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Econ 321

Week 5: Slavery

I. The Market for Slaves
   A. Throughout much of human history, a sizable percentage of people were not legally recognized as the owners of their own labor. Instead, they were "owned" by another person.
   B. In Europe, many such persons were of Slavic origin, hence the term "slave." But laborers who were unfree to a greater or lesser extent have gone under other names, such as "serfs."
   C. Slavery has usually been involuntary, but there have also been many societies (like Russia) where large numbers of people actually sold themselves into slavery. We'll be focusing on the standard, involuntary form of slavery.
   D. Wherever slavery has existed, there have typically been slave markets, where slaves could be bought and sold like any other commodity.
   E. At first pass, analyzing the market for slavery is simple: just plot the supply of slaves and the demand for slaves.
   F. But while this simple story is correct, there is more we can say about both sides of the market.

II. The Supply of Slaves: Capture versus Natural Increase
   A. Where does the supply of slaves come from? There are basically two sources:
      1. Capture
      2. Natural increase
   B. Method #1: Capture. In many slave systems, there have been entire industries of slave hunters who reduce people to slavery by conquest, then ship them to slave markets.
   C. As the price of slaves rises, the incentive to hunt slaves intensifies. Hunters become more willing to transport slaves over long distances. As the price of slaves falls, hunting efforts slacken.
   D. Method #2: Natural increase. In most slave societies, the child of a slave is automatically a slave as well.
   E. This gives slave-owners some incentive to allow or even encourage slaves to have children. The higher the price, the greater the encouragement (though reduced productivity of pregnant women and mothers dampens this effect).
   F. In some slave systems, birth rates of slaves were so low that only continuous imports of new, captured slaves made the system sustainable. This was the case in some Caribbean countries.
   G. In other slave systems, most notably the U.S., slaves had high rates of natural increase. There is suggestive evidence that owners

in some parts of the country deliberately "bred" slaves for eventual sale.

H. The U.S. banned importing slaves in the early 1800's. What effect would we expect this to have on slaves' birth rates?

I. What happens when ship-building technology improves? Slave infant mortality declines?

III. The Demand for Slaves: Marginal Productivity Minus Subsistence and Enforcement

A. What slave-owners like about owning slaves is that the slave can't easily say "no." The owner can threaten violence or death to make the slave do as he is told.

B. But the slave owner still can't give the slave nothing. In order to take advantage of the slave, it is still necessary to provide the slave with his "subsistence" (food, shelter, etc.).

C. They must also pay some costs of guarding and monitoring the slave.

D. So what is the most a slave-owner would pay to buy a slave?

E. They will certainly not pay an amount equal to the slave's marginal product, because then they would be losing money equal to the costs of subsistence and enforcement.

1. If the cost of feeding, housing, and guarding a slave were greater than the slave's marginal productivity, the best course for a greedy slave-owner would be to just free the slave.

F. Rather, slave-owners will pay up to the slave's MVP *minus* the subsistence and enforcement costs. (Complication to save for later - the time pattern of earnings and costs).

G. Demand for slaves thus rises to two basic reasons:

1. Increase in the MVP of a slave.

2. Decrease in costs of subsistence or enforcement.

H. Now remember that MVP=MPP*P. So if the price of a slave-made good rises, what happens to the demand for slaves? How about increase in slave productivity?

IV. Why Do Slaves Have a Positive Price?

A. In many slave systems, free workers and slaves sometimes did the same kind of work, and slaves could be "rented."

B. The rental rates for slaves and the day rates for free laborers were comparable. On the plus side, slaves could be worked harder, but on the minus side, they had to be monitored more.

C. In other words, a free worker and a slave-owner earned about the same income for one worker's labor. Free and slave labor competed in the same market.

D. What does this show? That free workers have always earned more than subsistence!

E. Slaves have a positive price because the owner gets to keep the difference between the competitive market wage and the cost of upkeep.

V. Compensating Differentials and Slavery

A. Slave-owners have strong incentives to protect their slaves from death or injury; if anything happens, they are the "residual claimant" who bears the monetary loses.

B. However, this does not mean that slave-owners will care about risks their slaves face *as much* as free laborers. A free laborer is betting his own life; a slave-owner is betting the life of another person he happens to own.

1. Particularly if a slave-owner is wealthy, he may be very willing to gamble the life of a single slave if the expected return is good.

C. Recall that unpleasant jobs earn additional pay, or a "positive compensating differential." We should accordingly expect that slave-owners who rent their slaves for dangerous work will get higher than usual rates to compensate them for their risk of loss. But:

1. The additional rate will be less than the amount needed to induce free workers to take such risks.

2. It is the master, not the slave, who gets the compensation!

D. What about unpleasant aspects of jobs that are not physically risky, such as foul odor? Free workers have to be paid more to accept such conditions. But profit-maximizing slave-owners don't have to be paid for the mere unhappiness (as opposed to physical danger) of their slaves.

E. Two implications:

1. Slaves will be somewhat more likely to do physically dangerous work than free laborers.

2. Slaves will be much more likely to do safe but unpleasant work than free laborers.

F. Ex: Historical accounts often describe deadly conditions for transportation of slaves. Is this economically plausible?

G. Under certain conditions, yes. In particular, suppose slaves are much more expensive outside of their country of origin, and there is a trade-off between per-slave transportation costs and mortality.

H. Then profit-maximizing slave hunters are likely to make a conscious choice to transport a larger number of slaves with a lower chance of survival.

I. Free workers (such as Irish immigrants) face the same sort of trade-off, but they would weigh the risk against their expected wage increase AND the value of their lives.

VI. Incentives and Altruism Under Slavery

A. The preceding model of slavery provides deep insight into slavery, but it is probably a bit too simple.

B. Most slave owners throughout history paid at least some of their slaves more than subsistence; they used positive rewards, not just the threat of pain or death.

C. Why would profit-maximizing slave-owners do this? Suppose there are hidden differences in ability. Then threatening everyone for failing to reach some level of productivity can backfire, because some slaves are simply un*able* to carry out their orders.

D. In many slave systems, then, slave-owners paid slaves for extra work. (In Roman slavery, a slave's personal assets were called his *peculium*). This might eventually allow a slave to buy his freedom.

E. In other cases, slaves actually moved away from their master's plantations to work in cities; masters settled for a monthly "tax" taken from the slaves' earnings.

F. Another reason to use rewards instead of punishment: Slaves with permanent evidence of beating sold for lower prices; buyers correctly surmised that such slaves were less cooperative. Slave owners sometimes chose to just sell rebellious slaves, rather than permanently scar them with harsh punishment.

  1. Advertisements for slaves in the U.S. frequently included a detailed explanation of why the owner was selling!

G. Thus, self-interest alone gives slave-owners some reason to pay some slaves more than subsistence.

H. But does this explain everything? Romanticized accounts of slave societies like *Gone With the Wind* often depict an emotional bond between slave and master.

I. If such altruism really existed, what would it mean? Slaves who were lucky enough to get "kind masters" would earn more than subsistence. How much? It all depends on how kind the master is. Unlucky slaves with "cruel" masters would still get only their bare subsistence.

J. Additional implication: Unless they are altruistic at the buying stage too, cruel masters will generally be willing to pay more for slaves than kind masters.

VII. Regulation Under Slavery

A. We have already seen that a great deal of supposedly "pro-labor" regulation is actually counter-productive. Would the same hold under slavery?

B. For the most part, no. Under slavery, the popular intuition turns out to be exactly correct.

C. Example #1: A minimum wage for slaves. If enforced, this means that slaves get more than subsistence. At the same time, it decreases the demand for slaves, which reduces the incentive to hunt for additional slaves.

D. Example #2: Worker health and safety regulation for slaves. Due to regulation, slaves have more safety and health, and still receive the same subsistence earning they would have gotten anyway. This also reduces the demand for slaves, which hurts the slave trade.

E. Example #3: Banning or regulating the punishments that owners can inflict on slaves.

F. Example #4: Boycotting products of slave labor.

G. Example #5: A union for slaves.

H. Example #6: Forcing slave-owners to set aside money for their slaves' retirement.

I. In general, the naive analysis of slave regulation is correct: It helps slaves at the expense of landlords, period.

    1. The only caveat to consider is that such regulations could lead slave-owners to prevent slaves from having children, or even allowing children to starve to death.

J. With sufficiently strict regulation, slave-owners will want to free their slaves! Thus, the "Why not a minimum wage of $1,000,000?" argument can be easily answered under slavery: "The higher the better."

K. In historical slave systems, there were some regulations of this sort. But most regulation worked the other way:

    1. Laws forbidding manumission (freeing slaves)
    2. State-supported runaway slave patrols
    3. Laws forbidding teaching slaves to read and write
    4. Laws forbidding training slaves in more skilled professions

VIII. Slavery and "Wage Slavery" Compared

A. Socialists and defenders of slavery alike have frequently derided free labor markets as "wage slavery," equating the condition of slaves and free laborers.

B. This had cache in the emerging industrial economies like the U.S. and Britain in the 19th century. (E.g. Dickens) It remains a popular way of thinking about life for workers in the Third World.

C. The fact that slaves have always had a positive price shows that this story is absurd on its face. Slaves have a positive price because slave-owners give them *less* than a free laborer's wage.

D. As workers - free or slave - become more productive, labor demand rises. The difference is this:

    1. Free laborers capture the benefits of rising labor productivity for themselves.
    2. Under slavery, in contrast, it is slave-owners who capture the benefits of rising labor productivity. Slave-owners don't have to worry that slaves will leave them for a better-paying offer.

E. Free workers also get to make their own trade-off between income and safety and comfort. When a master decides to send his slave to mine diamonds, he only maximizes his expected income. A free worker makes a trade-off between expected income and safety and comfort.

F. The toned-down version of the "wage slavery" story is that free workers are "exploited." It is easy to see how slaves are exploited: They get less than their free market wage. In what sense are free workers exploited?

G. Ex: Western observers look at "sweatshops" in poor countries and cry "exploitation." This is both false and harmful for Third World workers:

    1. False: Investing in the Third World is not especially profitable; otherwise everyone would do it. (How much do *you* invest in the Third World?)

    2. Harmful: If boycotts reduce the demand for Third World products, labor demand for Third World labor falls.

H. If people were really concerned about exploitation in the Third World, they would allow them to immigrate to the First World.

I. Under slavery, the difference between a "kind" and a "cruel" master is the difference between life and death. In free labor markets, in contrast, what matters is workers' productivity, not bosses' intentions.

IX. State Slavery

A. Numerous societies have had extensive systems of state-owned slaves.

B. Such state-owned slaves were often worse off. A private owner at least wants to protect his slave from death or injury. State managers may not care, or might actively want to kill off the people they have enslaved.

C. Examples: Slavery labor in the Soviet Union and Nazi Germany.

D. On the other hand, it is easier for overseers to be altruistic at state expense. There have even been historical cases where a slave class (typically eunuchs) became not only well-educated but wealthy and powerful...