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Economics for Inclusive Prosperity

Racial Inequality

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The origins of American capitalism in the institutions of slavery continues to cast a long shadow. As the economist William Darity Jr. has written, the dead hand of history weighs heavily on us because the dead hand of history remains fitfully alive.

Contemporary racial inequality can be thought of as the product of a long historical process with at least two reinforcing sets of policies. The first would be policies governing the spatial distribution of the black population. The second would be policies that had a disparate impact on black individuals because of their locations. Understanding current black-white gaps in income, wealth and education require understanding the complex relationship between regional inequality, race and policies at the local, state, and national levels. In this article, we outline the ways that the spatial distribution of the black population has evolved over time and the ways that spatial distribution has interacted with policy to, at times, reduce and exacerbate levels of inequality. Recognizing the ways that past policies explicitly stymied black economic mobility and how current policies have explicitly or inadvertently done the same provides a basis for understanding how to craft future policies to reduce racial inequalities. Furthermore, recognizing the interconnection of discrimination and the spatial distribution of the black population is important for understanding certain components of regional and spatial inequality.

The difference in location within regions makes it inevitable that policies that differentially affect urban and rural areas will have disparate effects by race. A recent example of this is the proposed Medicaid work requirement in Michigan. The original version of Michigan Senate Bill 897 exempted individuals from this work requirement conditional on residing in a county with an unemployment rate above 8.5 percent. The spatial distribution of the white and black populations of Michigan meant that this exemption would have racially disparate impacts; given that poor white individuals disproportionately live in rural areas and black individuals live in urban areas, the higher unemployment rates in rural counties would disproportionately exempt white Medicaid recipients from the work requirement within the bill.

Although—after considerable negative press—the exemption was dropped from the final version of the work requirement bill, this incident reveals the complex interplay between policy, inequality across space, and inequality between races. Even if a policy like the unemployment rate exemption in the Michigan bill is crafted without discriminatory intent, it can nonetheless increase racial inequality. In the following sections we explore the how policy has shaped the geographic and economic mobility of the black population over the past century and a half, drawing from the large literatures on regional inequality and racial discrimination that have all too often been treated in isolation from one another.

Historical Roots

With the abolition of slavery in 1865, the Civil War marked an end to the starkest form of institutionalized discrimination but left a black population that, while free from legal bondage, faced considerable economic hardship. Immediately after emancipation, the black population found itself disadvantaged both by general regional inequality and by racial discrimination. The geographic distribution of slavery and constraints on the mobility of free blacks in the antebellum period resulted in large concentrations of the black population in the cotton-growing regions of the South at the time of emancipation, an area that corresponds quite closely to the areas with high black population shares today. By 1880, 90 percent of the black population still lived in the South and 87 percent of the black population lived in a rural area. In contrast, only 24 percent of the white population lived in the South, and 72 percent of the white population lived in rural areas. This meant that black individuals were disproportionately affected by constraints on economic opportunity in the rural South. Over the second half of the nineteenth century, Southern and Northern incomes diverged significantly, with average income in the South only half of the national average by 1900 (see Margo and Kim (2004) for extensive discussion of historical trends in regional income patterns). The destruction of the Civil War and the emergence of Northern manufacturing while the Southern economy remained predominantly agricultural contributed to these trends.

Even more, policies which could address racial inequality were never realized. While Southern whites had been able to avail themselves to land via Land Acts, public land sales, and lotteries for land ceded by treaty with Native American tribes, African Americans had no share in this wealth redistribution. Black politicians in Reconstruction attempted to use tax policy to redistribute wealth (Logan 2018), where land which was currently held in inventory would be taxed to encourage land sales. This policy did not result in land redistribution, however, even for land which was seized by the state for non-payment of property taxes (Foner 1988). The end of Reconstruction also signaled the end of black political participation in the South, and the resulting laws on labor mobility, wages, and worker's rights were configured in non-democratic processes.

Beyond this, education in the South was segregated and, after Reconstruction, differentially funded (Logan 2018). This left the majority of the black population in the US in schools which were underfunded in two relative terms. First, Southern schools were underfunded overall relative to school expenditures nationwide. Second, black funding dramatically trailed white funding within the South. This left blacks in the South in the last- last place when it came to investments in human capital.

The black population therefore found itself in a region with far less economic opportunity than the rest of the nation. More importantly, that economic opportunity was further restricted by individual and institutionalized racism and political disenfranchisement. Discrimination in hiring by employers and intimidation of black workers through violence placed black workers at a direct disadvantage in the labor market.

Discrimination

Discriminatory practices negatively affecting economic outcomes were not limited to the South when consumer-side discrimination began to increase in tandem with Jim Crow laws. African American inventors (Cook 2010; 2012; 2014, Fouché, 2005) found it harder to practice invention and to commercialize their inventions (Cook 2011, 2012). From newspapers (Cook 2014) to photographers to furniture makers (Kusmer 1976) African American entrepreneurs lost their businesses and could not grow due to constraints imposed by redlining and other practices of the local, state, and federal government (Baradaran 2017). Athletes from golfers (Dawkins 1996) to baseball players (JBHE 2001, Mackenna 2011) to jockeys (Leeds and Rockoff 2017) were barred from participating in the organized sports in which they were trained and participated.

This discrimination can be seen at its worst in the relationship between lynchings, or extralegal killings, and economic conditions. Until 1905, this type of mob violence against Southern blacks was higher when the price of cotton was declining and inflationary pressures were rising, making the economic conditions of white agricultural workers more precarious (Beck and Tolnay 1990). This violence also extended to attacks on economically successful black communities. The most infamous case was the destruction of the Greenwood community, "Black Wall Street," during the Tulsa race riot in 1921. However, violence against African Americans that resulted in devalued or confiscated property and, in some cases, precipitated migration was commonplace and widespread. "Whitecapping" was the lawless practice of confiscating land that resulted in many African Americans losing their land (Holmes 1980, Whayne 1996, and Winbush 2003). Similarly, sundown towns were found all over the country and were the outcome when black families were given two days or so to leave town or be killed (Loewen 2005, Jaspin 2007).

Beyond labor markets, blacks also faced discrimination in credit markets, for example the discrimination in merchant credit documented by Olney (1998). Insurers and mortgage lenders refused to underwrite African American households and entrepreneurs (Baradaran 2017). The inability to acquire property and business loans is currently at the root of the racial wealth gap. (See Dymski 2006 for a general overview of the theory and empirical evidence for racial discrimination in credit and housing markets).

Compounding this discrimination by individuals was the state-sanctioned segregation brought about through Jim Crow laws. Approximately 290 laws imposing segregation primarily in education, voting, and public accommodations, were promulgated by states between 1870 and 1940. Most were passed in the South prior to 1900 and outside the South after 1900 (Cook 2014). This segregation impacted every aspect of life. Most directly related to black economic opportunity is the impact of Jim Crow on education. Segregated schools led to inferior educational opportunities for black children relative to white children, with black schools and teachers routinely underfunded relative to white schools (Baker 2017; Card and Krueger 1992; Carruthers and Wanamaker 2013; Margo 1982). With segregated schools, hospitals, libraries, and other facilities, black individuals living in the same cities and towns as white individuals had access to far fewer resources.

Jim Crow laws devastated existing economic and social ties that crossed racial lines. Social networks related to invention, which were critical for bringing inventions to market (Thomson 2010), were severed during this period, and African Americans bore the brunt of this cost (Cook 2010, 2011, 2014). Even African American "great inventors," such as Lewis Latimer, Garrett Morgan, and Granville T. Woods, and were subjected to this disruption in innovative activities due to a disruption in social ties (Cook 2010, 2011, 2012). During the age of Jim Crow, black inventors were not able to fully participate in fairs – confined to "Negro days" or "Negro buildings" – where much information was exchanged and many social and financial ties relevant for invention were made.

Part of what enabled this discrimination in economic and social spheres of life were discriminatory restrictions on the right to vote, making the United States a very limited democracy until the 1960s. Despite large black populations in the South at the start of the 20th century, that population had no political power due to disenfranchisement and voter intimidation. Without the power of the ballot box, black Southerners remained subjected to overtly racist policies constraining their economic opportunities.

Racial Wealth Inequality

These issues carry over to this day, where blacks have the most tenuous connection with wealth. While blacks did make gains in wealth acquisition after chattel slavery was ended, the pace was slow and started from a base of essentially nothing. The gains that were made took place in a system that was politically rigged, and where whites could use violence to force blacks from their property via the terrorism of whitecapping – including the race riots as in Memphis in 1866 and Tulsa in 1921, which systematically destroyed or stole the wealth blacks had acquired, and lowered the rate of black innovation. It is not surprising that 1899 remains to date the year of the highest per capita patenting activity by African Americans (Cook 2014). Black wealth was tenuous without the rule of law to prevent unlawful seizures. Even so, by 1915 black property owners in the South had less than one tenth of the wealth of white landowners (Margo 1984, Higgs 1982). If one factors in the relative lack of black landownership more generally, the ratio quickly declines significantly. If anything, this trend remained stable for the next fifty years. In 1965, one hundred years after Emancipation, blacks were more than 10% of the population but held less than 2% of the wealth in the United States, and less than 0.1% of the wealth in stocks (Browne 1974). Black wealth had remained fundamentally unchanged and structurally out of reach of the vast majority of blacks.

Aided by a complicit Federal Housing Administration (FHA), the use of restrictive covenants, redlining, and general housing and lending discrimination extended these racially exclusionary and wealth extracting structures well into the 20th Century. Moreover, blacks were largely excluded from the New Deal and World War II public policies, which were responsible for the asset creation of an American middle class. Even with efforts designed to mitigate the consequences of these policies, such as the building of the model city Soul City, NC, promising efforts which attracted blacks from poor and segregated urban areas in the North, were thwarted by segregationists like Senator Jesse Helms before take-off. In addition to housing, the professional and management class that the GI Bill generated is one example of several postwar policies in which the federal government invested heavily in the greatest growth of a white asset- based American middle class, at the exclusion of blacks. While the GI bill did result in educational advances, most American colleges and universities were closed to blacks, or open to only but a few in token numbers. This, along with a racist distribution of GI benefits towards whites coupled with a truncated housing supply resulting from a Jim Crow segregated South that limited the ability of Historically Black Colleges and Universities (HBCUs) to accommodate the education and housing needs of black veterans.

When blacks did move North the circumstances of the escape from the South have been revised. While blacks migrating North did do better than blacks who remained in terms of wages, their relative position actually declined. Indeed, new research shows that black migratory patterns were well correlated with increased expenditures on law enforcement (Derenencourt 2018), which points to mass incarceration as one mechanism which explains the large and negative mobility of black males in particular. In both cases, policies in both regions uniquely target blacks and inhibit their economic opportunities.

Another dimension of racial wealth inequality appears in the innovation economy. Cook and Kongcharoen (2010) and Cook (2019) show that, despite advances in education and training in the innovation economy, there are not commensurate increases in participation at the stage of wealth accumulation – commercialization and entrepreneurship. Less than one percent of founders receiving venture capital funding for their startups are African American. Although entrepreneurship remains a traditional pathway to the middle class and wealth accumulation in the U.S., the ratio of white entrepreneurs to Black entrepreneurs remains 50:1. And African Americans are largely missing from the initial public offerings of tech firms and other firms in the innovation economy.

The racial gaps that we see today are not a function of black underinvestment in education, cultural or genetic deficits among blacks, nor unobserved societal factors. They are the product of historical processes and policies, many of them regionally specific to the places that African Americans live, which create not limit opportunities for blacks but which also created opportunities for whites.

Policies

The three dimensions of racial inequality above: segregation, discrimination, and wealth inequality are intertwined in complicated ways, and making progress on eliminating them will require both political and cultural changes, as well as policies. We outline a few here:

1. Desegregating housing and schools. America remains starkly segregated despite the progress of the Civil Rights movement. Much of this segregation occurs via private markets in housing and schooling, where richer, white families sort into high priced neighborhoods with good schools (or private schools). This results in Black Americans being in poorer school districts, in lower-housing-value, high-crime, neighborhoods, and generally cut-off from the spatial privileges and local public goods accessible to white Americans.

2. Anti-discrimination policies, particularly around criminal justice. There is an important role for representation and other policies to combat racial stereotypes and other forms of racism. There is also an important role for transforming organizational cultures and institutions that reproduce white supremacy. The expansion of police in Northern cities after the 1960s also solidified racially unequal treatment into a large number of police departments and police practices. Active anti-discrimination policies and policies and practices that address workplace climate should also be extended to and enforced in every sector of the economy, but particularly the innovation economy, where wealth has become increasingly concentrated in the U.S.

3. Redistribution and reparations. Finally, there has been a longstanding debate in the United States about reparations and race-specific redistribution. Darity and Mullen estimate the bill to be between 14 and 18 trillion dollars, and redistribution of this amount of wealth from whites to blacks would

almost completely erase the black white wealth gap. Exactly what form this redistribution would take, along with determining eligibility for reparations remains actively debated.

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