

LESSON 19

ECONOMIC ANALYSIS OF THE CIVIL WAR

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LESSON DESCRIPTION

The students examine information presented in visuals and work in small groups to analyze the economic impact of the Civil War. The Civil War ended slavery and the possibility of Southern secession. But did the war help or impede economic growth the United States? The evidence suggests that the costs of the war were very high and resulted in several economic setbacks.

MYSTERY

Does war help or hurt an economy? When considering the economic effects of the Civil War or any other war, there is one key question to consider: How would the economy have differed if the war had not been fought? Could the Civil War have prevented the United States' economy from pursuing a superior path of economic growth?

ECONOMIC HISTORY

As a result of the Civil War, the Thirteenth Amendment to the Constitution was ratified, guaranteeing the private rights of each human being living in the United States regardless of race, creed or color. However, the loss of workers, entrepreneurial talent and capital, and the diversion of investment from civilian to military production, imposed high costs on the U.S. economy. Additionally, industrialization, often celebrated as a Civil War benefit, would have likely occurred even if war had been avoided. Furthermore, many of the direct costs associated with the Civil War could have been reallocated toward different applications.

CONCEPTS

- Alternatives
- Benefits
- Costs
- Counterfactual
- Economic growth
- Inflation
- Opportunity cost

CONTENTS STANDARDS:

Economics

- People respond predictably to positive and negative incentives. (NCEE Content Standard 4)
- There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income. (NCEE Content Standard 16)
- Costs of government policies sometimes exceed the benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. (NCEE Content Standard 17)

History

- The causes of the Civil War. (Era 5, Standard 1, National Standards for History)
- The course and character of the Civil War and its effects on the American people. (Era 5, Standard 2, National Standards for History)

OBJECTIVES

Students will:

1. Use counterfactual hypotheses to analyze the impact of the Civil War on the U.S. economy.
2. Identify costs and benefits incurred as a result of the Civil War.

TIME REQUIRED

One class period

MATERIALS

- A transparency of Visuals 19.1 and 19.2
- A copy of Activity 19.1 for each student

PROCEDURE

1. Explain that the purpose of this lesson is to examine the economic effects of the Civil War. Point out to the class that there is a belief, often taken at face value, that wars contribute to the economic growth of market economies like the United States. Even today, people can be overheard remarking that a war now and then is necessary to help the economy achieve growth.
2. Display Visual 19.1. Note that students of history have observed that war increases production of war-related goods such as muskets and bayonets, and decreases the production of civilian goods. The stimulating effects of government spending, such as those that occurred during the Civil War, can foster remarkable levels of production. But, are wars good for the economy?
3. Remind the class that a key tool in economic thinking is to analyze costs and benefits. Ask: What do you think were some of the costs and benefits of fighting the Civil War? (*Accept a variety of answers.*) Display Visual 19.2 and ask the students to identify the benefits and costs of the Civil War. (*The benefits included the end of slavery, the protection of the formal political structure of the United States, increased industrial production in war-related goods and higher military employment. The total direct costs of the Civil War included human death and disablement, destruction of capital, loss of livestock, reconstruction, economic decline in the South, the uncompensated loss of capital investment in slaves, inflation, production inefficiencies, decreased production in civilian goods and services, and the loss of rights of states to secede or claim independence from the Union when in disagreement with the President or Congress.*)
4. Explain that, according to economic reasoning, the true costs of the Civil War include its opportunity cost — the value of the second-best alternative, which was not to go to war. Economic historians sometimes pose *counterfactual questions* to analyze the opportunity cost of historical decisions. A counterfactual question in history asks what would have happened if the event had not occurred. A counterfactual question can be used to estimate the opportunity cost of the war.
5. Distribute Activity 19.1 and ask the students to consider the indirect or the implicit cost of the Civil War. Discuss the analysis posed by Stanley Lebergott. Ask:
 - A. Without the war, would the United States have industrialized after 1865? (*Probably. Industrialization started well before the Civil War.*)
 - B. How would war resources have been otherwise used? (*Without the war, the private sector would have benefited from the existence of hundreds of thousands of workers and future leaders who were lost to the war and others who left the private sector to join the military. Investment diverted to military production could have been used instead for investment in the private sector.*)
 - C. What may have been the opportunity cost of the Civil War? (*It appears that the Civil War slowed American industrialization. The opportunity cost was the improved standard of living Americans could have enjoyed if some other way could have been found to resolve the issues of the war.*)
6. Explain that war influences economic growth. Government spending increases during war, much of it on military supplies including tanks, guns, uniforms and other items. It also calls people to military service, thus boosting income in the public sector. This increased government spending

and military income stimulates more industrial production, which in turn fuels economic growth. Yet, these aspects of a war economy may actually reduce economic growth. How? Efficient production implies that an economy uses resources to produce goods and services at the lowest possible cost. If industries are already operating at full capacity, increased military production comes at the expense of civilian goods and services already being produced. As producers quickly reallocate resources, inefficiencies emerge. Production costs increase and are passed on to consumers in the form of higher prices. The end result is inflation or an increase in overall prices. Inflation reduces the amount of goods and services consumed by people living on fixed incomes.

CLOSURE

Remind the class that a key point of this lesson is not to confuse chronology with cause and effect. The Civil War did *precede* an unprecedented expansion of the U.S. economy during a period of industrialization. However, this does not mean that the Civil War *caused* the economy to grow. Other forces were at play that should be recognized. To identify these causes, economic historians ask the counterfactual question: How would the economy have proceeded in the United States without the Civil War? Many economic historians conclude that overall economic growth and industrialization would have proceeded. There is evidence to suggest that the Civil War may have hurt U.S. economic growth, given the reallocation of productive resources toward the war at the expense of civilian production, and also through the loss of capital, natural resources and human life.

ASSESSMENT

Multiple-Choice Questions

1. What was the likely opportunity cost of fighting the Civil War?
 - A. The end of slavery
 - B. Unconditional support from Great Britain

C. Death and disablement

D. The improved standard of living Americans

2. Which of the following statements about the Civil War is NOT supported by the research?
 - A. 600,000 lives were claimed by the Civil War, thus reducing the number of people in the civilian labor force at the end of the War.
 - B. The total market value of slaves was approximately \$3.06 billion in 1860. Slave owners received partial compensation for this loss of capital.**
 - C. The Civil War diverted productive resources away from civilian uses and slowed productive investment.
 - D. The Civil War did not necessarily spur U.S. industrialization.

ESSAY QUESTIONS

1. Provide the economic reasoning behind the assertion that the Civil War came at a great production cost to some participants, but it was also a source of income for others.

(Possible answer: Demand for war-related goods increased production and employment in the area of military manufacturing. These production and employment increases came at the expense of goods and services in the civilian sector.)

2. Explain how the Civil War contributed to inflation. Explain how inflation transferred some of the Civil War costs onto wage earners whose incomes did not keep pace with inflation.

(Possible answer: Production inefficiencies resulting from the reallocation of resources away from civilian and to military production increased total costs. These cost increases were passed on to consumers in the form of higher prices. Consumers living on fixed incomes or incomes that did not keep pace with price increases could not purchase as many goods and services at higher prices.)

VISUAL 19.1

DID THE U.S. CIVIL WAR CAUSE INDUSTRIALIZATION?

Many individuals believe that the Civil War brought unprecedented economic growth to industry. Stimulated by increased demand for wartime goods, many industrialists charged ahead to produce the goods and services. Production of iron and steel, for example, expanded.

Taking the Civil War as one example, how does war seem to affect a nation's economy? Does war foster economic growth or retard growth?

VISUAL 19.2

BENEFITS AND COSTS OF THE U.S. CIVIL WAR

BENEFITS

- End of slavery
- Protection of the Constitutional structure of the United States
- Increased industrial production of war-related goods
- Higher military employment

COSTS OF THE U.S. CIVIL WAR

- Human death and disablement
- Destruction of capital (tools, factories, farms and equipment)
- Loss of livestock
- Reconstruction
- Economic decline in the South
- Uncompensated loss of capital investment in slaves
- Inflation
- Production inefficiencies
- Decreased production in civilian goods and services
- Loss of the rights of states to secede or claim independence from the Union when in disagreement with the President or Congress.

ACTIVITY 19.1

THE COUNTERFACTUAL: WHAT IF THE U.S. CIVIL WAR HAD BEEN AVOIDED?

Directions: Read the information below and answer the **Questions for Discussion**.

The Opportunity Cost of Fighting

According to economic reasoning, the true costs of the Civil War include opportunity cost – the value of the second-best alternative, which was not to go to war. Economic historians sometimes pose counterfactual questions to analyze the opportunity cost of historical decisions. A counterfactual question in history asks what would have happened if the event had not occurred. A counterfactual question can be used to estimate the opportunity cost of the war.

Stanley Lebergott, an economic historian, offers evidence that the Civil War probably slowed American industrialization:

- 600,000 lives would not have been lost if war had been avoided. Additionally, the wounded and families of the deceased and wounded would not have suffered. If war had been avoided, hundreds of thousands of workers and future leaders would have been released into the U.S. economy.
- One in four persons in the North went into military service. They might otherwise have been employed in the civilian labor force and produced goods and services there.
- Without war, investment would not have been diverted from civilian into military production. For example, scarce resources would have been used to manufacture civilian clothing and private capital rather than military arms and uniforms. Consumers and producers would likely have been better off if the War had been avoided.

Lebergott also maintains that the trend of economic expansion in industry and agriculture was well underway prior to the onset of the Civil War, and many of the innovations and inventions of this period would have likely surfaced with or without the War.

Questions For Discussion

- Without the war, would the United States have industrialized after 1865?
- How would war resources have been otherwise used?
- What may have been the opportunity cost of the Civil War?

Sources: Stanley Lebergott, *The Americans: An Economic History* (New York: W.W. Norton & Company, Inc., 1984), pp. 246-48; Jonathan Hughes and Louis P. Cain, *American Economic History*, 6th ed. (New York: Addison-Wesley, 2003), p. 187.