Institutions and Southern Development: Summary

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Abstract

Evidence from a growing number of empirical studies suggests that institutions are an important part of the foundation of economic performance through time, and the economic history of the south provides us with an ideal setting in which to examine this relationship in greater detail. Using data on lynching to proxy for the strength of institutions, this essay argues that poorly defined, poorly enforced property rights contributed to persistent southern poverty during the early twentieth century. The essay extends recent empirical analyses of the relationship between institutions and development by offering a unique proxy for institutions that incorporates aspects of a society's rules, norms, and enforcement characteristics. It also provides an analytically tractable institutional explanation for the proximate causes of southern stagnation: low wages, an adverse industrial mix, failure to develop an indigenous technological community, and an uneducated workforce.

I. Introduction

The southern economy was a study in failure from the end of Reconstruction through World War II. Scholars have traced southern failure to low wages, failure to invest in education, lack of an "indigenous technological community," capital markets, labor market isolation, and various manifestations of the legacy of slavery. Discussions of the security of southern property rights have been relatively limited. This essay considers the relationship between institutions and southern poverty by using data on lynching to proxy for the strength of southern institutions.

The essence of the southern problem is stated by Ransom & Sutch (2001:xiii):

> Southern agriculture stagnated while an agricultural revolution transformed the rest of rural America. The South's industrial sector remained small and backward during the age of American industrial growth. And Southern people—white as well as black—were among the poorest, least educated, and most deprived of all Americans at a time

when America was becoming the richest, best educated, most advantaged nation in the world.

Why did wholesale poverty persist? Extending the Coase Theorem to account for an unequal distribution of coercive force suggests that market forces should move societies toward more efficient institutions, and the institutional changes accompanying war, emancipation, and Reconstruction should not have affected labor productivity. Prolonged inefficiency suggests that we should focus on identifying the specific sources of transaction costs that curtailed productivity and prevented efficient institutional change (Nye 1997, Acemoglu 2003).

The institutional shake-up accompanying the transition out of slavery was reflected in the uncertainties associated with the transition out of the old system of property rights, debates about whether slavery (*de jure* or *de facto*) could again become viable, and a demonstrated willingness to contest the new institutions as reflected in the ascension of the Ku Klux Klan, whitecapping, lynching, and eventually the codification of racist rules and norms in "Jim Crow" laws during the early twentieth century. The security of southern rights and the strength of anti-social cultural norms have generally defied measurement, but they are reflected in data on the frequency with which persons were lynched. Lynching data serve two important purposes: they serve first as a measure of the degree to which people are willing to contest the new structure of property rights (and the nominal freedom enjoyed by free blacks) as well as a signal of the extent to which investments were insecure as a result of white opposition to new black rights.

Violence is an important component of everyday life, and institutions that encourage people to resort to violence will, over time, lead to balkanization and low productivity

(Alston, Libecap, & Mueller, 1997). This essay explores an important component of institutional change: the extent to which poorly-enforced property rights can cause potential gains from improved formal institutions to dissipate.

II. Southern Institutions

The south's struggles with the legacy of slavery for 140 years have produced mixed results. The economic and institutional legacy of the "peculiar institution" is unclear. Data on southern slavery are statistically informative (Mitchener and McLean, 2003), but many societies have made the transition from slavery to freedom without the south's pronounced drop in labor productivity. Southern workers were, on average, more productive under slavery than they were in their first few decades of freedom (Reid, 1973), and it wasn't until 1890 that the region re-attained its 1860 level of per-capita income (Engerman, 1971). Attributing the long-term drop in productivity to the war is also questionable: post-war recoveries tend to be rapid (e.g., Europe and Japan after World War II), and to the extent that the Civil War was a "rich man's war and a poor man's fight," the deaths of poor, low-productivity southerners should have biased the effect of the war on average labor productivity upward.[1] Nevertheless, the war "occasioned a dramatic divergence" in the structure of Northern and Southern wages (Margo, 2002). Temin (1976) argued that the cost to southerners of the war was only 1/3 greater than the cost to northerners.

[1] This is also the case if slavery was inefficient: the substitution of liberal property rights for slavery would have increased productivity. Labor productivity data require cautious interpretation: killing lots of low-productivity people could raise average labor productivity even though it may be a strict Pareto loss; similarly, adding lots of low-productivity workers to an economy may lower average labor productivity even though it may be a strict Pareto improvement. Temin (1976) argues that the cost of the war to the south was not as large as previously suspected (only about 1/3 greater). It is also possible that there was a disproportionately large decrease in the southern capital stock. Wright (1982) discusses some of the ways slavery could have reduced productivity by discouraging town-building, investment in infrastructure, and farm mechanization.

Institutions may yield a partial explanation. Institutions are the formal rules, informal norms, and enforcement mechanisms that define the structure of property rights and therefore shape incentives (North, 1990). "Good institutions" reward production and trade and therefore encourage cooperation, specialization, and prosperity. "Bad institutions," on the other hand, encourage expropriation and redistribution and therefore breed mistrust, autarky, and poverty. In short, the institutional problem is to encourage production and restrain predation. Southern institutions were at best mildly successful.

Emancipation and Reconstruction brought a fundamental redistribution of property rights from slave owners to their former slaves. This had several important effects. As Wright (1982, 1986) argues, former "laborlords" became landlords who, rather than trying to increase the value of their slave property, shifted their focus toward maximizing the value of their land. Second, former slave owners no longer had an incentive to protect their former property from arbitrary depredations at the hands of the Ku Klux Klan or violent lynch mobs. Market forces mitigated the problem to some extent (Alston and Ferrie, 1999), but the fact remained that there was a large element of southern society that was willing to contest the new property rights. The resulting climate of fear and uncertainty, as well as the violence itself, cast a dark shadow over southern markets.

III. Lynching

Data on lynching provide a convenient measure of the strength of southern institutions. White (1929) wrote that lynching was an "excellent index of the backwardness of the lower south," and southern business disputes "often turned murderous" (Waldrep 2002:121). Higgs (1977:76) describes "whitecapping," a practice by which whites used beatings and intimidation against blacks to combat the influence of merchants in labor and capital markets, and Ransom & Sutch (1977:176-177) "believe that the animosity and mutual fear that existed between the races, and in particular the whites' antagonism toward the blacks' economic advancement, were at least as powerful as were economic incentives in motivating individual economic behavior."[2]

Slaves were not fully human in the eyes of the law, and their position improved only marginally in the decades after emancipation. In a comprehensive, quantitative sociological study, Tolnay & Beck (1995:50) distill motivations for lynching down to four purposes. First, lynching eliminated specific people who committed crimes against the white community. Second, lynching and mob violence helped whites (both rich and poor) maintain a degree of leverage over the black population. Third, lynching reduced black competition in social, economic, and political circles.[3] Finally, lynching was "a symbolic manifestation of the unity of white supremacy." The effect was apparent to contemporaries. In a 1931 report, the Southern Commission on the Study of Lynching argued that "(t)he damage a lynching does to labor conditions, investment of capital, reputation of the community, and the like are inestimable (Commission, 1931:62)."

Many lynchings were also gruesome spectacles in the truest sense of the phrase: practically advertised in advance, attended by thousands, and consisting of systematic, sadistic torture before the victim was hanged, burned, shot, or some combination of the three (Hale, 1996); in many cases, supposed crimes appeared to be a mere pretext for lynching someone who had done well in the world (Finnegan, 1997). There was some

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[2] Several estimates of lynching frequency are available. White (1929) reports on lynchings as reported by the Chicago *Tribune*. The NAACP (1969) presents their own calculations which differ somewhat from those reported in White. Tolnay and Beck (1995) compile a fairly exhaustive inventory of southern lynchings that took place between 1882 and 1930. Waldrep (2002) discusses the controversy over the definition of lynching.

[3] They find a strong correlation between white tenancy, white landlessness, and lynching.

controversy over the definition (Waldrep, 2002), but one version of a Federal Anti-Lynching Act (H.R. 4528, 80th Congress, 1st Session, 1948) defined a "lynch mob" as

> any assemblage of two or more persons which shall, without authority of law, (1) commit or attempt to commit an act or acts of violence upon the person or property of any citizen or citizens of the United States or other person or persons, or (2) exercise or attempt to exercise, by physical violence against person or property, any power of correction or punishment over any citizen or citizens of the United States or other person or persons in the custody of any peace office or suspected of, charged with, or convicted of the commission of any criminal offense, with the purpose or consequence of preventing the apprehension or trial or punishment by law of such citizen or citizens, person or persons, or of imposing a punishment not authorized by law.

Unlike conventional crimes like murder and rape, lynching had a particular political and social purpose. Southerners used lynchings to intimidate minorities, in some cases overriding the protests of local authorities and in others proceeding with their blessing. The character and distribution of the practice suggests that it may be a worthy proxy for the insecurity provided by southern institutions.

IV. Preliminary Results

We begin at the dawn of the twentieth century. According to Ransom and Sutch (1977:174-175),

> The postemancipation era began with great gains and great hopes, but those gains were never capitalized, and those hopes never materialized. The South of 1900 was poor. Relative to the entire United States, per capita income was less than 50 percent

of the national standard in the South Atlantic and East South Central divisions. The South of 1900 was underdeveloped. It remained an agrarian society with a backward technology that still employed hand labor and mule power virtually unassisted by mechanical implements. The rural South of 1900 was stagnant. Crop outputs, yields per acre, and agricultural technology remained virtually the same year after year. Progress was nowhere in evidence.

In this light, this section summarizes preliminary results from state-level estimates of the following linear model:

$$(Y/L)_{1900} = \beta_0 + \beta_s(\text{south}) + \beta_{\text{lynching}}\ln(1+\text{lynching victims/population}) + \boldsymbol{\beta}\mathbf{X} + \mu \qquad (1)$$ [4]

The matrix **X** includes control variables for regional endowments, access to trade, and alternative measures of institutions. A dummy for southern states is included to ensure that the lynching data are not merely capturing a generic "southern" effect. Results are reported in table 1. Column (1) reports estimates of a basic model in which **X** is taken to be zero to determine whether or not lynching may be an admissible proxy for southern institutions, returning a coefficient that is negative and significant at the 5% level. In addition, lynching and a south dummy explain a great deal of variance as measured by adjusted R-square (0.66).

Other causes of development over the long run may include geographic factors like mineral endowments, access to markets and trade, and climate. Column (2) adds the proxies suggested by Mitchener and McLean (2003): employment in mining in 1880 to proxy for mineral endowments, access to coastal waterways to proxy for access to trade, and the number of "cooling degree days" recorded by the NOAA to measure the need for

[4] 1 is added to the ratio of lynching victims/population to admit a quasi-elasticity interpretation.

air conditioning in buildings to proxy for climate. The impact of lynching remains negative and significant.[5]

It is also possible that we are mis-identifying the legacy of slavery. Additional characteristics of southern distinctiveness that may be related to slavery included failure to invest in education and failure to industrialize (Bateman and Weiss, 1977). In addition, we can untangle "access to trade" data to include access to oceans, access to the Great Lakes, and access to navigable rivers. Lynching may also pick up institutions arising from settler origin. Column three suggests that lynching is still negative and significant after controlling for investment in education, manufacturing capital per worker, and access to navigable waterways.[6]

Finally, we can include two other proxies for institutions. The first is the year that the state was admitted to the union, or in the case of the Confederate States, re-admitted to the union. This should provide us with a measure of the "newness" of a region's institutions and the degree to which it is a "frontier economy" with disorganized institutions. As lynching is also an important aspect of the legacy of slavery, we can include the percentage of the population in slavery in 1860.[7] The coefficient on lynching falls by approximately one-third, but it is still significant at the 10% level. Interpreting the coefficients is complicated by the relative infrequency of lynching as well as manipulation to admit interpretation as quasi-elasticities, but these estimates suggest that the quality of late 19th century institutions is partially to blame for low southern

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[5] "Cooling degree days" is defined as "the number of days in which the average air temperature rose above 65 degrees F times the number of degrees on those days which the average daily air temperature exceeded 65 over the year." These data are discussed in Mitchener & McLean (2003:103).
[6] Data for 1880 are used to capture the "endowment" characteristic of human and manufacturing capital at the end of Reconstruction.
[7] Data on slavery are more statistically informative than data on lynching in some simpler models.

productivity. Even in large models with alternative proxies for institutions, the coefficient on black lynching retains its statistical properties.

V. Concluding Remarks

The results reported in this essay suggest an important institutional legacy of slavery, war, and reconstruction. In conjunction with sharp reductions in the region's store of productive assets, the uncertainty associated with poorly defined, poorly enforced property rights and the extent to which people were willing to engage in predatory, destructive violence reduced southern labor productivity.

This study also suggests fruitful directions for additional research. We may round out the argument by examining the relationship between institutions and aspects of southern poverty like education, the persistence of an agricultural society, and other factors. There was a massive decrease in lynching between 1900-1920, coincident with relative increase in southern incomes, largely unexplored. Tolnay & Beck (1995) give three reasons for the change, which have been heretofore unexplored: the effect of the New Deal on southern whites, a new anti-lynching press, and an increase in the number of radio-dispatched patrols. Toward the end of the lynching era, newspapers and politicians began to support curbs on lynching on the grounds that it reflected poorly on a region's investment climate and labor conditions. The ultimate demise of lynching has yet to be fully explored.

In summary, it appears that the extent to which people are willing to contest a new structure of nominally just property rights is an important factor determining labor productivity. "The lynching era" was a dark time in American history, but it is a fertile laboratory in which to find answers about economic change through time.

Table 1: Factors Affecting Labor Productivity, 1900

Dependent Variable: Log of price-adjusted labor productivity				
	(1)	(2)	(3)	(4)
Constant	9.26***	9.015***	7.66***	16.74***
	(0.03)	(0.10)	(0.47)	(1.71)
South Dummy	-0.46***	-0.45***	-0.21	-0.11
	(0.14)	(0.16)	(0.14)	(0.09)
Log(Black Lynch victims, 1882-1903, divided by 1900 population)	**-2908.99****	**-3129.68****	**-3108.8****	**-1933.64***
	(1228.11)	**(1410.69)**	**(1332.51)**	**(1120.77)**
Percentage of labor force in mining, 1880		1.04*	0.58	0.68*
		(0.551)	(0.46)	(0.39)
Log(cooling days/100)		0.023	0.11	0.12**
		(0.61)	(0.066)	(0.05)
Access to coastline		0.2**		
		(0.08)		
Access to navigable river			0.17**	0.14**
			(0.07)	(0.06)
Access to Great Lakes			0.20**	0.16**
			(0.086)	(0.07)
Access to Ocean			0.14	0.18**
			(0.1)	(0.07)
Capital invested in manufacturing, 1880			0.0005***	-0.0001
			(0.0002)	(0.0001)
Per-capita education expenditure, 1880			0.11**	0.13***
			(0.04)	(0.03)
English Settler Origin			-0.05	0.003
			(0.09)	(0.066)
French Settler Origin			0.06	0.004
			(0.09)	(0.07)
Spanish Settler Origin			0.14	0.21***
			(0.09)	(0.07)
Dutch Settler Origin			0.13	-0.017
			(0.09)	(0.06)
Year of admission to union (re-admission in the case of CSA)				-0.005***
				(0.001)
percentage of population in slavery, 1860				-0.81*
				(0.45)
Cross-sections	47	46	45	45
R-Square	0.68	0.7	0.85	0.92
Adj. R-Square	0.66	0.66	0.79	0.89

White's heteroskedacity-consistent standard errors.
Standard Errors in Parentheses.
*-Denotes Significance at 10% level
**-Denotes Significance at 5% level
***-Denotes Significance at 1% level
Average Soldier mortality used to instrument for lynching, following Mitchener & McLean.
Variables adjusted with price deflators in Johnston & Williamson (2004)
Per-capita education expenditure is from Connolly (2004), adjusted for migration.

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