand men in uniform? Russia defaulted on its debt obligations in the 1990s when the price of natural gas plummeted. What would be the social, political, and economic consequences of a sharp drop in energy prices for Iran, Venezuela, Iraq or Nigeria? Correspondingly, an increase in the price makes these countries even more threatening.

The South's inability to develop a manufacturing base before the Civil War is directly attributable to its obsession with cotton, a white gold. A lopsided agricultural economy arose, a fate similar to that of oil producers who fail to develop a diversified economy.

King Cotton's reign for the American South ended in the 1930s. A mere eighty years after slave-produced cotton caused a war, it was deemed politically and economically irrelevant. In 1941, though Japan needed American cotton, the U.S. refused to place an embargo on cotton because of a worldwide glut of its "God-made monopoly." The baton of power had passed to oil, which was embargoed.

The history of King Cotton may offer a warning, but no lessons in controlling a commanding economic determinant. ◆