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ECONOMIC THEORY AND SOUTHERN HISTORY

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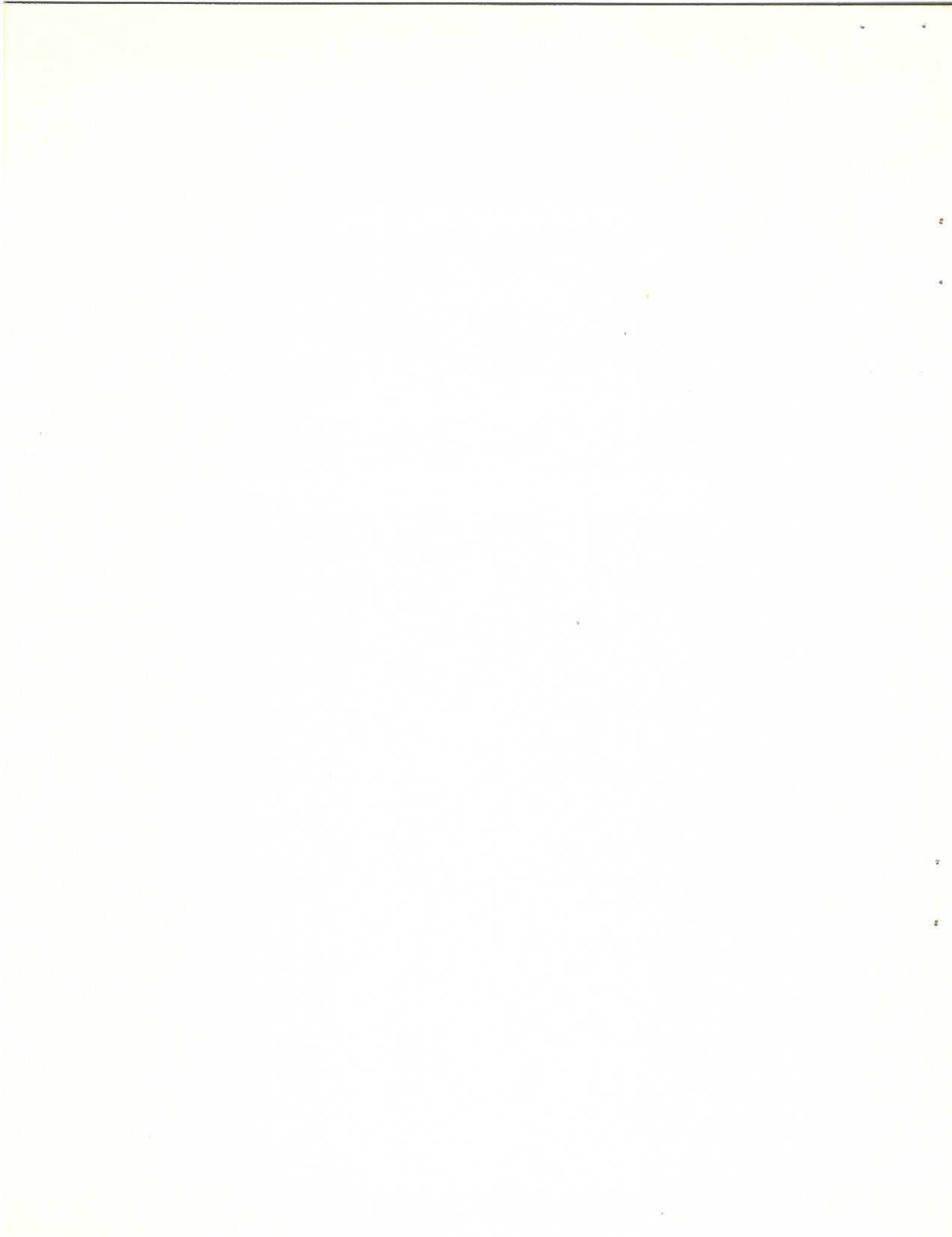

ECONOMIC THEORY AND SOUTHERN HISTORY

> *"This is in good part what the new economic history is about: it is a gigantic test of the hypothesis of economic rationality of s system and the behavior of the individuals within it."*
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> *"Where we have not been engaged simply in justifying the ways of the price system to man, we have been engaged in measuring the acts of man against the high standard of optimality established for us by that amazing marriage between protestant asceticism and catholic rationalism which goes by the name of economic theory."*
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> *"The direction of history toward the study and analysis of economic growth then has been in danger of producing simply a kind of hymn to what really happened."*
>
> [*William Parker* (1971)]

When William Parker expressed these sentiments in his presidential address to the Economic History Association in September, 1970, the New Economic Historians had already swept triumphantly through the Antebellum South, exposing as a myth the legend of the South as a society of pre-bourgeois slave owners teetering on the brink of collapse as the Civil War approached. We were now told that Southerners *did* maximize profits; slavery *did* reward its owners; and the South *was* a vigorous and growing economy up to 1860.[1/]

[1/] We have reference, of course to the work of Alfred Conrad and John Meyer and their numerous followers. An excellent collection of this literature (including the original Conrad-Meyer article) is found in Aitken (1971).

Indeed, shortly thereafter, Stanley Engerman and Robert Fogel assured their readers that Southern farms were, in fact, *more* efficient than their Northern counterparts [Fogel and Engerman (1971):361-62]. Encouraged by their success over this historical legend, the new economic historians of 1970 were already turning to other potential myths masquerading as historical wisdom.

At the time, it seemed to us that the economic history of the American South after the Civil War was a particularly promising topic for investigation. In many ways, the traditional historical interpretation of the post-war period was an extension of the recently exposed antebellum legend. In place of slavery a new system had emerged which, while offering individual freedom to Blacks, limited opportunities to all small farmers and encouraged an excessive production of cotton. Small farms were unable to escape the monopoly of the rural merchant, and became "locked-in" to the production of cotton rather than a more diversified agricultural output mix. By the end of the century, historians argued, the legacy of slavery was a system of debt peonage which replicated the old story of southern inefficiency and economic irrationality. Was this post-war story also a myth? Were Southerners after 1865 no longer rational? Our investigation led us to suggest that one could answer "no" to both questions [Ransom and Sutch (1972)].

We presented an argument that the small Southern farmer may well have been coerced into excessive cotton production, even though the economist's usual assumption regarding rationality of all participants in the market is granted.[2/] We did not, to be sure, "prove" a specific hypothesis. We were

[2/] Our analysis in the article did not present a detailed formal model of "debt peonage" and the overproduction of cotton. We have subsequently developed such a model in Ransom and Sutch (1974).

content to show that our explanation of the lock-in effect was consistent with data on self-sufficiency of individual farms together with evidence of monopoly power in the credit and merchandizing markets. Since this interpretation of the lock-in was "...also supported by the unanimous opinion of the agriculturalists of the time," we asserted that the burden of proof had been shifted "to those who would argue otherwise" [Ransom and Sutch (1972):665].

Attempts to argue otherwise were not long in appearing; Stephen DeCanio used aggregate census data as an indirect means of questioning our conclusions [DeCanio (1973)]; more recently William Brown and Morgan Reynolds have questioned our methodological framework [Brown and Reynolds (1973)]. Although both articles insist that our conclusions are incorrect, neither presented any new evidence which bears directly on the issues posed in our article. The worst of Professor Parker's fears seem realized in these two papers. Both analyses suggest that "what actually happened" can be equated with "what should have happened." Such a claim demands further comment.[3/]

The paper by Brown and Reynolds provides a blatant example of "justifying the ways of the price system." At the outset of their paper they inform us that they "...believe that the basic theory of market behavior is wholly applicable in explaining southern economic history..." [Brown and Reynolds (1973):862]. In this we fully concur. However, Brown and Reynolds seem to equate "basic theory" with the price theory of perfect competition. The diversity of conditions which existed in the past advises against too facile

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3/ We find considerable misinterpretation of our position, as well as a few errors of fact, in the two papers. It is pointless, however, to quibble over these numerous differences when our critics' refusal to accept our interpretation (and our own reluctance to espouse theirs) stems primarily from fundamental differences in the way in which economic history is approached in the papers. We feel that the reader's time will be best served, therefore, by concentrating these methodological differences.

an application of such a simple and specific theory. We prefer to let the historical situation guide us in an effort to construct an analytical framework more appropriate to the market institutions of the time. We firmly believe that Southerners in 1880 were motivated by enlightened self interest. But what has always been apparent to historians of the South is that freedom of action was restricted by the particular market institutions of the time.

In our paper, we concluded that banking services--especially in the form of seasonal credit--were not generally available to small farmers. This conclusion was supported and documented by statistics on the number of banks, evidence regarding the size of bank enterprises, and the level of deposit creation for various regions of the United States. Brown and Reynolds attempted to rebut our conclusions by re-examining our data. Rejecting our claim that Southern banking services lagged behind other regions, they showed that the *absolute* increase in the number of Southern banks after 1865 seemed impressive. But this ignores two facts. First, the increase is computed with reference to the base year 1865; the final year of the Civil War. Choosing such an early benchmark will certainly produce an impressive percentage increase over any subsequent period. In fact, however, our research has revealed that only in the years immediately after the war did Southern banking expand more rapidly than elsewhere. As early as 1868 the South had nearly reached the number of banks existing in 1870; thereafter, the increase in numbers of banks located in the cotton south barely kept pace with banking expansion in the country as a whole. Second, while the South partially regained its prewar position as regards the *number* of banks, the *level of banking services* could not have increased commensurately, due to the enormous decline in the average *size* of Southern banks after the war. Brown and

Reynolds claimed that our data "does not reveal any sharp differences between Southern and non-Southern banks" [Brown and Reynolds (1973):863]. Such a statement fails to appreciate the fact that *before* the war there *was* a large difference: Southern banks were, on average, much larger. In discussing banking facilities in 1880, our critics conveniently ignore the fact that other regions which relied on small banks (such as the midwestern states) had many more banks than the South. As a result, the banking system in these regions generated far greater volumes of deposits per capita than did banks in the South.[4/]

Quite apart from this debate over the number and size of banks, we argued that Southern banks were unwilling (i.e., did not find it profitable) to extend credit to small tenant farmers. The considerable costs dealing with many small borrowers, the risk inherent in the seasonal loans, and the wide area to be served by any single bank meant that many farmers found no banks catering to their needs. We noted that the absence of agricultural loans in bank portfolios has been widely acknowledged. Brown and Reynolds presented no evidence on this issue at all; they merely insisted that: "By force of elementary price theory, it is easy to believe that banks extended positive amounts of credit to agricultural borrowers..." [Brown and Reynolds (1973):865]. This may indeed be intuitively "easy to believe." What is hard to believe is a contention that these "positive amounts of credit" were, in the aggregate, at all significant in the context of the postwar Southern credit market.

In our paper, we argued that the Southern storekeeper enjoyed a substantial monopoly advantage based on spatial distribution of stores, costs of

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[4/] Thus, for example, the per capita level of bank deposits in the midwestern states was almost four times that for the South [Ransom and Sutch (1972):649].

entry, and risks inherent in dealing with small farmers. Again, the possibility of an imperfect market was brushed cavalierly aside. Brown and Reynolds argued that "[a]lthough these conditions do not exactly correspond to the textbook notion of 'perfect competition,' they are descriptive of many businesses at that era in all regions..." [Brown and Reynolds (1973):866]. This presumably allowed them to conclude that Southern merchandizing was competitive.[5/]

One of the most dramatic changes in the postwar South was a drastic decline in per-capita food production and a marked increase in the number of small farms which failed to grow enough food to meet their own needs. While such a change is quite consistent with the presence of "debt-peonage," it presents difficulties to those arguing for "free" adjustment in the market. Since the relative price of cotton and corn remained essentially unchanged after the war, why did farmers in 1880 choose to increase cotton production relative to food? Recognizing this problem, Brown and Reynolds attributed the decline in food production per capita to two factors [Brown and Reynolds (1973):869-870]. First, they noted that Robert Gallman's study showed that

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5/ Brown and Reynolds did attempt to calculate the average distance from farm to store, based on the number of general stores in South Carolina which we cited in our article. Their calculation is in error for two reasons: (1) it was based on the number of stores rather than the number of locations; (2) it assumed that the area of South Carolina was entirely in farms, when in fact only 70 percent of the land was in farms. We eschewed the presentation of our own calculation of the distance between store and farm because we were in the process of collecting more accurate and comprehensive data on the subject. Our preliminary estimate, based on these added sources for the entire cotton South, indicates that the average trip from farm to store and back again was at least 10 miles. Also difficult to reconcile with the presence of perfect competition is the fact that in over one-half the cases, there was only a single store at that location.

small farms before the war were less self-sufficient than large farms, therefore the increased proportion of small farms after the war could "account for" a portion of the fall in food production per capita [Gallman (1970)]. Second, the continuing westward shift of agriculture resulted in a larger fraction of output originating in Arkansas and Texas, where farms tended to be less self-sufficient. However, changes in farm size and regional differences can not explain the decline in food production per capita on small farms *throughout* the South. Gallman's study did not show that small farms in 1860 were unable to feed their family members; only that they had smaller surpluses than large farms. Our data suggest that, in 1880, most farms with less than fifty acres in crops almost certainly had to purchase some food.[6/] Brown and Reynolds do not find such behavior unusual: "Farmers in Kansas grow wheat, not because local merchants force them, but because it is wealth-increasing for them to do so. The proceeds from wheat sales permit farmers to buy more food and other things (cotton goods) than 'growing their own'. Presumably, the same mechanism operated in the South, but economic conditions were appropriate for cotton, not wheat" [Brown and Reynolds (1973):868]. This argument apparently convinces Brown and Reynolds without an additional demonstration that, at the margin, Southern farmers were better off producing

6/ It is important to point out that Gallman's findings on antebellum self sufficiency are not directly comparable to our findings, and should not be used in a direct comparison such as that proposed by Brown and Reynolds. Gallman estimated the residual corn-equivalent grains remaining on farms as food to hogs; we estimated the residual remaining for consumption by the farm family. Moreover, Gallman's "feed" requirements for animals on the farm were intentionally exaggerated, and therefore much higher than our requirements. Our "conservative" feed estimates implied that about 36 percent of the small farms (0-50 acres in crops) in our 1880 sample had grain deficits (i.e., *no* food left over for family consumption). Had we used the Gallman estimates for feed requirements, the proportion of small farms which had grain deficits would have been 59 percent.

cotton rather than food; or that they were free to adjust their crop mix if they wished.[7/] Arguing in this fashion, Brown and Reynolds miss the historical issue in contention. The debate over debt-peonage, the lock-in, the merchant's monopoly, and the overproduction of cotton all hinge on whether or not the Southern economy worked in an efficient and non-exploitive way. To *presume* all of the necessary conditions for a perfectly competitive world begs this fundamental question; the argument by Brown and Reynolds shows *ignorationem elenchi*.[8/] Since, moreover, they present no new historical evidence, we do not feel they have in any way lessened our claim that the "burden of proof" remains on those who argue that the South was "efficient" and "nonexploitive."

Stephen DeCanio, on the other hand, did specifically address himself to an aspect of the issue in contention: how efficiently Southern markets adjusted to price changes. DeCanio pursued a quantitative methodology characteristic of the new economic history to reach a conclusion quite similar to that of Brown and Reynolds: agricultural markets in the South were efficient. DeCanio presented estimates of a Nerlove-type gradual adjustment model for the relationship between aggregate cotton production and relative cotton prices.[9/] The identical econometric specification was employed by Franklin Fisher and Peter Temin in their study of nineteenth century wheat production.[10/] DeCanio estimated the price responsiveness of Southern cotton

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7/ The manner in which the monopoly power of a merchant would have constrained the production options of the farmer is examined in Ransom and Sutch (1974).

8/ By our interpretation, Brown and Reynolds are focusing on an issue never in contention: whether or not perfect competition in all markets precludes exploitation and economic inefficiency.

9/ DeCanio used the ratio of total acres in cotton to the total acres in ten other crops as his production variable, and the ratio of cotton prices to an average price of four other crops as his price variable [DeCanio (1973):617].

10/ Fisher and Temin (1970). DeCanio's study omits the period 1867 to 1880.

farmers, which he then compared with the Fisher-Temin results for Western wheat farmers. DeCanio's findings "strongly suggest that Southern cotton farmers were as flexible and as price responsive as wheat farmers in the rest of the United States" [DeCanio (1973):631]. He interpreted this result as refuting allegations of a lock-in effect, and--by implication at least--suggested that Southern agricultural markets were both efficient and not exploitive. His logic seems to be that had the farmer been coerced into growing cotton, he would have exhibited weaker short-run responses to cotton price changes than farmers who were unrestricted [DeCanio (1973):628-29; also 612, 615, 624 and 632-33].

We cannot accept this argument. If the merchant had power to insist on a given level of cotton production, then the merchant would select the "optimal" (from *his* viewpoint) amount of cotton to be produced.[11/] Like any other decision maker in the market, he will vary the cotton produced in response to changes in the farmgate price of cotton. Indeed, we would expect that the merchant would be even *more responsive* to short run price changes than the typical independent farmer. The merchant, after all, had better access to market formation through his connections with buyers than did small farmers, and he was literate whereas many of his clients were not.[12/]

There are additional problems with DeCanio's methodology. Even if locked-in farms were completely insensitive to price changes, it would not

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11/ A model of the lock-in mechanism which demonstrates this point is discussed in Ransom and Sutch (1974).

12/ It is interesting to note in this connection that DeCanio found that cotton producers had *higher short-run price elasticities* than did wheat producers [DeCanio (1972):Tables 3 and 4]. Although we have little faith in the accuracies or relevance of estimates obtained from DeCanio's econometric methodology, this finding, if anything, supports, not refutes, the lock-in hypothesis.

follow that DeCanio's regression results would discover such rigidities. His data are state-wide aggregates. He examined, for example, the response of all Georgia agriculture to the changes in the average relative prices paid Georgia farmers. Such an aggregate study can *never* shed light on the behavior of an *infra*marginal sub-aggregate. No historian that we are aware of has ever claimed that every farm in the state of Georgia was locked-in to cotton. Certainly we have never argued this. Only those farmers who were forced by their lack of net worth to borrow to cover expenses *could* be locked-in, and only those who had no alternative but to borrow from a monopolistic merchant *would* be locked-in.[13/] The standard view, corroborated by our own findings, is that such farms were predominately small scale tenant farms--particularly those operated by negro tenants.[14/] There were, in every state, a substantial number of farms who were not locked-in. All that is required for the aggregate response to price changes to be fast and "optimal" is that a sufficient number of farms exist on the margin who are free to respond. Even if every locked-in farm never changed its output mix, the response of Georgia agriculture as a whole to price changes would have been fast and flexible as the farmers who were free to adjust did so.

DeCanio's study is also marred by the use of inappropriate price data. He employed the farmgate prices of feedcrops (corn, hay, oats, and wheat) quoted by the U.S. Department of Agriculture for farmers who sold those crops [DeCanio (1973):613, 617]. However, the essence of the overproduction argument has always been that the typical exploited Southern farmer had to

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13/ For more detailed specifications of the conditions for a farm to be "locked-in" to debt peonage, see Ransom and Sutch (1974).

14/ Our findings showed that tenant farmers were consistently more dependent on cotton than were farms operated by their owners. See Ransom and Sutch (1972):664.

buy corn, hay, oats, and wheat. If deficit farms could have purchased corn and corn substitutes directly from a farm who produced a surplus, the farmgate price would have been relevant. Farms lacking cash or credit could not do this. These locked-in farms had to pay the "credit" price--which was substantially above the "cash" (or farmgate) price. DeCanio's price variable therefore is completely irrelevant to the very farmer whose response he was attempting to measure.[15/]

By now it should be clear that neither of the two papers in question have inspired us to alter our own interpretation. We suggest that both critics have applied an inappropriate methodology which, in the case of Brown and Reynolds led them to a conclusion which they assumed from the outset, and in the case of DeCanio to a tortuous examination of irrelevant data.

We are disturbed by the tendency displayed in these papers to conduct historical inquiry without regard for the weight of historical evidence. Our critics seem to feel that the citation of contemporary opinion and observation is an unscientific approach to the study of history.[16/] Skepticism regarding conclusions reached by contemporary observers is, of course, warranted. It is surely valid to note that such observers were frequently not in a position to ascertain all of the facts pertinent to a broad issue; nor did they have the

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15/ This error probably explains DeCanio's suggestion that after standardization "cotton acres tended to produce a greater dollar volume of output than acres devoted to alternative crops and livestock" [DeCanio (1973):612]. Our own calculations suggest that *at the margin* the value of corn per acre was above the value of cotton for locked-in farms.

16/ Brown and Reynolds pompously observe that "appeals to popular opinion rarely decide scientific questions" [Brown and Reynolds (1973):866]. DeCanio seems to sneer at the use of "anecdotal observations" in his recent paper [DeCanio (1973):632]. He is more explicit on this point in his Ph.D. dissertation, where he argues that "the narrative, anecdotal, non-quantitative historical sources are insufficient to establish or disprove the hypotheses of the post-bellum Southern economic history [DeCanio (1970):25].

analytical skills available to modern economic historians. Nevertheless, contemporary observers were in the position of witnesses to the historical facts. Their testimony to these facts--though not their conclusions drawn from them--are not only admissable, but essential. Without a foundation in such evidence, economic history becomes *ad hoc* theorizing.

The danger of such empty "theorizing" becomes apparent when one considers the implications of the DeCanio and Brown-Reynolds conclusions in a broader historical context. Their interpretation raises a whole new set of questions. If the level of Southern cotton production was optimal in the same sense that the level of Kansas wheat production was optimal, why did Southern farmers complain bitterly about their crop mix when Kansas farmers did not? If merchants were not monopolists, how can the observed differences between "cash" and "credit" prices for supplies be explained? Indeed, how can the interpretation of these authors explain *any* of the sources of "agricultural distress in the post-bellum South"?[17/] After all, economic historians were led to the study of post-bellum economic history in an attempt to discover why the South failed to produce a vigorous, prosperous, and dynamic economy. It seems curious that this fundamental issue is apparently of such little concern to those seeking to justify the "ways of the price system." In fact, DeCanio, Brown, and Reynolds concede that their analysis can say nothing on such questions.[18/]

17/ An issue which DeCanio ostensibly addresses his analysis; see his comments on page 608 [DeCanio (1972)].

18/ For example, DeCanio lamely concludes that "[a]n economic basis for the agrarian discontent that culminated in the populist movement of the 1890's must be sought elsewhere than in the overproduction of cotton" [DeCanio (1973): 633]. The best that Brown and Reynolds can offer to account for the widespread criticism of Southern merchants is to suggest that "[h]istorically, 'middlemen' have not been held in high repute, and more often than not, lenders were portrayed as the most villainous of the lot" [Brown and Reynolds (1973):866].

It is this failure to provide insights and resolve problems beyond the narrow economic issues addressed which distinguishes these studies from the new economic history of the *ante-bellum* period. Conrad and Meyer's view of the slave owner as a profit maximizing businessman and of the slave as a mere capital asset in the slave-owner's calculus not only explained the trends of slave prices, but also provided a framework within which the entire economic, social, and political structure of the slave South fell into place. In contrast, a view of the post-bellum South which suggests that free and competitive markets worked to ensure efficiency and high productivity is inconsistent with every other aspect of Southern society at this time. To our ears, Messers. Brown, DeCanio, and Reynolds are not singing a hymn to "what really happened," but rather a hymn to what they *wish* had happened.

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