Coase Conquers Consumer-Side Discrimination: Firm-level Evidence from the Age of Segregation

Black, White, and Coase: Mitigating Consumer-Side Discrimination in the Age of Segregation

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Abstract

From professional baseball to legal services, previously-integrated economic activity became increasingly more segregated in the late 1800’s and early 1900’s, which affected black and white firms. This episode provides a natural experiment to examine consumer-side discrimination and its resolution. Using unique historical advertising records and exploiting variation across racially and geographically distinct markets, I find that African American sellers successful at maintaining diversity among consumers were also successful at achieving anonymity. Deliberate measures, e.g., disguises and interracial Coasean bargaining, and serendipity, e.g., the race-neutrality of patents, were critical in promoting seller anonymity and Pareto-improving trade.
In Becker’s (1971) seminal contribution, sellers may respond to a set of consumers’ “taste for discrimination” to maintain segregated theaters or waiting rooms. In contrast, recent audit studies, e.g., Ayres, Vars, and Zakariya (2005) and Lynn, et al. (2008), have presented persuasive evidence that discrimination based on race of the seller exists. Similarly, if musicians are considered independent contractors, the findings of Goldin and Rouse (2000) suggest that consumer discrimination practices based on gender of the seller also exist. Yet, remedies remain elusive. To understand this problem and means of addressing it, the laboratory of economic history may be instructive.

From professional baseball to photography to legal services, previously-integrated economic activity became increasingly more segregated, as consumer-side discrimination became more common throughout the United States in the late 19th to early 20th centuries. Operations of firms owned by whites and by blacks were disrupted. Existing African American firms had two stark options: embrace a growing and newly-captive African American market or attempt to maintain diversity among their consumers. Much has been written about the former option – African American firms which expanded or came into existence to serve their community exclusively, e.g., DuBois (1899); Harmon, Lindsay, and Woodson (1929); Harris (1936); Ingham and Feldman (1994); Pierce (1947); Seder and Burrell (1971); Walker (1998, 1999), and Washington (1907). Understudied is the other set of firms that decided to address consumer-side discrimination directly and to preserve the original multiracial composition of their clients. Among the classic studies aforementioned, only Harris (1936) meaningfully analyzes the issue of interracial trade.

This episode offers a novel natural experiment to study discrimination against sellers and its resolution. Unique historical advertising data offer indirect evidence of consumer-side
discrimination and direct evidence of the means by which it was addressed. In particular, I use an extensive collection of promotional materials, including cards, flyers, pamphlets, stationery, and newspaper advertisements, corresponding to varied products invented, manufactured, and sold by Garrett A. Morgan, the inventor of the gas mask and traffic light. Morgan’s rare materials are particularly interesting and useful for this experiment, because he was actively engaged in marketing to white and black consumer markets simultaneously and across regions, which was unusual during this time. I exploit interracial and intraracial variation of his advertisements to understand the magnitude and quality of consumer-side discrimination and responses to it.

Coupled with other data from Morgan’s contemporaries in Cleveland and elsewhere, I find that, in markets where discrimination against African American sellers was largely absent, seller anonymity and Coasean bargaining with agents of other races were not observed. In markets where discrimination was present, anonymity of the seller was observed, and Coasean agreements between blacks and whites proliferated. In addition, patents and patent-related services were often present. Patents, which do not contain data on race of the inventor, offered traditional and non-traditional means to minimize transaction costs: tradable property rights and, with the assistance of patent agents and attorneys, racial anonymity to inventors and entrepreneurs. Given interrupted trade, the latter feature of patents offered a unique, if not timely, means by which consumer-side discrimination could be minimized and Pareto-improving gains from trade could be exploited. This finding suggests that, then and now, mechanisms which anonymize sellers may limit the effects of consumer-side discrimination.

The paper proceeds in six parts. The first part describes changing economic conditions among African American firms in the U.S. and in Cleveland from 1890 to 1930. The second part introduces
the anonymity hypothesis. Garrett Morgan is presented in part three. The fourth part compares Morgan’s advertising strategy within and between markets, and the fifth part compares this strategy to that of his peers in Cleveland and among comparable inventor-entrepreneurs of his day. The sixth part concludes.

I. Segregation and Changing Consumer Tastes in the North

Laws and customs promoting racial segregation were largely confined to the South for much of the 19th century but began to spread to other parts of the country by the end of the 19th century. This process was accelerated by the landmark Plessy v. Ferguson Supreme Court ruling in 1896 in favor of the “separate-but-equal” doctrine. Figures 1 and 2 show that the annual number of new state laws promoting discrimination against racial, ethnic, and religious minorities in the North occasionally matched or exceeded those in the South. An equal number of states in the North as in the South imposed legal restrictions on integrated housing during this period. Only six states – Iowa, Michigan, Minnesota, Pennsylvania, Vermont, and Wisconsin – did not pass state-wide laws imposing racial segregation between 1890 and 1930.¹

Economic activity was relatively more integrated outside the South than within its borders. Constraints on interracial economic ties became more binding due to the adoption of segregation in all regions of the country. Simultaneously, consumer-side discrimination became more prevalent. Until 1898, organized baseball was integrated. Wolff (2009) argues that, due to shifts in spectator tastes, African Americans were banned as players to increase the number of white spectators.

¹ See Cook (2008) for a detailed discussion of segregation-era state laws. These data understate the magnitude of both laws and practices. Housing restrictions, for example, were largely promulgated by local and municipal governments.
Similarly, a racial ban in the federal civil service was implemented in 1913. Established African American firms had at least two distinct options: to accept the rise in consumer-side discrimination by developing business among blacks inhabiting new ethnic enclaves in the North or to reject it by retaining their multiracial clients.

Most African American firms chose the former strategy. Table 1 presents Census data on firms and employees by type between 1890 and 1930. The number of enterprises and employees nearly tripled and increased markedly in almost every category. Many observers considered this period the apex of African American entrepreneurship. In Walker’s (1998) view,

This was the golden age of black business, which saw the emergence of leading black capitalists who achieved millionaire status and established million-dollar enterprises. Their wealth reflected their success within a black economy, which developed in response to the nation’s rise of two worlds of race.²

Of the professions listed in Table 1, only one was largely dependent on multiracial suppliers and clients – wholesale merchandising. Saloon keepers notwithstanding, wholesale merchandising was the sole category not to have nearly doubled in size from the beginning of the period to the end. Business conditions would be more difficult for firms desiring to maintain the multiracial composition of their customers.


Early 20th Century Cleveland: Producers and Consumers

Cleveland was an economically important city at the end of the 19th century and at the beginning of the 20th century. “Cleveland concluded the Nineteenth Century as one of America’s most promising industrial and commercial centers,” declared William Ganson Rose (1950) who wrote the first
comprehensive history of Cleveland. Over half the population of Cleveland was employed in manufacturing, which was the third highest fraction among major American cities. The city was the hub of the automobile and automobile-parts industries and had become a leading producer of bridges, merchant vessels, electrical devices, sewing machines, printing presses, astronomical instruments, drugs, chemicals, refined gasoline, paints and varnishes, and children’s and women’s clothing. Many firms were small suppliers connected to each other and to a few large manufacturers. Sherwin-Williams Paint Company and Standard Oil were organized during this period.

The population of Cleveland was 560,663 in 1910, 796,841 in 1920, and 900,429 in 1930. African Americans constituted 1.5 percent, 4.3 percent, and 8.0 percent of the population in those years. In 1915, Cleveland was also one of the most cosmopolitan cities in the U.S., with 75 percent of the population being foreign-born or having at least one foreign-born parent. The city was also one of the most racially integrated among northern cities at the turn of the century. African Americans and whites lived in many of the same neighborhoods, attended many of the same schools and universities, and patronized a number of the same restaurants and hotels. Whites and blacks operated firms with clients of various races and ethnicities.

In 1884 and 1887, statutes barring segregation in public accommodations and schooling were passed. Nonetheless, starting around 1915, Cleveland, along with many northern cities, began to adopt practices previously confined largely to the South. Neighborhoods, parks, schools,

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3 Rose (1950), p. 600.
4 Ayres (1917), p. 23.
5 Ibid.
6 U.S. Census (1910, 1920, 1930). The fraction of African Americans in Cleveland in 1910, 1.5 percent, was the average for the period 1850 to 1910.
universities, theaters, restaurants, and hotels, among other places, began restricting access to African Americans. While Cleveland was able to avoid open manifestations of racial tension, such as race riots and lynchings, it did not avoid the patterns of segregation resulting from adoption of these customs and practices, particularly with respect to housing. In the 1910 Census, only 17 of 158 Census tracts contained no African American residents, and the African American share did not exceed 25 percent in any Census tract. By 1920, the number of Census tracts with no African American residents had risen from 17 to 38, and the number of Census tracts with more than 25 percent African American residents had risen from zero to five, with two of these tracts being more than 50 percent African American. Evidence of rising segregation by Census tract is given in Table 2. De facto segregation would remain in place in Cleveland until after World War II.

Producers

Cleveland was no exception with respect to the national developments among African American firms mentioned above. Results from a 1929 Census survey of African American firms show that there were 215 firms in the black community. Most were single proprietorships with 161 full-time employees and 124 part-time employees. Nearly all were in the service sector. Approximately half were engaged in the food industry, i.e., stores, lunch counters, and restaurants. The other half were more varied and included drug, candy, cigar, jewelry stores; ice houses; coal yards; automotive repair

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8 Kusmer (1976), pp. 42, 161. Surely, in the absence of increasing discrimination, the patterns of residential choices among black migrants from the South may have been consistent with those of immigrants during this period, e.g., Italians and Russians. However, marked increases in black migration did not start in earnest until after WWI, and residential segregation patterns due to segregation were observed prior to WWI. Further, migrant self-selection into certain neighborhoods would be less convincing in explaining shifts of pre-existing Cleveland residents from one Cleveland neighborhood to another or out of Cleveland altogether.
9 Firms in the sample were owned or managed by African Americans or both.
shops, and parts dealerships.\textsuperscript{10} On average, surveyed retail firms in Cleveland generated $5,381 in revenue in 1929 compared to $8,244 in Detroit, $5,923 in Chicago, $5,533 in Pittsburgh, and $4,701 in St. Louis.\textsuperscript{11}

Prior to 1915, many African American firms’ customers were ethnically diverse or, in some cases, nearly all white. In 1888, George A. Myers bought a barber shop, which employed dozens of black barbers, in the exclusive Hollenden Hotel, and his clients were overwhelmingly white.\textsuperscript{12} Black physicians and attorneys in Cleveland rendered their services to blacks and whites. Before 1915, Cleveland's black attorneys had more white than black customers.\textsuperscript{13} From 1915 when segregation became more widespread in Cleveland’s economy, at least three important changes occurred among black firms. First, firms began to engage in a broader range of economic activities. Black-owned hotels, theaters, newspapers, gasoline stations, and banks opened in response to exclusion from these previously-integrated businesses. Correspondingly, firms originally serving the African American community, e.g., restaurants, funeral homes, and real-estate agencies, often began to fare better as African Americans’ opportunities to practice diversity in consumption became more limited. Black migration from the South increased demand for services provided by these new and existing firms. On the other hand, many existing firms failed or were constrained by diminishing access to suppliers, including financial networks. Insurance companies owned by whites, for instance, stopped issuing policies for African American homes, which made it difficult or impossible for aspiring small business-owners to finance start-up activities, operations, and growth through mortgages. Further, African American businesses were largely separated from their wealthier white

\textsuperscript{10} Census (1935) in Kusmer (1976), p. 192. Given the evidence, it is reasonable to assume that the overwhelming majority of these firms were black-owned and –operated and that the consumer base was nearly all black.
\textsuperscript{12} House-Soremekun (2002), pp. 18-20.
\textsuperscript{13} Kusmer (1976), p. 81.
clients, as the extent of the market shrank for African American firms’ goods and services. Due to developments in commercial real-estate markets, African American firms were compelled to move closer to Central Avenue, where black Clevelanders and the growing black market were being relocated.

Consumers

Let us consider market demand. The data suggest that at the turn of the 20th century, African American residents of Cleveland had greater and earlier wealth and purchasing power than their counterparts in comparable cities. Many owned real estate. In 1860, nearly 34 percent of Cleveland’s African American residents owned real estate. This was a high percentage relative to other northern industrial cities. By 1910, this proportion had fallen by two thirds.14

Despite early gains with respect to initial wealth measured by property ownership, evidence on potential and actual purchasing power among African Americans in Cleveland is mixed. Among black males in 1890, 59 percent were either unskilled or domestic workers compared to 27 percent for all male workers. Table 3 and Figures 3, 4, 5, and 6 report data on employment and economic and demographic characteristics of African Americans and other races in Cleveland. Among black females in 1890, 74 percent were either unskilled or domestic workers compared to 24 percent for all female workers. For both sexes, the share of workers in white-collar jobs increased relative to whites and in absolute terms between 1890 and 1910 and declined between 1910 and 1920. Among blacks, shares of skilled workers were largely unchanged between 1910 and 1930.15

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14 Kusmer (1976), p. 89.
15 Kusmer (1976), pp. 74, 200-201.
and practices of exclusion, e.g., of the American Federation of Labor (AFL), made it difficult for this share to grow among unions in which skilled workers were organized.

Compared to other northern cities like Boston, Cleveland initially had a relatively large share of black college graduates and, therefore, a larger share of the African American population participating in professional jobs. This is likely due to the presence of universities allowing blacks to enroll early in their history, e.g., Western Reserve University and nearby Oberlin College. In addition, two historically black colleges were located in Ohio: Central State University and its parent institution, Wilberforce University. Relative to New York and Chicago, Cleveland also had a large share of blacks in manufacturing. Data from a survey of over 1,000 workers in Cleveland in 1918 show that the black-white wage gap in similar industries was small or non-existent. Black and white workers both earned approximately $20 per week. Nonetheless, African American residents of Cleveland were generally poorer than their white counterparts, which would provide an incentive for all profit-maximizing firms to retain and attract white customers.

Invention: Cleveland and African Americans

In addition to being a hub of manufacturing activity, Cleveland was home to scores of inventors of all races. Lamoreaux, Levenstein, and Sokoloff (2004) examine features of the extensive and important finance and innovation nexus emanating from Charles F. Brush’s enterprises in Cleveland’s early industrial history.

16 Oberlin was the first college in the U.S. to admit students of color (1835).
17 Committee on Housing and Sanitation of the Cleveland Chamber of Commerce (1918) in Kusmer (1976), p. 191.
Active in Ohio and in Cleveland were some of the most prolific African American inventors during the period of study. Among them were Henry Boyd, who produced trademarked beds; Granville T. Woods, known as the “Black Edison”; and Garrett A. Morgan. As in other parts of the country where African American inventors were present, developing, producing, marketing and selling innovation were increasingly challenging during the age of segregation. In large part, incorporation of black inventors into newly-formed corporate research laboratories happened slowly due to increasing formal and informal industrial segregation. Simultaneously, other factors made the marketplace for technology less accessible to African American participants. Segregation of commercial districts where patent attorneys would have been located increased transaction costs for black inventors seeking patents and their attorneys and agents. Fairs and exhibitions where new products and processes were introduced and displayed were typically segregated. This practice minimized the likely exposure inventions by African Americans would receive, since they were often confined to “Negro Buildings” or “Negro Days” during which they could market their technology. On July 22, 1915, there was even a separate National Negro Exposition held in Richmond, Virginia. Such separation likely diminished exposure to new ideas black inventors might have encountered or generated by examining technology displayed in buildings where or on days when only whites were allowed. In general, there was little knowledge of blacks’ inventions, and stereotypes suggesting lack of inventive activity and capacity among blacks were common. In a 1913 survey of 9,000 patent

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18 Baker (1917) discusses the difficulty of finding African American patentees, because their attorneys guarded their racial identities assiduously. While African American patent examiners were employed by the Patent Office by the late 1890’s, African American patent attorneys and agents did not appear until the 1970’s. In addition to commercial districts, public facilities, such as libraries that would provide access to documents recording prior art (required to file a patent application) or to technical handbooks, were subject to racial separation and were typically underfunded in black neighborhoods.

19 See Foner (1978) for a description of segregated venues for fairs and expositions in the late 19th century.
attorneys and agents conducted by the U.S. Patent Office, a response by Attorney B.J. Nolan of Chattanooga reflected such a belief.\textsuperscript{20}

I never knew a Negro to even suggest a new idea. Much less try to patent one. And I have dealt with them all my life.

P.S. I have asked other lawyers around me for data of Negro inventions. And they take it as a joke.\textsuperscript{21}

At the same time, researchers, such as those in the sociology of science, began to expound such views in their scholarship.\textsuperscript{22} Fouché (2004) chronicles the strained careers of three well-known black inventors during the age of segregation. Cook (2008) uses data on patents obtained by African Americans from 1870 to 1940 by state and shows that state Jim Crow laws were negatively correlated with patent activity and negatively and significantly correlated with obtaining patents for the most valuable inventions – electrical and mechanical patents.

Whether considering firms or consumers, constraints on either became more binding. Among African American sellers in particular, it became more difficult for entrepreneurs to develop, manufacture, and sell goods and services broadly. Black firms which typically had white customers

\textsuperscript{20} The term “Patent Office” will be used interchangeably with “U.S. Patent Office” and “U.S. Patent and Trademark Office” throughout the paper. The term “patent” refers to a utility patent, the most common type of patent in the U.S.
\textsuperscript{21} See Baker (1969).
\textsuperscript{22} Around this time, sociologists of science, such as Gilfillan (1935), were incorporating the philosophy of eugenics into their scholarship. He attributed the decline in patenting, one measure of scientific leadership, in the U.S. to the mixing of the races (and classes) and immigration from countries where he believed average “native intelligence” was lower, e.g., southern Europe. This view supported the perception that African Americans were less capable in the sciences than their white counterparts. However, this stereotype was complex. Some observers held the view that inventions by African Americans were not viewed monolithically. Yancy (1984) shows that in some instances inventions by African Americans who were slaves were taken seriously, while those of other African Americans were not.
were largely and potentially permanently separated from them. How did profit-maximizing firms respond? Did they accept or reject consumer-side discrimination? We explore their options below.

II. Responses to Changing Consumer Tastes and the Anonymity Hypothesis

Transaction costs arising from increased consumer-side discrimination drive a wedge between the competitive equilibrium and the social optimum and between the cost function of firms whose consumers are African American and those whose consumers are multiracial. To minimize discriminatory practices on the basis of race, sellers may seek anonymity. According to the anonymity hypothesis, the cost function of the firm with multiracial clients, $C_{MR}$, will change to incorporate an anonymity premium ($AN$), a tax for nondisclosure of the seller, while $C_{OR}$ is the cost function of African Americans doing business with African American firms (one race). This premium depends on three factors. $S$ is the cost of search for models, actors, or other workers of another race who would appear in ads, perform demonstrations, or manage contact with consumers, more generally. $S$ may also include the cost of disguises, name changes, and other devices to conceal the seller herself. $INV$ represents investor development. Having socially-connected investors or business partners may reduce or eliminate consumer prejudgment of the seller and her products or services, in addition to the standard role investors play in profit-maximizing firms. Likewise, in addition to the traditional reasons for obtaining a patent, the presence of a patent also raises the level of effort of consumers desiring to assign race to the seller (inventor). Race is not recorded in patent records, which are public documents, and patent agents and attorneys, who are white at this time, provided marketing services.²³ Lamoreaux and Sokoloff (2005) analyze the growth of the

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²³ The anonymity feature does not extend to trademarks and other forms of intellectual property. Brodie (1993) and Carter-Sluby (2004) report that the Cincinnati manufacturing facility of Henry Boyd, whose well-known beds received his trademark, was destroyed by arsonists three times in the mid-to late 1800’s. This is
market for technology and the emergence of professional patent intermediaries – attorneys and agents – from 1870 to 1920. While there may be heterogeneity across costs, each cost incurred – search, investor, and patent-related – is the outcome of efficient bargaining. To interact with the consumer, the seller negotiates with and pays an intermediary of the same race as or a similar race to the consumer to anonymize the seller, to minimize the effects of discrimination, and to increase the probability of trade.

Cost functions and the resulting comparative-static analysis consistent with the anonymity hypothesis are explicitly given in Appendix A. From the comparative statics, we can conclude that the cost of search and other activities related to client interaction strictly increases the size of the premium, and more investors and patents and patent-related services reduce the size of the premium at a diminishing rate.\textsuperscript{24} This type of desired anonymity is comparable to that discussed in the recent literature on hiring practices, e.g., screens used to reduce sex bias in the hiring of musicians in Goldin and Rouse (2000).

To test the anonymity hypothesis, we would require a set of firms that were originally integrated and were subject to a shock to consumer tastes with respect to sellers.\textsuperscript{25} Further, we would want to observe whether and how African American firms ultimately sorted themselves – serving African Americans only, whites only, or customers of all races. Firms in Cleveland have these features and have been selected for this study.

\textsuperscript{24} While in principle, the cost structure of firms paying premium AN can be generalized to white firms operating in white markets, the evidence suggests that it was substantially lower in this case. Walker (1999) presents survey evidence from African American consumers, which reports the racial composition of vendors and shows that in most categories their vendors were mostly white during this period.

\textsuperscript{25} In this discussion, the original shock to taste for discrimination and subsequent shocks to the regulatory framework will be considered together.
III. Garrett Morgan

The uniqueness of the Garrett A. Morgan Papers Collection derives from two sources. First, records of non-financial firms founded by African Americans are very rare and often limited, if they exist. Among other items, this collection contains hundreds of drawings of inventions, business and personal correspondence, newspaper clippings, event programs, membership certificates, business cards, pamphlets, campaign paraphernalia, flyers, advertisements, and a limited number of financial and legal records. Collected items date from approximately 1894 to 1970. The second source of uniqueness of the Garrett Morgan Papers is that, unlike most of his peers, Garrett Morgan marketed extensively to white and black consumers. Therefore, of greatest interest in the collection will be advertisements and other promotional literature, which I have collected. These items, on the one hand, offer indirect evidence of taste for discrimination among consumers and, on the other hand, direct evidence of Morgan’s response to them. The experiment arises from the fact that promotion of similar items occurs in at least two consumer markets simultaneously, and it is this variation that will be exploited. Similar outcomes, or promotional materials, for the two markets would imply that consumer-side discrimination was minimal. Appreciably different outcomes for the two markets would suggest that consumer-side discrimination was significant enough to elicit an economic response.

Having moved from Paris, Kentucky to Cincinnati as a teenager, Garrett Morgan worked first for a wealthy landowner as a handyman. In 1895, he moved to Cleveland, where he first took a job as a machine adjuster at the Root & McBride Company, a large wholesale dry goods firm, and then as a
sewing-machine repairman for a number of clothing manufacturers around Cleveland. In 1907, he opened his own sewing-machine repair shop. During his career he had two major inventions, three minor inventions, and six known enterprises. These inventions and activities are given in Table 4 and discussed in turn.

As an inventor, Morgan was a classic tinkerer of this era and had many similarities with other “great inventors” who were white and who were African American. During this period, the median prolific inventor who was African American was a machinist or engineer by training and occupation, had 4.5 years of schooling (he had more than six), owned property, and was mobile, i.e., did not pursue an inventive career in his state of birth. Like Garrett Morgan, many had training in a machine shop or had been an apprentice to a skilled craftsman early in their careers. Importantly, prolific black inventors commercialized their innovations at a considerably lower rate relative to their white counterparts. In this respect, Garrett Morgan differed from his peers and combined well-honed entrepreneurial and inventive capabilities. For example, in various directories and biographies of African American entrepreneurs, e.g., Walker (1999), Morgan is given extensive treatment, while Granville Woods is only mentioned in passing.

Two Major Inventions

Safety devices piqued Garrett Morgan’s interest. First, he was interested in mitigating the safety hazards associated with fighting fires in the early 20th century. After the Triangle Shirtwaist Factory

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27 The Garrett Morgan Papers include evidence that permits were obtained to engage in other business activities, such as poultry dressing. However, the activities discussed in this paper are the only ones for which there is evidence that the business had begun operations.
28 Much of the discussion on African American “great inventors” is taken from Cook (2007).
fire in New York in 1911 in which 146 garment workers died, Morgan conjectured that more lives could be saved if firefighters could increase the time spent in close proximity to the flames without increasing the likelihood of inhaling smoke from the flames. He received two patents for the safety helmet in 1914. It was revised to include its own oxygen supply source in time to be used by the U.S. Army in WWI, including from chlorine- and mustard-gas attacks. Instead of selling this technology, he decided to manufacture and market his helmet. He established the National Safety Device Company in 1912. Figure 7 is a pamphlet promoting the helmet to an audience of safety professionals.

Second, he was puzzled by the large number of car accidents occurring on the streets of Cleveland, which were filled with a surfeit of new cars, inexperienced drivers, and a dearth of road signs. He was granted a patent for the first modern design of the traffic light in 1923 (see Figure 8). Shortly thereafter, he sold the patent to General Electric for $40,000, 27 times average U.S. annual income in 1920 or more than $400,000 in 2001 dollars.29

Three Other Inventions

Two remaining inventions related to hair and skin care. In 1905, he invented a system of hair preparations and implements.30 Skin-bleaching agents were also developed. All products of the G.A. Morgan Hair Refining Company were ostensibly protected by trade secrets and were marketed separately and together (see Figure 9).31 A straightening comb, which was part of the system, was

29 Census (1920), author’s calculation, and House-Soremekun (2002). The Morgan Papers, biographies, and other accounts do not reveal how he and General Electric were matched.
30 This system was comparable to that of Madame C. J. Walker, a leading black entrepreneur at the time.
31 It is unclear from advertisements and other records in the Morgan collection whether trademarks were also used.
patented at the end of his career, in 1956, much after it had been used and marketed with the other components of his hair-care system.

A final set of inventions related to improvements to existing sewing machines he created himself. Trade secrets were also used to protect these revisions to existing designs for sewing machines. Among these innovations was a sewing-machine belt fastener, the technology for which he sold for $50 in 1901. Morgan had a number of other minor inventions (see Table 4), but little is known about them.

Other Entrepreneurial Activities

As was mentioned earlier, while Morgan’s mix of economic activities was not uncommon in Cleveland, it was unusual in its breadth and depth relative to other prolific inventors. Based on his reputation as a skilled repairman for sewing and other machines, Garrett Morgan opened his own sewing-machine sales and repair shop in 1907. He extended this business in 1909 to include a small clothing manufacturing firm, Morgan’s Cut Rate Ladies Clothing Store, using his improved sewing machines. At one time, this business on Central Avenue employed 32 workers. This is significant, because Morgan’s employees would have constituted nearly nine percent of all full- and part-time workers employed by black firms, if using the data from the aforementioned 1929 firm survey.

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32 The year of founding of the clothing store is estimated using the date of a 1913 advertisement in the Garrett Morgan Papers collection.
Segregation provided an unforeseen opportunity for developing markets for real estate. Before WWI and the Great Migration of 1916 to 1919, restrictive covenants were beginning to be used in desirable white neighborhoods. As aforementioned, insurance companies stopped underwriting African American property and persons. As racial discrimination became a more prominent feature of real-estate markets in Cleveland, black residents were increasingly restricted to purchasing homes underwritten by black insurers in black neighborhoods, e.g., close to Cedar, Central, and Woodland Avenues. These streets became main thoroughfares in the African American community. As early as 1896, it was also noted that blacks’ exclusion from public recreational facilities, including parks, was becoming more widespread. Suburban housing developments were primarily open to whites. A 1913 national survey of black urban life by George Edmund Haynes reported that playgrounds in black neighborhoods were “so rare as to excite curiosity.”

African Americans in and around major cities, like Cleveland, began building parks, resorts, recreation centers, and residential areas with green spaces. In 1923, Garrett Morgan bought a 121-acre farm in Wakeman, Ohio, 44 miles west of Cleveland and nine miles west of Oberlin, and established the black Wakeman Country Club. Records of subscription payments and rosters from the Morgan Papers suggest there were dozens of subscribers to the country club. Such real estate developments became increasingly common, and at least four of his contemporaries in Cleveland were actively engaged in this enterprise.

34 For example, in Walker (1999) one insurance company’s policy is quoted: “Because of social diseases, living conditions, and other undesirable circumstances, companies would be unwise to insure Negroes.” [p.625]
In 1916, Morgan founded the Call, one of a number of newspapers for or by African Americans established in the early 1900’s. The Call was merged with another prominent black newspaper, the Post, in 1929. The Call & Post ultimately expanded its circulation to Columbus and to Cincinnati. The basis of the newspaper’s profitability was advertising by his and other firms.

IV. Advertising during the Era of Segregation

One the one hand, marked increases in migration from the South and greater race-based restrictions provided opportunities for new and existing firms in the African American community. Growing discrimination against African American sellers created new monopolies and oligopolies facing inelastic demand in the African American community. New migration increased the extent of the market and business opportunities, e.g., grocers extending their product mix to include southern products and new restaurants specializing in southern cuisine. In addition, R&D and advertising costs were lower due to diminished competition, at least initially.

On the other hand, migration and increasing segregation imposed direct and indirect penalties on black firms. In general, African American migrants from the South had been employed in the agricultural sector and were significantly poorer, less literate, and less skilled than their northern

37 The Call & Post (2008).
38 Like many civic-minded business leaders of his day, Morgan used it as a means of ensuring coverage of stories not covered by mainstream media outlets and as a public service generally. As was the case for many northern industrial cities, there was a dramatic increase in the number of black migrants from the South between 1910 and 1930. Many newspapers were seen as means of disseminating practical information among new and existing residents of Cleveland. Interestingly, in light of historical series on newspapers founded by or for African Americans, Morgan started the Call at an unusual time. Cook (2008) finds that after 1899, black newspapers were founded at a dramatically lower rate than before 1899.
counterparts at this time.\textsuperscript{39} Manufacturing jobs paid wages two to three times wages earned in on-farm jobs in the South.\textsuperscript{40} Their relative poverty made them less able to purchase goods and services offered by firms owned by African Americans or anyone else. Newly geographically-confined black firms also lost market share to white firms in similar industries. Concurrently, existing black firms lost the credible specter of competition as an incentive to innovate. Certainly, with new legal barriers to interracial economic interactions, marketing goods and services to white clients became increasingly costly for black firms. From attempts to institute “white-only” policies to more subtle measures, keeping or attracting richer white customers required significant new costs.

Advertising practices differed significantly by race of the seller. Ads for scientific inventions often featured images of their inventors or developers. According to Laird’s (1998) comprehensive history of the advertising industry, Henry Ford and numerous other inventors were intimately involved in advancing their innovations as scientific and consumer progress. A number of early Ford advertisements contained his image, as did Edison’s (see Figure 10). In stark contrast, African Americans’ images rarely or never appeared on their inventions or advertisements of their inventions destined for broader audiences. In the late 1800’s and early 1900’s, major manufacturers began to use images of African Americans to promote products related to domestic service and agricultural innovation to the American public. Characters portraying domestic servants, e.g., Aunt Jemima (pancake mix) and Uncle Ben (rice), were introduced and became popular at this time.\textsuperscript{41}

\textsuperscript{39} See Margo (1986, 1987) for a detailed description and analysis of income and educational characteristics of southern blacks in the era of segregation.
\textsuperscript{40} Committee on Housing and Sanitation of the Cleveland Chamber of Commerce (1918) in Kusmer (1976), p. 191.
\textsuperscript{41} See Duke University (2009) for a rich and detailed collection of advertising images from this period.
The advertising industry was becoming more professionalized and reduced innovators’ advertising costs to cultivate larger markets during this time. Nonetheless, growing race-related legal restrictions increased the magnitude and intensity of effort required to disseminate information on inventions of African Americans. Given this context, Garrett Morgan’s problem of selling his technology beyond the black community had become appreciably more complex.

Absent firm cost and revenue data, advertising data provide a natural test of the anonymity hypothesis. That is, in markets where consumer-side discrimination among sellers by race is minimal, demand for anonymity by sellers is low, and sellers’ images will likely be incorporated in promotional materials. In markets where consumer-side discrimination by race is greatest, demand for anonymity among sellers will be high, and their promotional materials will suppress sellers’ images and other features that may reveal their race. To recall, three factors affect the anonymity premium for sellers to multiracial clients: search for models and disguises, presence of socially-connected investors or partners of other races, and presence of patents.

Over 400 print advertisements, promotional cards, pamphlets, newspaper articles, campaign flyers, company stationery, and personal correspondence appear in the papers of Garrett Morgan for his inventions and entrepreneurial endeavors. I supplement this collection with archival material from other sources and secondary sources. There is significant heterogeneity with respect to type and number of items available. A systematic review follows of these materials for each invention and entrepreneurial activity for which promotional materials or reporting exists.

Nearly half the promotional items available relate to the gas mask or safety helmet, which he invented, manufactured, and sold nationally and internationally through the National Safety Device
Company or Nadsco. From careful inspection of advertisements and related material, it seems that a four-pronged strategy was developed to advertise this innovation.\(^{42}\) First, Garrett Morgan sought and created opportunities for his helmet and traffic light to be demonstrated as often as possible. For the safety helmet, demonstrations typically took the form of a live “road show” in the spirit of medicine shows common in the 19\(^{th}\) and early 20\(^{th}\) centuries. The audience was the general public, municipal fire departments, and other city officials, including mayors. He often dressed up in a Native American costume as the fictitious “Big Chief Mason”, whom Morgan claimed in his shows was the real inventor of the gas mask instead of Garrett Morgan, his purported assistant.\(^{43}\) In Alliance, Ohio, and in New Castle, Pennsylvania, he was known as George Mason.\(^ {44}\) From the accounts of journalists covering his shows, it is not clear that they knew his race, since, at the time, his race would have been reportable news itself. He enlisted whites explicitly for demonstrations in southern cities. Charles P. Salan, former director of public works for Cleveland, appeared in at least one show in New Orleans.\(^ {45}\) Whether or not there was a deliberate strategy to obtain media coverage of his demonstrations, extracts from resulting articles with favorable coverage were included in promotional material for his safety helmet company, as can be seen in Figure 11. To overcome consumer-side discrimination or lack of familiarity with African American inventors,

One of his most widely reported demonstrations was accidental and elicited both positive and negative reactions from actual and prospective customers. In 1916, an explosion of natural gas

\(^{42}\) While Morgan obtained a patent for a de-curling comb in 1956, it is not included in this analysis. The only advertisements for the comb available in the Garrett Morgan Papers are dated prior to 1956. In the 33 years between the penultimate patent and the last patent, significant and independent changes had occurred in the advertising industry and in the racial climate. Further, Garrett Morgan developed a national and international reputation as an inventor by 1956, which may have changed his marketing strategy in a nontrivial way.

\(^ {43}\) Undated note from Garrett A. Morgan, Jr. to Gordon Stang, Garrett A. Morgan Papers. It was neither as easy nor cheap to do patent searches then as it is now. A curious member of the audience could have easily checked the name on the patent to refute “Big Chief Mason’s” claim of being the inventor of this technology.

\(^ {44}\) Alliance, Ohio publication, dated October 1, 1913, Garrett A. Morgan Papers, and *New Castle News* (1914).

\(^ {45}\) New Orleans *Times-Picayune*, October 22, 1914.
occurred when workers were building a tunnel under Lake Erie. They were trapped, and 11 workers died, along with 10 others who attempted to rescue them. Morgan and his brother Frank were called by city officials in the middle of the night to use the safety helmet to rescue the workers. They brought out two workers alive and recovered four dead bodies. Garrett Morgan received a medal from a Cleveland civic organization and from the International Association of Fire Engineers. While a number of fire departments across the country read this account and enthusiastically placed new or more orders, officials in a number of southern cities saw the helmets identified with their African American inventor and canceled their orders.

Much of the reporting by newspapers, whether favorable or neutral, pre-dated the Lake Erie disaster, which suggests that it was not the first event precipitating responses in changes to consumer-side discrimination. Live demonstrations were likely the means by which evidence of bias against sellers may have been most pronounced. In light of these transaction costs, we can infer that successful demonstrations hinged critically on anonymity achieved through deception and efficient bargaining with whites, whether as models or agents.

A second part of the strategy involved exhibition and competition. From his Papers, it is evident that Morgan tested his new inventions extensively, was confident in their novelty and usefulness, and wanted external validation to show that they were the best new inventions of their kind. While most fairs and exhibitions displaying new technology were spatially or temporally segregated, Morgan incurred the cost to identify ones in which he could compete on equal footing with other

46 In fact, the coverage of this rescue was controversial. Biographers of Garrett Morgan, many of his contemporaries, and from his personal correspondence Morgan himself believed that the Carnegie Medal for heroism should have been conferred on him due to the dangerous and selfless nature of this act. See King (1985) for a rich description of the rescue and its coverage.
inventors and receive recognition. The most important of these was the Second International Exposition of Safety and Sanitation in New York in 1914. His entry won a gold medal, or “First Grand Prize”, a fact that was advertised in trade journals and to a broader audience in newspapers and other publications. Also in 1914, he was granted a patent and began increasing his orders.

Third, explicit partnerships with prominent businessmen of other races constituted another important pillar of his advertising strategy. It would not be surprising that, as a new entrepreneur, he would seek advice and financing from experienced and wealthy businessmen willing to support and promote his technology. Other African American “great inventors”, such as Elijah McCoy, Jan Matzeliger, and Granville T. Woods, and successful African American entrepreneurs in Cleveland, such as George Myers, who was mentioned earlier, attracted such partnerships. In contrast to the partnerships forged by these inventors and businessmen, Morgan’s partnerships were not silent partnerships and were featured prominently in the operations of the business as a means of advertising. From an examination of correspondence on Nadsco letterhead, the inclusion of such names appears strategic. The letterhead included the following names: Victor W. Sincere, the president of the Bailey Company, one of the largest department stores in Cleveland, and board member of the Cleveland Foundation, a leading civic organization; William Ganson Rose – author, civic promoter, advertising executive, and manager of fairs and expositions; Edgar A. Hahn – senior partner of a Cleveland law firm, elected official, and civic promoter; and Alexander L. Dreyfus. All were listed as officers in descending order: president, vice president, secretary, and treasurer. Morgan was listed below the other names as the general manager. From the content of several

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48 Encyclopedia of Cleveland History (2009). Reporting in the Jewish Review and Observer and Jewish Independent suggests that Dreyfus, Hahn, and Sincere were also actively involved in Jewish civic and social activities.

49 Various correspondence, Garrett A. Morgan Papers. There were also three names listed as trustees on the letterhead. The lack of full names, just initials and surnames, did not result in unique matches. Clearly, the names of the officers mattered more than those of the trustees, since officers’ names were printed in full.
letters, including one from 1915, it is evident that his role at Nadsco was comparable to his role at the G.A. Morgan Hair Refining Company, i.e., as president and general manager.\footnote{May 10, 1915 correspondence, Garrett A. Morgan Papers.} Beyond signaling quality and depth and scope of business networks, one reason to list these people in this order was to minimize the aforementioned lack of knowledge of and racial stigma associated with African American inventions, since all named on the letterhead besides Morgan were white. Morgan’s image does not appear on this stationery. While not appearing in advertisements for Morgan’s products, John D. Rockefeller and J.P. Morgan publicly praised his scientific achievements, which would have also raised the probability of success of his inventions generally.

Fourth, in printed advertisements, it is unambiguous that Garrett Morgan meticulously crafted publicity for his inventions to readers of a given outlet. Consider ads in which the gas mask was the subject. In outlets where the readers were largely white and in general, a white model donned the mask as in Figure 12. Whether his intention was to present the model as a plausible inventor of the safety helmet or not, patents, along with his patent attorney, provided anonymity such that he could use or create any representation he wished in advertising, and he did.\footnote{In addition to data on race not being recorded, patent records did not include addresses nor zip codes, just city. The city reported may have been place of residence or place of business. In addition to the presence of a racially ambiguous name, anonymity would have been derived from the inability of a reader of the patent record to locate Morgan geographically, which would become more straightforward with increasing racial segregation.} This approach would have been consistent with that mentioned by Laird (1998) and executed by inventors, such as Thomas Edison in promoting the phonograph in Figure 10.

In stark contrast, the image most appropriate for signaling quality, a photograph of his rescue and recovery efforts in the Lake Erie disaster, only appears in literature intended for African American audiences, Figure 13. In outlets where the readers were black, the model was black or an image of
Morgan appears, as can be seen in his ad in the black newspaper *Cleveland Gazette* and in his campaign flyer, Figure 14. Regardless of his other qualifications for political office, his scientific prowess and use of his invention for the public good are prominently displayed for his would-be constituents, the majority of whom were black. In this instance, Garrett Morgan was readily identifiable and used methods executed among his white contemporaries in their publicity.

Relatively few promotional materials in the Morgan Papers, or otherwise, relate to the traffic light. From these limited items we can infer that he employed live demonstrations and print advertisements to promote it. Demonstrations of the traffic light took the form of actual trials. The first such traffic light was installed on the streets of Cleveland. But there is no evidence that he participated in demonstrations of the traffic light, and his direct involvement in these exhibitions is ambiguous. Although the audience for the traffic light was not limited to safety professionals, printed material about the traffic light mirrored that of the gas mask. The Morgan Safety System was advertised as in Figure 15 using street scenes in which pedestrians and drivers were white. Similar to promotion of the gas mask, Morgan himself was largely out of the picture.

The 11 years between beginning to advertise the gas mask and receiving a patent for the traffic light allowed significant learning-by-doing in advertising. In striking contrast to the commercialization of the gas mask, Morgan decided not to manufacture the traffic light himself but to sell his patent rights, which he did within days of receiving the patent in 1923. In a sense, he outsourced all functions he performed for Nasdco to General Electric. The observed outcome is consistent with profit maximization and an expected benefit from the present value of the stream of income from

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the sale of the traffic light exceeding the present value of the stream of income derived from its manufacture, promotion, and sale.

To review, Garrett Morgan’s advertisements for the safety helmet and traffic light were dramatically different from those of Thomas Edison and of Henry Ford. In particular, there seems to be support for the anonymity hypothesis. His raceless advertising efforts included costs associated with physically disguising himself and others, seeking Pareto-improving partnerships that close the racial gap, and seeking patents and patent-related services for patentable technology. While there are other plausible reasons to incur some of these costs, most seem to have derived from growing discrimination against sellers and the need to remain anonymous.

Advertising Other Inventions and Entrepreneurial Activities

Contrary to advertisements for the safety helmet and traffic light, promotional materials for Garrett Morgan’s other inventions and other entrepreneurial activities were replete with images of himself and of other African Americans. For these products and services his advertising behavior was identical to that of his contemporaries – white firms serving mostly white consumers or black firms serving mostly black consumers. Just as his fellow inventors and entrepreneurs promoted their products as scientific progress, so did he.

Morgan’s innovations related to hair and skin care were targeted to blacks. The 11 products of the Morgan Hair Refiner system, which are listed in Figure 9, were advertised in church publications; publications of conventions of black civic organizations, e.g., Alpha Phi Alpha, a national black
fraternity; and in his own newspaper. Promotional cards, price lists, flyers, and business cards were also circulated.

Again, he used his stationery as a tool of advertisement. He and his family members were included on the stationery of the G.A. Morgan Hair Refining Company. Corresponding to the Safety Device Company stationery, the officers of the firm, his family members, were listed in descending order. Unlike the organization of the Nadsco stationery, Garrett Morgan’s name was first as president and general manager. These features were likely intended to appeal to the African American community. No other persons besides family members were listed on this stationery.

Morgan also created new hair-care firms by aiding new entrepreneurs in establishing their own beauty salons to which his hair-care system was licensed. As can be seen in Figure 16, the process was taught to practitioners and offered to salon owners as a business venture throughout the black community. Both hair-care products and the services related to them appeared to be demonstrated by family members and employees.

Morgan’s entrepreneurial activities related to real estate were also marketed to members of the black community. Among the amenities advertised in the Wakeman Country Club were distance from urban areas; views of Morgan’s Lake and the Vermillion River; “good, level and fertile soil” without sand and swamps; building, camping, and gardening opportunities; and having a “place of our own” (see Figure 17). These advertisements also appeared in publications circulated among African Americans.
As aforementioned, Morgan’s Cut Rate Ladies Clothing Store was the outlet for sales of coats, suits, and skirts manufactured on Morgan sewing machines. Marketing of these clothes was based on Morgan’s reputation for skill developed in sewing-machine repair. While there was only one example of publicity for the store found in the Morgan archives and it had no images in it, we can infer that the store’s clothing was marketed to African Americans. First, it appears in the African American weekly newspaper, the *Cleveland Gazette* (see Figure 13). Second, the address is prominently displayed in the ad. By 1913, the year of publication, the address on Central Avenue would have been unambiguously in the black business district. Third, immediately adjacent to the clothing-store ad is an ad for Morgan’s safety helmet in which he appears.

Finally, civic networks yielded positive externalities for all of Morgan’s firms. He received name recognition from his public endeavors. Numerous signatures were obtained in support of his Erie-Canal rescue efforts and his attempt to gain recognition from the Carnegie Hero Fund Commission. Among those were a rabbi; a Baptist minister, who was also head of the Cleveland chapter of the NAACP; a Ministerial Alliance; and the multiracial Citizen’s Committee that included two black politicians, a white department store manager, a black novelist, a Hungarian department store president, and a white founder of a detective agency. He ran for city council as an Independent in 1931 and used references to and images of his heroic acts in the Lake Erie disaster and of his gold medal in his campaign literature. In general, he was actively involved in the black community, being an officer in the Colored Men’s Association, a predecessor of the NAACP; a founder of a local chapter of a black fraternity at Western Reserve University; and a member of various social and religious organizations, including the Excelsior Lodge Number 11 of the masons and Antioch Baptist Church.

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54 Undated campaign leaflet, Garrett Morgan Papers.
V. Comparisons to Other Entrepreneurs

How did Morgan’s contemporaries in Cleveland address challenges resulting from the spread of segregation and rising consumer-side discrimination? As aforementioned, having lost access to nearly all their white patrons, most entrepreneurs focused their efforts on the black community and in the service sector. Publicity for these firms often included the founders or other African Americans. Alonzo Wright, Cleveland’s first black millionaire, owned and operated seven Standard Oil gasoline stations in the black community and used 1936 Olympian Jesse Owens, who was African American, in his promotional materials.  

For this period, I have been able to identify two other entrepreneurs who had at least one firm with multiracial clients, which would be the appropriate comparison with Garrett Morgan. In one instance there was a sequential decision to diversify the composition of consumers, and in another instance the decision to diversify was simultaneous.

In the 1920’s, Allen Cole was the only professional photographer who was black, and his business drew its clients exclusively from the black community. He was also among the few photographers advancing the science of photography, and it is reported that he was the first photographer to develop tinted photos. In an increasingly racialized environment he protected his firm from insolvency by becoming a subcontractor to white photography firms in Cleveland rather than a direct seller to white consumers.  

56 Ibid., pp. 34-5.
Like Morgan, Samuel Clayton Green developed a variety of business interests and sought protection for intellectual property for an invention he would eventually manufacture. He patented a design for a sofa bed in 1902 and with 16 partners formed the New Leonard Sofa Bed Company. Interestingly, all stockholders and partners in Green’s sofa bed venture were black, while Morgan was the only black investor or partner in his publicly-traded safety device company.\(^{57}\) He ultimately owned partly or wholly a lumber company, a laundry, a skating rink, a dance hall, a restaurant, the first African American theater in Cleveland, two pharmacies, and two real estate companies, Acme Real Estate and Mohawk Realty. Rather than targeting or being confined to solely black consumers, all people of all races were cultivated as users of the New Leonard sofa bed. Similar to Morgan’s advertisements, the advertisement for the sofa bed was raceless, as can be seen in the company’s promotional ad in Figure 18.\(^{58}\) Neither the ad pictured nor other publicity made use of people actually sitting on or using the sofa. From the accounts available, this venture was profitable but short-lived due to Green’s premature death in 1915. Green attempted to attract whites to his other businesses, including his skating rink. As aforementioned, in order to do so, he instituted “white only” days at the skating rink, which was ultimately declared illegal following a lawsuit by a black patron who was not allowed to enter on a “white only” night.\(^{59}\) In sum, Cole’s response to increasing discrimination against sellers was to achieve anonymity by eliminating direct sales to the public. On the contrary, Green’s and Morgan’s response was to segment markets within and across products and to adopt anonymity when needed.

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\(^{57}\) Haber (1970), p. 66.

\(^{58}\) The image used in a promotional paperweight of the New Leonard Sofa Bed Company from online sellers of historic memorabilia was identical to that in the newspaper ad from the same period.

Two entrepreneurs seem best suited for comparison among his contemporaries, because they were also inventors who started firms based on their inventions: Elijah McCoy and Granville T. Woods.\textsuperscript{60} Like Brush, Ford, and Edison, Woods, McCoy, and Morgan were inducted into the Inventors Hall of Fame.\textsuperscript{61}

Elijah McCoy started a firm that produced lubricator cups (for trains), for which he obtained more than 50 patents between 1872 and 1926. Morgan and McCoy adopted diametrically opposed strategies for marketing their protected inventions, which were intended for a multiracial or white audience. Because of the precision with which McCoy’s fire-averting lubricator cup was designed, he insisted on installing the device himself as himself, which was effectively a live demonstration. Attempts to copy his technology failed, as did improperly installed cups, and his cup earned the name the “real McCoy”. Railroad jobs were largely segregated, and his audiences were largely white engineers unaccustomed to black workers in their ranks. Initially, sales of the cup fell broadly, as his fellow railroad engineers begin to label it with a racial epithet. In spite of this, sales recovered as his lubricator cup was adopted on the majority of American railroad engines in the late 19\textsuperscript{th} and early 20\textsuperscript{th} centuries. In 1920, very late in his career, he lent his name to name the company that was ultimately formed with a number of white investors to manufacture his lubricator cups.\textsuperscript{62} Besides oil cups, McCoy patented a number of other inventions, including for a straightening comb, as did Morgan; a lawn sprinkler; a scaffold support; an ironing table; and tread for tires. However, there is no evidence that he commercialized these technologies nor that he engaged in any other entrepreneurial activity.

\textsuperscript{60} Beyond Cleveland, there were also few entrepreneurs with whom Morgan could be compared, largely due to the paucity of data.
\textsuperscript{61} Woods, McCoy, and Morgan were inducted between 2001 and 2006.
\textsuperscript{62} See Haber (1970) and Brodie (1993) for a comprehensive account of McCoy’s inventive activity.
Like McCoy, Granville T. Woods’s entrepreneurial activities, which included selling and manufacturing inventions, were derived from his patented inventions. In the inventors’ circles of the late 19th century, he was considered one of the most talented electricians and inventors of his day and among the most prolific with 45 patents. Publicity for Woods’s inventions often originated from high-profile lawsuits, e.g., against Thomas Edison. According to a recent biography in Fouché (2004), the most noticeable way in which the practice of segregation seems to have affected advertisement and marketing of his technology emerged primarily in the uneven coverage of legal proceedings involving him in the press. Fouché reports that, at the time, white members of the press often and wrongly assumed that Woods could not have been the inventor of the sophisticated technology in question and gave his white opponents more and favorable coverage. Nonetheless, he typically won these cases, including against Edison. Fouché’s observation bears some resemblance to the coverage of the Lake Erie disaster in Garrett Morgan’s case. A nontrivial portion of the documents in the Garrett A. Morgan papers Collection is related to Morgan’s and other prominent Cleveland citizens’ petition of the Carnegie Hero Fund Commission.

In extensive archival searches, including newspapers, trade publications, and memorabilia, Woods’s and McCoy’s advertisements were impossible to find. Among the few images that exist, they are either of the person himself or of his invention but not of the two together, a practice which clearly diverges from that of their contemporaries, Ford and Edison. Given scant evidence and few financial and promotional records for these two prominent inventor-entrepreneurs, little can be inferred about the precise magnitude of the effect of increasing consumer-side discrimination on their innovative activities. Yet, their experiences are suggestive that planned publicity was

63 Like Morgan, Woods owned a machine repair shop. From the account in Fouché (2004), it appears to have been a very short-lived enterprise.
64 Fouché (2004), p. 79. See this volume for a rich description of the inventive and entrepreneurial activities of Granville T. Woods.
outsourced to patent agents and attorneys. Lamoreaux and Sokoloff (2003) show that patent agents and attorneys were emerging as true intermediaries in the market for technology during this period and that their role was partly marketing. As was noted above, the patent examiner Baker (1917) mentions the extraordinary difficulty associated with verifying African American patentees in his research, because intermediaries were often protective of the racial identity of inventors due to fear of racial discrimination. The evolving division of labor between inventors and their agents may have produced an unintended positive externality for inventors seeking to minimize consumer-side discrimination. Since McCoy’s demonstrations and Woods’s public appearances were often contentious, patent intermediaries would have been critical in marketing their inventions and likely Morgan’s traffic light. Their experiences and those of Cole and Green imply there was a role for people and mechanisms that anonymized sellers following a negative shock to consumer taste.

VI. Conclusion

How do profit-maximizing entrepreneurs respond to discrimination against sellers? An experiment from formal and informal bans on integrated economic activity in the late 19th and early 20th centuries is studied to understand firm responses to consumer-side discrimination. Using records from inventor-entrepreneur Garrett Morgan, new data on African American firms and inventors, and secondary sources, I find that entrepreneurs whose business practices adapted to the new conditions and whose firms maintained and gained a racially diverse market were able to do so largely as a result of seller anonymity. Three types of costs were associated with the anonymity premium: search, investor, and patent-related costs. Interracial Coasean bargaining is an implicit feature of each cost and aids firms and consumers in attaining a Pareto-improving outcome, i.e., increased trade. That is, blacks and whites engaged in extensive formal and informal arrangements
to relax binding constraints imposed by segregation and to create markets where they may not have existed otherwise.

To be sure, this research cannot address certain questions, e.g., the precise relation between sales or profitability and advertising. Nonetheless, the historical evidence is suggestive that mechanisms that anonymize sellers increased welfare. Likewise, the implication for the current period is that such mechanisms, e.g., prices that automatically include tips in restaurants (*service compris*) or cabs or voice-manipulation technology in the case of telephone marketing or other conversation, may diminish discrimination against sellers and increase trade and welfare today.
References


*Cleveland Gazette*, various advertisements, January 13, 1913, Garrett A. Morgan Papers Collection, Western Reserve Historical Society.


Coase – Cook October 2009


Morgan, Garrett A. Garrett A. Morgan Papers, Western Reserve Historical Society Library.


New Orleans Times-Picayune, October 22, 1914.


Appendix A

Ceteris paribus, we can characterize the convex cost functions of the two types of firms as

\[ C_{OR} = wL + rK + AD + t, \] \hspace{1cm} (1)

\[ C_{MR} = wL + rK + AD + t + AN(S, INV, IP), \] \hspace{1cm} (2)

where \( w \) is the real wage, \( L \) is units of labor used in production, \( r \) is the price of capital, \( K \) is units of capital, \( AD \) is the cost of advertising, \( t \) is lump-sum taxes, and \( IP \) is the cost of patenting and patent-related services. We assume that \( S > 0, INV \geq 0, \) and \( IP \geq 0 \). The partial derivatives of \( AN \) are

\[ \frac{\partial AN}{\partial S} > 0, \quad \frac{\partial^2 AN}{\partial S^2} \geq 0; \quad \frac{\partial AN}{\partial INV} \leq 0, \quad \frac{\partial^2 AN}{\partial INV^2} \leq 0; \quad \text{and} \quad \frac{\partial AN}{\partial IP} \leq 0, \quad \frac{\partial^2 AN}{\partial IP^2} \leq 0. \]

That is, cost of search and other activities related to client interaction strictly increases the size of the premium. More investors, patents, and patent-related services reduce the size of the premium at a diminishing rate.
Figure 1. New State Laws Promoting Segregation, By Region and Year, 1890-1930

Figure 2. State Laws Promoting Segregation, By Region and Type, 1890-1930

Source: Cook (2008) and jimcrowhistory.org
Table 1. African American Firms, Owners and Employees, 1890-1930

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>1890</th>
<th>1900</th>
<th>1910</th>
<th>1920</th>
<th>1930</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agents/Salesmen</td>
<td>2,288</td>
<td>4,904</td>
<td>9,054</td>
<td>8,293</td>
<td>25,534</td>
</tr>
<tr>
<td>Barbers/Hairdressers</td>
<td>17,480</td>
<td>19,942</td>
<td>22,534</td>
<td>31,352</td>
<td>34,263</td>
</tr>
<tr>
<td>Bankers/Brokers/Clerks</td>
<td>114</td>
<td>82</td>
<td>241</td>
<td>142</td>
<td>267</td>
</tr>
<tr>
<td>Hotel Keepers</td>
<td>420</td>
<td>481</td>
<td>973</td>
<td>1,020</td>
<td>1,064</td>
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<tr>
<td>Journalists</td>
<td>134</td>
<td>210</td>
<td>220</td>
<td>251</td>
<td>367</td>
</tr>
<tr>
<td>Photographers</td>
<td>190</td>
<td>247</td>
<td>404</td>
<td>608</td>
<td>545</td>
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<tr>
<td>Restaurant Keepers</td>
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<td>3,993</td>
<td>6,369</td>
<td>7,511</td>
<td>10,543</td>
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<tr>
<td>Retail Merchants</td>
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<td>13,924</td>
<td>23,526</td>
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<tr>
<td>Saloon Keepers</td>
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<td>1,663</td>
<td>96</td>
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<tr>
<td>Undertakers</td>
<td>231</td>
<td>453</td>
<td>953</td>
<td>1,558</td>
<td>2,946</td>
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<tr>
<td>Wholesale Merchants</td>
<td>535</td>
<td>148</td>
<td>257</td>
<td>67</td>
<td>130</td>
</tr>
<tr>
<td>TOTAL</td>
<td>31,127</td>
<td>40,445</td>
<td>56,592</td>
<td>74,424</td>
<td>103,872</td>
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Table 2. Distribution of African Americans, by Census Tract, Cleveland, 1910-1930

<table>
<thead>
<tr>
<th>Percentage African American(^a)</th>
<th>Number of Census Tracts(^b)</th>
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<tbody>
<tr>
<td></td>
<td>1910</td>
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<tr>
<td>None</td>
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</tr>
<tr>
<td>1-2</td>
<td>114</td>
</tr>
<tr>
<td>2-5</td>
<td>9</td>
</tr>
<tr>
<td>5-10</td>
<td>8</td>
</tr>
<tr>
<td>10-20</td>
<td>5</td>
</tr>
<tr>
<td>20-30</td>
<td>1</td>
</tr>
<tr>
<td>30-50</td>
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</tr>
<tr>
<td>Over 50</td>
<td>0</td>
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</table>

Source: Howard W. Green, Population Characteristics by Census Tracts, Cleveland, 1930 (Cleveland, 1931), pp. 160-165.

\(^a\) The percentages for several of the tracts are estimates, because the Census Bureau statistics for two or more tracts were sometimes combined.

\(^b\) The number of tracts increased from 158 in 1910, to 185 in 1920, and to 208 in 1930.
Figure 3. Occupational Structure, Cleveland, 1890-1930, Male

Figure 4. Occupational Structure, Cleveland, 1890-1930, Female

Source: Kusmer (1976); U.S. Census 1910, 1930
Figure 5. Occupational Structure, Cleveland, African Americans, 1890-1930, Male

Figure 6. Occupational Structure, Cleveland, African Americans, 1890-1930, Female

Source: Kusmer (1976), U.S. Census 1910, 1930.
<table>
<thead>
<tr>
<th>Census Tract</th>
<th>Percentage, African American</th>
<th>Percentage of families owned home</th>
<th>Percentage of families having a radio set</th>
<th>Illiteracy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zone 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G-2</td>
<td>9</td>
<td>4</td>
<td>2</td>
<td>10.8</td>
</tr>
<tr>
<td>G-5</td>
<td>6</td>
<td>13</td>
<td>12</td>
<td>9.2</td>
</tr>
<tr>
<td>I-2</td>
<td>37</td>
<td>12</td>
<td>12</td>
<td>7.9</td>
</tr>
<tr>
<td>I-4</td>
<td>29</td>
<td>6</td>
<td>3</td>
<td>15.7</td>
</tr>
<tr>
<td>I-5</td>
<td>26</td>
<td>14</td>
<td>9</td>
<td>8.4</td>
</tr>
<tr>
<td>I-6</td>
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<td>9.5</td>
</tr>
<tr>
<td>I-7</td>
<td>76</td>
<td>6</td>
<td>9</td>
<td>8.5</td>
</tr>
<tr>
<td>J-2</td>
<td>49</td>
<td>12</td>
<td>7</td>
<td>12.7</td>
</tr>
<tr>
<td>J-3</td>
<td>49</td>
<td>10</td>
<td>11</td>
<td>11.2</td>
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<tr>
<td><strong>Zone 2</strong></td>
<td></td>
<td></td>
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<td>H-9</td>
<td>89</td>
<td>6</td>
<td>19</td>
<td>5.6</td>
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<tr>
<td>I-8</td>
<td>76</td>
<td>6</td>
<td>17</td>
<td>7.3</td>
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<tr>
<td>I-9</td>
<td>82</td>
<td>10</td>
<td>10</td>
<td>6.7</td>
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<td><strong>Zone 3</strong></td>
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<tr>
<td>L-9</td>
<td>71</td>
<td>6</td>
<td>33</td>
<td>2.5</td>
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<tr>
<td>M-3</td>
<td>81</td>
<td>20</td>
<td>35</td>
<td>2</td>
</tr>
<tr>
<td>M-7</td>
<td>91</td>
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<td>17</td>
<td>1.3</td>
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<td>78</td>
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<td>19</td>
<td>6.9</td>
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<td>M-9</td>
<td>33</td>
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<td>6.1</td>
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<td>N-2</td>
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<td>N-7</td>
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<td>35</td>
<td>1.9</td>
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<td><strong>Zone 4</strong></td>
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<td>60</td>
<td>3.9</td>
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<td>M-5</td>
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<td>S-8</td>
<td>14</td>
<td>28</td>
<td>43</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>51.68</td>
<td>15.36</td>
<td>22.76</td>
<td>5.88</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>53</td>
<td>13</td>
<td>19</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Cleveland Average</strong></td>
<td>8</td>
<td>n.a.</td>
<td>22.8</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Ohio Average</strong></td>
<td>4.7</td>
<td>n.a.</td>
<td>18.7</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>U.S. Average</strong></td>
<td>9.7</td>
<td>23.9</td>
<td>7.5</td>
<td>16.3</td>
</tr>
</tbody>
</table>

Source: Cleveland census tracts data are Kusmer (1976). Cleveland, Ohio and U.S. data are Bureau of the Census (1933). Note: Data are reported for zones with at least six percent black population on Cleveland’s east side. Central Avenue, location of the African American business district, lies in zones 1, 2, and 3. For Cleveland, Ohio, and U.S. data, illiteracy rates are illiteracy in the population 10 years old or over.
Table 4. Garrett Morgan’s Inventions and Enterprises

<table>
<thead>
<tr>
<th>Inventions</th>
<th>Patent Number</th>
<th>Grant or Invention Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety hood (gas mask)</td>
<td>1090936, 1113675</td>
<td>1914</td>
</tr>
<tr>
<td>Traffic light*</td>
<td>1,475,024</td>
<td>1923</td>
</tr>
<tr>
<td>Decurling comb</td>
<td>2,762,382</td>
<td>1956</td>
</tr>
<tr>
<td>Improvement to sewing machine*</td>
<td>n/a</td>
<td>1901</td>
</tr>
<tr>
<td>Hair- and skin-care products</td>
<td>n/a</td>
<td>1905</td>
</tr>
<tr>
<td>Automatic cooker</td>
<td>n/a</td>
<td>1933</td>
</tr>
<tr>
<td>Hat, belt fasteners, friction drive clutch</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Self-extinguishing cigarette filter</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entrepreneurial Activities</th>
<th>Name</th>
<th>Date Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hair- and skin-care products</td>
<td>G.A. Morgan Hair Refining Company</td>
<td>1905</td>
</tr>
<tr>
<td>Sewing-machine repair and sales shop</td>
<td>n/a</td>
<td>1907</td>
</tr>
<tr>
<td>Clothing manufacture and sales</td>
<td>Morgan’s Cut-Rate Ladies Clothing Store</td>
<td>1909</td>
</tr>
<tr>
<td>Gas mask</td>
<td>National Safety Device Company</td>
<td>1912</td>
</tr>
<tr>
<td>Newspaper</td>
<td>Call &amp; Post</td>
<td>1916</td>
</tr>
<tr>
<td>Real estate development</td>
<td>Wakeman Country Club</td>
<td>1923</td>
</tr>
</tbody>
</table>

*Rights to invention were sold.

Source: Garrett Morgan Papers Collection, Western Reserve Historical Society; US Patent and Trademark Office; Haber (1971)

Note: The Cleveland Call newspaper founded by Morgan was merged with the pre-existing Post newspaper between 1927 and 1929. Patent grant dates and numbers are for U.S. patents. Data not applicable are denoted by “n/a”.

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Coase – Cook October 2009
Figure 7. Pamphlet Promoting Morgan’s Safety Helmet

Source: Western Reserve Historical Society.
Figure 8. Garrett A. Morgan’s Traffic Light Patent

Source: USPTO.gov.
Figure 9. G. A. Morgan’s Hair Products Advertisement

Source: Western Reserve Historical Society
Figure 10. Thomas Edison’s Phonograph Advertisement

Source: WordPress.com
Figure 11. Safety Helmet Pamphlet, Newspaper Clippings

What is the use of fighting fire all night when you can do the work in fifteen minutes? Two men equipped with the Morgan Helmet and a good fire extinguisher can accomplish more in the first fifteen minutes than a whole company can in the next thirty minutes.

I have used the Morgan Helmet in my department for over a year and it has given me great satisfaction in assisting me in saving human lives and property, and I am sure it has saved our city many thousand dollars since it has been in use in our department. I highly recommend this helmet to any one and do feel that no one will make a mistake in purchasing the same. It is the simplest, best and cheapest on the market.

Sincerely yours, JOHN T. METZ,
Chief of the Fire Dept., Akron, O.

CHIEF JAMES J. MULCAHY OF YONKERS, N.Y.

"I have tested the Morgan Helmet and it stood the test well. We prefer the Morgan Helmet in preference to all others. In a competitive test made at our headquarters, Saturday, Sept. 15, 1914, the Peerless Helmet, owned and sold by the S. P. Hayward Company, 39 Park Place, New York City, and the Morgan National Safety Helmet, owned by the National Safety Device Company, Cleveland, Ohio. The Peerless demonstrator remained in a gas and smoke filled room for four hours and the Morgan demonstrator remained in the same room for twenty-five minutes and when he came out he did not seem to be at all unharmed. We tried them both and we all prefer the Morgan Helmet in preference to the Peerless. And I immediately placed an order for six Morgan Helmets upon the merits of the helmet and its demonstration, at a price of twenty-five dollars each for general use in our department.

CHIEF R. R. FANCHER OF NEW HAVEN, CONN.

"Marshal Perkins and I have tested the Morgan Helmet and find it very good. It stood the test well in sulphur gas and formaldehyde, and I shall recommend it to the board for general use in the department.

CHIEF FORBUSH OF PEESKILL, N.Y.

speaks very highly of the MORGAN NATIONAL SAFETY HELMET. "We gave it a very rigid test and it stood the test well. A number of our firemen preferred the Morgan Helmet in preference to the Service Ever Ready Helmet, which we have been using in our departments for some time, as the Morgan Helmet is much easier and lighter to slide on and off than all other helmets.

Chief Forbush was so impressed over the demonstration he immediately ordered six helmets; two of same are to be used in the Peekskill Fire Co., and the rest in the Peekskill Fire Department. The National Safety Device Company has put out over five thousand helmets in the past year. These helmets are now in use from coast to coast. It takes but seven seconds to put it on and two seconds to take it off. No tight fitting around the neck. You cannot get it out of order. Weight three and one-half lbs. cost twenty-five dollars each.

Write us for catalogue and special demonstration.

CHIEF LITTLE OF ROCHESTER, N.Y.

Chief Little experimented with a helmet in room of Fire Department, Central Ave., remaining in room filled with sulphur for forty (40) minutes. Chief Little also has put a requisition in for helmets for the Fire Department. It is to be used at fires in which acids and gases are encountered.

ZANESVILLE DAILY COURIER
Thursday, October 23, 1914.

"The test at the Volunteer Fire Station in the presence of all the firemen in a room filled with dense smoke and formaldehyde fumes. The demonstrator remained there for about twenty minutes. The new helmet will be recommended to the City Council.

UTICA OBSERVER
Monday, April 20, 1914.

"An experimental test was given the Morgan National Safety Helmet in the harness room by a representative of the Company, Mr. Mason. Chief Sullivan and others took out their watches to time the stay of Mr. Mason.
Figure 12. Safety Helmet Advertisement for Multiracial Readers

At this point we should like to call your attention to our booklet on our Style One Helmet. This shows a few of the many practical and rigid tests which the Morgan National Safety Hood has met with great success. It also contains comments upon the inestimable value of this helmet by Fire Chiefs all over the country.

Our Style Two Helmet is designed to be used in cases where one Style One Helmet would not be applicable such as working in the midst of heavy gases that rest on the floor or on elevations in dense clouds of smoke. We are certain that all that is said in our style one pamphlet of that helmet could be said of our style two hood in its field.

The new helmet known as Morgan’s Style Two Combination Smoke, Gas, Ammonia and SandBlast Protector is now being used and given a thoroughly satisfactory test by the Cleveland Fire Department, Public Buildings, and several of the largest foundries and refrigerating plants in the United States. It is also very good in spraying trees and shrubbery, where dangerous and offensive fumes are encountered.

It is especially adapted to speedy work as it only takes about seven seconds to don and three seconds to remove. Anyone can wear it, man, woman or child.

There are no valves to adjust, no binding about the neck, no straps to buckle and no heavy gas tanks attached.

Source:

Western Reserve Historical Society
Figure 13. Morgan Advertisements, *Cleveland Gazette*, January 13, 1913.

**BIG SALE!**

Ladies Coats, Suits & Skirts

We have just opened up a store where you can buy Ladies Tailor Made Outer-Garments direct from the Factory at wholesale prices; thus saving the Regular Merchant's Profit.

No such Bargains in Town as here

Ladies Suit Value $25 at $7.50 and up
Skirts value $7 & $8 at $3.50 and up
Goats value $18 to $25 at $7.50 up.

Morgan's Cut Rate
Ladies Clothing Store
2544 Central Ave.

Source: Western Reserve Historical Society
Figure 14. Campaign Flyer

GARRETT A. MORGAN
Independent Candidate for Council, in the 3rd District

Clevelands' most honored and bravest citizen, saving the lives of Cleveland's working men, 5 miles out and 250 feet under the bottom of Lake Erie, in deadly poisonous gas and compressed air, at the Cleveland Water Works Crib Disaster, July 24, 1916. Inventor of one of the first Gas Masks used during the World War.

Elect Garrett A. Morgan to Council; one of the most Daring, Outstanding, Fearless and Courageous men for justice in the state. If elected I will try to lead the people of the 3rd District, to Equal Representation in the affairs of City Government.

Any Voter in the 3rd District can vote FIRST CHOICE for GARRETT A. MORGAN, regardless of the Ward the voter lives in. Ignore the persons who approach you with a Marked Sample Ballot. Mark a FIGURE 1 in front of the name GARRETT A. MORGAN and you will be voting correctly. I Thank You.

Source: Western Reserve Historical Society
Figure 15. Morgan Safety System Advertisement

Source: Western Reserve Historical Society
Figure 16. Morgan Hair System Enterprises

Source: Western Reserve Historical Society
Figure 17. Real Estate Advertisement

G. A. Morgan Heads Movement for New Resort and Village

Your choice of over 200 building lots for $60.00 each for cash or on time payment. A warranted deed guaranteed with each lot when paid for. Help us to have a village of our own at Wakeman Heights near Wakeman, Ohio, 46 miles west of Cleveland public square and nine miles west of Oberlin, Ohio.

All lots are good, level and fertile soil: no swamps or sand. Size of lots 30 x 80 feet. Some lots face Morgan's Lake and some the Vermillion River. You may use these lots for building homes, camping or garden space just as soon as you have made your down payment. $10.00 is the down payment on 1 or 2 lots. Balance $5.00 per month on 1 lot or $7.50 per month on 2 lots. $15.00 is the down payment on 3 or 4 lots. Balance per month on 3 lots is $10.00 or for 4 lots or more 12.50 per month.

Write G. A. Morgan & Son's, 5202 Harlem Ave, Cleveland, O. or Phone Henderson 7821, and we will call for you by appointment in a closed car and drive you to the Newly Proposed Village, better known as The Wakeman Country Club. (If driving, take Route 20 to Wakeman.)

Source: Western Reserve Historical Society
Figure 18. The New Leonard Sofa Bed Advertisement

Source: *The Black Cat*, Vol. 9 (1903), pp. 848.