IDEOLOGY, GOVERNMENT, AND THE AMERICAN DILEMMA

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Abstract: This essay, written in honor of the economic historian Robert Higgs, surveys the economic history of African Americans from the end of slavery to the present day. This history, I argue, was largely one of convergence. However, convergence was not continuous but, rather, was punctuated by discontinuous changes in relative black status. Both ideology – prevailing views about race – and government played key roles in making change discontinuous.

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I.

Americans enjoy one of the highest per capita standards of living in the history of world, and no one doubts that "good institutions" have contributed mightily to this happy outcome. Private property rights are secured by a Constitution and a tradition of common law, and enforced by an independent judiciary. Elections are held at periodic and predictable intervals, and transitions of government officials are routine and generally without incident. Within the boundaries of the United States there are "common markets" in goods, currency, and factors of production. Subject to certain limitations, individuals have freedom of speech, freedom of movement, and other human rights. Government activities – taxation and the provision of public services – are divided between local, state, and federal levels, ensuring a degree of competition and experimentation. Although the overall structure of these institutions is largely fixed, their specific implementation has been, and continues to be, extraordinarily flexible.

However, the history of the United States is not without its stains, of which race is one of the most scarring and certainly, one of the most enduring. Prior to 1865, "securing private property rights" included securing the right to own another human being in certain parts of the country. Although in principle slavery could have been divorced from skin color, in practice black Africans and their descendants were overwhelmingly the enslaved and white Americans (with very few exceptions) were overwhelmingly the slave owners. Most whites, whether they were or were not slave owners, accepted (or did not challenge) the racist ideology that blacks were "inferior". An epic struggle ensued over whether slavery per se was moral, a struggle that culminated indirectly in a terrible Civil War. Although the War ended slavery, the ideology prevailed for much longer before coming under scrutiny and ultimately, change for the better.

This essay has two goals. The first is to document changes over time in the absolute and relative living standards of African-Americans, from slavery to the present. Economic historians – Robert Higgs among them -- have studied intensively the economic history of African-Americans over the past several decades, and it is their research that I survey here. The second goal is to ask how "government" affected this history, for better or for worse. Both goals are impossibly large, and much of what I have to say is necessarily broad-brushed and without nuance. But it is the big picture that I am after. This picture has several key elements.

The first is that slavery, as it was practiced in the Southern United States before the Civil War, was profitable and viable. Slaves were valuable as productive assets. Consequently, the treatment that slaves received from the slave owners, in certain material respects, compared favorably with that received by (some) free workers from employers. However, the slave system provided far fewer incentives for skill acquisition and wealth accumulation by slaves than the corresponding "free labor" system did for free workers. Under slavery there was no possibility for slaves to participate in the polity; and, it goes without saying, no freedom of movement or other constitutional rights enjoyed by free persons. The "rules of the game" permitted the economic benefits of slavery to accrue, by design, to slave owners and to consumers of the products of the slave economy, but not to the slaves. On the eve of the American Civil War there is little reason to believe, on economic grounds, that slavery was about to come to an end voluntarily, at least in the foreseeable future. Although one can imagine different histories, it was the Civil War that changed the rules of the game.

The second element is that, by and large, the economic history of African-Americans since 1865 is a history of convergence. African-Americans began the post-Emancipation phase of their shared journey in a state of utter "relative backwardness" – they were generally without artisan or managerial skills, almost completely devoid of ownership of physical capital, and almost wholly without exposure to formal schooling. In the 140-odd years since the end of the Civil War, the black-to-white ratio of per capita income has increased by a factor of three; that of wealth by a factor of seven; racial differences in educational attainment today are small compared with the gaps that existed shortly after the end of the War; and a black "middle class" comprised of workers in professional and other skilled occupations emerged. At the same time, the United States today is very far from full economic equality between the races. In relative terms African-Americans today may be better off than their counterparts were just after the Civil War, but racial gaps in income and, in particular, wealth, are still large in absolute terms.

When slavery ended the vast majority of African-Americans became economic participants in the "free market". In a truly free market a person's income at any point in time is determined by her skills or "human capital"; by ownership of physical capital; and by factor prices (wages and the returns to capital). The United States economy was not then, and certainly is not now, a free market in the pure sense. But it was (and is) enough of a free market that economic actions that blacks took as individuals in response to economic incentives were central to the process of convergence. As slaves, blacks could do relatively little to improve their lot; and, in the final analysis, were always at the mercy of their owners. As free workers, they could, and did, make decisions to invest in human capital, accumulate wealth, and – perhaps most important – move from one place to another. In doing so, they experienced gains in economic status that, in the long run, outpaced those experienced by whites.

It is possible that racial convergence after Emancipation could have occurred continuously – bit by bit, as it were, each successive generation of African-Americans acquiring more wealth, more human capital, migrating in search of better economic opportunities, and so on. In certain respects this is exactly what did happen (Higgs 1977). But, the bit-by-bit story needs to be modified by incorporating two crucial features – the persistence of the prevailing ideology, alluded to earlier, and government. These two features are the third element of my big picture.

The racist ideology that accommodated slavery – that blacks were "inferior" – certainly slowed the process of racial convergence. The belief system resulted in discrimination by whites against blacks in various ways in the private economy – for example, by refusing to sell property to black farmers or to hire black workers. Sometimes, however, the desire to "keep blacks in their place" took a back seat to the desire to make money. When this occurred racial convergence was fostered

The reigning ideology also led whites to discriminate through the public sector -- again, in varying degrees and in various ways. In the South this took the form of a dizzying array of laws that enforced racial segregation in all aspects of public life – for example, in the public schools – and by a general failure to adequately protect the private property rights of African-Americans. Discrimination in this sense was facilitated, particularly in the South, by "disenfranchisement" – preventing blacks from voting. The abrogation of black voting rights in the South took hold in the late nineteenth century and remained largely entrenched until the passage of the Voting Rights Act in the 1960s.

Just as two separate worlds, black and white, were evolving, so too were two separate economies, South and North. In the South the ideology of racial inferiority became a way of life, deeply entrenched and resistant to change. In the North the same ideology was active, but it was geared more towards residential segregation than disenfranchisement and economic subjugation. When the South emerged from the Civil War its economy was in shambles, and it remained a poor, "backward" region relative to the North for a long time after. In the immediate aftermath of the War and, indeed, for many years after, most ex-slaves and their descendants lived in the South, in spite of the ideology and the grinding poverty. Their economic fortunes were inextricably tied to those of the region, always subject to the constraints imposed by the ideology.

This historical reality created the pre-conditions for racial convergence to be discontinuous rather than continuous. Discontinuities could occur when, because of "shocks", blacks decided to move in large numbers from the South, where incomes were low, to the North, where incomes were high. Discontinuities could also occur if the prevailing ideology itself were forced to change.

As I document, there is strong evidence that a significant component of long-run racial convergence was discontinuous -- that is, it was concentrated in particular episodes of time. These episodes were four in number.

The first episode coincides with the period that historians refer to as Reconstruction, from the end of the Civil War to the late 1870s. During this episode many of the worst aspects of the ideology were temporarily held in check by the federal government's efforts to "reconstruct" the ex-Confederacy. Historical accounts of Reconstruction often emphasize how the glass was only a quarter-full (or less) – that is, how much more could (and should) have been done to ease the transition to a free labor system. One can agree that more could (and should) have been done, but the experience of other post-slave societies suggests that far less might have been done.

The second and third episodes coincide with the two World Wars. The First World War is an example of a shock-induced discontinuity. The War temporarily arrested the flow of European immigrants to Northern cities, creating a labor shortage that was exacerbated by legislative restrictions on immigration that were enacted shortly after the War. This labor shortage was eased by migration from the South, including blacks. The extent of black migration from the South between 1910 and 1920 (and into the 1920s) was far in excess of what would have been expected in the absence of World War One or the cutoff in immigration.

The Second World War was a similar, if larger shock, but it also involved the first serious attempts to change the belief system. The War, and various interventions in the economy by the federal government, altered national labor supplies and demands such that wage differentials become "compressed". In particular, differences in wages between skilled and unskilled, or more or less educated labor, declined substantially. As during World War One, blacks moved from the South to the North, but they also benefited from the wage compression, because they were less skilled, and less educated, on average, than white workers.

The ideology also began to come under attack in the 1940s. In some respects, the attack began earlier, notably in the case of school segregation at the state level. However, the role of the federal government was crucial. The first attack came in the form of an Executive Order issued by President Roosevelt that was aimed at mitigating discrimination in defense employment. It came under additional scrutiny later in the decade under President Truman, progressed further in the 1950s, and then culminated in the fourth episode during the Civil Rights Movement of the 1960s.

The ideology of racial inferiority came under attack from a great many quarters and for a great many reasons. It involved many private and many public actors acting with great personal and moral courage. The point I wish to emphasize here is that some of the public actors were politicians reacting in their self-interest. Their self-interest coincided with attacking the ideology because their political prosperity depended, in some important way, on black votes. As blacks began to move from the South to the North, particularly in the aftermath of World War Two, they began to be "swing voters". As the horror stories of Southern Jim Crow began common knowledge in the North, white sympathies in the North with the ideology were eroded. The ideology was an embarrassment internationally during the Cold War. By the 1960s, if not earlier, no person – in particular, no Southerner – seeking national office could adhere fully to the ideology in public (in private was another matter) and be elected.

In some places the system fought back hard or went underground. But, in many important public dimensions it simply gave way, first at the national level and then at the state and local level. The enactment of the Civil Rights and Voting Rights Acts at the federal level, in particular, altered the rules of the game to such an extent that the ideology could not be maintained in its previous form. As blacks began to vote, the number of elected black officials, particularly in the South, rose dramatically. At the same time, economic conditions in Northern cities began to deteriorate. Many blacks that had previously migrated from the South became disenchanted with their lives in Northern urban ghettos, and returned to the region.

The racial convergence that took place during the 1960s and early 1970s eventually slowed. While the causes of the slowdown have been much discussed, no consensus has been reached in the scholarly literature. Some scholars blame the slowdown of convergence on fundamental changes in the American economy that have reduced the demand for less-skilled labor in general, and black labor in particular. Others attribute the slowdown to various adverse developments that, allegedly, were unintended consequences of the Great Society programs of the 1960s. There is no disagreement, however, that in its grossest forms, the institutional implementation of the ideology that impinged upon African-American progress in the not-so-distant past is no longer with us. The economic challenges faced by African-Americans today are different in degree and kind.

Standard economic models of discrimination take racial prejudice as given rather than explain its origin or persistence. But beliefs must originate; they must be nurtured – as the song goes, "You must be carefully taught". Beliefs are passed on from one person to another; and supported and reinforced by behavior; which may include codification into law and other institutions. Ideology can change, and government can, and does, play a key role in changing them. The "American Dilemma" illustrates this as well, and perhaps better, than any other.

II.

At the turn of the twentieth century roughly 90 percent of African-Americans lived in the South. Per capita income in the South at the time was 51 percent of the national average (Engerman 1971). Although region was far from the only reason why black incomes at the turn of the century were less than white incomes, region certainly was a key reason.

Why was the South so poor at the turn of the century? One possibility is that it was always thus, and "always thus" was a consequence of the "Peculiar Institution" - slavery. The South was poor because slavery made it so.

The argument has a long tradition in historical circles, and reputable economics to back it up. According to this view, slave labor cannot survive for very long in competition with free labor. Free labor is modern; slave labor, archaic – the forces of "modernization" will eventually win the day. Today's apologists for the ante-bellum South like this argument because it seems to suggest that the Civil War was unnecessary. Eventually, someday, slavery would have died out on its own.

The difficulty with the argument is that the hard evidence points in the opposite direction. For nearly five decades, economic historians have been intensively studying the workings of the slave economy of the antebellum South. Some of their results seem unsurprising, but others are quite surprising indeed.

Slavery in the ante-bellum South was highly profitable (Conrad and Meyer 1958). Profitability here means simply that the rate of return on owning a slave exceeded the next best alternative investment. Given the growth and obvious prosperity of the slave economy, profitability is not so surprising.

Slavery in the ante-bellum South was also economically viable (Yasuba 1971). Viability means more than profitability; it means that it was economically rational for the system to reproduce itself.

Slavery could have been profitable, and even viable, because the slave owner, by definition, can exploit the slave economically. "Exploit" here is a technical economic term: it means that the value of the slave's economic contribution – the value of his "marginal product" – exceeded the value of his maintenance costs – food, clothing, shelter, and so on.

There is no question that exploitation in this sense occurred, but what is surprising is the amount of exploitation does not seem sufficient to account for the level of profitability. Most economic historians believe that something deeper, and much more insidious, made slavery profitable.

What made slavery profitable, according to this view, is that slave agriculture was technically more efficient that free agriculture: using the same non-labor inputs (capital, land, and so on), slave labor could produce more output per worker than free labor (Fogel and Engerman 1974, 1979). This is a finding that many scholars object to on moral grounds, because it seems to suggest that there was something good about slavery. But there was nothing good about slavery, and the finding that slave labor was technically efficient is not a statement in favor of the system.

The evidence on profitability makes it clear that slave owners benefited from slavery. What technical efficiency implies is that consumers of the products of the slave economy also benefited from the system, because these products would have been more expensive had they been produced using free labor. These consumers were scattered throughout the country, indeed all over Europe.

Technical efficiency was not a foregone conclusion. It was achieved primarily through the use of the "gang" system. The gang system was to agriculture what the factory system was to manufacturing. In gang system agriculture, tasks were highly specialized, there was much division of labor, and labor of all ages and both sexes was utilized with ruthless effectiveness. Free labor shunned the gang system: slavery was the only way to reap its rents (Fogel 1989).

The slave owner who wished to extract the full benefits of the gang system had, first, to assemble a gang – at least 15 productive slaves. The labor had to be extracted from the slaves with a delicate balance of sticks and carrots. Too much of the stick – the whip, and other punishments – and the extra profits could vanish with sabotage or merely a slowdown in work effort undetected by the slave driver or the owner. Too little of the carrot – inadequate food – and the same could occur.

None of this is meant to imply that slaves were well-treated in an absolute sense, because they were not. At best, the typical slave received an allotment of basic necessities that, on average, was roughly comparable to that received by poor, unskilled free labor (Fogel and Engerman 1974). But slave labor was seriously disadvantaged in other ways (Fogel 1989).

Slave labor was almost wholly illiterate labor. This was, of course, true of some free labor at the time, but rates of illiteracy among slaves were vastly higher than corresponding rates among free labor. Merely teaching a slave to read or write was a crime. The literate slave was feared for one, simple reason – he could revolt.

Slave labor was generally unskilled labor. There has been a long-run dispute over the precise level of skills embodied in the slave population. The debate persists because it is clear that black labor was grossly under-represented in skilled and professional occupations at the end of the nineteenth century. The issue is whether the under-representation was a product of slavery or of a later era. But even the most optimistic estimates clearly imply that most adult male slaves, in particular, held unskilled occupations, chiefly in agriculture.

Slave labor was dirt poor. Most slaves, except in a very limited sense, possessed no private property, and had little or no means to accumulate any – and, it goes without saying, pass on property to their descendants, who were slaves at birth.

While slavery generated benefits for slave owners and consumers of the products of the slave economy, it did little economically for the slaves. It was extremely difficult for a slave to accumulate human capital or physical wealth. The hallmark of the antebellum economy was a high rate of geographic and occupational mobility among free labor. Free labor could, and did, migrate where the returns to labor were highest (Margo 2000). Slave owners moved, or sold, their chattel to capture higher returns, but these returns did not accrue to the slave.

Lastly, and most importantly, there is no evidence that slavery would have died out on economic grounds on the eve of the American Civil War. Indeed, the tenacity of the South in resisting the abolitionist movement, and the fierceness of its resistance to the Union Army, is testament to the economic importance of slavery. On the eve of the Civil

War, most southerners were not slave owners, but many who were not were willing to die to preserve the "Southern way of life"—which, at the time, included slavery -- for current and future generations of white Southerners.

III.

The Civil War ended in 1865 and with it the enforced slavery of millions of African-Americans. Measuring the extent and timing of racial convergence since Emancipation is difficult. Not until 1940 did the federal census include a question in incomes. The censuses of 1850, 1860, and 1870 did include questions on wealth, but there were no similar questions in subsequent censuses. Enough evidence survives, however, to piece together to a reasonably reliable and reasonably complete picture of change over time.

Estimates of per capita black incomes in the immediate aftermath of the Civil War have been made by Robert Higgs (1977). Higgs' estimates are based primarily on contemporaneous reports of agricultural incomes. According to Higgs, the black-white income ratio in the immediate aftermath of the Civil War – was approximately 0.25.

The low level of the black-white income ratio in the immediate aftermath of the Civil War is not very surprising. As noted in the previous section, the typical ex-slave was illiterate and had very few occupational skills. The American economy of 1870 was not yet one in which educated labor played a large role, but it was an economy that nevertheless paid a wage premium for literate, educated labor and it was an economy which paid a wage premium for skilled labor. But these are not the only factors that affected the wage ratio just after the Civil War.

The South experienced a sharp decline in per capita income after the Civil War, one of the few instances of such declines in American history, outside of the Great Depression (Engerman 1971; Goldin 1979). This decline was manifested in a sharp reduction in nominal and real wages in South, absolutely and relative to nominal and real wages outside the region (Margo, forthcoming). This decline was a consequence of a number of factors, chief among them a decline in labor demand. The gang system, which had elevated labor productivity in Southern agriculture before the War (on the backs of slave workers) disappeared after the War. Output per worker fell sharply in agriculture, one manifestation of which was a decline in wages. The vast majority of blacks in 1870 were ex-slaves living in rural areas of the South, engaged in agricultural activity. However, the majority of whites were not. Another reasons why the black-white income ratio was so low in, 1870, then, was because so many blacks remained in the South, an issue that I will return to later in the chapter.

Racial income convergence has occurred since the end of the Civil War. The most recently available estimate of the black-white per capita income ratio by the United States Census Bureau, for 2001, is 0.62.[1]

Wealth differences have also converged between blacks and whites over the long haul. As just noted, the 1870 recorded major elements of personal and real wealth. These data refer to gross, not net wealth (that is, they are not adjusted for debt holdings), and the 1870 census is widely believed to have been one of the poorer in quality of the nineteenth century. According to these data, the black-white wealth ratio in 1870 was a

[1] Computed from Table P.3 in www.census.gov/hhes/income/histinc.

scant 0.025 – that is, for every dollar of wealth held by whites, blacks held 2.5 cents (Pope 2000). The vast majority of adult black men listed in the census reported that they owned no wealth at all.

Today, the Federal Reserve periodically conducts household-level surveys of wealth. Here, the data pertain to net worth (assets minus liabilities) which can, of course, be negative (unlike gross wealth). The Federal Reserve data are far more comprehensive than those collected in the nineteenth century, and the scientific sampling methods ensure that the sample statistics – for example, medians or averages – are the best available estimates of population parameters. According to the most recent analysis of such data, the black-white wealth ratio in the mid-1990s was 0.16, approximately a seven-fold increase since 1870 (Wolff 1998).

Racial convergence in education has also occurred in the long run. Data on "years of schooling" or "highest grade completed" were first collected in 1940. It is possible to use the 1940 data to "back-cast" estimates of racial differences in schooling for the nineteenth century, but this entails assuming that elderly persons (for example, someone born in 1860) who survived until 1940 was representative of their birth cohort.

The 1870 census, however, collected data on literacy for persons aged ten and over. These, like nearly all census data, were self-reported. There exists survey evidence that suggests that, on average, exposure to a limited amount of formal schooling – as little as one to two years – was sufficient for a person to declare themselves "literate" to the census taker. The opposite, therefore – illiteracy – can be taken as an indicator of very little or no formal schooling.

In 1870, 13 percent of whites aged 10 and over nationwide reported themselves as illiterate. This figure was higher in the South, but even in the South, the overwhelming majority of whites were literate. Not so, however, among African-Americans: nationally, the black illiteracy rate was 81 percent. The national rate for blacks was virtually the same as the rate for the South (83 percent), because the overwhelming majority of blacks in 1870 lived in the South.

The census no longer collects data on literacy, having substituted a question on educational attainment in 1940. These data have been periodically modified since 1940, and are not really comparable to the literacy data. However, while blacks still lag behind whites in educational attainment, there is no question that the gap is vastly smaller than existed in the past century.[2] These data do not adjust for "school quality" and there is widespread belief that the quality of schooling received by African-Americans falls short, on average, of the quality received by whites. However, the same was true in the past, and thus adjusting for school quality would not alter the conclusion that racial differences in educational attainment have narrowed substantially since 1870.

In sum, a variety of evidence, including much that I have not surveyed here, points to long-term convergence in economic outcomes between blacks and whites. Nonetheless, we live in a county in which racial gaps in income, wealth, and other measures of economic "success" are still very large in absolute terms. Measured in terms of equality, rather than convergence, the most has been achieved in schooling, and the least in wealth, with income in between.

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[2] According to the March 2002 Current Population Survey, 79 percent of black men over the age of 25 held high school or higher degrees, compared with 89 percent of whites; see www.census.gov.

Indeed, while proportionately more convergence took place in wealth than income, the fact remains that the racial wealth gap today is extremely large. Why this is so is currently a topic of considerable interest among economists and other social scientists. Racial differences in income, rates of return, and demographic factors play a role, but much of the difference appears to be due to a lesser rate of intergenerational transfers among blacks as well as racial differences in portfolio structure (Blau and Graham 1990).

IV.

In the preceding section I showed that long-term racial convergence in income, education, and wealth has occurred since the end of the Civil War. But I did not consider whether the convergence that took place did so continuously, or episodically – that is, in spurts.

In "theory" convergence might have taken place continuously. The theory here is quite simple. Under slavery, blacks faced extraordinary difficulty accumulating human capital and physical wealth. This left them under-endowed with both types of capital at the end of the Civil War. With slavery gone, the economic fortunes of blacks were tied to the market economy, and the market paid positive returns to human capital and physical wealth. Ex-slaves, therefore, had especially strong incentives to acquire wealth, human and non-human – incentives that, at the margin, almost certainly exceeded those of whites. Moreover, blacks no longer faced the virtually binding constraints on upward mobility that slavery imposed upon them. Provided that rates of return to these activities did not differ fundamentally by race, convergence would take place – indeed, until equality was achieved.

Even under this ideal scenario, convergence would not have happened over night, because the required investment was huge. Absent the ability to borrow, the opportunity cost of investing in physical capital is today's consumption. Investment in human capital, takes time, and the opportunity cost of time spent investing in human capital is time spent working, which also translates directly into today's consumption. But convergence would nevertheless have been steady.

There are reasons to question the "steady as it goes" story on *a priori* grounds. For example, the American economy has always been beset by ups and downs – the business cycle. Typically, the poor bear the brunt when the economy turns sour. Periodic recessions, in other words, must have slowed the convergence process – and, indeed, there is good evidence this was so for the post-World War II period as well as the biggest downturn of them all, the Great Depression. But the upside of a recession is a boom, and during a boom, the economic prospects of lower income workers would get a boost. But these are movements around a trend, not the trend itself. And the trend – convergence – is positive. Business cycle shifts in relative black economic fortunes cannot be the full story of long-term convergence.

A much deeper qualification is that the "free market" does not exist independently of the institutions that support it, notably, those associated with the definition and protection of private property. Wealth accumulation means little if wealth can be easily stolen or destroyed, and victims unable to procure justice or recover damages. Human capital accumulation means little if individuals are at daily risk of bodily harm. The responsibility for defining and ensuring the protection of private property rests primarily, if not exclusively, with the public sector. A governmental failure to adequately protect life, limb, and physical property of individuals dampens their incentives to invest, and in the limit, might thwart economic growth altogether.

A second, equally deep qualification is that the ideology of black inferiority impinged upon the process of convergence. In one of the standard economic models of discrimination, one group – the "majority" – is said to have "tastes for discrimination" or prejudice against another group, the "minority" (Becker 1957). These tastes generally will differ across members of the majority – some may be without prejudice, others may be rabidly biased. If members of the majority group act upon their prejudices, certain "gains from trade" between the two groups will not be realized. The extent of the deadweight loss depends on, among other factors, the precise distribution of prejudice across the majority. If the discrimination is severe enough, convergence will be slowed considerably and perhaps stopped altogether.

The gains from trade just spoken of refer to private market transactions. But "government" can be harnessed in support of the majority's prejudices. If, motivated by prejudice, a member of the majority commits a criminal act against a member of the minority – a whipping, for example – and no action is taken against the perpetrator, the government has failed to protect private property rights. Government might outlaw certain types of exchanges between the two groups – for example, marriage, or residential integration – that again, can result in so-called "deadweight losses". One can also imagine a model of government discrimination in which the government imposes taxes on the minority, and redistributes the proceeds to majority (Margo 1991)

Then, as now, the United States was made up of governments at several levels, and the ability of any one of them to discriminate was partly dependent on the actions of other governments at the same level (if any), and whether higher level of governments (if any) constrained the behavior of lower levels of governments. What other governments at the same level do matters if members of the minority group are mobile across jurisdictional boundaries, and if "voting with one's feet" imposes costs on the majority (Margo 1991). Today, a local government could never impose a law that discriminated against blacks for purely racial purposes (that is, motivated by racial animus) simply because such a law would be deemed unconstitutional, either by a state or federal court, on its face, and the court order would be enforced. But this was not the case historically (see below).

Most directly, the ability to harness the government to discriminate is contingent on the majority's political clout relative to the minority. If the minority can vote, and their votes in the aggregate matter enough to the political support of the government, the majority may fail in its quest. Disenfranchisement of the minority is neither a necessary nor sufficient condition for government discrimination to exist. It is not a necessary condition because the votes may not matter to the government, and there may be insufficient safeguards elsewhere to prevent the discrimination from taking place. It is not a sufficient condition because certain types of discrimination might impose economic harm on the majority in excess of whatever the majority gains in satisfaction from seeing its prejudices exercised; or, if the discrimination is imposed at lower level, and there are members of the minority less prejudiced (or without prejudice) elsewhere, and these engage a higher level of government to stop the discrimination by the lower level government. These caveats are important in theory as well as in fact; however, there is no question that disenfranchisement can facilitate government discrimination if the other fundamentals are in place.

Slavery did not survive the Civil War, but the ideology of black inferiority that justified slavery in the eyes of slaveholders (and many who were not) certainly did. Indeed, it would have suited former slaveholders just fine if the Peculiar Institution could have somehow been reconstituted after the War in its essential elements, and blacks "kept in their place". But it was interest of the Union to see the ex-Confederacy "Reconstructed". Without question, blacks benefited from Reconstruction, most importantly, with the ratification of the Fourteenth Amendment to the Constitution (in 1868) and the establishment of public schools for black children in the South after the War.

This is far from saying that Reconstruction was an unmitigated blessing for blacks (Foner 1988). Clearly, more could have been done – for example, some measure of land redistribution ("forty acres and a mule") might have gone a long ways toward rectifying the terrible wealth deficit after the War. However, it is also possible that less could have been done. The history of other post-slave societies suggests that this alternative scenario is not far-fetched (Engerman, Haber, and Sokoloff 2000).

Reconstruction formally ended in 1877 but the processes it put in place continued for some time thereafter and, in the case of schools, were permanent. There is clear evidence of racial convergence in wealth from 1870 to shortly after the turn of the century. This evidence comes from reports conducted by state authorities in various southern states that divided up taxable wealth by race. These reports show that taxable wealth per adult black male increased more rapidly than among whites, with one exception (Higgs 1982; Margo 1984). For example, in Georgia in 1880, the black-white ratio of per capita (taxable) wealth stood at 0.028 – 2.8 cents of taxable wealth per black person for every dollar held by whites. By 1910, the ratio was 0.063 (Higgs 1982). This evidence is complemented by other data from census reports documenting substantial growth in the proportion of black farmers who were owner-operators by the turn of the century (Higgs 1977).

Even more impressive is the substantial reduction in black illiteracy rates that occurred after 1870. This reduction shows up most dramatically among post-Civil War birth cohorts, the first to have widespread access to formal schooling. Hence the point made earlier – if public schools for blacks had not been a key component of the effort to reconstruct the South, black illiteracy rates would have continued to be astronomical for a long time after the War (Collins and Margo 2003).

In the aftermath of Reconstruction the South underwent a major detour in its racial politics. In particular, beginning in the 1880s in some states and largely complete by the early twentieth century, a number of southern states effectively disenfranchised the black population along with many poor whites (Kousser 1974). The disenfranchisement era was also associated with rise of "Jim Crow", the legislative embodiment of segregation (Woodward 1955). Taken to absurd lengths, segregation infected every nook and cranny of Southern life.

The disfranchisement era also witnessed a substantial deterioration in the relative amount of resources provided to black schools in the South (Margo 1990). Prior to disenfranchisement, there was a rough sort of racial equality to the schools, but once disenfranchisement took hold, resources per black pupil relative to resources per white pupil took a dive.

The rise of Jim Crow also coincided with a general deterioration in the security of black property rights. Nothing illustrates this better than the extraordinary cruelty of Southern lynch mobs, who imposed their own form of punishment on black men rather then let the justice system run its course. Newspaper and other accounts record thousands of black men who met their makers at the hands of such mobs. The exact number will never be known.

To avoid summary justice, or a beating, or a burning cross, blacks in the South had to follow a code of behavior that acquiesced to the ideology of inferiority. Even this might not be enough, so it paid to have a powerful white as a patron. We are now so far from this era, and this type of society that it is difficult to comprehend – impossible, really, for a white person – the kind of day-to-day accommodations in behavior that blacks had to make just to survive.

The combination of disfranchisement, Jim Crow, and increased educational discrimination appears to have slowed the pace of racial convergence in incomes to a crawl prior to World War One. As I have noted several times already, the South was very poor at the turn of the century (Wright 1986). Blacks who desired a better life and who remained in the South faced a difficult, if not exactly impossible, uphill battle.

One of the more puzzling features of African-American history is the continued presence of large numbers of blacks in the South after the Civil War, especially after their political fortunes took a turn for the worse. Why didn't more blacks leave the South, especially since there appear to have been substantial gains in real incomes?

This is a question that economic historians have written about for years, and there are many answers on the table. One answer claims that a "North Atlantic labor market" developed during the nineteenth century, in which the Northern United States and Western Europe participated. As the North continued to industrialize, it drew its manufacturing workers from the pool of available talent in this labor market. The South might have joined, too, but it was busy – first defending slavery, and secondly, fighting its own battles during Reconstruction. Once the labor market was established, according to this story, it was difficult for outsiders to break in, unless some type of shock occurred (Wright 1986)

Another story points out that migrants from the South, black or white, tended to be much better educated than those who stayed behind. The South lagged substantially behind the rest of the nation in education. This story suggests that, over time, more blacks should have left the South, as convergence in schooling took place. There is clear evidence of this in the census data, but there is also clear evidence of the importance of shock-induced migration (Margo 1990; Collins 1997).

The first shock was World War One. During the war the demand for manufacturing labor in the North increased, but the usual supply of European immigrants was interrupted. The interruption subsided at war's end, but Congress followed with the implementation of quotas in 1924. Blacks migrated to take advantage during the interruption. Once the flow started, it appears to have sustained itself. Most of the migration was to select cities, and in these cities black "ghettos" emerged. Some cities erupted in race riots (such as St. Louis), initiated by whites angry over the black influx.

It is difficult to prove directly that the shock-induced migration of World War One led to discontinuous change in black-white income ratios because the requisite data are lacking. But the circumstantial evidence is strong, because southern wages were far lower than northern wages, and the evidence of a discontinuous jump in black migration from the South is compelling (Collins 1997).

World War Two was another shock, far bigger in size and in its long run implications than was World War One. Large numbers of blacks left the rural South (as did whites), settling in Southern cities, or more often than not, cities outside the region, including many who moved to the far West. Here, the evidence for discontinuous change in migration is very strong, as is the evidence of discontinuous convergence in incomes. Indeed, virtually all of the convergence in black-white income differences that occurred after 1940 occurred in two periods, one of which was the 1940s (Donohue and Heckman 1991).

The 1940s witnessed the "Great Compression", a substantial reduction in the degree of wage inequality, manifested by a decline in the returns to schooling and a narrowing of wage differentials between skilled and unskilled occupations (Goldin and Margo 1992). Blacks benefited disproportionately from the Great Compression because at its start (1940) there were disproportionately low-wage workers (Margo 1995). The Compression had many causes, but among them was direct intervention by the Federal Government in the form of wage controls. Shifts in wartime demand also favored low-wage labor, as did shifts in labor supply (that is, the draft). Unlike a similar compression during World War On, that of the 1940s remained in place largely intact well after the

War ended, and thus the gains experienced by blacks due to the compression were sustained as well.

The 1940s also witnessed an important attack by the Federal Government on the ideology of racial inferiority. It is true that the ideology had already been under attack from many quarters prior to the 1940s but the Federal role was significant: only the Federal Government possessed the ability, in principle, to enforce implementation of anti-discrimination regulations on a nationwide basis. In 1943, Franklin Roosevelt issued an "executive order" barring discrimination in defense hiring. At the same time an agency was set up, the Fair Employment Practices Committee. The FEPC did not have the ability to punish violators by, say, putting them in jail or with fines, but they could conduct hearings, which could bring adverse publicity. Recent work by the economic historian William Collins (2001) has shown that, contrary to received wisdom, the FEPC was effective in getting blacks hired in defense industries. These employment gains were sustained after the War, and, because these industries paid above-average wages, were important in generating the disproportionate wage gains experienced by blacks in the 1940s.

As more blacks moved to the North, they were able to exact more political pressure on government to intervene on their behalf. State governments began to pass "fair employment laws". These laws do not seem to have had much effect, but they nevertheless created important precedents for national legislation (Collins 2003). Blacks in Northern cities became important "swing voters" in national elections. It is no accident that Harry Truman, who benefited from such swing votes in the 1948 election, was a proponent of anti-discrimination legislation. But significant change at the national level was held up for many years in the Senate by senators from the South, who opposed racial change, particularly in matters of integration.

The attack on the ideology of racial inferiority continued in the 1950s. In 1954, the Supreme Court ruled that "separate-but-equal" public schools were unconstitutional, the culmination of a long series of court battles and social activism. The order of the court was, however, to be implemented with "all deliberate speed" because the white South was very far from ready to accept integration from above.

The emergence of a Civil Rights Movement in the 1950s, which reached a zenith with the March on Washington in 1963, and Martin Luther King's "I Have a Dream Speech" coincided with the national ascendancy of the political career of Lyndon Johnson. Johnson wanted the presidency, but knew by the late 1940s that he could never be elected if he toed the strict segregationist party line – by that time, he would never win enough votes outside the South. He first achieved passage of federal civil rights legislation in 1957 while in the Senate, but his crowning achievements were as president with the passage of the Civil Rights Act in 1964, and the Voting Rights Act in 1965. In an executive order issued in 1965, Johnson also establishment the principle of "affirmative action", whose implementation has been a subject of controversy ever since.

Did the sea change in the federal government's role make a difference? Recent work by the labor economists John Donohue and James Heckman strongly suggest that it did. Donohue and Heckman (1991) show that, at the national level, the period from 1963 to 1975 coincided with a substantial convergence in black-white income ratios. Upon further scrutiny, however, it is clear that most of the convergence occurred in the South. Donohue and Heckman point out that much of the initial enforcement of federal anti-discrimination legislation was targeted at the South; even so, however, the extent of the enforcement seems relatively puny compared with the apparent gains experienced by blacks.

Donohue and Heckman resolve the puzzle in two ways. First, at least some elements in Southern white society wanted to change, including many in business. Racism gave the South a bad image in the rest of the country, and in the rest of the world, and a bad image was bad for business. In public, the external impetus to change was deeply resented by many in the region but cooler heads realized that the change served a useful purpose.

Second, Johnson's executive order had perfect timing. During the post-World War Two period the South received a disproportionate share of defense spending. Defense spending, by its very nature, is federal contracting. Heckman and Payner (1989) examine the specific case of the South Carolina textile industry. The industry labor force was virtually entirely white, and had been for decades, but this was hardly true of the state. Yet the industry suddenly began to hire black workers after 1965. Nothing had changed, except for the executive order and the fact that many firms in the industry were federal contractors during the Vietnam War. In the late 1960s racism no longer paid, and black-white income differences narrowed accordingly.

The changes in the 1960s were, with hindsight, unprecedented, but they did not come fast enough nor complete enough to satisfy many African-Americans. An incredible number of American cities erupted in race riots in the 1960s, many after the assassination of Martin Luther King in April of 1968. A recent econometric analysis suggests that the riots had negative effects on black labor market outcomes (Collins and Margo 2004).

The dramatic convergence associated with the Civil Rights Era slowed in the mid-1970s. Beginning in the late 1970s and picking up steam during the Reagan Administration, an ensuing debate in the courts over affirmative action and other federal anti-discrimination efforts did not lead to the reversal of the policies, but there is no question that their reach has been circumscribed. The opportunities the emerged in the wake of the Civil Rights Movement have been seized by upon by many blacks eager for economic advancement, and their fruits can be seen in all walks of American life. But those who have been left behind are also visible, in the form of high crime rates in inner cities, drug-related violence, and unemployment (Wilson 1987). These problems are exacerbated further by the continued high levels of residential segregation in many American cities (Cutler and Glaeser 1997). Black incomes have also been adversely affected by increasing wage inequality in the labor market, whose origins rest with skill-biased technical change and declines in the demand for manufacturing labor.

V.

In 1944 the Swedish economist Gunnar Myrdal published his monumental two volume study, The American Dilemma: The Negro Problem and American Democracy. Page after page of Myrdal's work recounted the consequences of racism and the profound paradoxes that racism raised in light of the Constitution. How could a country committed to the ideals expressed in the Constitution tolerate the abuses of human rights that black Americans faced, day in and day out?

Racism still exists but its grossest, vilest forms, so evident to Myrdal, have been banished from American public life. African-Americans today still have lower incomes and far less wealth and are more often unemployed than their white counterparts; their life expectancies are lower; they have more health problems; more stress. These differences are a still a challenge for the United States. The American dilemma is not over.

Yet there has unquestionably been change for the better, over the long sweep of American history since Emancipation. We have had convergence at all, first and foremost, because slavery was abolished, and because during the immediate aftermath of slavery, a variety of safeguards put in place and enforced by the federal government, took hold.

But government has been a fickle partner in the process of racial convergence. It was the institutions of American government in the first place that maintained slavery for as long as it existed. It is, of course, possible that a peaceful solution – peaceful emancipation, perhaps with compensation to slave owners – might have been worked out, but there is no reason to believe, on economic grounds, that slavery would have died out peacefully on the eve of the American Civil War.

In the aftermath of slavery the federal government maintained its presence in the South for a while, but eventually it left, where African-Americans soon faced the brunt of the region's racism. Geographic mobility – the market – offered some protection against discrimination and exploitation, but there is no question that, in the South, the government was an ally to whites who wished to keep blacks "in their place". Around the turn of the century the disenfranchisement movement in the South effectively banished blacks from the electorate. Segregation became a way of life in the South, a way of life that many in the region were extremely reluctant to give up, to the point of violence.

Although blacks began to leave the South as soon as they were able, the flow was never very large until the two World Wars greatly speeded up the process of out-migration. Black migrants faced a great many challenges in the urban North, but at least they had the benefit of higher incomes. As black communities were established in Northern cities, the political landscape began to change, and black votes became valuable as swing votes. Black political clout increased over time, receiving another boost with the passage of federal voting rights legislation in the 1960s, part of a wave of federal anti-discrimination legislation in the 1960s. This legislation unquestionably improved the lives of many African-Americans, and the timing of the legislation coincides with an episode of convergence in incomes. But, while some racial gaps now seem quite small, others still are very large, notably in wealth.

The fickleness of the government was not random. Government was, and is, a conduit for the public expression of the prevailing ideology of race in American society. When the prevailing ideology favored racial discrimination, it was in the interest of many politicians to accommodate the ideology. When the prevailing ideology changed, so did the incentives of politicians. Nevertheless, while public expressions of racism by politicians, once very common, are no longer permissible in American public life, America is still a country with a large racial divide in private. There are signs of a thaw

– for example, in rates of intermarriage – but true racial integration in the United States is far off in the future, if ever.

I began this essay by noting that, in comparison with most countries through the history of the world, "good government" has been a hallmark of American history. But, by its very nature, government is coercion. Americans have not been immune to the temptations of using the coercive powers of the state for immoral ends. Change was often very slow in coming, and there were many reversals but, in the final analysis, the racist ideology that accommodated slavery and that festered in its aftermath gave way.

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