

contract

This contract made and entered into between A. T. Mial of one part and Fenner Powell of the other part both of the County of Wake and State of North Carolina—

Witnesseth—That the Said Fenner Powell hath bargained and agreed with the Said Mial to work as a cropper for the year 1886 on Said Mial's land on the land now occupied by Said Powell on the west Side of Poplar Creek and a point on the east Side of Said Creek and both South and North of the Mial road, leading to Raleigh, That the Said Fenner Powell agrees to work faithfully and dilligently without any unnecessary loss of time, to do all manner of work on Said farm as may be directed by Said Mial, And to be respectful in manners and deportment to Said Mial. And the Said Mial agrees on his part to furnish mule and feed for the same and all plantation tools and Seed to plant the crop free of charge, and to give the Said Powell One half of all crops raised and housed by Said Powell on Said land except the cotton seed. The Said Mial agrees to advance as provisions to Said Powell fifty pound of bacon and two sacks of meal pr month and occasionally Some flour to be paid out of his the Said Powell's part of the crop or from any other advance that may be made to Said Powell by Said Mial. As witness our hands and seals this the 16th day of January A.D. 1886

Witness  
A.T. Mial [signed] [Seal]  
W. S. Mial [signed] his Fenner X Powell [Seal] mark

Figure 5.1 Contract between Alonzo T. Mial and Fenner Powell; January 1886. (Source: Alonzo T. and Millard Mial Papers, North Carolina Department of Archives and History.)

grains) and one-fourth of the cotton - hence the colloquial expression "working on thirds and fourths."<sup>35</sup> All three forms of share contracting are contrasted in Table 5.5.

Of these three forms of share payments, by far the most common and widespread was sharecropping. This form of tenancy was established everywhere in the South. It flourished with all possible combinations of soil quality and labor conditions. It was observed on rich alluvial lands along the Mississippi River, throughout the length of the intensively cultivated black belt, on the exhausted soils of the Old South, and on the poor soils of the Appalachian hills. It was able to attract in many cases the most capable and experienced laborers, but it worked with the least efficient as well. Of the 493 counties in the United States that reported over 20 percent of their tilled land in cotton in 1880, only 1 - Issaquena County, Mississippi - reported no sharecropping, and only 11 reported less than 5 percent of the farms with this form of tenure.<sup>36</sup> The accompanying map portrays the prevalence of sharecropping reported in the county statistics of the 1880 census.<sup>37</sup> It is immediately apparent that sharecropping was particularly common in the cotton-growing regions and less frequently employed in the

## One kind of freedom

Table 7.2. *Implicit interest charged by Georgia merchants: 1881-1889*

Year	Annual rate of interest (%)
1881	51.7
1882	44.2
1883	63.9
1884	53.3
1885	64.9
1886	74.6
1887	70.6
1888	48.1
1889	63.6
Average	59.4

Source: Appendix D.

survey, ranged from 40 to 70 percent – and averaged 53 percent – above the December cash prices. In other words, an additional 35 percent was charged (above and beyond the legitimate costs incurred in storage) merely for credit. Of course, this premium could be thought of as representing a charge for interest on the credit extended.

In Appendix D we have computed the implicit interest rates charged by the merchants for the years 1881 through 1889; they are presented in Table 7.2. These rates range from a low of 44.2 percent to a high of 74.6 percent and averaged 59.4 percent per annum.

Interest rates in the neighborhood of 60 percent must be judged enormous when compared with credit charges at other times and other places in American history. Short-term interest rates in New York City during this period ranged generally from 4 to 6 percent and never ranged above 8 percent, we can safely assume 10 percent as the maximum cost of the funds involved.<sup>7</sup> The immediate presumption is that the lack of competition in southern financial markets explains this divergence. Before the merchant is made the villain of the piece, however, it should be noted in his defense that he operated in an environment that was not typical of other financial markets. Robert Somers alluded to the possibility that the terms upon which southern merchants advanced credit were "almost necessarily" severe.<sup>8</sup> Somers's own account suggests that the high risk of default and the high cost of supervision entailed in the granting of short-term credit to tenant farmers without real estate or collateral were reflected in the charges for such credit.

To be sure, there were risks involved in lending funds to farmers. On the

## 7. Emergence of merchants' territorial monopoly

other hand, it should be noted that these loans were made only after the merchant had assessed the creditworthiness of the prospective tenant, they were secured with a lien on the growing crop, and the merchant had legal right under terms of the lien to ensure that the crop was properly tended. Under these circumstances, it is likely that the merchant was able to reduce the risks to reasonably low levels. In any event, we can be sure that his credit charges cannot be justified by the risk of default alone. An anticipated default rate of over 30 percent would be necessary to justify a 60 percent charge for interest.<sup>9</sup> There is absolutely no evidence that actual default rates were ever of this order of magnitude. In fact, it is unlikely that more than 5 percent of the total investment was lost by default.<sup>10</sup>

Credit charges must also cover any legitimate costs involved in processing the loan and providing that level of supervision required to protect the merchant's investment. While the costs of processing a loan were likely to be trivial, particularly for a local farmer known to the merchant, supervisory costs were higher. Nevertheless, even an exaggerated estimate of such outlays cannot justify interest premiums of the magnitude reported in Table 7.2. As a hypothetical example, take the case of a merchant whose customers annually borrow \$80 each. Suppose the merchant hires a full-time assistant, who is paid a generous \$500 per year, to oversee 100 customers.<sup>11</sup> The annual supervisory costs per customer would then be \$5 or 6.25 percent of the principal loaned. Taken together with a 10 percent opportunity cost of funds and a 5 percent risk of default, the supervisory costs in our example would justify no more than a 22.4 percent charge for interest, which, despite our exaggerated assumptions, is only about one-third the rate of interest charged by Georgia merchants.<sup>12</sup>

When assessing the magnitude of the supervisory costs and the risk of default, it should be recognized that the two costs were intimately related. The sole purpose of the supervision was to lower the risk of default. Our example implicitly allows for 5 percent of the borrowers to default completely on principal plus interest. It seems unlikely that the default rate would have been that high with a full-time overseer supervising the merchant's clients. We can only conclude that the interest charged southern farmers was exorbitant in the sense that it could not be justified by legitimate costs of providing credit.

There is a seeming paradox in our claim, however, that the merchant possessed a monopoly. Rural merchants were, after all, scattered ubiquitously over the southern countryside. In 1880 we have identified nearly 8,000 general stores located outside urban areas of the Cotton South.<sup>13</sup> Monopoly – the domination of a market by a single firm – might seem an unlikely phenomenon under these circumstances. The key to unraveling the paradox just posed lies in the fact that this monopoly was confined to the immediate neighborhood of the store; it was, as we have characterized it, a territorial monopoly.

*Interest charges*

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on cotton had the convenient effect of driving the farmer into increased dependence upon *purchased* supplies. The more cotton the farmer had to grow, the fewer resources remained to produce food. Farmers perceived that a cotton lien enhanced the merchant's lucrative business of selling supplies at exorbitant credit prices, but they could do little about it. "We ought to plant less [cotton and tobacco] and more of grain and grasses," claimed a correspondent from Montgomery County, North Carolina, in 1887, "but how are we to do it; the man who furnishes us rations at 50 per cent. interest won't let us; he wants money crop planted."<sup>39</sup> This is not an isolated example. Other responses to a North Carolina survey confirm that farmers felt strong pressure to plant cotton at the expense of food crops:

The landlord and merchants who furnish supplies on time won't let [the tenants] sow much grain—they want cotton; and having to buy on time, they have to do as the merchant or landlord says, and the result is, they do not often pay out, and when they do they have nothing left.

We shall soon be swallowed up by the commission merchants and guano men. It is cotton! cotton! cotton! Buy everything and make cotton pay for it.

As a rule, tenants are forced to make a certain amount of cotton in order to get their supplies furnished them, and they cannot, therefore, pay the attention to making their bread and meat that they ought. . . . He is bound to feed his family, and not having anything, he is bound to buy on time. To do this he must promise the merchant to plant a certain amount of cotton.

We are obliged to buy on time and pay 50 or more per cent., hence are compelled to make money crop mostly to pay with.<sup>40</sup>

There is little question that the practice of merchants asking for crop liens from their customers was common throughout the South and that cotton was generally a requirement for extending such a lien.<sup>41</sup>

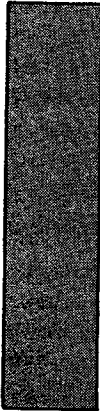
The monopolistic pricing system employed by merchants throughout the Cotton South would, by itself, allow merchants to exploit their customers. Any farmer lacking sufficient cash to buy all his supplies was forced to pay the exploitive credit prices. The additional insistence by the merchant that the farmer forgo self-sufficiency obviously increased the farmer's dependence on credit and served to inflate the merchant's profits. The exploitation was thus compounded.

Critics of southern merchants never tired of explaining the gains of being free from dependence on supplies sold at monopolistic prices. The formula for independence seemed simple enough, and the logic was compelling. As Mr. Hill of Jonesboro, Georgia, exhorted listeners at the county fair in August of 1873:

Make cotton your surplus crop! . . . Make your own fertilizers. . . . Thus you become independent of the Guano merchants. Raise your own provisions. Thus you become independent of the provision merchants. Your cheapest and safest line of transportation runs from your own fields and hog-pens to your own barn and meathouses! With no debts for your supplies, you will need no accommodation

COTTON quote

63.1%



All farms

consumption of corn

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first letter. It was signed "York polite," which she told me was his title. I can't make out whether they give each other surnames, and this is his, or whether it is really a title, as she says, like "Philip the Fair."<sup>1</sup> She told me what to say, and I wrote an answer for her.

May 8. A Baptist minister, who came out with us and has been appointed the pastor of the island, came to lunch, went to the other plantations with Mr. Philbrick, and has come back to spend the night. He had been up to the praise-meeting by Uncle Peter's invitation. He is very much puzzled what to do about the religious feeling of these people and their habits and customs. I hope he will let them alone.

May 9. Went up to the praise-house for school in the morning; it is so hard to get the little things together and then, like as not, they have *half* of them to be sent back to wash their faces and hands. Asked the little children questions, such as "What are your eyes for?" "Forsee 'long." "Teeth?" "For chaw 'long," etc.

Sunday, May 11. In the morning a number of the women had come up to the house to see us. It seems they have always been in the habit of coming into the yard on Sundays. Tira, Sim's wife, brought me three little fish fried. The women said that all the people here were born on the place, and no new hands had ever been bought, only one sold, and his master allowed him that privilege because his wife belonged in Charleston and he wanted to belong to the same man.

Flora said at lunch, as she brushed off the flies, that her husband York was at work on the "main" (land),

<sup>1</sup> A "title" was a negro surname of whatever derivation.

she did not know where, on a house, with five of their carpenters, when the war broke out, or rather, before the Fort here was "taken away," as they say, and that then the white people had not food enough to feed the blacks, and she is quite sure all her brothers and sisters who were carried off were dead before this — starved. York was five weeks getting back here, and arrived about Christmas.

Limus came for a reading-lesson, a man about fifty, driver on one of Mr. Soule's plantations next this, who comes over almost every day for me to teach him. He has a wife here and grown children, and another on the other plantation, the rascal. He is very smart and learns well.<sup>1</sup>

Mr. Philbrick had business with Mr. Pierce, and did not come home to dinner. But he got into more business than he expected before he came back, and

<sup>1</sup> The following description of Limus and his subsequent doings is copied from a letter of W. C. G.'s (June 12, 1863), which was printed by the Educational Commission in one of a series of leaflets containing extracts from Port Royal letters:

"He is a black Yankee. Without a drop of white blood in him, he has the energy and *'outness* and big eye for his own advantage of a born New Englander. He is not very moral or scrupulous, and the church-members will tell you 'not yet,' with a smile, if you ask whether he belongs to them. But he leads them all in enterprise, and his ambition and consequent prosperity make his example a very useful one on the plantation. Half the men on the island fenced in gardens last autumn, behind their houses, in which they now raise vegetables for themselves and the Hilton Head markets. Limus in his half-acre has quite a little farmyard besides. With poultry-houses, pig-pens, and corn-houses, the array is very imposing. He has even a stable, for he made out some title to a horse, which was allowed; and then he begged a pair of wheels and makes a cart for his work; and not to leave the luxuries behind, he next rigs up a kind of sulky and bows

I never saw a poor man show suffering more than he did when he came in after ten o'clock and told us what he had received orders to do the next day. While he was at Mr. Pierce's, writing, young Hazard Stevens came over with despatches from General Hunter<sup>1</sup> ordering all the agents to send him in the morning all the able-bodied black men between the ages of 18 and 45, capable of bearing arms, on the plantations. There was no explanation whatsoever of the reasons for the demand, no hint of what was to be done with them, and to the white men from his carriage. As he keeps his table in corresponding style, — for he buys more sugar . . . than any other two families, — of course the establishment is rather expensive. So, to provide the means, he has three permanent irons in the fire — his cotton, his Hilton Head express, and his seine. Before the fishing season commenced, a pack of dogs for deer-hunting took the place of the net. While other families 'carry' from three to six or seven acres of cotton, Limus says he must have *fourteen*. To help his wife and daughters keep this in good order, he went over to the rendezvous for refugees, and imported a family to the plantation, the men of which he hired at \$8 a month. . . . With a large boat which he owns, he usually makes weekly trips to Hilton Head, twenty miles distant, carrying passengers, produce and fish. These last he takes in an immense seine, — an abandoned chattel, — for the use of which he pays Government by furnishing General Hunter and staff with the finer specimens, and then has ten to twenty bushels for sale. Apparently he is either dissatisfied with this arrangement or means to extend his operations, for he asks me to bring him another seine for which I am to pay \$70. I presume his savings since 'the guns fired at Bay Point' — which is the native record of the capture of the island — amount to four or five hundred dollars. He is all ready to buy land, and I expect to see him in ten years a tolerably rich man. Limus has, it is true, but few equals on the islands, and yet there are many who follow not far behind him."

<sup>1</sup> Major-General David Hunter, who on March 31 had taken command of the newly created Department of the South, consisting of the states of South Carolina, Georgia, and Florida.

nothing but our confidence in General Hunter's friendliness to the race gave us a shadow of comfort. But that would avail little to the negroes, who would lose the confidence they are beginning to feel in white men. Yet there was but one thing for us to do, and it was with heavy, aching hearts that at midnight we separated. Companies of soldiers were to be sent from Beaufort in the night and distributed to the different plantations to prevent the negroes from taking to the woods, so that we were not surprised at being roused about two hours after by thundering knocks at the front door, echoing through all these empty rooms with a ghostly sound. This proved to be Captain Stevens again, alone, who had stopped to enquire the way to some of the other plantations he had to notify, and say that the soldiers would be here in about an hour. We had scarcely got to sleep again before we all were roused by their arrival, and eight men, a Captain and Sergeant of the New York 79th Highlanders, tramped through the house. Mr. Philbrick gave them a pail of water and some hardtack, for they had had a long walk, and then they stretched themselves on the floor of one of our empty parlors as quietly as could be, considering themselves in luxury. We slept as best we could the rest of the night, and were up early to get the soldiers their breakfast and get ready for the heart-sickening work. You never saw a more wretched set of people than sat down to our breakfast-table. I *could not* eat, for about the first time in my life. Nothing had been said to any one. Joe saw the soldiers on the floor when he opened the house door in the morning, and wore a sober face when we came down, but no one asked any questions,