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The Economic Consequences of Emancipation

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The long awaited conclusions of the Southern Economic History Project were presented and discussed at a symposium held at Duke University on February 11, 1978. The Project, established in 1968 by Roger Ransom of the University of California at Riverside and Richard Sutch of the University of California at Berkeley, examined the economic institutions that developed in the American South following the emancipation of blacks; it sought to explain the persistence of Southern poverty from Emancipation until World War I, and to increase understanding of the "Afro-American experience" under these adverse conditions.

Ransom and Sutch presented the salient results of their joint work, *One Kind of Freedom: The Economic Consequences of Emancipation* (Cambridge University Press, 1977). They found that emancipation resulted in immediate welfare gains, eliminating the direct exploitation associated with slavery and allowing blacks to adopt the labour-supply characteristics of the free labour force. The resulting reduction in the South's supply of labour was identified by Ransom and Sutch as the single major cause of the sharp decline in Southern income associated with the Civil War and Emancipation; wartime damage, in contrast, was soon made good. They also noted that the postbellum income decline was not as severe as the usual comparison to 1859 would indicate, since output in 1859 was abnormally high.

Over the longer term, however, further black progress was very limited; slavery had left blacks without education or property, and enduring white racism made it difficult for blacks to acquire land and skills even after the war. The South as a whole also grew very slowly, despite its apparent potential for rapid economic development; Ransom and Sutch attributed the South's rela-

tive failure to the creation of flawed agricultural and financial institutions after the war. The breakup of the plantation system did not in itself slow Southern growth, since the plantation's economies of scale resulted from the use of forced labour and could not be achieved with free labour. However, the system of sharecropping that replaced the plantations had very serious shortcomings; in particular, it relied on annual contracts to maintain work incentives, and thus led both landlords and tenants to sacrifice investment and growth for the sake of the current crop.

The most important obstacles to growth were found in the financial sector, and specifically in the system of general stores. These proved to be the most efficient channel for the distribution of credit to small farmers, since local merchants could judge farmers' creditworthiness more accurately than non-local lenders. Because new country stores found it cheaper to seek new markets than to attempt to capture established ones, however, merchants retained a monopoly of credit and could charge usurious interest rates of about sixty percent. This credit, on which farmers were widely dependent, was secured by liens on the debtors' crops. The merchants insisted that the debtors grow cotton rather than corn, since cotton was more easily marketed, and ensured the debtors' continued dependence on the merchants' food supplies. The result was a general, and disastrous, over-production of cotton: Ransom and Sutch calculated that farm income would have been about thirty percent higher, if farmers had been free to choose their optimum crop mix.

William Parker of Yale University made the opening remarks at the Duke University symposium. He identified the origin of the "problem" of the post-bellum South, in a concern with Southern rural poverty, and a recognition of the difficulty of reconciling this poverty with the functioning of the free market system. Ransom and Sutch adopted the hypothesis that such institutions as share tenancy and the system of general stores prevented the proper operation of the market; the alternative explanation holds that markets did indeed function competitively, but that Southern backwardness must be attributed to underlying social conditions such as racism or the lingering effects of slavery. Parker suggested first an exhaustive evaluation of the hypothesis adopted by Ransom and Sutch, and then a move toward comparative agrarian social history.

Claudia Goldin of Princeton University followed this general introduction with an outline of three specific issues raised by *One Kind of Freedom* that were to be discussed by the other participants in the symposium. The first concerned the date of the South's full economic recovery. Upon accepting the hypothesis that the region had overcome the effects of the war by 1880, as Ransom and Sutch did, other explanations must be sought for the South's economic failure. The second issue concerned the possibility of inefficiencies in tenant farming, and, secondarily, the extent to which their burden fell disproportionately on blacks. Finally, Goldin considered the exploitation of blacks through their entrapment in debt peonage. She dwelt at some length on the subject of the

monopoly power of Southern merchants, questioning both the evidence that Ransom and Sutch presented to support their contention of exorbitant interest rates, and their assumptions about the universality of credit purchases.

Goldin's paper, "'N' Kinds of Freedom", also suggested that Ransom and Sutch's static analysis overlooked the change that did occur, albeit slowly, in the post-bellum South: real per capita income grew, education progressed, and forms of tenancy continued to evolve after their initial development. Goldin estimated that the black standard of living progressed faster than that of whites, at least until black progress was abruptly halted by disenfranchisement. Public authority thus appeared important in the coercion of blacks, whereas Ransom and Sutch stressed the role of the individual; Goldin suggested that a combination of these two positions would yield a fuller comprehension of the post-bellum South.

"The Legacy of Slavery", the paper presented by Stanley Engerman of the University of Rochester, advanced three hypotheses about the relationship of the ante-bellum to the post-bellum South. The first considered post-bellum problems to be directly related to the stagnation and inefficiency of the prewar economy. It was rejected as being too simple since the postwar economic structure had clearly changed. The second theory attributed changes only to wartime destruction: it was also rejected, on the grounds that other war-torn lands required only a short time for recovery. Engerman accepted the third hypothesis, that significant changes occurred in the Southern economy, even in seemingly unchanged features. He divided the work of those supporting the last hypothesis into two schools of thought: the school which holds that Southern markets did function, but that political control of entry into and exit from the market allowed the exploitation of blacks; and the opposing school, which supposes imperfect markets, yet relies upon the responsiveness of individuals to incorrect price signals. Ransom and Sutch's work belongs to the latter school of thought.

Engerman argued that a study of changes in Southern income was crucial to the measurement of the legacy of slavery. Because incomes in 1860 were high and the South had been expanding rapidly, it is impossible to conclude that poor postwar performance was a direct continuation of the prewar situation. There was a one-time drop in income levels associated with the war, but from 1880 onward the South grew at the same rate as the United States. Engerman accepted Ransom and Sutch's conclusion that much of the drop in Southern output from 1860 to 1880 resulted from lower black labour force participation. He disputed, however, their claim that the rest of the measured decline was due to the fact that 1859 output was abnormally high; rather, he attributed it to the loss of economies of scale associated with the plantation system. Ransom and Sutch had considered this loss as a factor in the lowered growth rate of the South, but they did not evaluate its contribution to the once-and-for-all drop in Southern income.

Engerman next considered the growth of the South after 1880. He traced

Ransom and Sutch's conclusion that the South had shown worse performance than the United States to their use of data from five states which experienced slower growth than other Southern states. But assuming that the South did grow at much the same rate as the rest of the nation, Engerman concluded that the South's backwardness resulted from its failure to recover ground lost during the war, which is atypical of developed societies, but common to former slave societies. The decline in output per worker that the South experienced also occurred in other ex-slave societies, specifically in the West Indies. This points to the abolition of slavery as the major cause of the South's retardation. Engerman pointed out one feature that was unique to the American South: the rise in the production of the slave plantation's staple (cotton), both absolutely and as a share of output, after emancipation.

From this consideration of the direct effects of the legacy of slavery, Engerman moved on to consider changes in the modes of agricultural production. He noted that farms were smaller, that the gang-system of forced labour had disappeared, and that tenure forms had shifted. There was an expansion in tenancy and sharecropping, and a decline in owner operation. However, agriculture remained the dominant sector, and the shifts in tenure forms had little effect on output per worker among blacks, who were concentrated in the production of much the same staples as they were before the war. The distribution of landholding also did not change significantly. It has often been assumed that had more blacks owned land, output would have risen. Engerman argued instead that output might have fallen, basing his contention on the observation that in the West Indies, ex-slaves were not income maximizers but wished to own land to follow traditional peasant interests.

The last section of Engerman's paper examined the rise in the cotton to corn ratio, asking whether the output mix was efficient, and whether producers responded correctly to price signals. In concluding that these questions could not be answered by existing explanations, he raised interesting alternative questions about the relationship of the debate on cotton overproduction to that on the "legacy of slavery": to what extent were inefficiencies due to the presence of black freedmen, and upon whom did their burden fall?

In concluding his presentation, Engerman identified areas worthy of future study. Racism, a crucial explanatory factor in most of the analyses of the post-bellum South, was unquestionably a legacy of slavery. Engerman suggested an investigation of the distribution of the costs of racism, of its differing effects before and after the war, and of its evolution over time, in order to gain an understanding of how the outcome of emancipation might have been different.

Joseph Reid of Southern Methodist University analyzed the system of sharecropping in the next presentation, "White Land, Black Labor and Agricultural Stagnation: The Causes and Effects of Sharecropping in the Post-Bellum South". His paper emphasized free choice, beginning with the premise that Southerners chose agriculture as a profession and persisted in it over time. Compared

with other U.S. farmers, they were more likely to farm land owned by others, less inclined to produce food than cash crops, and more dependent on purchased food. This dependence was particularly striking among sharecroppers, of whom a disproportionate number were black. Reid sought to reconcile the belief that these choices were freely made with the observation that the rewards of Southern activities were very low, since per capita income in the South was only one half the U.S. average.

Reid denied that sharecropping was a rigid, inefficient system that discouraged improvements, as Ransom and Sutch believed. His research showed flexibility in the terms of sharecropping contracts, and the existence of some long-term contracts. His own model of sharecropping as a rung on an "agricultural ladder" was consistent with the principle of free choice. Managers with the desire to supervise continuously would seek out wage labourers; their demand would be met by the youngest, slowest, or least experienced workers who needed constant guidance. On the next rung of the ladder, managers who wished to oversee production only intermittently would seek labourers who could function as farmers, but who were not yet able to produce independently, to serve as share tenants. Finally, owners who wished to discontinue their supervisory activity would rent or sell to individuals with sufficient knowledge and wealth to bear the risk of independent production.

Reid found that this model fitted the post-bellum situation relatively well. Cross-section data on the ages of labourers in different occupations supported the theory of progression from one rung to the next. Blacks, in initially concentrated at the foot of the ladder because of the legacy of slavery, appeared to remain there over time; but this only appeared to be the case because of the distribution of blacks within the South. In a county by county analysis, as Robert Higgs had shown, the black sharecropping rate was approximately the same as the rate for whites, suggesting that the overall figures resulted from distributional effects rather than from any fundamental inequality.

Reid's analysis thus showed that markets functioned efficiently, and that Southerners, black and white, made the appropriate choices. This must be reconciled with the fact that black Southerners were indubitably dispossessed. Reid claimed that the true explanation of enduring black poverty lay in the ability of the local white power structures to expropriate directly, through non-market coercion, whatever wealth the blacks were able to accumulate.

The presentation made by Peter Temin of the Massachusetts Institute of Technology, "Freedom and Coercion: Notes on the Analysis of Debt Peonage in *One Kind of Freedom*", covered the last major issue raised by Ransom and Sutch. It focussed on two points: Ransom and Sutch's contention that merchants had a monopoly of credit, and their evidence for the overproduction of cotton. Temin did not agree with Ransom and Sutch that country merchants had a territorial monopoly. He believed the dispersion of country stores to be consistent with a spatial competition model which postulates that merchants

possessed some market power, but were constrained by the presence of surrounding stores. His model explained the small scale of most stores, and their general lack of wealth, but not the exorbitant interest rates calculated by Ransom and Sutch. The latter observed that thirty percent interest was charged over the six month growing season, and computed a sixty percent annual rate; Temin pointed out that this computation depended on the merchants' funds being loaned at these rates year round. He claimed instead that merchants earned at best market rates of five percent during the other six months of the year, for a gross annual return of only thirty or thirty-five percent.

Temin also disputed Ransom and Sutch's claim that cotton was overproduced. He began his critique with an explanation of the criterion for productive efficiency, which requires that the rate of substitution in production between the two outputs equal the market exchange rate. Ransom and Sutch calculated the rate of exchange by taking the ratio of the price of cotton to the price of buying corn on credit. Temin argued that the cash price of corn was in fact the price relevant to the choice of the amounts of cotton and corn to be grown, since farmers were interested in maximizing their eventual consumption of food, and the proceeds of the sale of the cotton crop would be used for the purchase of corn at the cash price. When the cash price of corn, about thirty percent lower than the credit price, was substituted for the credit price in the computation of the optimum output mix, evidence of cotton overproduction disappeared. Temin concluded that Ransom and Sutch's failure to account for the agricultural schedule inherent in the problem caused them to overestimate the extent to which coercion was present in the post-bellum South. Temin did not argue that coercion was not a factor in the retardation of the South, but he did suggest a reassessment of its effects.

Gavin Wright of the University of Michigan and Stanford University concluded the Duke University symposium. He presented a theory that reconciled the traditional belief in cotton overproduction as a result of the credit system with the conclusion, which he accepted, that the crop mix maximized the farmer's current income, so that cotton was not overproduced with respect to that optimum. The key, he argued, is the difference between private income-maximization with prices taken as given, and social (regional) income-maximization with the effect of output on prices taken into account. Debt-free peasants interested in avoiding the risks of the market-place would have pursued self-sufficiency, growing food rather than cotton even though this reduced their monetary income. The merchants' pressure to produce cotton rather than food pushed the farmers toward their private income-maximizing crop mix, not beyond it. Cotton was overproduced in a different sense: since the South faced a relatively inelastic demand curve for cotton, a reduction of the cotton crop in favour of greater self-sufficiency would have raised regional income; the traditional view reflects a correct awareness of the regional loss of income that resulted from the merchants' pressure on the crop mix.