

Discussion of
Financial Inclusion, Human Capital, and Wealth
Accumulation: Evidence from the Freedman's
Savings Bank

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Focus of the paper: effects/benefits of financial inclusion

- ▶ **Results:** saving account holders are more likely to:
 - ▶ Attend school, work, be literate, and have a higher income, business ownership, and real estate wealth
 - ▶ Altogether, the analysis suggests positive effects of financial inclusion
- ▶ **Experiment:** creation of the Freedman's Savings Bank, which provided financially services to recently freed African-American slaves
 - ▶ Large scale shock to the provision of financial services
- ▶ **Mechanism/channels:** lumpy investment, time-varying income stream, liquidity of funds as insurance, and commitment device
 - ▶ Still an open empirical question which one/s of these is/are at work

General background of the experiment

- ▶ In 1865 the Thirteenth Amendment to the United States Constitution abolished slavery and involuntary servitude
 - ▶ That led to freedom over 3 million African-American slaves
 - ▶ Strong interest in integrating the recently freed individuals
- ▶ The government chartered Freedman Savings Bank was among the largest initiative (John W. Alvord, a Congregational Minister, and A.M. Sperry, an abolitionist)
 - ▶ Initially for soldiers to deposit their salaries and money from bounties
 - ▶ Later on many more individuals opened a bank account. It became fashionable (Fleming, 1927)
 - ▶ Before 1870 strong motivation to foster education (Fleming, 1927), later on speculation led to its collapse
- ▶ Alvord travels through the southern states to organize branches and solicit deposits
 - ▶ Importantly, the charter of the bank did not contain anything authorizing expansion of branches (Fleming, 1927)

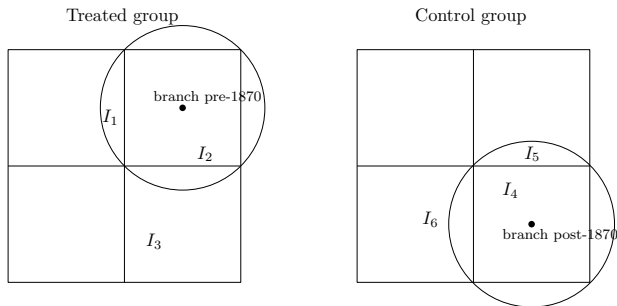
Comment on identification

- ▶ Matching Freedman's account holders with the "1870 1% sample with black oversample" compiled by IPUMS
- ▶ The endogenous empirical specification

$$\text{outcome}_i = \alpha + \beta \text{AccountHolder}_i + \epsilon_i$$

- ▶ β is the coefficient of interest but
 - ▶ Omitted variable (upward bias) and matching issues
 - ▶ **Approach:** Instrumenting the likelihood of having an account
 - ▶ **Instrument:** geographic distance from the Freedman's branch

Comment on identification: what's the political climate of counties in the control group?

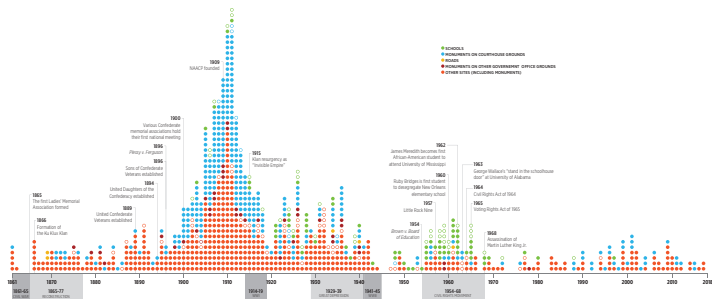


- ▶ Final sample is African-American individuals living near branches built pre-1870, post-1870, or planned but not built
- ▶ Individuals I_1 and I_2 are included in treated while I_5 and I_4 control
- ▶ **Choice of the control group** alleviates the concern that branches might be located in places with other services (e.g., in the center of metropolitan areas)

Comment on identification: what's the political climate of counties in the control group?

- ▶ Political interference slew down the expansion of the bank's branches
 - ▶ **Hypothesis:** resentful local population less willing to promote the integration process. Feigenbaum et al. (2017)
 - ▶ That would make the coefficient still suffering from an omitted variable
- ▶ From Fleming (1927) and other online sources, Alvord was maximizing the number of depositors
 - ▶ Counties with a higher density of African-American population (control group?)
- ▶ Two suggestions based on the over-time persistence of social capital:
 - ▶ Confederate monuments and symbols
 - ▶ Civil war battlefields

Suggestion 1: Confederate monuments and remembrance of the Civil War



- ▶ Cultural persistence over time:
 - ▶ **Through symbols:** 780 monuments, 103 public K-12 schools and three colleges named for Robert E. Lee, Jefferson Davis or other Confederate icons, 80 counties, and cities named for Confederates, 9 observed state holidays in five states, 10 U.S. military bases
 - ▶ **Reenactment battles:** a county that participates in reenactment battles of the Civil War.

Suggestion 2: Battlefield locations

- ▶ Literature shows that social capital is persistent over time
 - ▶ Dwarkasing (2015) shows that counties higher social capital display a dark side. Loan approval probability for minorities is significantly lower
- ▶ **One measure of social capital:** a county that has been a battlefield during the Civil War
 - ▶ This might help to control for the variation in social capital across counties
- ▶ Other measures of social capital in Guiso, Sapienza, and Zingales (2004) but the previous one seems to fit better your setting

Comment on the economic mechanism: financial inclusion or social policy?

- ▶ The role of the Freedman bank went beyond the simple provision of financial services (Fleming, 1927)
- ▶ First, the belief was that, given the nature of the bank, as many African-American as possible should have worked at the bank
 - ▶ People were trained at branches as businessmen
- ▶ Bank's explicit objective was to expand education. On each passbook released to account holders it was written
"This is a benevolent institution. All profits go to the depositors, or to the educational purpose for the freedmen and their descendent"
- ▶ The bank was explicitly trying to educate people in thrift

Comment on economic mechanism: financial inclusion or social policy?

For the purpose of educating the depositor in thrift a table was printed in the book to show the possibilities of a small saving each day:

A man who saves ten cents a day for ten years, will have, if he puts it at interest at six per cent:

In 1 year.....	\$ 36.99
In 2 years.....	76.20
In 3 years.....	117.81
In 4 years.....	161.94
In 5 years.....	208.74
In 6 years.....	258.42
In 7 years.....	311.13
In 8 years.....	367.03
In 9 years.....	426.37
In 10 years.....	489.31

- ▶ It becomes challenging to distinguish the sole effect of financial inclusion from the larger scale plan of the Freedman Saving bank as a whole
- ▶ There were other three banks before the Freedman: Beaufort, South Carolina (1864), Free Labor banks (1864), and the Norfolk, Virginia (1864)

Comment on relation to the literature

- ▶ **Pitch:** literature uses mostly control experiments with small samples. Here a larger scale experiment with general equilibrium implications
 - ▶ Trade-off between scale of the experiment and measurement error
 - ▶ As mentioned in the paper, Celerier and Matray (2019, RFS) find evidence of a positive effect of financial inclusion on wealth accumulation using branch deregulation
- ▶ Dupas, Karlan, Robinson, Ubfal (2016) find that policies merely focused on expanding access to basic accounts are unlikely to improve welfare noticeably since impacts, even if present, are likely small and divers
 - ▶ I think your paper shows that this might not be the case if considering a large scale experiment

Minor comment

	Mean	Std. Dev.	<i>p</i> ₅₀	<i>p</i> ₂₅	<i>p</i> ₇₅
Has Account (%)	14.4				
Attended school (%)	3.9				
Literate (%)	15.8				
Works (%)	39.4				
Income (\$100 in 1950)	5.3	6.8	0	0	9
Real property (\$)	9.7	307.0	0	0	0
Business owner (stricter, %)	0.1				
Business owner (looser, %)	0.2				
In metro area (%)	12.2				
City population (1000)	19.6	54.5	0	0	0
Male (%)	48.7				
Age	22.3	17.7	18	8	33

- ▶ Just a bit bugging, how are results excluding kids?

Thank You!

References and sources

- ▶ Monuments and symbols:
<https://www.splcenter.org/20190201/whose-heritage-public-symbols-confederacy>
- ▶ Reenactment battles: <https://www.reenactmenthq.com/>
- ▶ Battlefield locations:
<https://www.nps.gov/abpp/battles/bystate.htm>
- ▶ Dwarkasing (2015) - The Dark Side of Social Capital? Battles and Mortgage Lending. Working paper
- ▶ Fleming (1927) - The Freedman's Savings Bank. Oxford University Press