DO MARKETS REWARD CONSTITUTIONAL REFORM? LESSONS FROM AMERICA'S STATE DEBT CRISIS

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Abstract

Can a sovereign lower its borrowing costs by adopting institutional constraints that reduce payment uncertainty? Previous analyses use case studies involving one sovereign. This approach makes it difficult to infer causality. In this paper, however, I use America's 1840s state debt crisis to analyze how markets respond to institutional innovations designed to promote credibility. To the extent that repayment could not be forced and because most state debts were held abroad, state debts can be thought of as sovereign. This presents a unique opportunity to analyze constitutional reform across a panel of sovereigns, which is a setting better suited for drawing causal inference.

Between 1820 and 1841 state debts increased by a factor of thirteen as states borrowed to finance railroads, canals, and banks. This era of profligate borrowing came to an end in 1842 as eight states and the territory of Florida defaulted on their debts. Following these defaults, sixteen states adopted constitutional provisions constraining their ability to tax, borrow, and charter corporations. Using a difference-in-differences methodology, I find that defaulting states were rewarded with lower borrowing costs and increased access to credit after adopting constitutional constraints, but I find no effect for states that did not default. Assets issued by defaulting states appreciated by 13% following reform and debt per capita was $15 higher for defaulting states that adopted constitutional reforms (relative to defaulting states that did not adopt reforms). These results cannot be explained by underlying trends, and I find no evidence that defaulting states adopted a different set of reforms than non-defaulting states. I find some evidence, however, that party politics interacted with the market response but only for defaulting states. Historically, the Democratic Party controlled Indiana and Illinois – the two states that benefited the most from adopting reforms. Democrat control might have allowed the state to adopt stricter constraints, a broader set of reforms, or it might have signaled the stability of the new constitution.

These results indicate that sovereigns with tarnished reputations can benefit from adopting constitutional constraints to signal their commitment to a set of policies. Why did reform only benefit defaulting states? Non-defaulting states avoided default by quickly levying adequate taxes. New York, for instance, suspended its projects and reinstated its property tax. The measures non-defaulting states employed to avoid default established their commitment to debt repayment. Therefore, for these states, the act of reform did not convey new information.

Local Economic Impacts of Coal Mining in the U.S. 1870 to 1970

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Abstract

Mining and the exploitation of natural resources has long been seen as a mixed blessing for the development of an economic area. Many studies have attempted to understand the economic consequences of natural resource extraction. The cyclical boom and bust nature to mining activity, where exploitation might be followed by community abandonment over a long period of time, has been experienced on multiple occasions in the U.S. since 1870. Community building happened quickly in many areas where mining occurred, but determining the consequences of the activity requires a long run analysis where conditions are viewed many years and decades later. A longer term analysis that spans multiple boom and bust cycles and accounts for the cumulative amount of mining activity in the area over a long time period should capture any economic impacts on local communities from mining activity which may take years or decades to surface.

The goal of this paper is to understand the socio-economic welfare and economic consequences of communities with mining activity in the United States from 1870 to 1970 and will analyze short and long run changes to local economies due to the boom and bust nature of extracting natural resources. Did mining industries provide broad economic benefits to local communities such as increased employment or incomes in non-mining sectors? What were the long term socio-economic consequences on local communities who historically engaged in mining activity? This paper will attempt to expand upon the current resource curse literature by using long term county level data in the U.S., which will capture short and long run impacts by creating not only current measures of mining activity but also lagged and cumulative measures over various time periods. In order to accomplish the goal of this paper it was necessary to collect and compile a long run panel database of county level coal mining production from 1870 to 1970 for the entire U.S. The preliminary results of the paper provide evidence that increased levels of coal production significantly decreased U.S. county level population from 1900 to 1970 and that increased levels of coal production had a negative short and long term net impact on county level manufacturing employment from 1900 to 1970.

Migrant Self-Selection: Anthropometric Evidence from the Mass Migration of Italians to the United States, 1907-1925

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Abstract

Are migrants positively or negatively self-selected from within their populations of origin? We study this fundamental and persistent question of the economics of migration using data on one of the largest flows of free migration ever – that of Italians to the United States between 1907 and 1925. We exploit never-before-used stature data in the Ellis Island arrival records – from which we transcribed the heights and other personal information of a random sample of 50,000 Italian passengers – combined with Italian province-birth cohort height distributions and our own geo-matching of millions of Italian passengers to their places of origin in order to construct a novel data set for our analysis. Relying on the well-established relationship between population average stature and living standards, we quantify migrant self-selection by comparing the heights of migrants to the height distributions of their respective birth cohorts in their provinces of origin.

Our analysis reveals opposite patterns of self-selection across and within Italian provinces. Italian migrants were shorter, on average, than all Italians of the same birth cohort, suggesting negative self-selection on the national level. However, when compared only to the distribution of stature in their own provinces of origin, we find that Italian passengers were, on average, taller, indicating positive self-selection on the local level. Moreover, we find that the degree of self-selection from a province and birth cohort was decreasing in its average stature, suggesting that less-developed province-cohorts, where liquidity constraints to migration were more likely to bind, provided relatively higher quality migrants. The findings of this research demonstrate the importance of distinguishing between self-selection from a country as a whole and self-selection from within a particular sub-national region. Comparisons of migrants to their national-level origins, which are the norm in the literature on migrant self-selection, may fail to capture a significant portion of the self-selection occurring within a group of potential migrants from a particular sub-national region.

Sovereign Default in Ireland, 1932

Nathan Foley-Fisher and Eoin McLaughlin

Extended Abstract

When a nation state dissolves, a key question is how fiscal liabilities will be apportioned. Seceding regions typically must negotiate the division of the existing fiscal burden. In addition to sharing onus for outstanding sovereign bonds, negotiations may encompass other pecuniary and non-pecuniary liabilities, such as state pensions, the boundary of regional independence, and reparations for costs incurred during the path to independence. Unsurprisingly then, little is known about the economics of ascribing fiscal responsibility within a disintegrating state. Some insight may be obtained by carefully studying historical precedents for regional secession. In our paper, we study the quasi-experiment of Ireland's secession from the United Kingdom at the beginning of the twentieth century. Our historical case is especially useful because fiscal responsibility was determined well before independence and negotiations surrounding the debt were relatively transparent. In particular, we exploit structural differences in the bonds used to implement land reform in Ireland, so-called 'land bonds'. Some of these land bonds were guaranteed by the British government, while others were guaranteed by the Irish government. We interpret the yield spread on land bonds over British government bonds as a combination of farmers' default risk and government default risk. We calculate the spreads by computing current yields weighted by the nominal amounts outstanding, using Dublin Stock Exchange records from 1900 to 1938. We interpret common movements in the spreads of both British-guaranteed and Irish-guaranteed land bonds as changes in farmer's default risk. Crucially, idiosyncratic shifts in the spreads identify changes in perceived uncertainty about government default risk.

To evaluate which historical events were important to market perceptions of the sovereign guarantees, we agnostically search for long-lasting structural breaks in our time-series of yield spreads. First, we find a decline in the spread on British-guaranteed land bonds that roughly coincides with the signing of the Anglo-Irish Treaty. More importantly, we detect another significant break coinciding with the Irish government's decision to no longer make annuity transfers to the British government. In response to the Irish default, the British government instructed its Treasury to continue making interest and principal repayments, so no bond holders suffered any loss. Once the British government demonstrated that it would deliver on its guarantee, the risk premium (spread) on the land bonds it had guaranteed fell to about zero. Our findings are consistent with persistent ambiguity about fiscal responsibility well beyond the establishment of the Irish Free State. Until it was clearly demonstrated where sovereign liabilities would fall, the spread between the British guaranteed land bonds and other long-term British government debt remained positive. Indeed, the spread fell to zero only when the guarantee was actually tested and was proven good. Thus, the main lesson of our paper for modern-day states that are eyeing dissolution is that uncertainty about the allocation of fiscal responsibility may last a long time and may raise the cost of borrowing, even when efforts have been made to allocate liabilities clearly.

Finding the Fat: The Relative Impact of Budget Fluctuations on African-American Schools

Richard Baker

Abstract

Despite the prevailing doctrine of "separate but equal," it is well known that African-American schools in the South were substantially inferior in quality to white schools during the early twentieth century (Collins and Margo 2006). Additionally, it has been demonstrated that school boards diverted to whites funds that were appropriated for the education of African Americans after their "disfranchisement" (Kousser 1980; Margo 1982, 1990; Pritchett 1985). However, very little is known about how these school boards reacted to changes in their budgetary environment. To further illuminate how school boards made funding decisions with regard to race in the early twentieth-century South, this paper considers the following questions: When faced with budget cuts, or surpluses, how were funds reallocated? And in particular, in times of budget distress, did school boards cannibalize the quality of African-American schools to prop up white schools? Or, was there simply no fat to be found in African-American school budgets?

To answer these questions, I examine how school boards responded to exogenous shocks to their budgets. Specifically, I exploit a funding discontinuity resulting from the rules regarding the apportionment of the State School Fund of Georgia. The law required that the State School Fund be distributed to the counties in proportion to the school-age population of each county. However, the official figures for the school-age population were infrequently updated in Georgia. A census of the school-age population was conducted every five years by law beginning in 1888. Thus, apportionments from the School Fund changed discretely at five-year intervals. My identification strategy is a regression discontinuity approach since the actual school-age population likely changes only slightly from year to year but the official school-age population may show large changes in adjustment years.

Given that the electorate was predominately white, it might be expected that budget cuts would be met disproportionately with reductions in expenditures on schooling for African Americans. However, such a finding would run counter to the view that African-American schools were already kept at some minimally acceptable level of quality. As Margo (1982) points out, school boards had an incentive to spend as little as possible on the education of African Americans. If this was the case, then expenditures on African-American schools should be relatively unaffected by county-level budget shocks.

I begin by analyzing the impact of budget shocks on overall expenditures at the county level. The results reveal that a reduction in state appropriations caused a decrease in total expenditures approximately dollar for dollar. Additionally, I show that instructional expenditures are the most sensitive to funding discontinuities, which is not surprising as they account for more than half of county school board expenditures in early twentieth-century Georgia. I then test for differential changes in expenditures by race in response to budget shocks, finding that whites, rather than African Americans, bore the brunt of budget cuts. This suggests that there was little fat to trim from the budgets of African-American schools.

THE IMPACT OF MIGRATION ON INFANT HEALTH: EVIDENCE FROM THE GREAT MIGRATION

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Extended Abstract

The Great Migration of African Americans from the rural South to the urban North entailed a significant change in the health environment during a time when access to medical care and public health infrastructure became increasingly important. We create a new dataset that links individual infant death certificates to parental characteristics to assess the impact of migration to Northern cities on infant mortality. The new dataset allows the paper's key innovation, which is to control for selection into migration and detailed parental characteristics. Given that infant health has a long-lasting impact on adult outcomes, the results shed light on whether and how the Great Migration contributed to African Americans' secular gains in health and income during the 20th century.

The Great Migration's impact on the health of migrants has been relatively unexplored despite the intense interest in the wide and persistent racial disparities in longevity over the course of the 20th century. It is an open question whether the Great Migration contributed to or hindered black economic progress on the dimension of infant mortality. The urban North and rural South provided radically different health environments for children. Consequently, the impact on the health of the second-generation is potentially large. As the Great Migration is one of the most prominent events of African-American history in the 20th century, its contribution to the racial health gap, for both infant mortality and later life health, is an important aspect, and has not yet received much attention because of data availability.

The main contribution of this paper is to estimate the causal impact of migration on infant mortality rates using a newly collected set of individual level microdata of infant mortality linked to parental characteristics. We combine a count of deaths under one-year of age from infant death certificates with a count of survivors on April 1st from the decennial censuses. A wealth of parental characteristics are then added by linking observations to the decennial census. The census provides information on parental literacy, age, homeownership, industry, and occupation, which can be used to assign earnings. For analyses using 1940 data, the census provides educational attainment and income.

The main estimate we are interested in is the treatment effect of migration. To start, we consider the OLS linear probability regression with an indicator for infant death. Controlling for year fixed effects, infants of southern-born parents living in the North are 2.3 percentage points *more* likely to die in the first year of life. We find no evidence of positive selection into migration based on innate infant health capital. However, migrants experience better birth outcomes relative to northern-born blacks, who are 2.8 percentage points more likely to have a birth end in death within a year. In fact, in the absence of northern-born blacks higher levels of education the southern mortality advantage would be even larger.

Archomania: Venality and Private Finances
on the Eve of the French Revolution

Rui Esteves (University of Oxford)

Abstract

The sale of public offices is an instance of what Krueger (1974) calls competitive rent-seeking, i.e. the creation of rents through government restrictions of economic activity and for which people can compete through legal or illegal means, such as bribery or corruption. The sale of offices is sometimes identified as a marker of widespread corruption. However, this association only became established with the French Revolution. Prior to 1789, venality of public office could be better described as a form of legitimized rent-seeking, as legal and as open as today's trade in taxi plates or in stockbrokers' seats. In the history of venality, France takes a prominent place as the country where the practice was at it most pervasive before the creation of modern bureaucracies in the Weberian sense (Ertman 1997).

This paper focuses on the last two decades of the institution in France, a period when venality attracted almost unanimous criticism and yet remained a popular form of investment. The motivation for this paper is the introduction in 1771 of a 1% tax (centième) levied on the official value of offices. Offices were created and sold for an official value, which deviated from market prices through time, as e.g. a bond or stock. The most important aim of the 1771 law was to update the tax base to account for over a century of price inflation. Rather than imposing an arbitrary rise, the law left to the officeholders "the liberty to fix themselves the values" of their charges. A tax levied on a base chosen by the taxpayers is not a common event in fiscal history. But the interest of the centième lies less in its oddity than in what it reveals about a key institution of the *Ancien Régime*.

Two particulars of French law counteracted the obvious incentive for undervaluation. Offices were callable assets, which the king could extinguish by reimbursing the owners at the official value. Consequently, if officers fixed very low values they faced the possibility that the king would call their offices and resell them at the (higher) market prices. But the new law not only forced officeholders to fix the call price but also forbade them from selling their charges in the future for a price above their valuations. If believed, this additional disposition forced officers to lock in their expectations of capital gains.

These particulars almost converted the tax into a direct revelation mechanism. Despite that, the historiographical consensus is that officers undervalued their charges in 1771 by a third or even half (Doyle 1996). In the paper we question this interpretation on the grounds of dubious evidence and propose an empirical method to reveal the officers expectations about the exercise of the call and, consequently, the degree of undervaluation of their tax declarations. Preliminary results suggest that up to two thirds of officers did not undervalue their charges, which both reverses the common wisdom and underscores the success of the crown at forcing officers to reveal the private value of their offices.

American Colonial Incomes 1650-1774

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Abstract

We have constructed a social table for 1774, one which offers estimates of average incomes by occupation, gender, race, slave/free status, urban/rural location, the four colonial zones (New England, Middle Colonies, Upper South, Lower South), and original 13 aggregates. This incomes benchmark and another for 1800 have been published recently (Lindert and Williamson September 2013) where they were used to assess the economic disaster 1774-1800. Instead of looking forward from 1774, this paper will look backward across the colonial era using evidence documenting trends in wages, wealth, and farm income to extend that 1774 benchmark back to 1650. Our estimates are the first to be constructed from the income side, while the only others are constructed from the production side (called 'controlled conjectures'). We now know that in 1774 average American incomes per household were significantly higher than in Britain, and that incomes per capita were about the same. Was the American income advantage bigger or smaller in 1700 or even 1650? We also now know that American incomes were much more equally distributed in 1774 than those in England and perhaps anywhere else on the planet, even when slaves are included. Was the same true of 1700 or 1675 when, on the one hand, slaves were a much smaller share of the colonial population, but on the other hand, urban and coastal regions were a larger share of the total? What was driving colonial incomes between 1650 and 1774? Was it productivity or was it something else? What role did demography play, given that natural fertility and child dependency rates were much higher than in Europe and even in the contemporary Third World? What influence did the fast settlement of the interior (ruralization) play where a constant (but high) subsistence dragged down aggregate colonial per capita income growth? What role did foreign markets play, at least to influence the economic performance of the coastal staples-exporting areas? Commodity export prices are typically much more volatile than manufactured goods and services, creating uncertain investment conditions which suppress growth. Was the same true for rice and indigo in the Lower South, tobacco in the Upper South, wheat in the Middle Colonies, and fish in New England? And did American colonial net barter terms of trade rise along some commodity price boom in the Atlantic economy? If so, in which colonies did it rise the most? This paper intends to answer all of these questions.

Reference: Lindert, Peter H. and Jeffrey G. Williamson. 2013. "American Incomes Before and After the Revolution," *Journal of Economic History* 73, 3 (September): 1-40.

"The Dust Was Long in Settling": Human Capital and the Lasting Impact of the American Dust Bowl

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Abstract

I use variation in childhood exposure to the Dust Bowl, an environmental shock to health and income in the 1930s US Great Plains, as a natural experiment to explain variation in adult human capital. Testing for the effects of agriculture-dependence, patriarchal culture and institutions, developmental stage at impact, and public spending responses, allows me to identify the channels through with the Dust Bowl had greatest adverse effect. Through this analysis, I show that the Dust Bowl had meaningful long-term health and human capital costs for those exposed as children. For women, fertility and college completion rates fell, while poverty rates rose. For men, age at marriage fell, while poverty rates, welfare receipts, and disability rates rose. These results are robust to a variety of controls and checks including those for possible confounding effects of the Great Depression, interstate migration, and fertility and mortality selection.

Notably, the adverse effects on the preceding outcomes were most severe for those exposed *in utero* and in early childhood, implicating an income or indirect health pathway (that is, poor prenatal nutrition and health, and through it, disrupted capability development) rather than a direct one (e.g. dust inhalation or school absence) in the production of these impacts. Dependence on agriculture exacerbates these effects, suggesting that the Dust Bowl was most damaging via the destruction of farming livelihoods. This collapse of farm incomes, however, had the positive effect of reducing demand for child farm labor and thus decreasing the opportunity costs of secondary schooling. For all exposed, but especially for women, high school completion rates rose. These impacts, in contrast to the adverse impacts discussed above, were greatest amongst children in late childhood and early adolescence, when the tradeoff between child farm labor and formal schooling likely dictated time use. Thus, when farms declined, as indicated both by the secondary literature and by the income-pathway effects shown here among the agriculture-dependent, the opportunity cost of schooling likely fell, prompting increased high school attendance but not college attendance, where cognitive ability—which suffered as a result of Dust Bowl exposure—was a barrier to entry.

Results on patriarchal and farm-dependent states suggest that households made human capital investments that primarily compensated for rather than reinforced poor initial endowments. Similarly, New Deal and related public expenditure are found to have attenuated the Dust Bowl's adverse effects. The results presented here represent an important contribution to our understanding of the impacts of the Dust Bowl; namely, they show quantitatively that exposed children suffered long-term and economically meaningful damage to health and human capital; that there is a role for compensating investments in mitigating environmental insults to health, although to be effective, these should take into account the imperfect inter-temporal substitutability of human capital investments; and that economic shocks can have as large an effect on health as shocks directly targeting health.. This study also offers policy-relevant findings, for example, adding to the literature urging intervention in child labor as a means of boosting schooling, and substantiating the hypothesis that college-readiness is largely determined in very early childhood and suggesting that postsecondary educational interventions should be targeted accordingly.

Variations in price and quality of grain, 1750-1914: quantitative evidence and empirical implications.

Liam Brunt (NHH – Norwegian School of Economics) and **Edmund Cannon** (University of Bristol)

Abstract

Brunt and Cannon (2013) argue that interpretation of historic grain price data is hazardous owing to systematic variation in grain quality – both cross sectionally and over varying time horizons (intra-year, inter-year and long run). We quantify these four aspects of quality variation in England, 1750-1914. First, we show that grain quality is approximated by bushel weight. We then show that cross sectional and long run variation are substantial and problematic, possibly generating erroneous inference regarding market integration and cost of living changes. We examine international quality differentials and plot their changes over time. By contrast, intra-year and inter-year variation are relatively small and may be controlled for more easily.

Health Height and the Household: England and Wales at the Turn of the 20th Century

Roy Bailey (University of Essex) **Tim Hatton** (University of Essex)
Kris Inwood (University of Guelph).

Abstract

We examine the health and height of men born in England and Wales in the 1890s who enlisted in the army at the time of the First World War. We take the heights of a sample of servicemen and use other information from the army service records to find the recruits as children in the 1901 census. Econometric results indicate that adult height was negatively related to the number of children in the household as well as to the share of earners, the degree of crowding, and positively to socioeconomic class. Adding the characteristics of the local registration district has little effect on the household-level effects. But local conditions were important, in particular the industrial character of the district, local housing conditions and the female illiteracy rate. We interpret these as representing the negative effect on height of the local disease environment. The results suggest that changing conditions at both household and locality levels contributed to the increase in height and health in the following decades.

The Economic Payoff of Name Americanization

Costanza Biavaschi_ Corrado Giulietti, and Zahra Siddique

Abstract

Most Americans have heard stories of migrant ancestors Americanizing their names in the early half of the twentieth century. However, such anecdotes are typically stored solely in familial memories, with no study having measured the extent and implications of name Americanization. Yet name Americanization is a key dimension of Americanization itself, the process by which immigrants strive to assimilate into American society. The importance of first names has long been stressed by sociologists (Lieberson, 2000), and it could serve as a crucial marker to understand the returns and tradeoffs from Americanization. In this paper, we provide the first evidence on the economic consequences of the Americanization of first names during a pivotal period in American history.

We devote much of our analysis to verifying that the positive impact of name Americanization on occupational upgrading represents a credible causal effect and is not driven by observable and unobservable differences across migrants. We account for characteristics that are often unavailable, even in modern data sets, allowing us to control for time varying socio-demographic traits as well as nationality-specific and local labor market-specific time trends. More importantly, we examine the causal effect of changing names by exploiting the longitudinal nature of our data and using an instrumental variable approach. We instrument name Americanization with an index based on Scrabble points, which captures the degree of linguistic complexity of names upon arrival compared to the linguistic complexity of names at destination.

To understand the link between name Americanization and labor market outcomes we have digitalized a novel data set in which we can observe an entire random sample of migrants who completed their naturalization papers by 1930 in New York City. We are able to follow the full set of individuals over time, due to the nature of the naturalization process and documentation procedure, which required migrants to first file a declaration and later a petition for naturalization. By exploiting this two-step procedure we obtain information on name Americanization and a wide range of migrant characteristics at different points in time, allowing us to examine economic outcomes following name Americanization. This strategy differs from the common methodology used in constructing historical panel data, which, resorting to record linkage based on name and age, only delivers partial matching and does not allow the detection of name changes.

To our knowledge, only two studies have looked at name changes, both focusing on renouncing surnames. The first analysis relates names to gender identity, focusing on women who decide to keep their maiden name instead of acquiring their husband's surname upon marriage (Goldin and Shim, 2004). While this work analyzes surname choice rather than its effect on outcomes, it provides compelling evidence on reversion to the custom of taking the husband's name during the second half of the twentieth century. More importantly, it documents the existence of a negative correlation between surname changes and skills. The second analysis looks at the effect of surname changes made by immigrants from Asian and Slavic countries living in Sweden in the 1990s (Arai and Thoursie, 2009). In this context, in which 0.4% of migrants changed surnames, fixed-effects estimates show a substantial increase in earnings. The authors conclude that this result is likely driven by reduced labor market discrimination associated with having a Swedish-sounding surname. The scant literature on this topic is the result of a scarcity of data sets containing sufficient information to empirically test whether changing names improves economic outcomes. Furthermore, in a historical setting like ours, nailing the consequences of name Americanization is particularly challenging due to the non-availability of longitudinal data sources together with difficulties in tackling endogenous name choices. Our data and estimation techniques overcome such limitations, contributing to a better understanding of the pressures migrants faced to conform to American norms.