

Discrimination in U.S. Policy History

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National Economic Education Delegation

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- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

• Mission

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

• NEED Presentations

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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- **This slide deck was authored by:**

- Jon Haveman, Ph.D., NEED

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- NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
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Outline

- **Evidence of Racial Disparities**
- **History of Policies**
 - Discriminatory
 - Anti-discrimination
- **Economic consequences**



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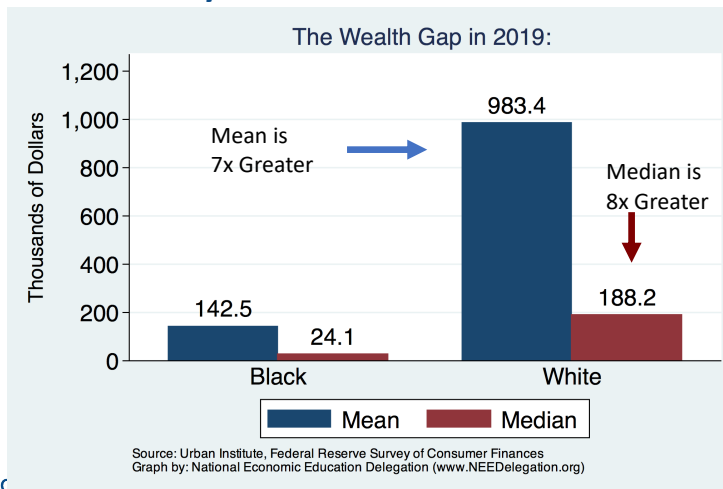
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Evidence of Racial Disparities

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Enormous Disparity of Outcomes

- Perhaps best illustrated by the difference in wealth accumulation.



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Overview of Policies

- Policies with discriminatory intent
- Policies with discriminatory effect
- Anti-discrimination policies

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Policies w/Discriminatory Intent

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Policies: Discriminatory Intent

- Slave trade
- Slavery
- Reconstruction and 40 acres
- Black Codes & Vagrancy Laws
- Jim Crow
- Federal Housing Policy



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Slave Trade – by the Numbers

- **1619 – date marked as arrival of first African slaves – Jamestown, VA**
 - African slavery was in existence prior to this date, likely beginning with Christopher Columbus in 1490s.
- **Between 1525 and 1808:**
 - 12.5 million slaves departed for the New World
 - 10.7 million survived the Middle Passage
 - Only 388,000 arrived directly on North American shores.
- **Federal government banned the importation of slaves in 1808.**
 - There was already a population of more than 4 million slaves at the time.
- **Worth considering as the first deprivation of wealth.**



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Source: <https://www.pbs.org/wnet/african-americans-many-rivers-to-cross/history/how-many-slaves-landed-in-the-us/>

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Slavery

• 1860:

- More millionaires in the Mississippi Valley than anywhere else in the United States – slaveholders all.
- 4 million slaves, worth an estimated \$3.5 billion at the time.
 - o Single largest “financial asset” at the time.
 - o Worth more than all manufacturing and railroads combined.
 - o Approximately equal to contemporary GDP.
- More than 45% of the population in:
 - o Alabama (45%), Louisiana (47%), Mississippi (55%), S. Carolina (57%)
 - o Overall in the south: 32.3%



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Slavery

• Slave Codes

- Legally considered property.
- Not allowed to assemble without the presence of a white person.
- Slaves that lived off the plantation had a curfew.
- A slave accused of any crime against a white person was doomed.
- Illegal to teach a slave to read/write.
- Slave marriages were not acknowledged in law.

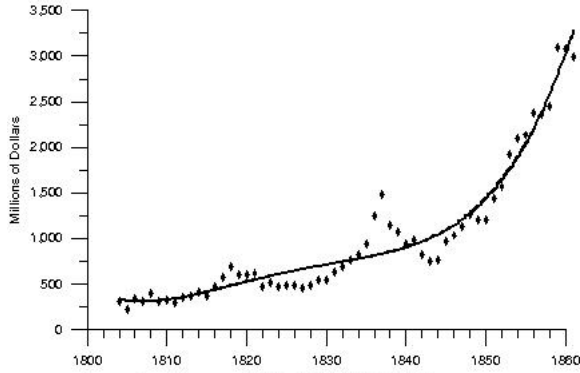
• Implications for period of reconstruction/economic independence.



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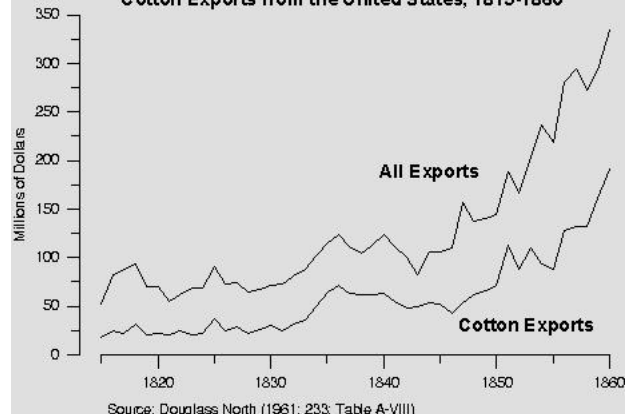
Value of Slaves

Figure 1
The Value of the Stock of Slaves
in the United States, 1805-1860



Source: Roger Ransom and Richard Sutch (1988: Table 3)

Figure 2
Cotton Exports from the United States, 1815-1860



Source: Douglass North (1961: 233, Table A-VIII)



Source: <https://eh.net/encyclopedia/the-economics-of-the-civil-war/>

Slavery's Contribution to Southern Income

The Fraction of Whites' Incomes from Slavery

State	Percent of the Population That Were Slaves	Per Capita Earnings of Free Whites (in dollars)	Slave Earnings per Free White (in dollars)	Fraction of Earnings Due to Slavery
Alabama	45	120	50	41.7
South Carolina	57	159	57	35.8
Florida	44	143	48	33.6
Georgia	44	136	40	29.4
Mississippi	55	253	74	29.2
Louisiana	47	229	54	23.6
Texas	30	134	26	19.4
Seven Cotton States	46	163	50	30.6
North Carolina	33	108	21	19.4
Tennessee	25	93	17	18.3
Arkansas	26	121	21	17.4
Virginia	32	121	21	17.4
All 11 States	38	135	35	25.9

Source: Computed from data in Gerald Gunderson (1974: 922, Table 1)

Entire U.S. economy benefitted from cheap cotton.

New York's share of cotton revenue: ~40%.



Source: <https://eh.net/encyclopedia/the-economics-of-the-civil-war/>

Why Slavery?

- **Opportunity and familiarity.**
 - Slavery had been practiced in Europe for 100 years by the time it came to the Colonies.
- **Cotton was a major crop in the antebellum South.**
 - Very labor intensive.
 - Cheaper than paying free labor.
 - Seasonal.
 - Could not rely on free labor to wait around between the Spring planting and Fall harvest.



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Slave Trade – Some Economics

- **Why Slavery?**
 - Could have used free or indentured servitude.
 - Slavery won the price/productivity competition:
 - Free/indentured: 10-12 pounds * 4 years = 3 pounds per year.
 - Slaves: 16 pounds * 20 years = 1 pound per year.
 - Higher productivity of free/indentured did not make up for the difference.
 - Availability given seasonal nature of agricultural labor demand.



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Amendments Ending Slavery

- **13th Amendment - 1865**
 - Nearly abolished slavery.
- **14th Amendment - 1867**
 - Citizenship for those born in or naturalized in the United States.
- **15th Amendment - 1870**
 - Sought to eliminate discrimination in voting.



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Reconstruction & 40 Acres: 1865-1877

- **Freedmen's Bureau, 1865, shortly before the end of the war.**
 - Food and medical aid to former slaves
 - Established schools for freedmen
 - 1870: A quarter million attended more than 4,000 schools in the south.
 - Tried to establish labor rights of freed slaves
 - Fair wages and free choice of employers.
- **Free public education in the South**
 - Excluded black children.
- **40 Acres**
- **Black codes.**
- **Northern soldiers had all left by 1877.**



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40 Acres (but no Mule)

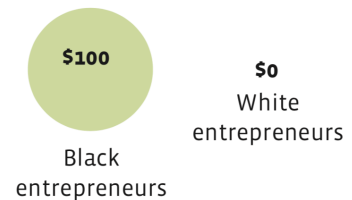
- **General Sherman, Jan. 16, 1865: Special Field Order No. 15**
 - Granted some freed families land in plots no larger than 40 acres.
 - Implemented at the behest of Black leaders.
 - Some 400,000 acres were redistributed from Confederate landowners to former Black slaves.
 - Also:
 - Established black settlements to be governed entirely by Black people themselves.
- **Sherman later ordered that the army could lend new settlers mules.**
- **Overtaken by Andrew Johnson in the Fall of 1865.**
 - Land returned to former slave owners.
- **Imagine the implications for Black wealth.**
 - By some estimates valued at \$6.4 trillion today (7% of total U.S. wealth in 2018)



Black Codes: 1865-1877

- **Special laws that applied only to Black persons.**
 - Both progressive and restrictive.
 - Acknowledged: Black ownership of property and marriage. Right to sue and be sued.
 - Included restrictive labor contracts, apprenticeships, and vagrancy laws.
 - Business licensing fees
 - Separate Black courts
 - Harsh penalties (death) for rebellion, arson, burglary, assaulting a White woman.
 - Broadly concerned with controlling former slaves.

BUSINESS LICENSING FEES *Under Black Codes in 1870*



Jim Crow (1877-1964)

- **Set of laws**
 - Segregation, restrictions on:
 - Voting, education, work, public office, juries, justice system, bathrooms.
- **Set of customs**
 - Defining interactions between Black and Whites.
- **Exploited a loophole in the 13th Amendment.**
 - Provision allowed slavery as a punishment for a crime.
- **Really took root after Plessy v. Ferguson (1896).**



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The Second Slavery

- **Black men, women, and sometimes children were arrested and convicted of crimes under the Black Codes/Jim Crow.**
 - Vagrancy, unemployment were crimes.
 - Subsequently leased to private companies.
 - 200,000 Black Americans were forced into such labor arrangements.
 - Leasing turned into chain gangs in the early 20th century.
- **Lynching**
 - Another form of controlling Black Americans was common.
 - More than 4,400 lynchings occurred during the Jim Crow years.
- **Land takings**
 - Fraud, deception, and theft.
 - An estimated 11 million acres.



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The New Deal

- **FHA Policy – Redlining**
 - Explicitly discriminatory
- **Social Security**
 - Implicitly discriminatory
- **Unemployment**
 - Implicitly discriminatory
- **Minimum wages**
 - Implicitly discriminatory



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Misguided Past Policies: Redlining

- **For example, the government “redlined” heavily minority neighborhoods.**
 - Redlining occurred when maps were drawn to show how risky investment in certain areas would be. The “riskiest” areas usually had the highest concentrations of black people.
 - Some argue that the government merely drew these maps, and did not discriminate in their own lending practices, but others say private and public lenders relied on these maps to deny investment or loans in those areas.
 - Some relationships between redlined areas and outcomes still hold today in peer-reviewed economics research.



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HOLC Appraisal Manual Grading System

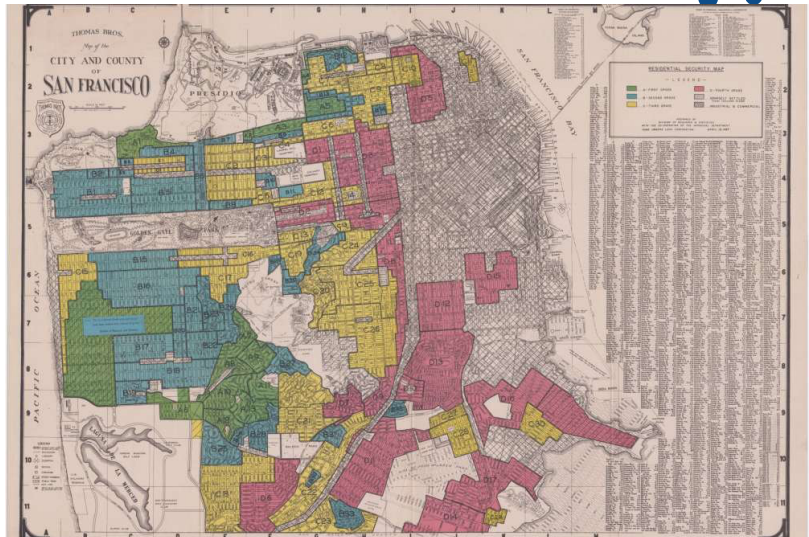
- Grade A = “homogeneous,” in demand during “good times or bad.”
- Grade B = “like a 1935 automobile-still good, but not what the people are buying today who can afford a new one”
- Grade C = becoming obsolete, “expiring restrictions or lack of them” and “infiltration of a lower grade population.”
- Grade D = “those neighborhoods in which the things that are now taking place in the C neighborhoods, have already happened.”

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Misguided Past Policies: Redlining

Red areas were largely Black communities, and considered to be too risky for new home loans.

Yellow areas also suffered from discrimination resulting from FHA guidelines.



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FHA Discrimination

- **Between 1934 and 1962, the federal government backed \$120 billion of home loans.**
- **More than 98% went to whites.**
 - Of the 350,000 new homes built with federal support in northern California between 1946 and 1960, fewer than 100 went to African Americans.
- **Government officials argued that Black occupancy of homes in White neighborhoods would reduce property values.**
 - This would put their loans at risk.



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Clear Impact on Not Only D, but Also C Areas

- **Higher residential segregation**
 - Concentration of Black families in C and D.
- **Lower home ownership rates in C and D**
- **Lower home values in C and D**
- **Lower rents and credit scores**
- **Trends mostly reversed themselves in the wake of housing and lending legislation in the 1960s and 70s.**



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Housing Post-WWII

- **Residential covenants and discriminatory zoning**
 - Single family vs multifamily zoning was an effort to segregate housing.
- **Redlining**
- **GI Bill – for Whites only**
- **Discrimination at every step of the way**
 - Appraisals, realtors, mortgage receipt and terms.
 - Very recent evidence exists – esp. loans during housing bubble, appraisals.



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Policies w/Discriminatory EFFECT



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Effect: Often Intended, But Not Overt

- How?

- Allow local officials to administer the program.
- Exclude specific occupations where Black workers are overrepresented.

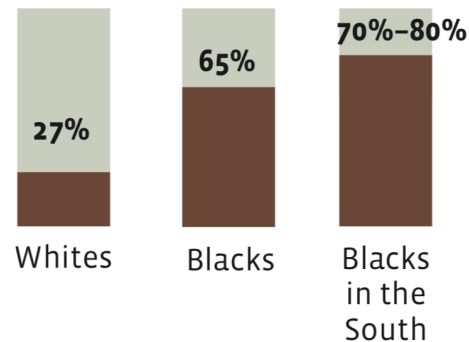


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The New Deal

- **FHA Policy – Redlining**
 - Explicitly discriminatory
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- **Unemployment**
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- **Minimum wages**
 - Implicitly discriminatory

INELIGIBLE FOR SOCIAL SECURITY IN 1935



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Policies: Discriminatory Effect

- **Homestead Act**
- **The New Deal**
 - Wagner Act – Unions
 - Minimum Wages
 - Social Security
- **Federal Asset Building Policies**
- **Local zoning ordinances**
- **Incarceration**

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Homestead Acts

- **Original Homestead Act (1868-1934)**
 - Granted 246 million acres of western land (size of CA & TX combined)
 - To receive 160 acres of land:
 - File an application, improve the land for 5 years, file for deed of ownership.
 - 1.5 million White families
 - Excluded Black Americans in practice, not letter.
- **Southern Homestead Act (1866-1876)**
 - 28,000 individuals, of which 4,000-5,500 were emancipated slaves.
 - Most were locked into year-long contracts following the war. Could not break to homestead until after special provisions for freed slaves had ended.
 - Land was often unfarmable – swamp or heavily wooded.

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New Deal Programs

- **Unemployment Insurance**
 - Because a state run program – different levels of protection, White/Black
- **Social Security (1935)**
 - Exempted self employed, field hands, and domestic workers. All were heavily black. Changed in the 1950s.
 - 65% of Black workers did not qualify.
- **Wagner Act (1935)**
 - Established rights of workers to unionize, except for farm, domestic, and independent workers.
 - Also permitted unions to exclude workers.
- **Minimum Wage**



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What Is The Minimum Wage?

- **The minimum wage sets a wage floor.**
 - It is unlawful for businesses **in covered industries** to pay a wage below the minimum.
- **The Federal minimum wage is currently \$7.25.**
 - This is the highest that it has ever been.
 - Adjusting for inflation:
 - It is no higher than it was in the late 1950s.
 - It is nearly \$5.00 lower than it was in the late 1960s.
- **Many states and local governments have implemented minimum wages that are significantly higher than the Federal level.**



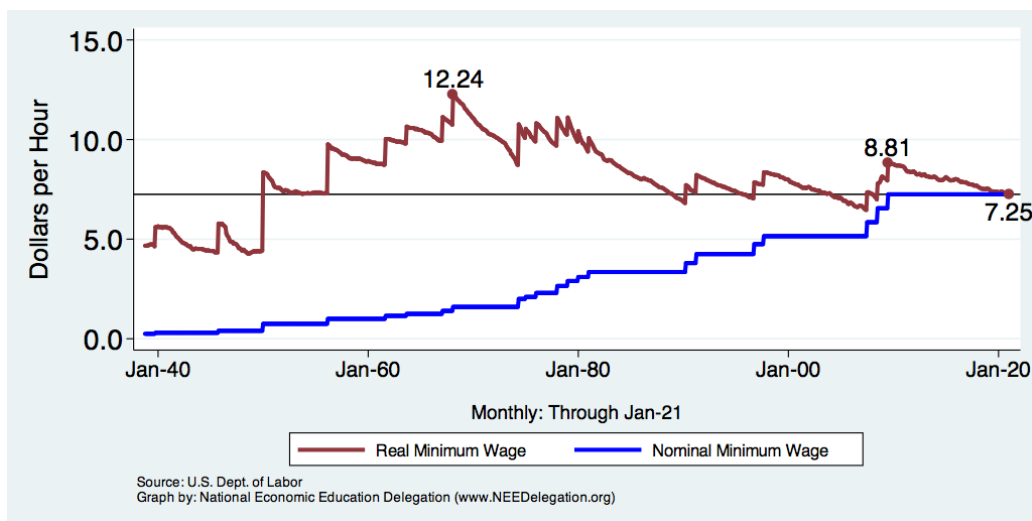
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Minimum Wages

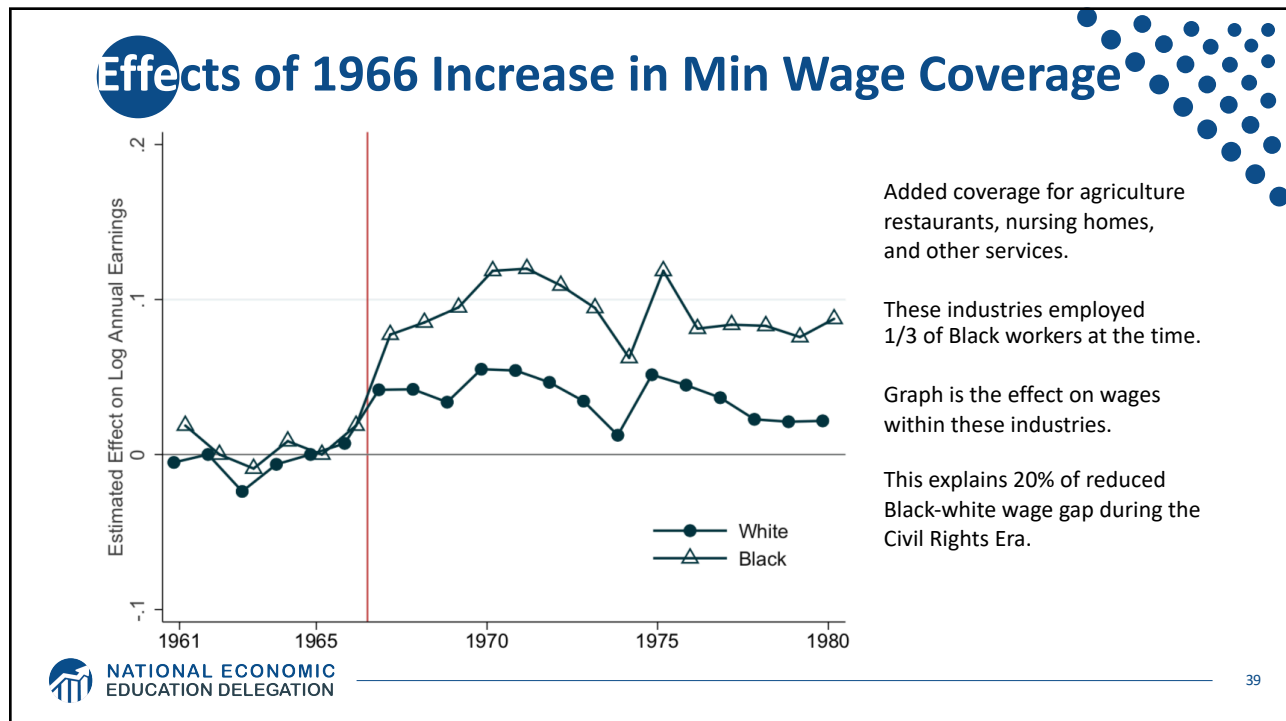
- Early on, they did not apply to farmworkers or domestic help.
- **1960s – great equalizer - MW increased in real terms 37% (8.9 to 12.24)**
 - The 1966 Fair Labor Standards Act extended federal minimum wage coverage to agriculture, restaurants, nursing homes, and other services which were previously uncovered and where nearly a third of black workers were employed.
- **Since 1968 – has fallen 41% (12.24 to 7.25)**
 - Or in 1968, was 69% higher than it is today.
 - Exacerbating the Black-White wage gap.

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History of the Minimum Wage



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GI Bill

- **Reintegrating 16 million veterans**
 - 1.2 million were Black
- **Loans: homes, farms, or business**
 - Levittown – explicitly banned
 - Couldn't get loans regardless of guaranty - covenants
- **Education**
 - Steered toward vocational training, not college
 - HBCUs – were overcrowded and nonexistent in the north
- **Unemployment**
- **Instead – a provocation for Black men to wear the uniform.**
 - Lynchings and other violence in the wake of WWII – Red Summer after WWI

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GI Bill: By the Numbers

- **Federal spending between 1944 and 1971: \$95 billion (15% of budget)**
 - 200,000 small business loans
 - Mortgages for 5 million new houses
 - 2,250,000 participated in higher education
 - 5,600,000 enrolled in vocational institutions



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GI Bill: Education

- **Of vets born between 1923 and 1928:**
 - 23% of Whites received GI Bill educational assistance. 12% of Blacks.
 - Big difference in take up rates for southern vs non-southern Black veterans.
 - o Not for south vs non-nonsouthern White veterans.
- **Differences in hours of education Black v White.**
- **Differences in quality of educational institution.**
 - White colleges and universities actively increased enrollment.
 - HBCUs did not have the resources to do so.
 - Black veterans often pushed toward vocational training.



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GI Bill: Housing

- **In 1947:**

- **2 of 3,200 VA loans in Mississippi went to Black veterans.**

- **100 of 67,000 loans in NY and Northern NJ went to Black veterans.**



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Anti-Discrimination



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Note About Legislation and Other Efforts

- **There is always a tradeoff inherent in policies.**
 - Equity vs efficiency
 - It is possible, but not necessarily true, that anti-discrimination laws will reduce efficiency.
 - However, there may be equity considerations and offsetting externalities that cause them to be in the public interest.

1954 Brown v. Board of Education

- **1896: Plessy v. Ferguson**
 - Ruled that segregated public facilities were legal, so long as of equal quality.
 - Applied to buses, school, and other public facilities
 - o Sanctioned Jim Crow laws.
- **Brown: helped to establish that separate-but-equal is not equal at all.**
 - Lower court ruled:
 - o “[D]etrimental effect on colored children”
 - o Contributed to “a sense of inferiority”
 - o But upheld separate but equal doctrine.
 - Supreme Court: “Separate but equal” has no place – inherently unequal.

Brown Impact

- **Was steadfastly resisted in much of the south.**
- **Helped to fuel the civil rights movement.**
- **Did not desegregate schools.**
 - Schools remain highly segregated today.
 - Racial inequities abound.
 - Washington DC, a school with 11% low-income students is 1 mile from a school with primarily low-income students.



Economic Impact of Equalization

- **If southern-born Black men had attended white schools:**
 - 1920s cohort: would have earned 6 to 9% more than they actually did in 1970.
 - 1930s cohort: gap was just 2 to 5%
 - o Because of increasing legal activity, local officials were taking the “equal” part of “separate but equal” more seriously.
 - Also clear that quality affects extent of education.
 - o Parental education is important for child’s level of education.
 - o Lack of equality spilled over across generations.
- **Legal action and Brown did help to narrow the wage and education gap between Black and White workers.**
 - Brown and desegregation narrowed southern-born and nonsouthern-born Black wage gap by 10 percentage points.



1957 Civil Rights

- For decades after Reconstruction, the U.S. Congress did not pass a single civil rights act.
- In 1957, it established within the Justice Department:
 - A civil rights section, and
 - a Commission on Civil Rights to investigate discriminatory conditions.

Anti-Discrimination Legislation of the 1960s

- **1964 – Civil Rights Act**
 - Ended Jim Crow and legal separation.
- **1965 – Voting Rights Act**
 - Enforced the 15th Amendment.
- **1968 – Fair Housing Act**
 - Addresses widespread discrimination in home sales, realtor services and rent.

Civil Rights Movement and Legislation

- **Dismantled de jure segregation and discrimination in:**
 - Labor markets
 - Education voting rights
 - Health care
 - Public accommodations
 - Housing
- **Significant gains in Black men's wages relative to White men...**
 - Until 1980. Very little ground gained since then.



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Civil Rights Act of 1964

- **Segregation** on the grounds of race, religion or national origin was **banned** at all places of public accommodation, including courthouses, parks, restaurants, theaters, sports arenas and hotels.
- Barred race, religious, national origin and gender discrimination by **employers and labor unions**, and created an Equal Employment Opportunity Commission with the power to file lawsuits on behalf of aggrieved workers.
- **Forbade the use of federal funds for any discriminatory program**, authorized the Office of Education (now the Department of Education) to assist with school desegregation, gave extra clout to the Commission on Civil Rights and prohibited the unequal application of voting requirements.
- **Martin Luther King Jr.: Nothing less than a 2nd emancipation.**



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Affirmative Action

- Education
- Employment
- Government Contracting



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Affirmative Action – Costs and Benefits

- **Costs:**
 - Potential to displace those of other races/ethnicities.
 - Education, employment, government contracts
 - Potential to raise costs of doing business, both private and public.
- **Benefits:**
 - Education: potential to lift Black and Latino students in terms of post-secondary education.
 - Impact Black and Latino .



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Affirmative Action – Costs and Benefits

- **Some evidence specific to prop 209 (1996):**

- Benefits:
 - Government contracts fell in cost by 5.6% after prop 209.
- Costs:
 - Measurable impact of prop 209 on educational quality for Black and Latino students.
 - Black and Latinos had discernable increases in lifetime earnings from affirmative action.
 - Measurable drop in Black and Latino employment.



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Summary

- **Discrimination in U.S. policy has been common through the post slavery years.**
 - Overt laws were on the books until the 1960s.
 - Effectively discriminatory laws played a massive role in the distribution of wealth across races.
- **The Civil Rights Era has reduced statutory discrimination, but there is still significant evidence of economic discrimination.**
- **The effect of more than 100 years of discrimination in policy is still readily measurable.**
 - Policy solutions: Come back next week.

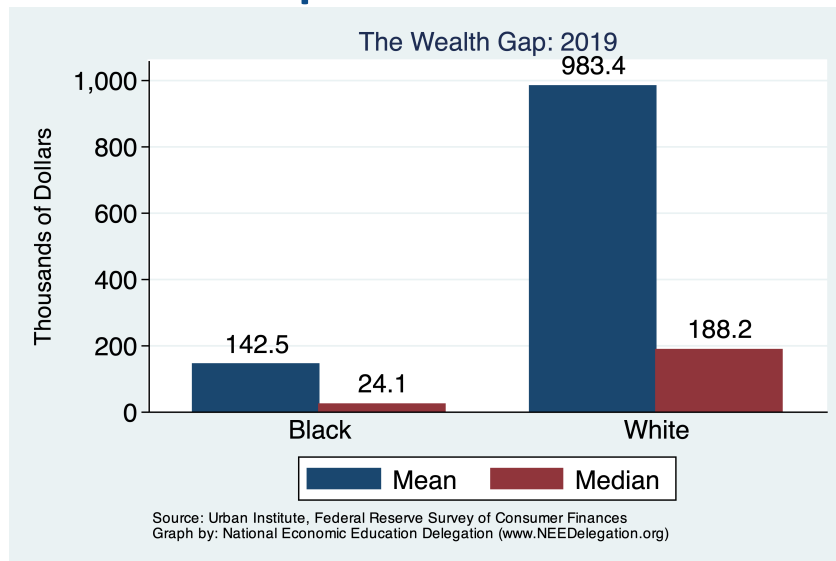


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Where Does That Leave Things?

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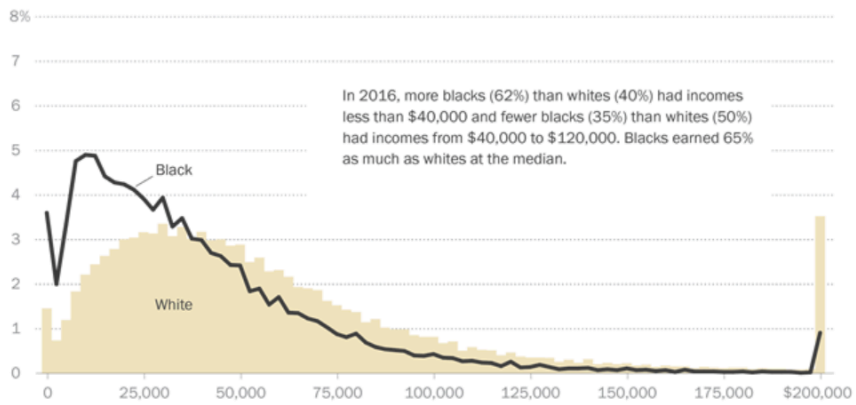
Evidence of the Gap in Wealth



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Black Household Incomes Relative to White

Shares of whites and blacks with a given level of income, 2016



Note: Whites and blacks include only single-race non-Hispanics. Income is adjusted for household size and expressed in 2016 dollars. See Methodology for details.

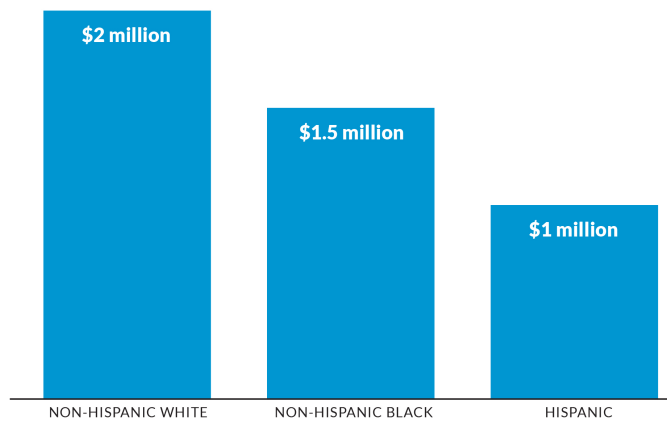
Source: Pew Research Center analysis of 2016 American Community Survey (IPUMS).

"Income Inequality in the U.S. Is Rising Most Rapidly Among Asians"



Disparities in Lifetime Earnings

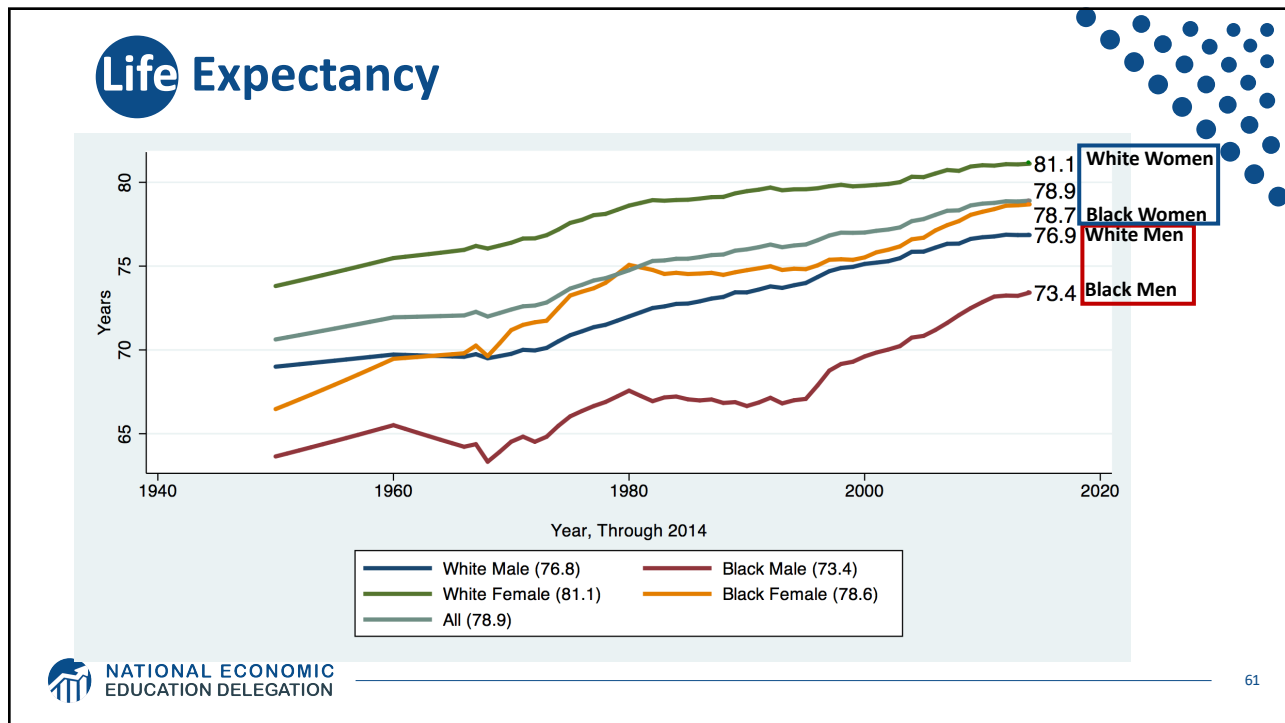
Median Present Value of Lifetime Earnings at Age 61 for People Born 1943–1951, by Race/Ethnicity



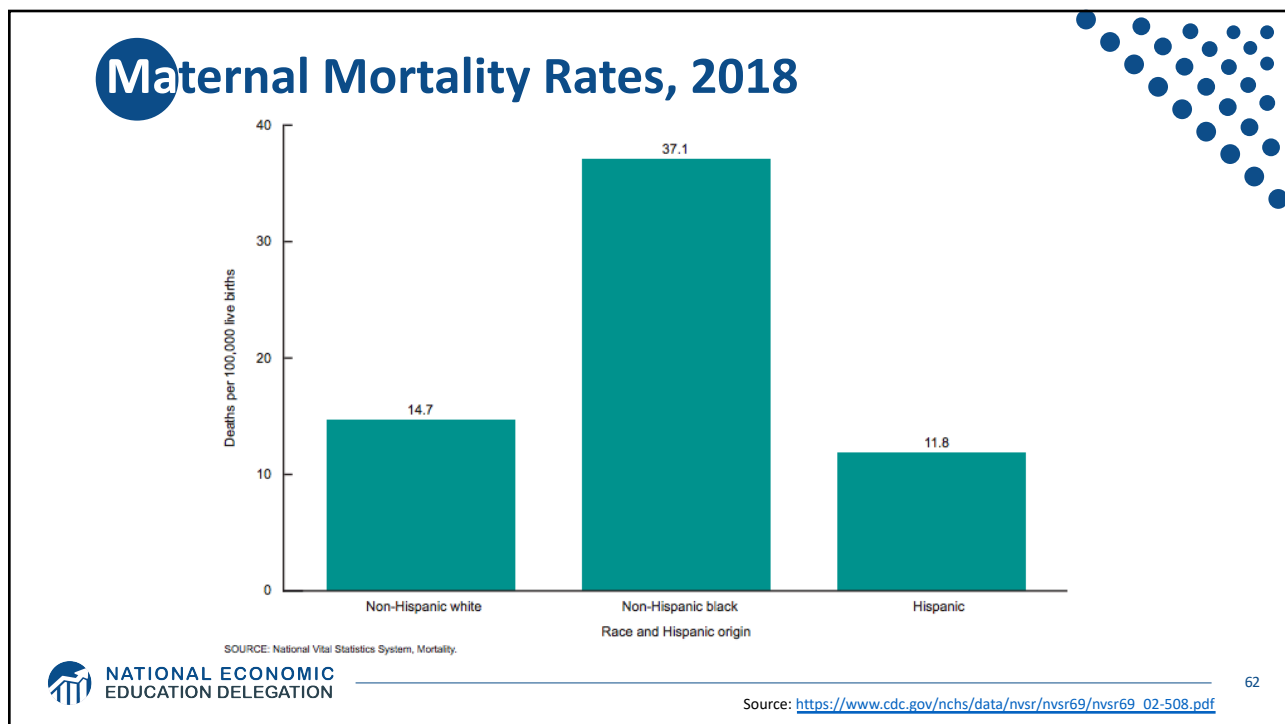
Sources: Health and Retirement Study 1992–2012 matched to Summary Earnings Records 1951–2007. Calculations provided by Melissa Favreault, Urban Institute.
Note: 2013 dollars. These people are age 61 in 2004–2012.

URBAN INSTITUTE

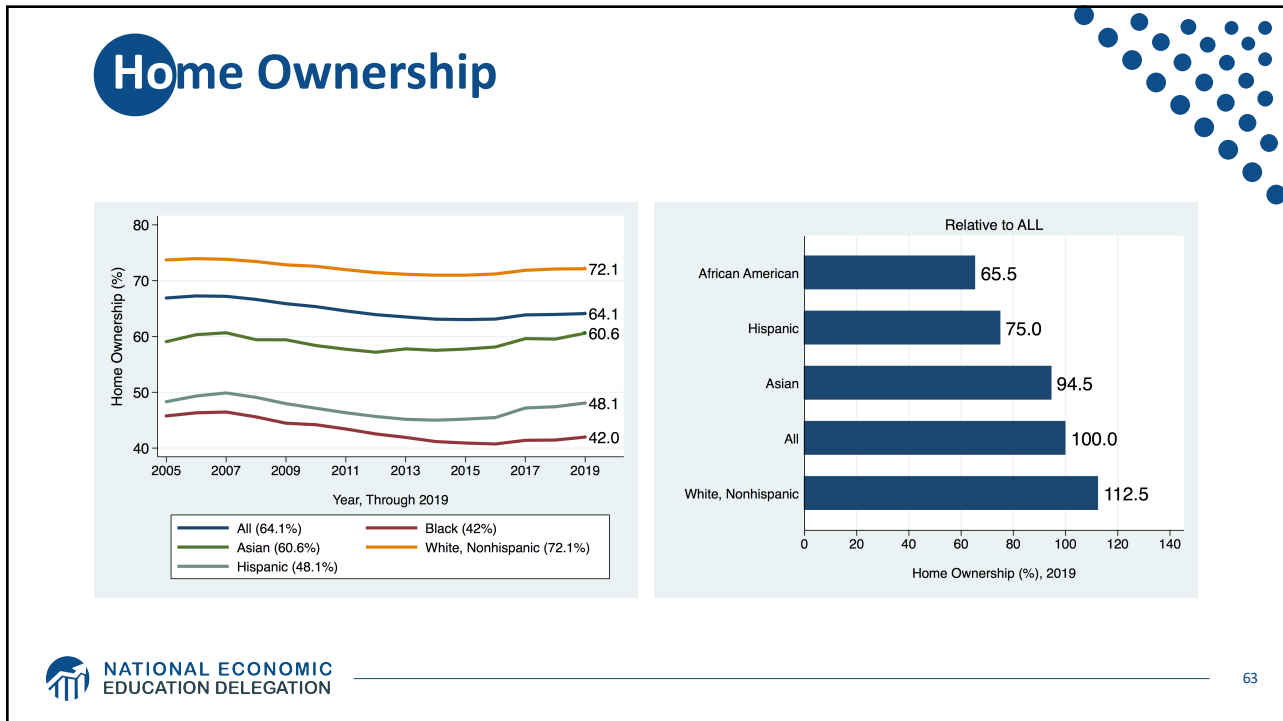




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