Econ 323
Economic History of the U.S.

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Today's Topics

- We will NOT cover questions #12 and #26 on the midterm study stips.
- The drop in living standards in the South after the Civil War
- Possible explanations

- The case of the U.S. South after the Civil War presents an example of a “country” that should have enjoyed immense advantages:
  - Same language
  - Similar customs/heritage
  - Access the Northern technology/capital
  - Open labor markets

Distribution of Agricultural Output per Capita by Race in the Deep South, 1857 and 1879

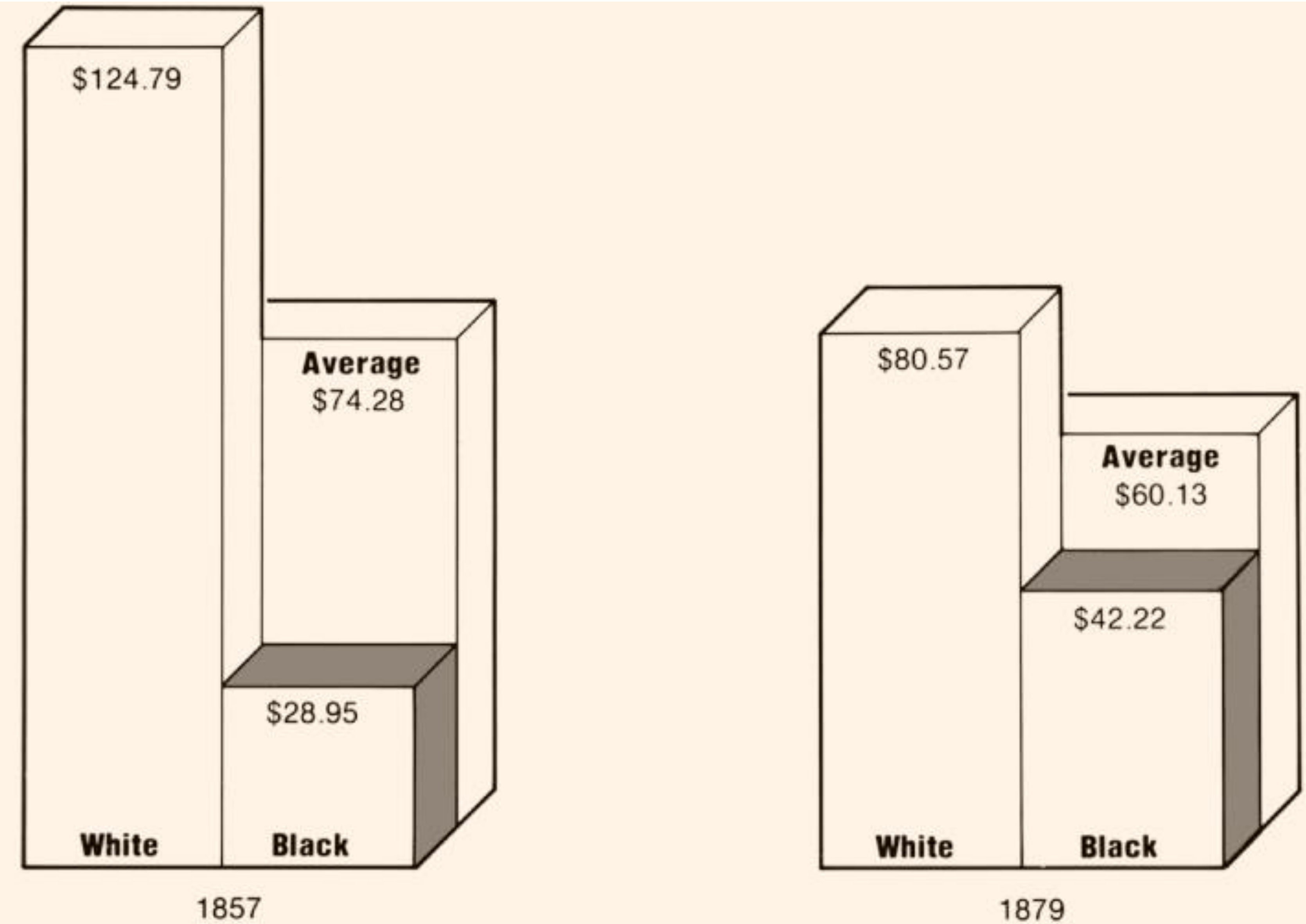

TABLE 14-1 Average Annual Rate of Growth of Commodity Output, 1840–1899

YEARS	U.S. ECONOMY	MANUFACTURING SECTOR
1840–1859	4.6	7.8
1860–1869	2.0	2.3
1870–1899	4.4	6.0

SOURCE: Robert E. Gallman, "Commodity Output, 1839–1899," in *Trends in the American Economy in the Nineteenth Century: 24, Series on Income and Wealth* (Princeton, N. J.: Princeton University Press, 1960).

TABLE 14-2 Commodity Output per Capita by Region (in 1879 prices)

YEAR	OUTSIDE THE SOUTH	SOUTH
1860	$ 74.8	$77.7
1870	81.5	47.6
1880	105.8	61.5

SOURCE: Stanley Engerman, "The Economic Impact of the Civil War," *Explorations in Economic History* 3 (Spring 1966): 181.

Slowdown in five most cotton-dependent states

TABLE 14-3 Annual Rates of Growth in Constant-Dollar Values of per Capita Personal Income by State between 1879 and 1899

STATE	ANNUAL PERCENTAGE RATES OF GROWTH PER CAPITA PERSONAL INCOME
Louisiana	0.44
Georgia	0.81
Mississippi	0.96
South Carolina	0.98
Alabama	1.14
Five cotton states	**0.86**
North Carolina	1.38
Kentucky	1.42
Arkansas	1.43
Tennessee	1.89
Virginia	2.15
West Virginia	2.26
Texas	2.53
Florida	2.64
Total, 13 southern states	**1.54**
United States	**1.59**

SOURCE: Derived from Richard Easterlin, "Regional Growth of Income: Long-Term Tendencies, 1880–1950," in *Population Redistribution and Economic Growth, United States 1870–1950*, vol. 2, *Analyses of Economic Change*, ed. S. Kuznets, A. R. Miller, and R. A. Easterlin (Philadelphia: American Philosophical Society, 1960), 185.

Explanations for post-Civil War Southern Stagnation

1. Human Capital Destruction
2. Physical Capital Destruction
3. More Leisure
4. Debt Peonage
5. Sharecropping

Human Capital Destruction

- Brinkley 1997
- Disease—Hookworm
- “ground itch” and lazy disposition
- Lack of shoes in Lee’s army
- Laws forbidding those with no shoes from excused absences
- Brinkley found that states with hookworm in 1910 had largest drop in output post Civil War
- 1/3 of today’s population suffers from parasites
- But--weren’t slaves shoeless before the Civil War?

Physical Capital Destruction

- Rail and buildings lost
- But--why not a fast rebound? (Germany, Japan after WWII)
- Page 251 quote
- Demand for capital was falling faster than supply (prices AND quantities were falling)
  - Example: mules were destroyed (supply down) but mule prices falling.

More Leisure

- Drop in output an “illusion”
- Freed slaves chose to work less (people prefer both goods AND leisure)
- Slaves probably worked 33% more than free labor before war, and reduced work by about 23% after war
- But—Northerners like leisure too, so why did production lag behind the North’s?

Debt Peonage (debt slavery)

- Farmers were caught in poverty because they were charged <u>**high interest rates**</u> by the <u>**county stores**</u> for supplies who had **local monopolies** in credit (57% interest rates in South vs. 6% in North)
- **Crop liens** (legal claim to part of the crop) meant that county stores could dictate the types of crops grown, and they preferred **cotton** which may have not been the most profitable crop (competition from Egyptian and Indian cotton)

Debt Peonage (debt slavery)

- **Vicious Circle**—Farmers borrowed to plant, were charged high interest rates and forced to produce a less valuable crop, could not save enough for next year’s planting, so cycle begins again

Debt Peonage (debt slavery)

- Cotton as share of output in Southern States:
  - 1860 53%
  - 1870 71%

  (so growing cotton increased)
- Share of land in cotton (1870)
  - White owners 59.1%
  - White tenants 70.1%
  - Black farmers 85.1%

  (so with more freedom of choice came less cotton acreage)

Debt Peonage (debt slavery)

- But—were high interest rates the result of monopoly power or just large drop in supply of capital?
  - There were far fewer banks in South compared to North (only 126 out of 2061 National Banks in South)
  - Few Northern “Yankees” came to the South to invest

Debt Peonage (debt slavery)

- But—this may explain poverty of farmers, if this was just a transfer to store owners, why did overall per capita income fall?
- But—cotton was still profitable compared to other crops, and if it wasn't, then *why would county stores demand payment in cotton?*
  - <u>Revenue 1866-1900</u>
    - Cotton $18.25 per acre
    - Corn $7.68 per acre

Sharecropping

- Farmer “shared” ½ of crop
- This is 50% marginal tax rate (high)
- This reduces work incentives (same problem as in communal property in Jamestown)
- So farmers worked less intensively
- Also reduces incentives to improve land (buildings, clearing trees, etc.) which leads to less capital and less output (renters face same disincentive)

Sharecropping

- But—farmers still had incentive to work hard, since landlord gave more productive farmers the best land (and the sharecropping contracts were renewed yearly)
- And tenants were mobile, so productive farmers could find landlords who would give them the best land