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Chapter Title: Two Explanations of Economic Progress

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1 Two Explanations of Economic Progress

The difference in economic status between blacks and whites is one of the most pressing social issues in the contemporary United States. The interrelations among race, schooling, and labor market outcomes are important factors behind these differences. By placing these interrelations in a particular historical and geographic context, a richer understanding of the dynamics of social change and economic development can emerge. This study will focus on the American South, from the late nineteenth century until the middle of the twentieth. Significant gains in relative black status since World War Two, as measured by the black-to-white earnings ratio, contrast with a period of little change between the turn of the century and the eve of World War Two (Figure 1.1).¹ In fact, between 1900 and 1940 the black-to-white earnings ratio for adult men showed an improvement of just 3 percentage points, while in the subsequent forty years the ratio increased a dramatic 13 percentage points.² Thus, in 1940, the average annual earnings of black men were about 48 percent of those of white men, but by 1980 the earnings ratio had risen to 61 percent (Smith 1984, 695). Associated with the increase in the earnings ratio, and perhaps a better indicator of social change, is the postwar emergence of a “new” black middle class composed of persons employed in a wide variety of skilled blue-collar and white-collar occupations (Landry 1987).³

Two frameworks have been advanced to explain the initial stability and subsequent rise in the earnings ratio: a supply-side, or “human capital” model, and a demand-side, or “institutionalist” model. Proponents of the human capital model argue that the initial stability of the earnings ratio can be explained by large and persistent racial differences in the “quantity” and “quality” of schooling in the first half of the twentieth century (Smith and Welch 1979; Smith 1984; U.S. Commission on Civil Rights 1986). Black men born in the late nineteenth and early twentieth centuries completed far fewer years of schooling, on average, than did white men. In addition, the vast majority had

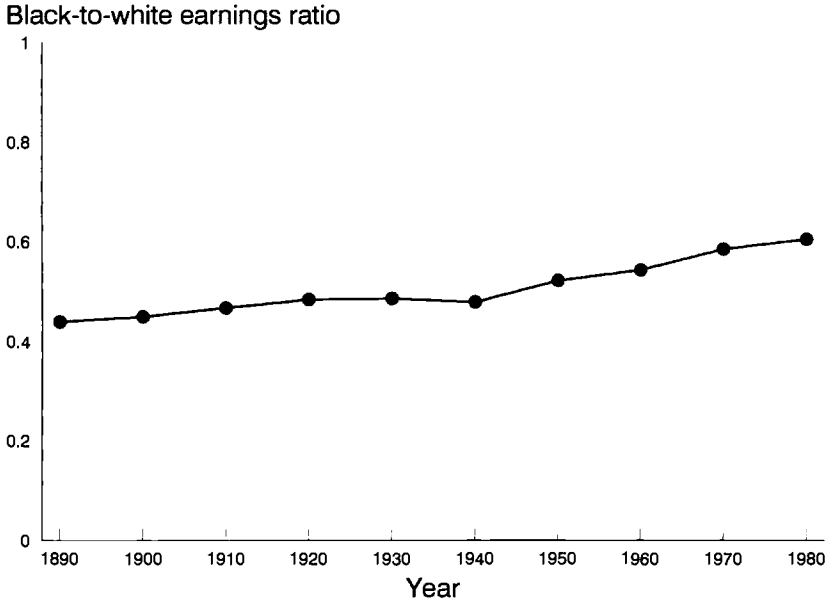


Figure 1.1 Black-to-White Earnings Ratios: Males, Ages 20 to 64

Source: Smith (1984).

attended *de jure* racially segregated public schools in the American South where the education they received was generally inferior in quality to that provided to southern whites. The combination of low educational attainment and poor educational quality made it extremely difficult for black men to compete successfully for better jobs and higher pay. Because these cohorts of black men “remained a large part of the labor force” during the first half of the twentieth century, “there was no reason to expect, on the basis of human capital factors,” an increase in the earnings ratio (Smith 1984, 696). Eventually, however, the racial schooling gap declined, as successive generations of black children achieved higher levels of educational attainment than their parents had. Once the older generations had left the labor market, replaced by younger, better-educated black men, an improvement in the earnings ratio could, and did, commence.

Institutionalists do not dispute the long-term narrowing of racial differences in schooling. But they reject the claim, implicit in the human capital model, that a narrower schooling gap in the first half of the twentieth century would have done much good in fostering black economic progress at that time. Rather, institutionalists believe that, early in the century, the majority of black men were trapped in very low income jobs, primarily in southern agriculture. The absorption of black labor into better-paying jobs in the nonfarm economy

was initially slow not because blacks were poorly educated, but because of historically determined patterns of employment segregation in the South, and because of racism and the availability of competing supplies of labor (European immigrants) in the North (Mandle 1978; Wright 1986). To speed up the process of absorption, positive “shocks” to the labor market were required, which permanently increased the nonfarm demand for black labor. During World War One the supply of immigrants was reduced and northern employers turned to southern blacks to fill their labor needs (Whatley 1990). Large increases in labor demand during World War Two again hastened the flow of black labor from the rural South.⁴ But, for a variety of reasons, wartime shocks alone were not sufficient to set in motion a large and sustained rise in the earnings ratio. Additional shocks—the civil rights movement and associated antidiscrimination legislation—were necessary. It was only after such shocks had occurred that the earnings ratio could increase and a “new” black middle class, made up of better-educated, younger cohorts, could emerge.

Research on the relative merits of the human capital and institutionalist models has been inconclusive. Smith (1984) presented national average, cohort-specific series of earnings ratios and of racial differences in average educational attainment.⁵ A regression of Smith’s earnings ratios on the racial gap in educational attainment produces a statistically significant, negative coefficient: the smaller the schooling gap, the higher the earnings ratio.⁶ Yet the relationship between the schooling gap and the earnings ratio is not very robust to minor modifications to the regression specification, which suggests that Smith’s data are not sufficiently informative to distinguish between the human capital and institutionalist models (Kiefer and Phillips 1988). Indices of relative (black-to-white) occupational status compiled by Becker (1957, 113) show an increase in the North and a decrease in the South from 1910 to 1950, which suggests that national data mask important regional differences.

In this book I will critically examine the empirical relevance of the human capital and institutionalist models during the first half of the twentieth century. My basic conclusion is that the human capital model has merit, but that an eclectic synthesis of it and the institutionalist model, along with an additional factor that I call “intergenerational drag,” does a better job of explaining the initial stability of the earnings ratio than either framework does alone. The synthesis has three parts.

1. *Human Capital*. Racial differences in educational attainment were an economically significant factor behind the initial stability in the earnings ratio. Had the racial schooling gap been smaller, more blacks would have been employed in nonfarm occupations and industries in the South and more would have migrated North. Racial differences in educational attainment were, to a significant extent, a consequence of public sector discrimination. According to constitutional doctrine, the black public schools of the American South were supposed to be “equal” in quality to the white schools, but were not. The

violations of the “separate-but-equal” doctrine hindered the educational attainment of black children and consequently their ability to enter the nonfarm economy as adults.

2. *Intergenerational Drag.* Even if the equal part of the separate-but-equal doctrine had been enforced in the southern public schools, the educational achievement of black children would have lagged behind white children, because of “family background” effects. Poverty and high rates of adult illiteracy, as much as the poor quality of the schools, kept black children out of the classroom. These family background effects, in turn, can be partly traced to educational backwardness in the nineteenth century and ultimately to slavery.

3. *Institutionalist.* Equalizing educational outcomes between the races would not have been enough to equalize earnings. Shocks to the labor market that increased the nonfarm demand for black labor were essential if earnings ratios were to start on a sustained upward path. Most of the black migration from the South cannot be accounted for by secular improvements in schooling; significant flows of black labor out of southern agriculture were associated with the world wars. Further, black men were underrepresented in the growth of nonfarm employment in the South from 1900 to 1950 because of their race, not because of inadequate schooling.

Part of the support for the synthesis rests on this book’s econometric analyses of a rich and newly available body of evidence: the public use samples of the censuses of 1900, 1910, 1940, and 1950 (Center for Studies in Demography and Ecology 1980; Population Studies Center 1989; U.S. Bureau of the Census 1983a, 1983b). The principal advantage of the public use samples is that they allow the study of racial differences at a highly disaggregated level. In addition to the public use samples, I make extensive use of the published reports of state superintendents of education of various southern states, which provide detailed race-specific data on the characteristics of southern public schools.

Methodologically the book’s analysis of labor market outcomes differs somewhat from most studies of racial differences. Such studies are frequently conducted within the framework of an *earnings function*, a regression of an individual’s earnings on various personal characteristics, such as schooling, age, and geographic location (U.S. Commission on Civil Rights 1986; Smith and Welch 1989). My approach is to focus primarily on employment categories: industry, occupation, and region.⁷ The selection of employment categories as the dependent variable is appropriate for my study, because the evidence of initial stability in the black-to-white earnings ratio is based on census data on employment categories.⁸ In any case, it is an approach partly dictated by the nature of the 1900 and 1910 public use samples which contain no information on earnings. But, even if such data were available throughout the period, I contend that analysis of employment categories yields valuable information about racial differences in labor market outcomes beyond that con-

tained in earnings data.⁹ My approach is similar to that employed by James Heckman, Richard Butler, and Brooks Payner, who recently studied racial differences in employment in South Carolina after World War Two.¹⁰ “Highly aggregated” data on black-white earnings ratios “do not isolate well-defined labor markets . . . [m]uch valuable institutional detail may be lost in the process of data aggregation . . . across diverse [economic] sectors” (Heckman and Payner 1989, 139).

Chapter 2 sets the stage by reviewing the historical evidence on racial differences in the quantity and quality of schooling in the South. Although racial differences in school attendance rates and child literacy declined over time, racial differences in the educational attainment of the adult population remained persistently large during the first half of the twentieth century. Chapters 3 and 4 are concerned with the political economy of resource allocation in *de jure* segregated schools. In Chapter 3 I demonstrate that racial differences in various indicators of the quality of schooling, such as per pupil expenditures, increased around the turn of the century and did not begin to narrow significantly until the 1940s. Chapter 4 is a study of racial differences in teacher salaries, which were a major proximate cause of racial differences in per pupil expenditures in the South. I find that, prior to World War Two, much of the difference between the wages of black and white teachers was a pure discriminatory “wedge.”

The results of Chapters 3 and 4 demonstrate that the South violated the equal part of the Supreme Court’s separate-but-equal doctrine established in *Plessy v. Ferguson* in 1896. Chapter 5 examines the impact of the violations on educational outcomes. Results from three case studies show that the violations hindered the educational achievement of black children, and thus their ability to enter the nonfarm economy. But, even had the equal part of separate-but-equal been enforced, a large part of the racial gap in educational outcomes would have remained because of family background effects. I conclude that only a radical redistribution of school resources might have compensated for these effects.

Chapters 6 and 7 are concerned with the impact of schooling on employment in the South and on migration from the South. Utilizing the public use samples, I show that schooling enhanced the probability that a black man would enter the nonfarm economy, in the South or elsewhere. But I also find that shifts of black labor out of southern agriculture cannot be explained by trends in schooling, and that black men were underrepresented in the expansion of nonfarm occupations and industries in the South because of their race. Thus, while the census samples provide support for the human capital model, demand-side factors, as described by institutionalists, were fundamentally important. A summary of my findings and their implications is contained in Chapter 8.