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978-0-521-03579-8 - Southern Paternalism and the American Welfare State: Economics, Politics, and Institutions in the South, 1865-1965

Lee J. Alston and Joseph P. Ferrie

Excerpt

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Introduction

The rural South has undergone a remarkable transformation in the last half century. The changes in the physical landscape are immediately apparent: the millions of tenants, sharecroppers, and wage laborers who once raised and picked the South's crops and lived in its tumbledown tarpaper shacks are gone, replaced by machines moving methodically across its fields. But the changes in the social landscape that accompanied these physical changes are no less striking: Gone, too, is the complex system of reciprocal duties and obligations that had bound agricultural employers and their workers, the elaborate but often unspoken protocol of paternalism that shaped much of day-to-day life in the rural South. In this book, we will show how paternalism emerged in the post-bellum years to reduce the cost of obtaining, motivating, and retaining labor in cotton production following the abolition of slavery. We will also explore the economic and political transformations caused by the decline of paternalism, changes less visible but no less important than the mechanization of cotton production.

The cost of obtaining labor in Southern agriculture included making sure an adequate supply of laborers could be hired and making sure that the laborers who were hired worked hard at their tasks (reducing the cost of monitoring labor) and stayed on through the harvest (reducing turnover in the farm labor force). We will describe the circumstances that caused the emergence of paternalism as part of an implicit contract between employers and workers that helped solve these problems. Paternalism, as part of agricultural contracts in the South, resulted partially from the prevailing institutions in the South and the United States at large. By institutions we mean the informal norms and formal laws of societies that constrain and shape economic decisions. We will explore how Southerners' desire to maintain the system of paternalism helped shape federal social welfare policy in the 1930s, 1940s, and 1950s. We will then explore how the circumstances prompting the use of paternalism

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changed over time, and how the corresponding demise of paternalism in Southern agricultural contracts influenced federal social welfare policy.

Paternalism emerged in the late nineteenth century as an implicit contract in response to changes in the Southern agricultural labor market caused by the Civil War and emancipation. Planters offered these arrangements when they were unable to satisfy their demand for farm workers after the abolition of slavery. The continued use of paternalism down through the first half of the twentieth century resulted from a technological circumstance: the absence of a mechanical cotton picker, a situation which changed only in the 1950s. The adoption and maintenance of paternalism were also shaped by institutional circumstances. The first was the South's system of social control (the informal norms and practices that dramatically circumscribed the political and economic rights of black and poor white agricultural workers in the South), which was largely shaped by the Southern rural elite after the end of Reconstruction in 1876. Social control in the South made paternalism appealing to agricultural workers, particularly black workers. For paternalism to remain valuable to workers, and for Southern plantation interests to continue to reap the benefits of the system of paternalism, the appearance of substitutes for paternalism (such as government, particularly federal, social welfare programs) had to be prevented. The second institution promoting the adoption of paternalism was the way in which Congress operated for much of the twentieth century, which allowed Southerners to prevent the appearance of these substitutes.

Beginning in the New Deal years, the federal government attempted to interfere with Southern race and labor relations in a variety of ways. If the government's efforts had succeeded, the value of paternalism would have been undermined. In much of what follows, we will describe how political institutions allowed the Southern elite to ward off federal efforts to provide welfare services that threatened paternalism. Beginning in the mid 1950s and continuing through the 1960s, the mechanization of the cotton harvest reduced the economic incentive of Southerners to resist the expansion of federal welfare. At the same time, the nation experienced a revival of interest in the plight of the poor, in part prompted by difficulties absorbing the labor leaving Southern agriculture for Northern cities. The reduced opposition of Southern Congressmen, together with the desire of the Kennedy and Johnson administrations to solidify their urban base of support, resulted in a dramatic enlargement of the scale and scope of the federal government's welfare activities in the 1960s.

In the 1990s, we are well aware of the importance of institutions. The dissolution of the Soviet Union and the resulting difficulties in establishing a market-based economy there have made us acutely aware of the importance of institutions. Yet we are woefully ignorant of how institu-

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tions constrain behavior. We are even more ignorant of the factors responsible for institutional change. What follows is a study of the interaction between institutions (the “rules of the game” by which economic actors abide) and contracts (the myriad formal and informal agreements by which parties agree to exchange), the causes of institutional change, and the impact of institutional change on contracts. Throughout the analysis, we take care to specify whose actions are constrained by particular institutions and who has the power to change those institutions. We hope that our methodology will both illuminate the pattern by which the South developed and aid scholars in understanding the importance of institutions elsewhere in the world.

I. A Conceptual Framework for the Analysis of Institutions and Contracts

Our book is a case study of the interaction among institutions, contracts, and economic performance. To illustrate our methodological approach, we will present the conceptual framework that we use to analyze the rise and decline of paternalism and the South’s opposition and subsequent resignation to the growth of the federal welfare state. Following Douglass North, we define institutions as the informal norms and formal laws of societies that constrain and shape decision making and that ultimately determine the economic performance of societies (Figure 1).¹ Whereas informal norms do not rely on the coercive power of the state for enforcement, formal laws do in part. Formal laws do not rely entirely on the coercive power of the state because some of their force is derived from the beliefs of its citizens. For example, if more people believe that littering is wrong, the costs incur to police littering are lower.

As Figure 1 shows, the norms and laws of society determine the rights that individuals possess. The norms and laws of a society were very important historically in determining technology and remain a determinant today. Nevertheless, in order to concentrate on the link between institutions and transaction costs, we will treat technology as conceptually exogenous. When appropriate, we will relax this assumption.² Rights often carry with them obligations; for example, citizenship carries the obligation to defend one’s country. The list of rights is almost endless, so the following are illustrative rather than exhaustive: the right to political participation, the right to own, sell, and use property or one’s labor, and the right to education. We will concentrate on the property

¹North, *Institutions and Structure and Change*.

²See Mokyr, *Lever of Riches*, for a discussion of the importance of the determinants of technology and their importance for economic performance.

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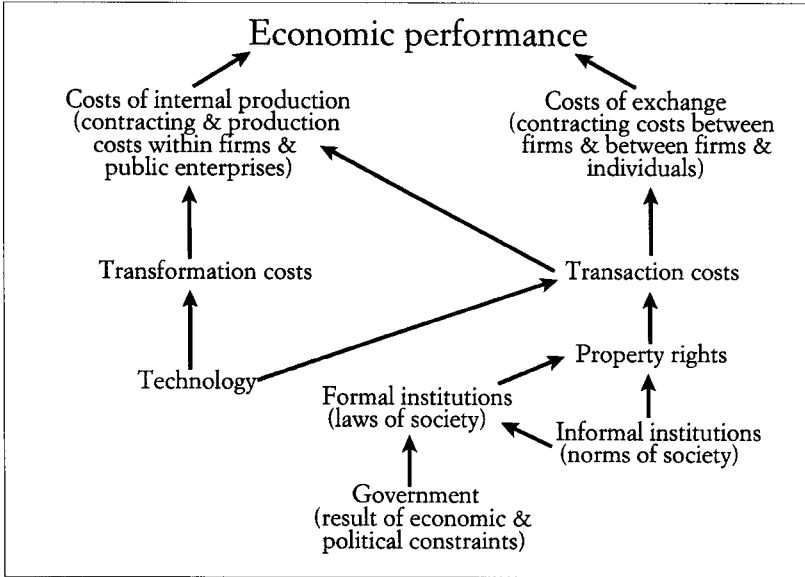
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Figure 1. The link between institutions (formal and informal) and economic performance

rights that citizens possess – their right to control resources – though our definition of resources is broad enough to include all of the rights enumerated above. For rights to be valuable, they must be enforced either by governments or by private parties. Though self-interest is often the incentive for people to engage in productive activities, the property rights of society determine the form those productive activities can take.

Property rights, along with technology, determine the transaction costs and transformation costs associated with exchange and production.³ Transformation costs are the physical costs (in an engineering sense) of combining inputs to produce output. The transformation costs of production depend on the technology in society. The transaction costs of production are the invisible costs of production. They include: (1) monitoring labor effort; (2) coordinating the physical factors of production; and (3) monitoring the use of the physical and financial capital employed in the production process.

Both technology and institutions may affect the transaction costs of production in a variety of ways. For example, technology can both reduce the direct costs of monitoring through better surveillance and re-

³Robertson and Alston, “Technological Change,” present a schematic framework for analyzing the impact of technology on the transaction costs of production.

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duce the need to monitor. For example, in agriculture, when workers chop weeds by hand, monitoring costs are higher than when workers weed with a John Deere cultivator. Whether on the farm or in the factory, machines by their very nature reduce the discretion of labor. They standardize the production process and thereby reduce the variation in the marginal product of labor. In addition, technology influences the transaction costs of coordinating production; no doubt the computer is largely responsible for the observed horizontal integration in commercial banking in the United States in the past decade.

Institutions can also affect the transaction costs of production. For example, in some cultures if people believe in working hard (perhaps because of past incentives), providing “an honest day’s work for an honest day’s pay,” then the monitoring costs borne by the residual claimant are lower. Or, if the law makes it difficult to fire workers for shirking, then monitoring costs increase. Overall, the transaction costs of production are the result of the institutions in a society and technology.

The transaction costs of exchange include the costs associated with negotiating and enforcing contracts. For some transactions, costs of exchange are low because informal norms suffice to uphold bargains. Most local communities have well-established customs that limit opportunistic behavior. Similarly, repeat transactions often give a sufficient incentive to deal fairly. Though local or repeat exchanges may have low transaction costs, the gains from such trade are limited because the extent of the market with whom individuals can deal locally or repeatedly is limited. Formal institutions are necessary if the full gains from specialization in an extended market are to be captured.⁴ For example, the extension of the market may require that more trades occur among anonymous parties or that more trades occur where payment and delivery are not simultaneous. Institutions can reduce the potential for unscrupulous behavior inherent in such arrangements.

The presence of “honest” courts and a body of law that upholds contracts and safeguards exchanges is a formal institution that determines the property rights of individuals which in turn affect the transaction costs of exchange. This does not imply that the courts are used frequently, only that they form a backdrop for exchange. The availability of recourse to law and the courts provides the assurance necessary for anonymous or nonsimultaneous exchange to take place. In the absence

⁴We use the term “full gains” because some trade can be accomplished through self-generated reputation and the prospect of repeat business without relying on outside formal government institutions. This is particularly evident in the case of international transactions in which the participants do not share a common body of law.

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of honest courts, contracts will be written in ways that will safeguard the exchange should one party desire to act opportunistically.⁵

At times there may be insufficient safeguards such that the result is no exchange. For example, large investments are generally required to reap economies of scale. A part of that investment may not be readily transferable to other uses (i.e., the investments are asset-specific). Before the investment is made, if there is a fear that some of the value of the investment will be expropriated, firms will not invest as much as they would in the absence of such fears. Expropriation could occur either through actions taken by the state (such as regulation or nationalization) or through actions taken by one of the parties (such as refusing to execute the exchange without a renegotiation of terms).

Given the set of institutions in a society, residual claimants will construct contracts with the suppliers of inputs to minimize the sum of transformation and transaction costs. The result is a variety of contracts with differing transaction cost and production cost components, and different total costs of production which in turn influence economic performance.

The conceptual framework presented in Figure 1 and discussed thus far is basically static; it illustrates the ultimate importance of institutions for economic performance but it does not address the determinants of institutions and institutional change.⁶ To understand the process of institutional change, it is useful to think about economic performance or economic growth as a process of creative destruction in which there are both winners and losers.⁷ The losers have an incentive to lobby government for institutional change to protect them from the ravages of the market, while the winners have an incentive to lobby for the status quo. Consumers have an interest in the outcome, but given the existence of rational ignorance and free rider problems consumers tend not to be as effective as special interests in the political marketplace.⁸

We can think of those who lobby for changes in institutions or for the status quo as the demand side of legislation. But special interest groups

⁵Williamson, *Economic Institutions of Capitalism*, describes how contractors shield themselves from the potential opportunistic behavior of others. For an example of the importance of institutions in safeguarding investments in telecommunications, see Levy and Spiller, "Institutional Foundations."

⁶The following draws on Alston, "Empirical Work."

⁷This term was coined by Schumpeter, *Capitalism, Socialism, and Democracy*, Ch. 7.

⁸By rational ignorance we mean that it does not pay for the consumer to be as informed about legislation as special interest groups are. The free rider problem arises because of the large numbers of consumers and difficulties in organizing collectively. Both these problems may be attenuated by political entrepreneurs; see Denzau and Munger, "Legislators and Interest Groups."

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do not enact legislation. Their demands are filtered through a political process shaped by government institutions – what we call the supply side of legislation.⁹ Historically, in the United States, political parties and the committee structure in legislatures have played major roles in shaping political outcomes.¹⁰ In this work, we specify both the demand-side and supply-side forces in a particular historical setting. This allows us to say a great deal about the determinants of institutions and the dynamics of institutional change.

II. The Conceptual Framework Applied to Paternalism

In our framework, paternalism is an arrangement that emerged as the proximate result of high transaction costs associated with premechanized agriculture and the insecure property rights of agricultural labor in the South. Paternalism shaped the lives of rural people in the labor-intensive agricultural regions of the Southern United States. What we describe as paternalism – what has in other contexts been described as a patron–client relationship – was the behavior exhibited by landowners toward their agricultural workers and the reciprocal behavior displayed by workers.

Paternalism developed within the South’s system of social control and evolved along with that institution. Social control embodied both formal laws and informal norms or practices that dramatically circumscribed the property rights of black and poor white agricultural workers in the South. The result was the dependency of agricultural workers on the white rural elite. Manifestations of social control included laws (or in our framework institutions) that resulted in: low levels of expenditure on education, old-age security, and welfare; the exclusion of blacks and many poor whites from the electoral process; a pronounced lack of civil rights; and the tolerance of violence. Both economic self-interest and beliefs (or social norms) motivated the “demand” for social control. On the “supply” side, the same forces that pushed for social control also controlled the levers of political power. Our work is an examination of the economic role of paternalism in the South’s system of social control

⁹By using the terms demand and supply we do not mean that there is necessarily a unique outcome; the term bargaining may be more appropriate. For the most part economists have paid too little attention to the supply side of government. See Alston, Eggertsson, and North, *Empirical Studies*.

¹⁰On the importance of parties, see Cox and McCubbins, *Legislative Leviathan*. For the instrumental role of committees, see Shepsle, *Giant Jigsaw Puzzle*, Shepsle and Weingast, “Institutional Foundations of Committee Power,” and Shepsle and Weingast, “Legislative Politics.” We will have considerably more to say about committees in the following chapters.

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and how that role changed over time in response to changes in technology.

How did paternalism operate? Given the existence of social control, agricultural workers – especially blacks – had an economic incentive to entrust themselves to a patron who could provide the security and services workers could not obtain for themselves. In exchange, patrons received “good and faithful” labor.¹¹ The exchange was not simultaneous. Only workers who demonstrated their loyalty over time received protection. In Chapter 1, we describe the emergence and development of paternalism in agricultural contracts following the Civil War and also examine the economic functions of paternalism in the twentieth century.

As long as the South remained “an armed camp for intimidating black folk” – the phrase coined by W. E. B. DuBois to describe the region in the late nineteenth century – protection was a valuable service planters could deliver to their black workers.¹² In our framework presented in the previous section, the demand for protection was prompted by insecure property rights. A powerful patron can be viewed as a substitute for the state. Although blacks needed protection more than whites, the capriciousness of local and state law enforcement and judicial systems meant that white workers might also benefit from a patron. For protection to remain valuable to workers, planters had to prevent substitutes from emerging for their services. Local and state governments, by providing civil rights and greater welfare benefits, could have reduced the value of planter protection. However, planters either controlled the judicial, legislative, and enforcement branches of local and state governments outright or allied themselves with these forces. The federal government posed more of a threat. The federal government shared the costs of a variety of welfare programs, and the prevalence of these arrangements increased with the New Deal. With cost sharing came attempts by the federal government to set national standards. Furthermore, many New Deal programs directly threatened the system of social control in the South.

Southern planters were not defenseless against those in Congress who wanted to change the South. Far from it. To understand the South’s ability to prevent federal programs from affecting paternalism and the system of social control, we need to examine the politics of the South and the institutional workings of Congress, the supply side of the federal government. We do this in Chapter 2.

The plantation elite, allied with the “county courthouse gang,” domi-

¹¹ The term “good and faithful” labor in this sense comes from Ronald Davis, *Good and Faithful Labor*.

¹² DuBois, *Souls of Black Folks*.

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nated Southern politics by the turn of the twentieth century. The result was a one-party system that effectively disfranchised blacks and many poor whites. To be elected and stay in office, politicians had to serve the interests of the rural elite. And serve them they did. At the national level, Southern Congressmen were expected not only to bring home the pork but also to prevent federal intervention in Southern labor and race relations – the hallmarks of social control. Disproportionate Southern political power resulted from the one-party system of the South, the importance of Southerners within the Democratic party, and the committee structure of Congress. Though Southerners as a bloc never had sufficient votes to determine legislative outcomes, they occupied nodes of power and could use their power, in concert with other Congressmen seeking the same outcomes. The one-party system gave Southern Congressmen more seniority than their colleagues in the rest of the country, and because of the way committees worked, greater seniority enabled Southerners to exercise considerable legislative agenda control.

Southerners exerted their political power in efforts to assure the maintenance of social control well into the twentieth century. In assessing the motivation of three typical Southern Senators in the mid twentieth century, George Mowry maintains that “[i]f their Congressional votes meant anything, they were not wedded either to the Democratic party, to national conservatism, or to states’ rights but rather used both the party and the concepts as instruments to secure and maintain the existing socioeconomic society at home in the South, and of course to secure their own personal careers.”¹³ Southern power on the supply side of government enabled a coalition of Southerners and other social conservatives to check the demands for the expansion of many welfare services in ways that did not interfere with Southern agricultural labor or race relations.

Evidence of the tenacity with which Southerners defended social control during the New Deal years is found in a variety of welfare and labor legislation. For example, Southerners promoted the exclusion of farm workers from the Fair Labor Standards Act (FLSA) and both the Old-Age and Unemployment provisions of the Social Security Act. In addition, Southern Congressmen acted to keep local control over those welfare programs – Aid to Dependent Children and Old-Age Assistance – that did not explicitly exclude agriculture. Further evidence comes from the life and death of the Farm Security Administration (FSA). At first, Southern landlords welcomed – or at least did not resist – the FSA or its predecessor, the Resettlement Administration, because the FSA’s programs did not initially interfere in labor or race relations. Once reform

¹³ Mowry, *Another Look*, p. 70.

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was on the agenda of the FSA, Southerners used their influence to gain local control over some threatening programs, limit current appropriations, and, in 1946, stop future appropriations for the FSA. In Chapters 3 and 4, we describe the political maneuvering of Southern Congressmen during the 1930s to prevent the Social Security Act and the FSA from directly weakening the Southern system of social control.¹⁴

As rural labor markets tightened during World War II, landlords sought ways to retain a cheap and dependent labor supply. In our framework this tightening of labor markets can be viewed as an increase in the costs of internal production, which would prompt Southern landlords to lobby for protection from market forces. Their political agents came to the rescue. The Tydings amendment in 1942 to the Selective Service Act of 1940 provided deferments to agricultural workers. The Pace amendments to the Farm Labor Act of 1943 prevented the expenditure of federal funds for the transportation of agricultural workers out of a county without the permission of the county farm agent. At the behest of Southerners, an international agreement with Mexico was reached in 1942 for the importation of temporary agricultural labor. Mexican labor greatly augmented the Southwestern supply of labor and thereby discouraged outmigration from the Deep South to the expanding West. Limiting migration from the South prevented wages from rising more than they otherwise would have. Of course all farm owners benefited from reducing labor costs but, because Southern agriculture was not yet mechanized, labor costs were a considerably greater percentage of costs than in mechanized agricultural regions (e.g., the corn and wheat regions).

Although designed as a temporary war measure, Congress gave repeated legislative approval for the legal importation of Mexican labor until 1964. Over the postwar years, Southern legislators disproportionately supported importation of Mexican labor, yet only Texas and Arkansas landowners employed many Mexicans. However, importation of Mexican labor elsewhere enabled paternalism to linger on in the rest of the South. In Chapter 5, we discuss the beneficial legislation and programs initiated in World War II to maintain a cheap and dependent supply of labor for agricultural interests – in particular Southern landlords.

The complete mechanization of Southern agriculture, along with the introduction of complementary technology, lowered the transaction and transformation costs of cotton production. The reduced transaction costs eroded the economic foundations of Southern paternalism. Labor can

¹⁴For an examination of the South's role in shaping the FLSA, see Seltzer, "Political Economy."