ECON 272: Economic History of North America to 1913

The Economic Condition of Black Americans after Emancipation

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Winter 2019

Outline

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The economic decline of the south

- The war was incredibly destructive which suggests that, overall, incomes were bound to be affected ($\downarrow$ K) (Gunderson, 1974; Goldin and Lewis, 1975).
- However, the implication in terms of relative welfare (blacks to white) is harder to disentangle. The war ended slavery which forced blacks to work more than they would have given the payment of M that they received (see previous class). With the end of slavery, the end of slavery meant that slaves *could* work less. So, we were bound to see a reduction in Southern incomes even *without* the war.
- However, in terms of counterfactuals, absent the destruction wrought by war meant that incomes could have been *greater*.
- The Civil War cost the two sides a total of $6.6 billion in 1860s dollars, enough to buy the freedom of all the slaves at their 1860 market value, give each slave family 40 acres and a mule, and make $3.5 billion in reparations to former slaves in lieu of 100 years of back wages (Goldin, 1973).

The costs of the war

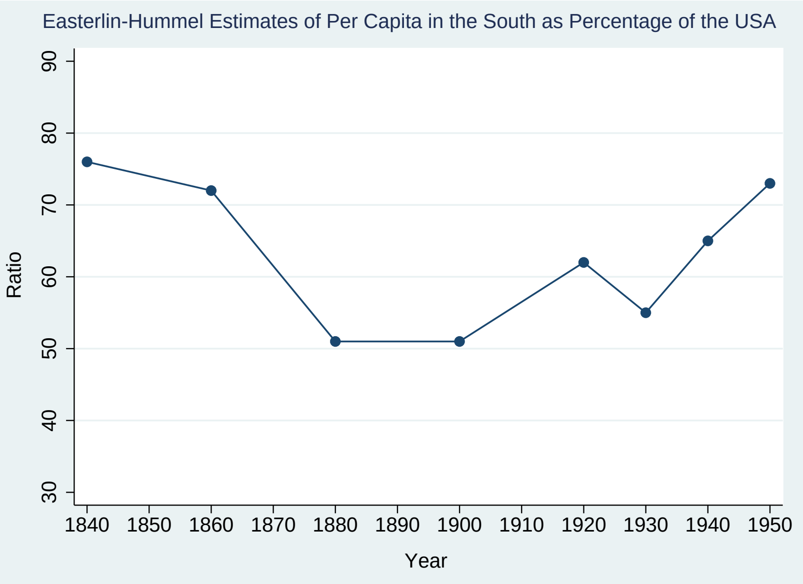
Figure: The foregone income from the Civil War as computed by Goldin and Lewis (1975)

TABLE 10
PER CAPITA COST OF THE CIVIL WAR: 1861 TO 1909

Year	Total U.S. 1860 $[a]	Total U.S. % of P.C.C.[b]	North 1860 $	North % of P.C.C.	South 1860 $	South % of P.C.C.
1861	8.41	6.9	4.99	3.7	12.09	13.8
1862	13.46	10.9	11.43	8.4	22.81	25.7
1863	19.58	15.7	15.29	11.1	32.32	35.9
1864	25.34	20.1	19.50	14.0	40.78	44.8
1865	30.81	24.1	24.21	17.1	48.34	52.4
1869	26.71	19.9	18.56	12.6	48.67	50.1
1874	19.33	14.3	9.61	6.5	46.21	47.1
1879	12.60	8.3	0	0	48.46	43.9
1884	12.95	7.8	0	0	50.77	42.5
1889	12.30	7.6	0	0	47.15	41.1
1894	10.66	6.9	0	0	42.71	39.7
1899	12.15	6.5	0	0	48.66	38.3
1904	12.93	6.4	0	0	52.31	36.8
1909	14.01	6.3	0	0	57.39	35.3

[a] This is a population weighted average of the costs for the North and the South.
[b] Percent of hypothetical per capita consumption.
Sources: See text.

The costs of the war



The economic decline of the south

- It is also possible to overplay the South's decline though. For example, there is a well-known undercounting problem in censuses for southern states which affect population count and output (Hummel, 2012) but even in this case, we find a 20% reduction in southern incomes.
- Blacks also reduced their labor which contributed to the fall in incomes (Ransom and Sutch, 2001) (but remember, this is actually an *increase* in utility and was also observed in the Indies (Engerman, 1984)).
- There are complementary factors such as the rise of hookworm disease (Brinkley, 1995; Bleakley, 2003).
- Peter Temin (1976) argues that the fall in labor and a fall in the *demand* for goods (i.e. cotton) produced by slaves.

Things that did not help overall recovery

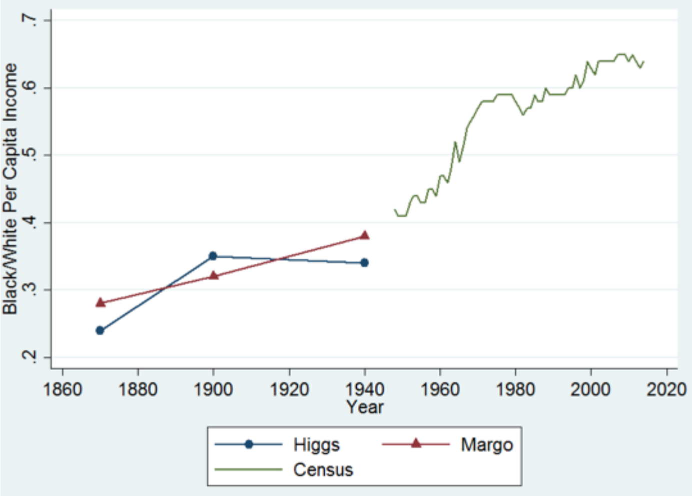
- The Morrill Tariff (Magness, 2009) made things worse. While we generally think that tariffs hurt consumers, we forget that they hurt producers (by raising input prices and altering relative prices in inefficient ways) and exporters (southern goods became relatively more expensive in terms of the goods and services had to sell to get dollars).

A brief bifurcation on sharecropping

- Some have argued (Ransom and Sutch, 2001) that sharecropping (literally sharing the crop which pools the risk between farmer and owner) worsened the situation
- My personal take on it (make what you want of it) is that this is incorrect. Sharecropping is actually efficient given certain conditions (Cheung, 1968).
  - If people are risk-averse, it works like McCloskey (1976) (see theme 2 in this class). See also McGuire and Higgs (1977).
  - If inefficient, there is a condition for persistence namely that of imperfect capital markets (Ransom and Sutch, 2001). Credit is necessary to recoup a bad harvest. However, if credit markets are monopolized, sharecropping might be superior.

The outcomes of blacks

Figure: The relative economic conditions of blacks between 1870 and 2000 (Margo, 2016)



The outcomes of blacks

- The Becker (1957) model of discrimination (along with the less well-known *Economics of the Colour Bar* written by Hutt (1964)) make the following model.

$$U_i = P \cdot F(N_a + N_b) - W_a \cdot N_a - W_b \cdot N_b - d \cdot N_b \tag{1}$$

- Where P is the price level, F is the firm's production function, W_i are the wages paid to members of groups A and B who can be employed in quantities N while D is the cost of prejudice. The optimal number of workers hired at each firm is determined by the solutions to the PF' $N_a = W_a$ and $N_b = W_b +$ d
- If there is competition, D is a cost borne by firm owners and under CRS (even better under IRS), arbitrage happens and discriminating firms are hindered.

The Higgs-Roback Evidence

- Robert Higgs assembled great evidence on the economic conditions of blacks during the postbellum era and found that their relative status improved *in spite* of Jim Crow laws (1971; 1972; 1976; 1977; 1982)
- A part of this convergence happened *within* the south and when it slowed down, blacks moved north where they obtained higher wages (Boustan, 2016).
- Roback (1986) also added some extra evidence with regards to the consumer-side and the producer-side in the case of streetcars while Lisa Cook (2012) documented business practices that could limit discrimination.

Relative condition with re: unemployment

Figure: Racial differences in unemployment rates (Vedder and Gallaway, 1992)

TABLE 1
RACIAL DIFFERENCES IN U.S. UNEMPLOYMENT RATES, 1890–1990

Year	Unemployment Rate (%) White	Unemployment Rate (%) Nonwhite	Unemployment Rate (%) Difference	Ratio of Unemployment Rates[b]
1890	4.41	4.07	−0.34	0.92
1900	6.47	7.57	1.10	1.17
1930	6.59	6.07	−0.52	0.92
1940	9.50[a]	10.89[a]	1.39	1.15
1950	4.9	9.0	4.1	1.84
1955	3.9	8.7	4.8	2.23
1960	5.0	10.2	5.2	2.04
1965	4.1	8.1	4.0	1.98
1970	4.5	8.2	3.7	1.82
1975	7.8	13.8	6.0	1.77
1980	6.3	13.1	6.8	2.08
1985	6.2	13.7	7.5	2.21
1990	4.7	10.1	5.4	2.15

[a] This counts government emergency workers as employed; counting them as unemployed increases white unemployment to 14.15 percent, nonwhite unemployment to 16.87 percent, and the unemployment ratio to 1.19.
[b] This is the ratio of nonwhite unemployment to white unemployment.
Source: U.S. Bureau of the Census, *Special Reports: Occupations at the Twelfth Census* (Washington, DC, 1904); U.S. Bureau of the Census, *Fifteenth Census of the United States: 1930*, vol. 2, *Unemployment* (Washington, DC, 1932); U.S. Bureau of the Census, *Sixteenth Census of the United States: 1940*, vol. 3, *Population: The Labor Force*, Part 1 (Washington, DC, 1943); *Economic Report of the President* (Washington, DC, 1990); and authors' calculations.

A caveat

- The model above assumes competition (and CRS, but that is not necessary here).
- Important efforts were deployed to *limit* the options of blacks to defect and to grant monopoly. Roback (1986) provides some evidence on the role of monopoly and coercion.
- The most important evidence though relates to anti-emigration and anti-recruitement laws (Bernstein, 2001; Naidu, 2010).
- "Anti-enticement laws imposed criminal fines on planters attempting to poach labor already under an employment contract".

Anti-enticement laws

Figure: Effect of anti-recruitement laws according to Naidu (2010)

Recruitment Restrictions and Labor Markets: Evidence from the Postbellum U.S. South

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This article studies the effect of recruitment restrictions on mobility and wages in the postbellum U.S. South. I estimate the effects of criminal fines charged for "enticement" (recruiting workers already under contract) on sharecropper mobility, tenancy choice, and agricultural wages. I find that a $13 (10%) increase in the enticement fine lowered the probability of a move by black sharecroppers by 12%, daily wages by 1 cent (.1%), and the returns to experience for blacks by 0.6% per year. These results are consistent with an on-the-job search model, where the enticement fine raises the cost of recruiting an employed worker.

Courts and Anti-Enticement Laws

- According to Bernstein (2001), the only institution that was not hostile to Blacks were the courts which often struck down prohibitions against black labor. Interestingly, this was under the doctrines that led to the infamous *Lochner* decision.
- One particularly interesting outcome is that while labor unions were known to exclude blacks (Logan, 1954). In a court case, *In re Debs*, the white labor union was in conflict over a closed shop formula with management and had barred blacks from entering the union.

Public Goods or Bads?

- The public goods can be invested in ways that systematically discriminate for one group. For example, roads are built only in white-areas and police forces patrol only white-areas. The returns from public goods are directed to *particular* individuals but the taxation for them is funded by all (Halcoussis and Lowenberg, 1998).
- The public good can be produced with differing qualities - think about education (Margo, 1990).
- However, there are weird exceptions such as waterworks. Because the costs of exclusion are *high* for waterworks meant to improve public health (and that there are economies of scale), it makes sense not to discriminate for this public good (also because of the nature of epidemiological problems) (Troesken, 2004).

Public Goods or Bads?

- The motive for altering these public goods is rent seeking. It does two things: a) it shifts the distribution of costs to certain individuals and thus enacts a transfer that causes a deadweight loss; b) it reduces the cost of holding and practicing prejudice.
- To illustrate the effect, imagine two Cobb-Douglas functions where the returns to capital (human and physical) are inferior in the discriminated sector. Combine with segregation to prevent the discriminated from joining the non-discriminated or using the public goods of the non-discriminated. This alters the incentive to accumulate capital (human and physical). It also increases the reward to the non-discriminated group. However, absent the transfer and segregation, the two curves would merge and would stand higher together (with a different steady-state) as a result.

Racism as Rent-Seeking

- If those who are rent-seekers are correlated with race, then rent-seeking will happen along racial lines (Roback, 1989).
- In fact, race makes rent-seeking possible in those instances. In rent-seeking, there is a collective problem - the parties who want the rent-generating policy must organize and there is always a free-rider who can make it break apart. The problem of the free-rider is solved by finding a solution that excludes him from the benefits or aligns his incentives. Color as a marker permits exclusion. Thus, in the presence of correlation between the rent-seekers and racial composition, racial markers serves to secure rents by removing free-riders.

Rent-Seeking in Narratives

- I have done some work on this arguing that rent-seekers also have an incentive to *invent* narratives (or directly prohibit voting for example) that mildly dissipate their rents so as to deter any contest against the established rent-seeking orders (Geloso and Magness, 2018).
- This attempt at deterring any contest to established order is meant to alter the discriminated party's perception of cost and benefits of X or Y action against the status quo. It will be particularly effective in the presence of risk-averseness for the discriminated group.
- Thus, this reinforces the durability of inefficient institutions that are not respectful of allocative efficiency.

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