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Property Rights and History: A Report of the Meetings of the Economic History Association

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« Le mot 'proprieté', c'est bien un trompeur », said Marc Bloch, a long time ago. Well, American economic historians have fully grasped the nettle. The central theme of the latest meeting of their association, held at Wilmington, Delaware, in late September, 1972, was that of property rights among economists in questions of property and the growing literature on the problems of slavery and land tenure systems which bear on the property issue.[1] The Wilmington sessions produced a dozen or so papers in this area. In a short report such as this, one can only hope to summarize some of the papers.

The first paper, « The Property Right Paradigm », by Armen Alchian and Harold Demsetz, was a profoundly ahistorical effort, though it set the main theme of the meetings. Alchian and Demsetz argued that societies have adopted different property systems to cope with the problem of scarce resources. Property rights, they maintain, affect the allocation and use of resources in special ways. The absence of property rights in a resource will lead to its overuse; air pollution and the over-fishing of lakes are favorite examples. Societies have evolved rights in the use of a resource to overcome

1 See, for example, STEVEN CHEUNG, *Private Property Rights and Sharecropping*, « Journal of Political Economy », December, 1968; H. DEMSETZ, *Toward a Theory of Property Rights*, « American Economic Review », May 1967; E. DOMAR, *The Cause of Slavery or Serfdom*, « Journal of Economic History », March 1970; D. NORTH and R. P. THOMAS, *The Rise and Fall of the Manorial System, A Theoretical Model*, « Journal of Economic History », December 1971.

these problems. In primitive societies, communal rights were the norm. In a system of communal ownership the cost of an individual's use of the scarce resource is difficult to measure (the communal hunter may not act as if he or she knows the cost of depletion) and incentives to work may be distorted (if slain animals are communal property, incentives to hunt may be reduced). Failing to establish individual property rights society will evolve towards « a more centrally regulated or indoctrinated society ». Giving a new twist to the Mandevillian fable, the authors concluded that private property rights represent a public good because they encourage consideration of « social costs ». The identification of private rights with anti-social behavior they found « mischievous ».

The study of property rights and their role in economic change has not been prominent in the work of economic historians during the past fifty years. It has been largely dominated by critics of the capitalist system who have argued that the state has been historically subservient to the interests of a dominant economic class which has controlled the distribution of property through wars, revolutions, etc. Alchian and Demsetz maintain that the redistribution of rights to resources are often the result of peaceful exchange, and changes in rights to resources have both distributive and efficiency effects. These aspects deserve greater historical study.

The second paper of the introductory sesssion was a stimulating foray by R. M. Hartwell into British economic historiography. Hartwell found the old British economic history from 1850 to 1910 (EH I) more modern in content and method than more recent work in economic history (EH II, 1910-1965, and EH III, 1965). The older history, Hartwell maintained, showed a greater interest in the conditions of freedom and restraint, especially in legal institutions controlling property rights and individual action. EH I showed a much stronger belief in the uses of historical analysis in understanding social processes and participated much more actively in the great socio-economic debates of the time, particularly in those concerning the role of the state in economic life. Hartwell's paper was short but careful in its mapping of the two epochs of British economic historiography and recalled the distinguished work of Thorold Rogers, Toynbee, Ashley, Cunningham, and others in property rights and economy. One regrets Hartwell's failure to explain the transition from the earlier to the later school of economic history. To the extent that Hartwell dealt with the problem, he suggested that the transformation was the result of the narrower time perspectives of the more recent school (e.g., The Industrial Revolution) as compared with the long-term growth preoccupations of the older economic history. One would have liked some explanation, however, of the intellectual, social and political roots of this changing perspective! The paper offered nevertheless an excellent typology of British economic historiography.

The second session of the conference was devoted to the problem of slavery viewed from the perspective of property rights in man. S. Engerman's report, « Some Considerations Relating to Property Rights in Man », was concerned with the particular mix of factors that lay behind the rise and fall of slavery as an economic system. Engerman raised the question as to the benefits and costs of slave labor to the potential slaveholder. The most important benefits of slavery according to Engerman resulted from the slave being paid less than his incremental product, longer hours of work, gains from higher labor force participation, and economies of scale accruing from the larger work force in plantation agriculture — larger than under a free-market system. Southern slaveholders, he observed, were sober profit maximizing capitalists, not spendthrift in either their consumption or accumulation of slave labor.

Evsey Domar has recently suggested that the existence of « free » land gave landowners a strong incentive to impose slavery or serfdom. The idea is that landowners were moved to limit the mobility of workers in order to make their land produce an income. Engerman found much that was unsatisfactory in this notion. Shifting the emphasis to the possibility of a surplus income, in the presence or absence of « free » land, he pointed out that the higher the land-labor ratio, the greater would be the probable costs of imposing slavery or serfdom. He objected to the idea that slavery and serfdom decline as population growth reduces the land-labor ratio to a level of subsistence wages. This may have occurred under the Roman Empire but it certainly did not fit the American case. Indeed, southern slavery was a profitable and vigorous enterprise before the Civil War.

An alternative economic model of the demise of slavery might note owner gains through manumission by slave purchases, but here too Engerman is sceptical. The existence of freed labor might well raise the costs of enforcing the slave condition on the remaining bondsmen. Furthermore, if slaves are a racially distinct group and the non-slave classes are racist, the gains of manumission to the slaves might be quite limited.

Slavery, Engerman concluded, was a highly complex phenomenon requiring more complicated models than those presently available. And, in order to explain its rise and fall, one would need to incorporate social, political, moral and economical factors.

Claudia Goldin's, « The Economics of Emancipation », was a speculative paper, very much in the spirit of the « new economic history ». Goldin demonstrated that the Civil War (1861-1865) cost far more in terms of resources than the cost of any plausible abolition scheme. She computed the cost of the Civil War at roughly 10 billion pre-Civil War dollars and estimated that the cost of a fully compensatory abolition scheme would have freed all slaves by 1890 at 400 million pre-Civil War dollars. The difference

she attributed to the huge deadweight loss caused by the war in terms of foregone consumption streams of the one million casualties. The Civil War she concluded was fought for reasons at least to some extent exclusive of differences over slave labor.

Arcadius Kahan's illuminating paper dealt with serfdom — the traditional European form of property rights in man. The new economic history, he felt, had not yet arrived at a satisfactory economic explanation of serfdom. Kahan admitted the analogy with slavery at the outset, but did not press it. Medieval lords, he pointed out, fitted behavioral patterns quite different from the antebellum southern slaveowners, and the application of modern efficiency criteria of slaveowners was not relevant to serfdom. In essence, recent work on serfdom oversimplified a complex phenomenon. The agreement between lord and serf was not a free, contractual agreement. He stressed the fact that serfdom was permeated at different levels by monopoly-type restrictions, which shaped it distinctively. Most importantly « monopolistic discipline » among the lords helped to deter serf mobility and kept down serf incomes. Kahan believed that important characteristics — such as rent payments, importance of cash crops and degree of serf mobility — have yet to be incorporated in a comprehensive model of serfdom. In a final comment, he criticized the popular assumption that serfdom was reintroduced in Eastern Europe after the Black Death. The process of enserfment proceeded, for historical reasons, more slowly in Eastern Europe than in the West between the thirteenth and fifteenth centuries. The spectacular expansion of serfdom in Eastern Europe in the sixteenth and seventeenth centuries was prompted by a high land-labor ratio, the growth of Western European demand for grain from the Baltic Region and the increased price of grains in Europe during the « price revolution ».

The third session of the conference was concerned with property rights in land and labor in the post-Civil War South. Primary attention was given to the mechanisms for discrimination in the market economy and the economic basis of land-tenure systems, in particular, sharecropping. The paper by Joseph J. Reid, Jr. on sharecropping made the most use of primary sources. From extensive study of landlord-tenant contracts in North Carolina, Reid argued that post-bellum sharecropping in the South was an efficient system of agriculture. His findings are in conflict with traditional views on sharecropping going back to Smith and Marshall, the essential argument being that sharecropping leads to the application of less-than-optimal amount of labor offered per holding. Reid's contribution was to point out that Southern sharecropping contracts not only stipulated the shares of output accruing to owner and tenant but also the crops to be sown and the amount of tenant labor to be employed, thereby preventing the sub-optimal offering of labor which was presumed to characterize the pure sharecropping agreement. Sharecropping, however, was not the only system of tenure practised in the

South. What explained the coexistence of different tenure systems? Reid maintained that each tenured arrangement reflected differing risk spreads. Sharecropping was not simply a matter of race control and exploitation. Owner-cultivation placed all the risk on the landlord, sharecropping divided the risk in proportion to the shares, renting placed most of the risk on the tenant. Different tenure systems reflected differences in aggregate risk which, in turn, were based on the degree of co-interest of landlord and worker/tenant in continuous adjustment to new information. In sum, given his assumptions of competition and the neutrality of the state with regard to land-holding assignments, Reid has effectively disposed of the *classical* arguments for sub-optimal allocation in share-cropping in the *post-bellum* South. A corollary of Reid's results is that the traditional racist explanation of the sharecropping system is of less than all-embracing importance.

Robert Higgs' paper on « Race, Tenure and Resource Allocation », was also concerned with « making sense » of Southern agriculture. Higgs attempted to demonstrate that the main economic function of sharecropping was risk-dispersion and that sharecropping was in large part explained by regional differences in the variance of crop yields. Starting with data which shows that average receipts under share-cropping were greater than the value of fixed rents on comparable land, he assumed that both tenants and landlords were risk-averse, and argued that the greater the risk of fluctuation in yield, the greater the proportion of land cultivated under sharecropping contracts. The idea was tested econometrically with 1910 data. The results suggested that resources were allocated according to conditions of risk, that racial discrimination had a relatively small direct influence in the determination of farm size or in the division of farm rental contracts between fixed rent and sharecropping systems. Higgs concluded that the market tended to treat blacks like any other group without skills or capital. Competition and the profit motive, by making discrimination « costly », will shake it out of the economic system in the long run. Thus, like Reid, Higgs assumed that the allocation of educational resources was racially unbiased and that markets for labor, land, capital, and information involved no elements of monopoly power, backed by violence, which allowed discriminatory behavior.

Ransom and Sutch in their study « The Economic Impact of Racism in a Market Economy », claimed that « racism had a profound and lasting effect in the face of competitive market pressures ». In the immediate *post-bellum* period former slaveowners had an extremely low opinion of black labor productivity which encouraged them to retain the scale and workgang organization of the former slave plantation with its high degree of direct control over work processes and the intensity and duration of labor. As blacks found the old system intolerable, at the low wages owners were prepared to pay, the plantation system disintegrated. Random and Sutch looked to recent

analysis of market signalling as developed by Kenneth Arrow and others to analyze the factors that lay behind the evolution of the tenure system. Employers incur a cost to find out the productivity of a prospective worker. The more precise the information required, the higher the cost involved. When the cost seems excessive, the employer may see readily identifiable « signals » such as race, or sex, or age to arrive at a decision, when such characteristics are highly correlated with current productivity. In applying this theory to the *post-bellum* South, Random and Sutch maintained that employers and prospective sellers used « signals » against blacks, with the result that not even the most able and educated blacks were able to purchase land in many instances. The number of blacks who successfully managed a farm immediately after emancipation was sufficiently small for a seller to act according to a race « signal ». Similarly, owners were reluctant to hand over land to blacks at a fixed rent, an arrangement which would permit them to arrange their labor according to their own preferences. Instead, they insisted on the detailed sharecropping contracts. The signalling device operated to perpetuate the blacks' initial poor circumstances because blacks learned that the racist market did not reward them for better than average productivity and hence were not encouraged to improve themselves, while the white landlord was not encouraged to inquire further into the black's abilities because it was costly. The « signal » theory carried Ransom and Sutch quite far, but they also argued that intimidation and violence let to discrimination against blacks. Even willing sellers were prevented from catering to blacks.

The fourth session of the conference dealt with institutional change in early modern Europe. In his studies of Russian economic history, Alexander Gerschenkron more than once mentioned the 1905 work of Tarlé, « Was Russia Under Catherine a Modern Country »? This work, which replied in the affirmative to its title, enjoyed a revival in the early days of the Soviet regime, but Gerschenkron's concern was to give the notion of eighteenth-century Russian modernity a well-earned rest. Jan de Vries posed a similar question regarding the Dutch Republic. Others have been puzzled by the institutions of the republic and the vigor of its trade and cities in the sixteenth and seventeenth centuries, and the stagnation and comparatively late industrialization of the later period. De Vries put the « modernity » of the Republic in perspective. His main point was that the Dutch Republic was only lightly influenced by the feudal restrictions which characterized neighboring regions and, at a very early period, exhibited modern property forms. De Vries suggested that the reasons for this unique pattern were the regional specialization in livestock herding, the resulting development of a monetized exchange economy and a mobile and trade-oriented population. As the area became more densely populated after the colonization of the

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2 DOMAR, *op. cit.*

twelfth century, the obligations forced on the new settlers were comparatively liberal. Free markets in land developed earlier than almost anywhere else. Thus, the early development of capitalist economic relations and the « modernity » of the countryside preceded by generations the rise of Amsterdam, Leyden, and the other Dutch cities. The rural Dutch areas were « born free », and it was misleading to view the institutional and property structure of these areas as the results of the much later international trade expansion or of bourgeois revolution.

The two remaining papers on the European economy dealt with military technological change and the rise of the nation state, and transaction costs and differential economic growth in the seventeenth century. Employing the neo-classical theory of the firm, Richard Bean hypothesized that the geographic extent of the 15th century nation-state was a function of prevailing military technology and the size of its tax revenues. Changes in weaponry and the increased use of trained infantrymen compelled governments to raise the scale of their military expenditure and these, in turn, led to the growth of states. Relying on the principle that, as a circle expands, its circumference increases more slowly than its area, Bean hypothesized that border defense costs rose more slowly than the tax revenues of the engrossed areas, and that the period of nation-building was subject to economies of scale. While Bean presented several time-series correlations in support of his hypothesis, both the paper's analytical framework and the facts on which it was based drew considerable criticism.

Clyde Reed's paper dealt with the problem of differential growth rates in seventeeth century Europe and attempted to explain why, in a period of rising population, England and Holland experienced increasing output per head while Spain and France lagged behind. Reed hypothesized that the direct source of the rise in per capita output in the advanced countries was due largely to lowered costs of production in the transactions sector. The output of this sector effects the transfer of goods and services from producers to consumers, contract negotiation and enforcement, transportation and information about market opportunities. These services manifest substantial economies in large scale production. In England and Holland, population growth in the seventeenth century and the favorable socio-economic environment gave rise to growing markets allowing realization of these scale economies. While the paper offered no primary evidence on lowered transactions costs, Reed offered a hypothetical numerical example suggesting the substantial effects that a moderate fall in unit transactions costs might have on national income. In his generally favorable remarks on Reed's paper, Profesor Ringrose noted that Reed should have separated France and Spain into their maritime and inland economic regions as overland transport in this period was not subject to economies of scale.

In his presidential address, Alfred Chandler gave an incisive overview of the transformation of the *loci* and modes of economic decision-making from the pre-corporate to corporate enterprise, and made a strong plea for scholars to pursue study in this field. Other parts of the conference looked at the interaction of voluntary institutions, government, and the distribution of income in the nineteenth and twentieth century United States.

The organizers of the conference have much to be satisfied with. The papers presented were, on the whole, of excellent quality and form a firm basis for further research in the promising field of property rights and economic history.