

Country Stores in the South and Debt Peonage

Pre-Civil War Financial Intermediation – Cotton factors lent money to plantation owners

Post-Bellum Financial Intermediation – Banks increasing lent to plantation owners but in addition “country merchants” lent to sharecroppers and tenants base on the value of the crop, i.e. a crop lien.

Possible Criticisms:

- 1. Merchants coerced farmers into growing “too much” cotton at the expense of corn**

Why? Better collateral – easier to store? Increased dependence?

Rebuttal

- i. Merchants would be best off by having farmers produce the profit maximizing mix of cotton and corn and then extracting the surplus above subsistence. You need more than corn to be self-sufficient**
- ii. If merchants “forced” a non-profit max mix of crops, they would be harming the landlord as well – this is not plausible given who was economically and politically more powerful, e.g. crop liens were legally secondary to the rent.**

2. Merchants charged exorbitant interest rates because of their monopoly power – approximately 60%

Rebuttal

- i. entry costs were low- over 8000 country merchants**
- ii. rural banks charged about 28%**

3. Merchants kept sharecroppers and tenants in debt peonage.

Rebuttal

- i. real debt is costly – you are giving away resources**
- ii. merchants limited debts**
- iii. evidence - when prices and crop were low, farmers fell into debt and when prices and crops rose, farmers got out of debt**
- iv. if debts too high – running away was a viable option**