TITLE:

The Social, Economic, and Mortality Consequences of the Failure of the Freedman's Savings Bank

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ABSTRACT:

The Freedman's Savings Bank was chartered in 1865 to serve newly emancipated people across 17 states. Driven by mismanagement and fraud by the bank's white officials, the bank failed in 1874 – costing many depositors large savings. Although there is debate about the short-term financial benefits for Black people of the bank's creation, there has been no research on the longer-term effects of the bank's failure on social, economic, or mortality outcomes among depositors who lost their savings. Using linked records from the complete-count 1860 through 1940 U.S. Censuses and exceptionally detailed records on the bank's branches, deposits, and losses, we use a variety of empirical strategies to estimate the effects of the bank's failure on the life course outcomes of Black depositors and their children. This work speaks more broadly to the effects of negative economic shocks on the long-term well-being of older people.

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INTRODUCTION

The U.S. Freedman's Bank, founded in 1865, was a financial institution established to support newly freed African Americans after the Civil War. The idea came from a need to provide banking services to former slaves and other marginalized individuals who lacked access to traditional financial institutions.

The bank was created by the Freedmen's Bureau, a federal government agency that was instrumental in assisting former slaves and poor whites in the South. The goal was to help African Americans build wealth and financial stability by offering savings accounts and other banking services. It was envisioned as a tool for economic empowerment and a way to integrate freedmen into the financial mainstream.

Initially, the bank enjoyed some success, with many African Americans depositing their earnings and savings. However, it faced significant challenges. Poor management and corruption – it was led by wealthy whites who often did not have African Americans' interests at heart – led to a series of problems. The bank struggled with financial mismanagement and was ultimately undermined by these issues. In 1874, the bank failed, leading to the loss of the savings of many depositors.

Objective: Our goal is to understand the long-term social, economic, health, and mortality consequences of this negative economic shock for African Americans in the decades after emancipation.

DATA

We utilize two extraordinary sources of data to achieve our objective. First, we utilize Freedman's Savings and Trust Bank passbooks and dividend repayment records – both as curated by Traweek and Wardlaw (2022). Those data include (1) indices to new accounts records, available via FamilySearch.org; (2) passbooks, akin to modern checkbook registers – for 500 people who sent them to the bank following its failure to seek repayment; and (3) dividend repayment records, which tracked payment to about 40,000 account holders following the bank's failure. When combined, this dataset represents the available data on the Freedman's Bank depositor base as it relates to account openings, operations, and closures.

Second, we use data from the U.S. IPUMS Multigenerational Longitudinal Panel (IPUMS-MLP). IPUMS-MLP links individuals' records between decennial U.S. censuses. The current IPUMS-MLP data consist of links across the censuses of 1850 through 1950. Linked individuals are assigned a unique identifier that is consistent across censuses.

We are now in the process of linking individual records from the 1860 through 1940 decennial U.S. censuses to records from the Freedman's Bank. We will identify in IPUMS-MLP (1) everyone who held an account in any Freedman's Bank branch at any time and (2) their co-resident children. We will be able to observe individuals from 1860 forward.

METHODS

For adults who held accounts, our outcome measures will include: (1) socioeconomic information – especially occupation, but also income, home ownership, and other outcomes in later life

– about them as observed in any decennial census from 1880 forward; (2) sickness as observed in 1880; (3) the loss of children as estimated through children ever born and children surviving; and (4) mortality as inferred by spouses becoming widowed across decennial censuses.

For children of account holders, we will observe all these same outcomes. However, we will be in a stronger position to observe child mortality between 1870 and 1880 – when a family is observed in both censuses, but a child is absent in the latter enumeration, it is reasonable to assume the child died in most cases.

We will begin by modeling selection into the population of Freedman's Bank account holders by (a) beginning with all African Americans in 1870 and modeling their risk of appearing the Freedman's Bank records as a function of state, city, age, occupation, marital status, and other observed attributes. (b) We will regress each outcome listed above – using either OLS regression or probit models, as appropriate – on measures that reflect both how much money account holders lost and what percentage of their money they lost when the bank failed. (c) We will use a matching estimator – pairing account holders who lost money to observationally similar account holders who did not lose money – to re-estimate those same models. The latter will be our primary source of information about the consequences of losing money after the bank collapsed.

EXPECTED FINDINGS

Following prior research that has demonstrated the long-term social and economic consequences of large financial losses – especially for already marginalized groups – we expect to see long-term negative effects on the account holders. Following prior research demonstrating intergenerational consequences of financial gains and losses, we expect to observe similar effects on the offspring of account holders who lost money.