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One Giant Leap: Emancipation and Aggregate Economic Gains

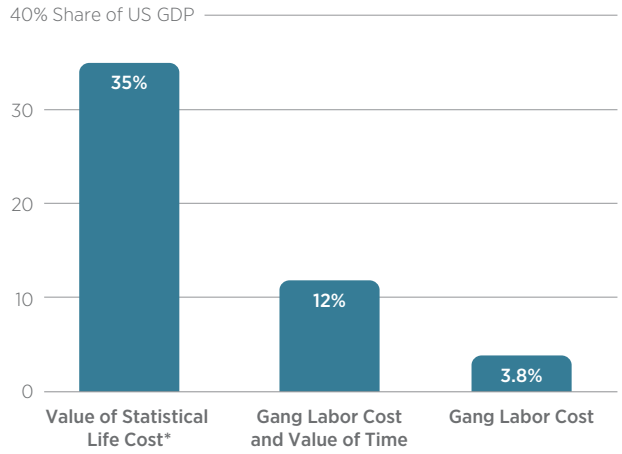
Based on BFI Working Paper No. 2023-134, "One Giant Leap: Emancipation and Aggregate Economic Gains," by Richard Hornbeck, University of Chicago, and Trevon Logan, The Ohio State University

The emancipation of enslaved people in the United States, following the Civil War of 1861-65, generated aggregate economic gains worth the equivalent of a 4% to 35% increase in US aggregate productivity (7 to 60 years of technological innovation). Emancipation decreased output, but sparked dramatic aggregate economic gains by decreasing costs substantially more.

Was US slavery "economically productive" because it employed the "efficiency" of markets to allocate labor without impediments from worker agency and, thus, achieved higher levels of output per worker? And was not this productivity reflected in the wealth generated for enslavers and others who benefitted from slavery? Of course, these questions are removed from the moral and ethical issues related to slavery as an economic system, and such humanitarian concerns take precedence over a slaver's bank account. That said, these and related economic questions persist in the literature, with researchers largely finding in favor of US slavery as productive and efficient, if morally repugnant.

This new work challenges this conventional wisdom by focusing not only on the benefits to enslavers and the slavery economy, but also centering the costs imposed on enslaved people. Viewed from this perspective, US slavery was economically inefficient. Why? Because the value extracted by enslavers—from enslaved people—was substantially less than the costs imposed on enslaved people. Slavery was not only theft, but inefficient theft; not only a moral failure, but a market failure.

Figure 1 · Aggregate Economic Gains from Emancipation, Alternative Scenarios



Note: *Value of Statistical Life (VSL) is a holistic measure associated with people's valuation of mortality risk. In this case, VSL is calculated as 150 times annual income per capita ($40), annualized at 7% interest.

The costs of enslavement are inherently difficult to quantify, which leads the authors to consider a wide range of quantitative estimates. They calculate that emancipation generated aggregate economic gains worth the equivalent of a 4% to 35% increase in US aggregate productivity (7 to

60 years of technological innovation in the 19th century). While emancipation decreased output, it sparked dramatic aggregate economic gains by decreasing costs substantially more. In economics lingo, this is reflective of a severe misallocation of resources, in this case human capital, or the labor of the enslaved, because people were coerced into work that was produced much less value than the costs those people incurred.

Before taking a closer look at these estimates, it is useful to note that there were 4 million enslaved people in the United States on the eve of the Civil War, 13% of the total population, meaning that unleashing that misallocated labor would have potentially substantial effects (especially given how inefficiently US slavery employed enslaved people). How can we estimate the economic gains of emancipation when freedom means so much more than allocating labor efficiently, but also includes freedom from the myriad human debasements that were part of slavery? The horrors of American chattel slavery were not hypothetical, the authors remind us, so difficulties in measuring this cost should not preclude its consideration. Such calculations could include the needed wage premium to compensate people for working under the gang labor system, the value of their time, and other aspects of enslavement.

Rather than attempt to quantify all costs of particular aspects of slavery, the authors report estimates that draw on a more holistic measure associated with people's valuation of mortality risk, or the "value of statistical life" (VSL), which reflects a characterization of slavery as "social death." VSL is substantially larger than the market value of enslaved people. Put another way and to repeat from above: slavery was market failure in the extreme because these costs imposed on the enslaved greatly exceed the economic value extracted by enslavers.

Readers are encouraged to view the full working paper for details and historical context (including previous research), but following are some of the authors' estimates, briefly noted:

- Emancipation generated aggregate economic gains worth 7 to 60 years of technological innovation in the 19th century.

- The authors' smallest estimated gains, worth 4% of GDP, imply aggregate economic gains from emancipation that exceed earlier estimates of the aggregate economic gains from the railroads, while their larger estimates, worth 35% of GDP, imply aggregate economic gains from emancipation that exceed much larger gains from the railroads when allowing for misallocation. Railroads generated large gains by increasing production that was inefficiently low; emancipation generated large gains by decreasing production that was inefficiently high.

- Even if enslaved people had received 100% of what they produced, that compensation would be substantially less than the costs of slavery incurred by enslaved people.

The bottom line is that this work reveals a new fact of American history: emancipation led to the single greatest annual increase in aggregate economic surplus, by far, in American history. Importantly, beyond setting the historic/economic record straight, this work addresses the fundamental meaning of economic success. That is, if the moral failure of slavery was indeed an economic success, it would cast doubt on the very value of economic success. Slavery would have been morally wrong even if it were an economic success, but American society did not face such a tradeoff: emancipation eliminated a private source of wealth for some, but sparked dramatic aggregate economic gains in the United States.

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