Public education benefited from oil booms in the postbellum South

Natural resources are often thought as a curse, rather than a blessing. They have, for example, been found to help entrench autocratic regimes, impede female labor market involvement, and fuel both intra-state wars and internal conflicts.

Granted, natural resources typically increase local government revenue: counties or regions with oil, gas, or precious metal deposits typically can expect royalties or increased tax revenue from the extraction of these deposits. However, previous evidence suggests that not even this works as well as it should, since the increased revenue is often associated with only little improvement in welfare-relevant outcome for local citizens. Instead, money from royalties often seems to get "lost", and corruption increases.

In a recent study, I analyse how local oil booms in the Southern United States during the first half of the 20th century affected public spending, focusing on education expenditures. This time and region are particularly interesting for several reasons.

Firstly, the institutional set-up of the US South at this time was markedly different from many modern settings. Instead of centrally allocated oil royalties, oil-rich counties benefited from oil extraction through local property taxes, and these local property taxes were a key source for school funding. This institutional set-up made it particularly likely that oil funds actually made their way to education spending. However, of course increased spending does not necessarily lead to better outcomes.

Secondly, the South in the early 20th century was still marked by a great racial disparity in education provision. Black students were slowly catching up in terms of literacy, school enrollment and other educational outcomes, but under the "separate but equal" doctrine, they were still heavily disadvantaged. It is therefore not clear ex ante whether any increased education spending from higher property tax revenue would also have benefited the most needy, i.e. black students.

Finally, many Southern states, especially Texas, Louisiana, and Oklahoma, are rich in oil deposits and discovered these oil deposits for the first time during the early 20th century. I use these discovery events as a natural experiment to analyse how oil wealth in the US South affected education provision. In particular, I study how outcomes evolved in counties that have large oil fields compared to those that do not before and after the respective discoveries. Using this so-called "difference-in-differences" strategy, I do indeed find that oil-rich counties experienced increased tax revenue and spent more on education. What is more, I find that at least part of this spending went into black education.

According to my results, oil-rich counties were more likely to participate in the "Rosenwald program" that provided matching grants to communities willing to build schools for rural black children. They provided more public funds to participate in the program, constructed more schools and hired more teachers for these schools.

Figure 1. A former Rosenwald school in Cass County, Texas

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In line with this, I also find that theoretical student-teacher ratios for black children declined in counties with discovered oil fields. White students also benefited from oil discoveries, but in a different form: Cross-sectional evidence from the 1940 US Census indicates that they could enjoy better-educated and better-paid teachers.

Overall, it thus seems that the institutional set-up in the United States was able to translate resource windfall revenue into improved education provision. In addition, at least some of this windfall helped provided better-quality school for blacks.

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Notes:

- *This blog post is based on the author's paper Oil Discoveries and Education Spending in the Postbellum South, Discussion Paper No 1526 of LSE's Centre for Economic Performance (CEP), January 2018*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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