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As recently as twenty-five years ago, regional economic backwardness in the states of the traditional American South was considered an intractable problem of continuing national concern. Poverty and economic stagnation seemed rooted in Southern culture, the same culture which maintained segregation and traditional race relations. The eminent historian of the South, C. Vann Woodward, wrote in 1961: "The modern South rests on these very foundations and is continuous in its economic, political, and racial institutions and doctrines with the order established in 1877... In racial policy, political institutions and industrial philosophy, there has been no break with the founding fathers of the New South" (Woodward, 1961, p. E3).

Obviously, much has changed since then. But as the attention of economists has been taken up by new sets of concerns, like energy, inflation, and the competitive position of American manufacturing centers in the Northeast and Midwest, not many have stopped to look back and ask why the perception and reality of the Southern economy has changed so drastically in such a short time. Those who do look back over a longer period often imply that the rise of the South was essentially a long-term process of national convergence in factor prices and per capita incomes; that is, a gradual but reasonably steady reflection of basic economic forces which are relatively well understood by economists.[1]

[1]For example, the U.S. Advisory Commission on Intergovernmental Relations wrote in 1980: "Since the turn of the century, regional manufacturing wage rates have generally been converging, largely as a result of a slow but steady relative increase in wages in the southeast" (1980, p. 5). See also Weinstein, Gross, and Rees (1985, p. 53), whose per capita income graph creates a striking visual impression of continuous convergence.

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Even on its own terms, this level of understanding is unsatisfactory. If regions have converged in recent years, why did they diverge initially? If divergence happened in the past, why should it not happen again in the future? In other words, comprehending the forces of equilibration also means knowing what held these forces at bay for so many years. And a close look at the historical record will show that convergence for the South was not nearly as persistent and unidirectional as modern writers imply.

This analysis of Southern economic history is built around the proposition that the region's distinctive culture and economic life were rooted in the regionalization of the labor market. The modern period of equilibration only began in earnest when the institutional foundations of that regional labor market were undermined, largely by federal farm and labor legislation dating from the 1930s. Ironically, the resurgence of the South came in the wake of policies which threatened to cripple the region's industrialization, by forcing up labor costs in low-wage sectors. This apparent paradox calls for a closer look at initial conditions as well as at the regional growth process over the last 50 years. Though it may be the case that Southern wages and incomes were bound to converge to national levels eventually, the path actually taken was a choice of one among several alternative paths to that result.

Was there a Southern Economy?

The urban specialist Jane Jacobs, in her lively recent polemic *Cities and the Wealth of Nations*, indicts the economics profession for persisting in "the idea that national economies are useful and salient entities for understanding how economic life works and what its structure may be" (Jacobs, 1984, pp. 29–36). This complaint is, of course, a very old one in the history of economics. But Jacobs means more than the simple observation that factor mobility within countries is imperfect. She holds that the true "salient entities" in economic life are metropolitan centers, which share not only factor supplies but information, techniques, innovations and incremental adaptations of all kinds; cities are, in short, the communities of interactive problem-solving which underlie the fundamental process of economic development. Indeed, Jacobs is equally critical of the famous "New South" advocate Henry Grady for thinking in terms of "large, amorphous regional economies" rather than urban centers.

Jacobs has identified a crucial set of considerations; nevertheless, the historical record shows that there have been regional and national economies, in both the simple and the more sophisticated senses of the term. In the simpler sense, regionalism in the unskilled labor market is quite evident. Flows of labor were overwhelmingly in an east-west direction, the South remaining isolated from all other regions of the country. During the heyday of European immigration to the United States before World War I, the South was almost untouched; less than 2 percent of the Southern population was foreign-born in 1910. Wage indicators confirm this separation. A convenient

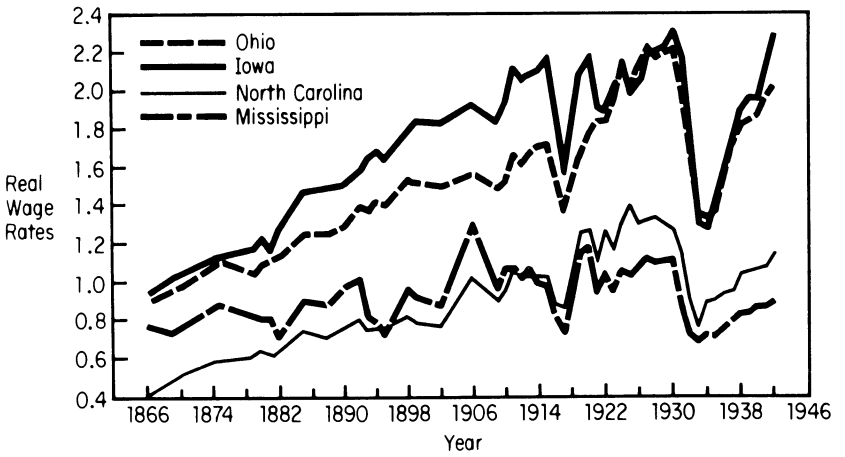

Fig. 1. Farm labor wage rates per day in selected states, 1866–1942 (deflated by wholesale price index)

measure of a market-determined price of raw labor is the farm wage, which shows no tendency toward convergence before World War II (Figure 1). Both the absolute and relative differentials were higher in the 1920s than at any time since the Civil War. This gap was neither strictly agricultural nor strictly racial. The wages of black and white farm laborers were virtually identical; and the farm labor wage was closely linked to wages in sawmills and textiles, the two largest Southern industries. Textile manufacture in particular employed white labor almost exclusively until the 1960s.

It was not just that North-South labor market adjustments were slow; adjustments occurred with reasonable speed, but in different directions. East and west converged within the North and South, but North and South did not converge toward each other. These patterns were genuinely regional, not mere aggregations of numerous independent local phenomena. In such basic eco-demographic indicators as average farm size and land-labor ratios, for example, *every single Southern state* moved in the same direction in *every single decade* between 1880 and 1930—toward smaller farm size and fewer acres per person—trends which were contrary to those prevailing throughout the rest of the country.[2]

Evidently, Northern and Southern regional labor markets were subject to the same sorts of centripetal forces that characterize physical processes like river drainage and locational processes like the emergence of metropolitan centers. The labor market can be considered a network, and the presence of loyalties among members of kinship, ethnic, and cultural groups gives rise to "network externalities" of the sort that theorists have now begun to analyze (Katz and Shapiro, 1985). Since the cost of using

[2]There is actually one exception at the state level: Texas, where farm acreage per person increased between 1870 and 1890. There figures reflect the rise of the cattle kingdom in western Texas, not really part of the Southern region by any reasonable historical or economic definition.

a communication network like a labor market declines as the number of participants rises, this process is an example of increasing returns to scale, in which initial conditions matter even in the long run.[3]

If this conception is accurate, then the logical place to look for the "causes" of such regionalization is not in overt barriers to mobility at a point in time, but in history. Richard Steckel (1983) has shown that the east-west lines of migration go back to the early nineteenth century and were rooted in certain geo-agricultural continuities, such as familiarity with seeds, crops, livestock, and climate. This "natural" regional separation was ratified and institutionalized by slavery, which served to insulate the South from outside labor flows after 1807, when importation of African slaves ended. Then the region was consumed by the turbulence of war and Reconstruction at the very time when a truly national (non-Southern) labor market was developing elsewhere, lubricated by mass immigration from abroad. Such elements of timing are important because much of the actual flow of information in long-distance industrial labor markets operates though informal channels, such as letters from relatives and word-of-mouth communications within ethnic groups. Statistical studies confirm that the existence of a first wave of migrants from a country is the most important single factor in generating the second wave (Dunleavy 1983). Thus, labor market flows and linkages tend to persist, once begun. Rather than thinking of kinship, ethnic, and linguistic loyalties as market "imperfections," these forces are better considered as part of the way the market functions and expands in particular directions. These directions were in turn reinforced by the recruiting strategies of employers, who found it much cheaper to utilize existing channels or expand them incrementally than to lay out the large fixed cost that would have been required to redirect the established lines of the market.

The persistence of a Southern regional labor market is thus both a reflection of and a cause of the persistence of the distinctive Southern regional culture documented by sociologists such as Reed (1983). The South was a quasi nation. Regionalism in the labor market, however, is analytically separable from the persistence of regional wage differentials. International trade theory has long maintained that factor prices can be equalized by commodity flows between nations as well as by migration of the factors themselves. But this effect did not prevail between the South and the rest of the country for two reasons. First, factor-price equalization through commodity flows requires that endowments of trading partners are reasonably similar, so that each one produces some of each major commodity (Helpman and Krugman, 1985, chapter 1). But the South's factor endowment differed from the rest of the United States, especially in the importance of exotic commodities (such as cotton) which could not be grown in the North. The second reason is closely related: Southern resource allocation was determined mainly by *international* demand. There was no more reason for

[3]The theoretical implications of increasing returns for technological choices are analyzed by Arthur (1983), and for international trade by Helpman and Krugman (1985). The path-dependent character of increasing-returns processes has been emphasized by David (1975, 1986), as a way of underscoring the crucial role of history in economic life.

Table 1
Nonagricultural wealth owned by state residents as a percentage of total nonagricultural wealth 1880–1920

	1880	*1900*	*1920*
New England	105	114	122
Middle Atlantic	118	121	125
East north central	90	92	92
West north central	74	66	59
Mountain	44	54	60
Pacific	104	108	112
South	90	84	82
South (excl. Texas)	91	80	73
Alabama	82	72	62
Arkansas	73	67	59
Georgia	88	81	72
Louisiana	114	101	85
Mississippi	84	63	42
North Carolina	94	75	54
South Carolina	87	75	58
Tennessee	90	75	59
Texas	81	107	126
Virginia	97	83	68

Source: Lee, Everett S., *et al.*, *Population Redistribution and Economic Growth: United States, 1870–1950*. Vol. 1. Philadelphia: American Philosophical Society, 1957, 729–33. The regional aggregates are weighted averages of state figures.

interregional trade to pull Southern wages up to U.S. national norms than for international trade to pull Southern wages down to the levels of countries like India and Egypt.

The looming threat of an internal factor-price equalization effect did, however, become increasingly important in American political life after World War I. That development is taken up in a later section.

Was the South a Colonial Economy?

Like many less developed countries, the post–Civil War South had natural resources and labor, but was short on skills and capital. Aspiring Southern producers usually needed outside help, and over time an ever-growing fraction of the nonagricultural wealth of the region came to be owned by "outsiders." This trend, too, was unique among large American regions (Table 1). What set the South apart was not that capital flowed in, but that capital was not quickly followed by flows of people and/or indigenous accumulation, as in the North Central, Mountain, and Pacific regions.

Southern industries tended to produce a narrow range of cheap, standardized, low-skill commodities, which added relatively little value to the region's raw material. Being subject to outside ownership, and having to go north to buy complex goods made with Southern cloth or lumber or iron, it is understandable that many Southerners came to feel that they were part of a "colonial economy." But those who used this phrase meant more than mere description; they meant that Southern growth was actively suppressed. As one historian wrote: "Profits that might have been re-invested in southern enterprise or helped to stimulate the local economy were drained off to the North. More important, decisions affecting the economic health of the region were made by men in northern boardrooms who had a vested interest in maintaining it in its colonial status" (Hackney, 1972, p. 195).[4]

Economists who have looked into the subject have found almost no merit in this analysis. The intensive use of natural resources and unskilled labor was, after all, a logical reflection of the region's comparative advantage. The idea that an anti-Southern conspiracy could have been maintained among business interests across the entire rest of the country is implausible on its face; and the idea that increased inflows of outside capital would damage Southern growth seems utterly fallacious. In the case of the textiles industry, the active encouragement, technical assistance, and financial supplements from the northern-based textile machinery industry helped undermine the competitive position of New England textiles in the national economy. Most economists, therefore, have felt that the "colonial economy" idea confused symptoms with causes, and had little to do with the real reasons for Southern backwardness (Danhof, 1964).

A partial exception is the case of the Birmingham steel industry, where slow progress after 1900 has often been attributed to the dominance of U.S. Steel and its notorious "Pittsburgh Plus" pricing formula, whereby the price of steel was based on the distance from the company's Pittsburgh headquarters. As late as the 1950s, these and other related corporate policies were considered major causes of regional stagnation by many southerners, including the economist George W. Stocking (1954).

But even in this instance the colonialism argument does not work. Whatever U.S. Steel's motives may have been, corporate suppression was not the main reason for slow growth of the Southern iron and steel industry. Indeed, elsewhere in the country the same pricing policies were given credit for *encouraging* the geographic dispersion of steel production (Warren, 1973, p. 131). After all, local firms have no reason to charge less than the import price; in Pennsylvania, Ohio, Illinois, and Michigan, the "price umbrella" provided by the Pittsburgh-plus formula allowed old firms to survive and expand, and new firms to appear and grow. If U.S. Steel had been intent on stifling incipient competition, it would have been better advised to "dump" cheap steel in the relevant areas, as the German steel cartel did in many countries. Instead, their conservatism offered opportunities for competitors, but few responded in the South.

The experience of U.S. Steel in Birmingham does, however, illustrate some of the ways in which Southern producers faced problems different than producers in every

[4] The classic exposition of this interpretation is Woodward (1951, ch. 11).

other part of the country. The company poured $23.5 million into improvements and expansion at its Birmingham branch between 1907 and 1913, but encountered a continuing series of problems in labor costs, product quality, and marketing. The labor was inexperienced in industry, and turnover and absenteeism were high; these problems were serious enough to induce U.S. Steel to undertake, begining in 1915, an ambitious program of "welfare capitalism" in an effort to stabilize and improve the work force. Extraction costs were high for iron ore and coal because the mines were underground rather than open-pit, and the terrain irregular and full of seams. Most important, Alabama red hematite ore is relatively low in iron content and unusually high in phosphorus, qualities that raised costs and presented special problems in the technological adaptation (Chapman, 1953, chapters 5 and 6).

In other words, the distinctive resource base of the South required adaptations in technology, but the South lacked a strong indigenous community of engineers and mechanics devoted to these tasks. Here is the element of truth in the "colonial economy" thesis, and it is no small matter. From the time of the great innovations of Bessemer and Kelly in the 1850s, the evolution of steel-making technology involved an interactive process of adapting techniques to the peculiarities of national and regional iron ores. The early success of Bessemer (unbeknownst to the inventor) depended on an iron ore unusually low in phosphorus. British, French, German and Belgian ores all shared the high-phosphorus problem, and the efforts at solution led to the Basic Bessemer process by the late 1870s. By perverse fate, the new process required an ore *higher* in phosphorus content than Birmingham ore. Only the Basic Open Hearth process allowed successful steel-making at the Ensley plant in 1898; even then, economical use required more iron and steel scrap than Birmingham could command. The introduction of the duplex process (an amalgamation of Bessemer and open-hearth principles) in 1906 solved the scale problem, but by that time steel-making in the North had been established for nearly forty years. At every step, the South had to wait for a new technology to emerge somewhere else in the world.

U.S. Steel gave Birmingham access to capital and technological expertise, but Birmingham was only one part of a large corporate portfolio of holdings and interests, and not a very typical part at that. U.S. Steel did not have to suppress incipient Southern industrial expansion, but the company may not have appreciated the full potential of its Southern properties. It did not undertake tinplate production there until a three-year engineering study in the 1930s demonstrated that this omission was costing the company $1 million per year! G. W. Stocking suggested that U.S. Steel had been "blinded... to the profit potentialities of its Birmingham properties," and that "out of concern for its northern plants carried the principle so far as to defeat its ends" (Stocking, 1954, pp. 104–11). In effect he conceded that U.S. Steel had no strong economic interest in stifling the South; the company's real crime was not suppression but neglect.

These episodes illustrate features of the development process often stressed in economic history. Historical studies emphasize that technological progress is usually incremental and cumulative, and that progress is often specific to the currently adopted technology (David, 1974; Rosenberg, 1976). In the pre–World War II era,

incremental progress had strong location-specific elements. Americans do not fully appreciate the extent to which our country's rise to world leadership in steel after 1870 depended on the unusually rich iron ore fields of the Mesabi range (Allen, 1977). The United States did more than passively live off the rents from these resources, but this unique resource base served as the foundation for an advanced national technology and applied science oriented towards this particular bundle of resources. The South was part of the nation, but not really part of the common resource environment. In agriculture, for example, the Southern soil, climate, and disease environment was sufficiently distinctive that producers had difficulty absorbing the benefits of the increasingly sophisticated American agricultural research establishment (Rubin, 1975).

In many ways, generating an advanced technology is itself a network activity with increasing returns to scale. At least prior to the modern era, significant aspects of technology were location-specific. Such an interpretation helps to explain why the South had such difficulty developing its own technology for its own environment. The scale economies involved were very large, at the level of entire industries or even entire economies.

But the fundamental problem was not the small size of the Southern economy; rather, it was the historic absence of an indigenous technological community and the high set-up costs required to establish one. When a group of Georgians set out in the 1880s to establish a state school of technology, they had to rely on northern models, and the model chosen was the "shop culture" approach: highly practical "trade school" training, producing "graduates who could work as machinists or as shop foremen, but who were not well prepared for engineering analysis or original research" (McMath, 1985, p. 9). The choice may have been the only one feasible at that time.

Regional wage or income differentials for skilled and professional jobs were substantially lower than for the unskilled, presumably because these individuals relied less on informal channels of communication.[5] The fact that the probability of out-migration increased with education must have discouraged those employers and local officials who hoped to capture for the regional economy some of the returns to investments in higher education.[6]

Southernization: The Road Not Taken

The primary respect in which Southern factor endowments differed from those of the rest of the nation, however, was labor. The decisive step in America's surge to world economic prominence in the 19th century was an emerging "American system"

[5]This pattern is consistent with much other evidence, including a recent analysis of "local labor markets" which finds that "local market effects on wages are substantially smaller among more educated workers, indicating that their wages are determined in broader geographic markets" (Topel, 1986, p. S142).

[6]This interpretation resembles a model presented by Helpman and Krugman (1985, chapter 10), in which nontradeable goods are subject to increasing returns to scale. In that case, factor owners who are able to take their factors with them have an unambiguous incentive to migrate to the larger economy, even if factor prices are equalized (p. 197).

of technology, manifested in a specialized machine tool industry producing almost exclusively for the U.S. market. This development was genuinely national, not in the sense that it was the object of explicit public policy, but in the sense (as Jane Jacobs writes of urban centers) that the nation was a "technological community" sharing a communication network and a common market environment. Economic historians still debate what the precise factor-saving properties of the American system were (Temin, 1971; David, 1975; Field, 1983; James and Skinner, 1985). The important point is that this distinctive national technology was well-adapted to the labor market setting which prevailed more or less everywhere in the country except in the South.

Conventional American thinking about technology virtually equates "technological progress" with "mechanization" and "labor-saving" change, but this perception shows a cultural bias. A good illustration is the contrast between historical patterns of change in the United States and Japan. The United States was the world leader in large scale mechanization, with a farm implements industry as an integral component of the machine-tools sector. Japanese agriculture, in contrast, developed through biological-chemical technology, including seed improvements with large applications of fertilizer (Hayami and Ruttan, 1970; Kawagoe, Otsuka, and Hayami, 1986).

The comparative history of the textile industries in Japan and in the South is still more instructive.[7] In many ways the parallels were remarkable, two examples of low-wage competitors gradually overtaking the older centers of production through a combination of learning, investment, and the cumulation of experience. The labor systems were entirely different, but both followed "foreign models": the South followed Samuel Slater's mill village system, while Japan consciously reproduced the all-girl dormitories of Lowell, Massachusetts. In both cases improvements in high-speed ring spinning facilitated progress by requiring less skill than the older mule technology which still predominated in England. In both cases the first installations were imported—Japan's primarily from Platt Brothers of Oldham, the South's from Saco-Lowell and other machine shops in New England.

At this point, however, the parallels diverge in a crucial respect. While the South continued to rely on outside machinery and expertise, Japan began to create a distinctive technology. Even the move to ring-spinning in Japan violated established rules of thumb, which called for the use of the mule where local cottons were extremely short-staple. The Japanese industry pulled off this trick by perfecting a labor intensive cotton mixing process, which allowed foreign cottons to be blended cost-effectively within the technological range of the ring. Over time, the Japanese industry pioneered labor intensive innovations which allowed them to economize on materials and make "cheap goods" which were nonetheless serviceable. These product characteristics contributed to Japan's ability to expand markets even during the Great Depression. By the 1920s Japan was making her own textile machinery. These developments stand in strong contrast to the relative technical passivity of the Southern industry. The textile machinery industry did not move South until the 1960s,

[7]This paragraph draws on Saxonhouse (1979) and Saxonhouse and Wright (1984a, 1984b).

when the United States lost its claim to world leadership in this technology (U.S. Textile Mills Product Industry, 1983, pp. 2–15a, 3–22).

Here we have a central reason for persistent Southern backwardness. In the absence of an advanced labor-using technology, Southern firms had to choose between mechanized labor-saving approaches from the North and retaining older techniques. In lumber and iron-making, Southern producers of the 1920s were using hand methods that had been phased out decades earlier elsewhere. Small wonder that the South concentrated on producing simple low-skill commodities. Of course, over time the South might have gradually built up an indigenous technological community specializing in some of those areas where Southern output dominated national totals. In textiles, for example, a "Southernization" process of sorts was underway. Georgia Institute of Technology opened its school of textile engineering in 1899. A graduate of this program, I. H. Hardeman, was an early pioneer in applying air conditioning and humidity control to Southern mills (Arsenault 1984, p. 602). In the 1920s Georgia Tech established a ceramics department in response to appeals from local businesses for a method of processing Georgia's deposits of kaolin and other clays. Even a half-century later elements of Southern-specific technological development appear in Georgia Tech's research on solar and biomass conversion technologies, utilizing the abundant local resources of sunshine and trees (McMath, 1985, pp. 166, 441).

But for the most part—and almost completely as far as the labor market was concerned—Southernization was the path not taken. There were two reasons why not. First, as a low-wage region in a high-wage country, the South had difficulty investing in education without encouraging out-migration. Southern families may have demanded little education because of poverty, ignorance, and opportunities to employ child labor on farms or in cotton mills. But the planters and employers who dominated regional politics were well aware that education greatly increased the probability that a young person would leave both the home county and ultimately the entire region (Lieberson, 1978). Planters and other employers often expressed the view that schooling would "spoil" blacks for work in farms, mines, or sawmills. Cotton mill managers knew that a high school diploma was as good as a ticket to leave the mill village. In this situation, the gains to schooling were not just inappropriable by employers but were actually negative because of induced out-migration. The structure of the situation led many Southern employers to be suspicious and hostile toward "outsiders" and outside influence.

If local monopsony power had been the only interest behind these policies and attitudes, they would have been transitory. But even in state and regional coalitions, Southern employers were not poised to benefit from increased education levels, and stood to lose from the opening of a North-South flow of information, people, and ideas. The politics of the New Deal years provides the clearest indication of Southern priorities. Southern Democrats were extremely powerful in Congress during the 1930s, but they did not use their power to bring home federal money for work relief or other projects; although the South was the poorest region in the country, it stood *last* among regions in per capita federal expenditure between 1933 and 1939 (Wright, 1986, p. 260). Southern Congressmen often obstructed the application of federal programs to their region, and on many issues (such as the coverage of Social Security in

agriculture, and local allocation of welfare benefits) they were successful (Alston and Ferrie, 1985).

In fact, they had good reason to be suspicious of outside influence, because national political forces were increasingly intent on eliminating the low-wage economy of the South. These forces were the second and ultimately the decisive reason why Southernization was the road not taken.

What Became of the Southern Economy?

There were many motives for the effort to impose national wage norms and labor standards on the South. Many outsiders sympathized with Southern workers and viewed institutions like the mill village and plantation sharecropping as barbaric. Also, the argument that low wages were themselves the cause of low productivity and poverty (an idea that has a long history in economics and is currently undergoing a revival in economic theory) was prominent in the political rhetoric of the day. But economic motives were surely present as well. The fear of low-wage Southern competition united Northern workers and Northern employers. The Southern textiles industry felt outside pressures on its labor costs very early, in decisions of the War Labor Board during World War I, in Northern support for strikes in the late 1920s, in national reform campaigns against child labor and night work (Shiells and Wright, 1983). The most far-reaching changes for textiles and many other Southern industries came with the labor controls of the National Industrial Recovery Act of 1933 and subsequently the Fair Labor Standards Act of 1938. All these measures had their major economic effects in the South. The thirty-two and one-half cent minimum wage law which went into effect in October 1939 affected 44 percent of textile workers in the South, but only 6 percent in the North. The wage policies of federal work-relief programs like the Work Project Administration also served to raise Southern wages, and by the end of the 1930s this policy goal had become explicit. Nor did these pressures end with the New Deal. Wartime wage decisions closed the gap even further, and expansions of minimum wage coverage during the 1950s and 1960s created many wage distributions like that displayed in Figure 2, where the great majority of workers earned precisely the federal minimum. National labor unions with branches in the South also pushed for quick elimination of regional differentials.

A much larger number of workers were affected by events in agriculture, especially blacks. That story is rather separate, although it has certain parallels to the industrial situation. In brief, acreage reduction and the incentives created by the federal farm programs of the 1930s led to widespread demotion and displacement of tenants (Whatley, 1983). Reform efforts to protect the status of tenants encouraged further displacement through mechanization. Displacement was only partial so long as the harvest bottleneck remained. But the development of a successful mechanical harvester by 1950, coupled with cutbacks in cotton acreage in the older producing states, generated a decline of *one million* farm operators between 1950 and 1959 and an unknown but also sizable decline in the number of farm laborers. In agriculture as in industry, reduced employment through mechanization was not the simple result of

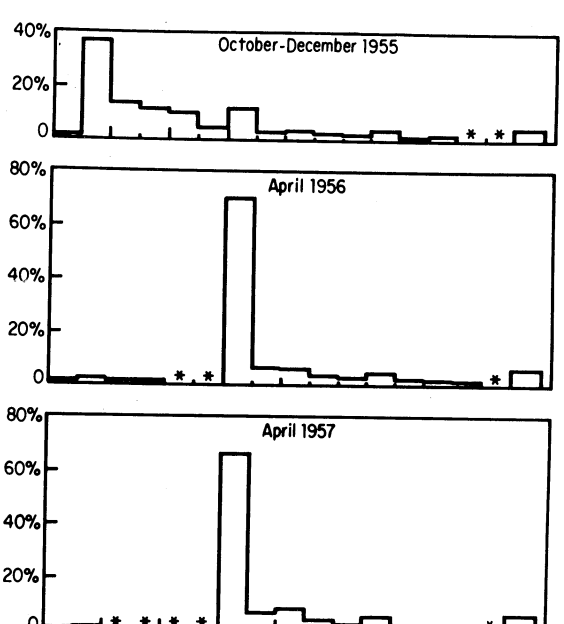

Fig. 2. Percent wage distribution of nonsupervisory workers in Southern sawmills, 1955–1957

autonomous technological changes, but represented as well the effects of government policy (Whatley, 1985). The important point in the present context, however, is that the decline in agricultural employment did not have to imply large scale regional out-migration. It might instead have provided the manpower for an emerging labor-intensive Southern industrial development, but that path was blocked by the industrial labor policies just reviewed. As a result, the majority of the departing farm population had few options other than leaving the South.[8]

What then were the overall effects of these policies? In the 1940s and 1950s, Southern economists like John Van Sickle (1943) argued that national wage standards would stifle regional industrial growth, as indeed they were intended to do.[9] The argument was eminently logical, yet looking at the record of Southern growth since

[8]The experience of the North Carolina tobacco belt offers a glimpse of an alternative scenario. Tobacco mechanization was delayed until the 1970s, partly by technical constraints but partly also by barriers to consolidation of farms, barriers that have gradually been relaxed since the 1960s. The small farm owners who have dominated tobacco have had much more control over the timing of their departure from agriculture. In contrast to the sharecroppers of the cotton belt, displaced tobacco farmers have been able to find jobs in local industry with relatively little increase in unemployment or out-migration (Johnson, 1984).

[9]Unlike many writers on both sides of these issues, Van Sickle acknowledged explicitly that his position rested both on economic assumptions about regional factor mobility and on value judgments about the authenticity of Southern regional culture. He wrote that the South was held together by "those emotional loyalties which more than any other force, make the concept of regionalism a reality" (p. 39), and asked of the Fair Labor Standards Act: "Does it promise to promote or retard the legitimate aspirations of the Southern Region?" (p. 184). In the tradition of economics, however, Van Sickle treated the evolution of technology as entirely exogenous.

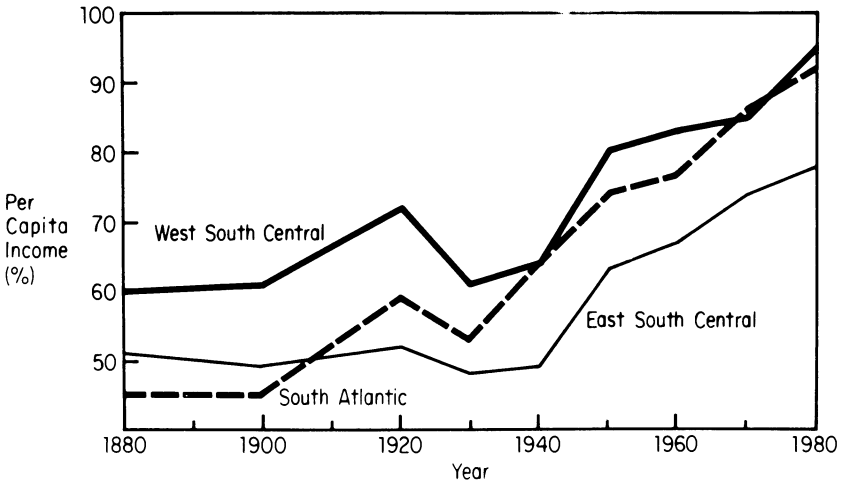

Fig. 3. Per capita income of Southern regions, as percentage of U.S. average, 1880–1985

the 1930s, it is hard to detect a stifling effect (Figure 3). Every part of the South made sustained progress toward the national per capita income norm, with the most dramatic gains made during World War II and the trend continuing through the widely fluctuating national economic circumstances of the 1950s, 1960s, and 1970s. This regional growth had many components: defense spending, the attraction of the sunbelt, oil and natural gas, the weaknesses of unions and state regulations on business. But when all the "exogenous" developments point in the same direction at the same time, it generally indicates some common background element. The abolition of the low-wage sectors seemed to lift an economic incubus which had held the South down.

This simple picture has an element of illusion. In part, convergence in per capita income was simply the effect of low income people moving from South to North. Through the 1950s, the median educational level of black migrants was only 6.6 years. By contrast, migrants into the South were highly educated by Southern standards. (By 1960, more than 35 percent of white males in the South with five or more years of college had been born outside the region.) In terms of employment opportunities, it is not clear that predictions of adverse consequences were wrong. In textiles, for example, employment never returned to its peak of the 1930s. Alternatively, from the standpoint of output, the robustness of Southern industry in the face of higher labor costs reflects the fact that at that historical point the South had a well-developed set of high-wage technologies readily available.

To the economic historian taking a view of the South and its political economy in the broadest sense, it appears that a more fundamental transformation was underway, a basic change in the priorities of the region's economic interest groups. One new factor common to the post-war South was the all-out effort to attract business through tax breaks, municipal bonds for plant construction, industrial development corporations, research parks, and expenditures on publicity far beyond other regions. Historian James C. Cobb (1982) called it *The Selling of the South*. Abolishing the low-wage sectors

Table 2
Net migration from the South 1870–1880 to 1940–1950

(In thousands)

Decade	*Native White*	*Black*
1870–1880	91	−68
1880–1890	−271	88
1890–1900	−30	−185
1900–1910	−69	−194
1910–1920	−663	−555
1920–1930	−704	−903
1930–1940	−558	−408
1940–1950	−866	−1581
1950–1960	−234	−1202
1960–1970	1807	−1380
1970–1980	3556	206
1980–1985	1810	87

Source: Eldridge, H. T., and D. S. Thomas, *Population Redistribution and Economic Growth*, Vol. III. Philadelphia: American Philosophical Society, 1964, p. 90; Bureau of the Census, *Historical Statistics of the United States to 1970*. Washington, DC, pp. 94–95; Kasaida, J. D., M. D. Irwin, and H. L. Hughes, "The South is Still Rising," American Demographics, June 1986, p. 35; Isaac Robinson, "Blacks Move Back to the South," *ibid.*, p. 43.

eliminated the vested interest in isolation; once the doors were flung open, the rush of absorption into the national economy was breath-taking. Another Southern historian has written recently: "In 1940 the raison d'être of Southern state governments was the protection of white supremacy and social stability; thirty years later their central purpose was the promotion of business and industrial development" (Bartley, 1982, p. 160).

Though the transformation may have lowered the priority level of white supremacy for the South, the economic costs were concentrated on blacks. The preponderance of blacks laborers in agriculture made this inevitable. But blacks also suffered in other industries. Tobacco manufacturing had long made extensive use of black workers, and the wage increases had dramatic effects. Beginning in the 1930s, the industry began to mechanize the leaf-handling processes which had long been the preserve of black workers, and black employment fell precipitously. In 1930 the industry labor force was 67.9 percent black; by 1960 the share was down to 26.8 percent (Northrup, 1970, pp. 29, 31). Perhaps the single best indicator of the unequal racial impact of the changes in the labor market is the pattern of out-migration (Table 2). During World War I more Southern whites than blacks left the region, but during World War II black out-migration was twice as great. The effects continued through the 1950s, as black teenage employment in lumber and sawmills declined by 74 percent, in the wake of extensions in level and coverage of the federal minimum wage (Cogan, 1982).

The overall effect of this history on black Americans is complex, mixed, and ironic. Displacement and suffering were severe. Yet in abolishing the low-wage South, the federal government also destroyed the nation's most powerful bastion of racism and white supremacy. The civil rights movement of the 1960s was able to use the South's hunger for capital inflows as an effective weapon in forcing desegregation.[10] Similarly, migration to the North allowed dramatic increases in incomes and educational opportunities for many blacks; yet the same migration channeled other blacks into the high-unemployment ghettos which if anything have worsened with the passage of time.

Implications

It would overstate the case to conclude that imposing national labor standards on the South was "the cause" of the economic revolution which has occurred in the region since World War II. Clearly many other long-term developments have had a bearing on these events: transport costs and communications, the mobility of individuals and corporations, the raw material and energy requirements of industrial production, and doubtless other factors. But federal labor policy did not retard or discourage economic progress in the South, and indeed appears in retrospect to have been one of the key triggering mechanisms behind the region's participation in these global economic trends. Obviously, policy effects of this sort cannot be utilized repeatedly and may not be predictable with any precision. But those who take the historical view believe that economic life is full of such historically specific equilibra and unique transitions, so that economists who ignore them do so only at their own peril.

The particular episode recounted here does have lasting relevance for contemporary issues. Perhaps the most direct connection is to the ongoing discussions of black economic progress. Before accepting sweeping indictments of black culture and family values, economists should at least be aware that the circumstances under which blacks entered American urban life were different from those of every other ethnic or minority group. It has been pointed out frequently that many other groups faced prejudice, discrimination, and hostility, and yet were successful. But virtually every other group came to American cities because of job opportunities. By contrast, Southern blacks came into cities which already had double-digit black unemployment; where unemployment rates for migrants were in excess of 20, 30 or even 40 percent; and where entry-level jobs for unskilled and uneducated workers had virtually been abolished as a matter of policy. To know this historical background is not the same as knowing what would be right or effective as policy. But the perspective is helpful just the same.

The broader set of implications is for the scope of our domain as economists in considering the development process. Factor prices and per capita incomes may well tend to converge among regions and nations. But there is a big difference between

[10]This thesis is argued most comprehensively in Jacoway and Colburn (1982).

convergence via absorption into another economy, with massive flows of labor and capital in both directions, and convergence via the establishment of new growth centers with distinct technologies and organizations adapted to local circumstances. Japan is an example of a new growth center, as was the United States in the 19th century; the postwar U.S. South is an example of absorption. Southern history is not a case study in economic development; it is a case of a region being forced from one growth trajectory to another. The new growth path has largely destroyed the South's regionhood. But this effect was not an inevitable by-product of growth itself, but a result of the particular path taken; in effect, a policy decision.

Economists tend to think of regional and national loyalties either as pure consumption goods, or as the propaganda of special interest groups looking for subsidies or trying to hold onto a labor supply. From that standpoint, national boundaries or internal divisions appear as market imperfections, barriers to full equilibrium in product and factor markets. Nationhood certainly has this character, but national institutions are also the embodiments of basic community loyalties and values by which people live, and national economies have historically been the carriers of economic progress and the shapers of technology and economic organization. Whether or not capitalist firms are patriotic, their location, property interests and legal/political support made the nation or quasi nation a logical horizon for cost calculations.

So which is better, absorption or the establishment of an independent growth center? Is it better to move toward a unified world environment, in which technological adaptation comes to be unrelated to local resource endowments, or is it better to have a multiplicity of overlapping geographic horizons, reflecting in part the historic national traditions, cultures and loyalties that exist in the world? Clearly, the answer does not lie in a static efficiency calculation at a point in time. And although no general answer may exist at all, clearly the assessment in particular cases cannot be independent of an evaluation of an economy's political legitimacy and culture. Applying such a test, absorption of the South into the national economy was right in this non-Southerner's view, because Southern regional policy was not democratic and denied access to the political process and other fundamental human rights to large portions of its population. This judgment is made easier by the fact that the South was historically part of the country; other cases around the world pose much harder dilemmas. But if reorienting regional and national loyalty is the indirect effect of economic policy, then economists ought to give such matters more explicit attention, even if it means surrendering the fiction that a rigorous efficiency criterion undergirds our advice.

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