



Government Policies with Racial Implications

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DEI Town Hall
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National Economic Education Delegation

• Vision

- 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.

Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 590+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



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3

3

Credits and Disclaimer

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

- Jon Haveman, Ph.D., NEED

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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4

4

Outline

- Evidence of Racial Disparities
- History of Policies
 - Discriminatory

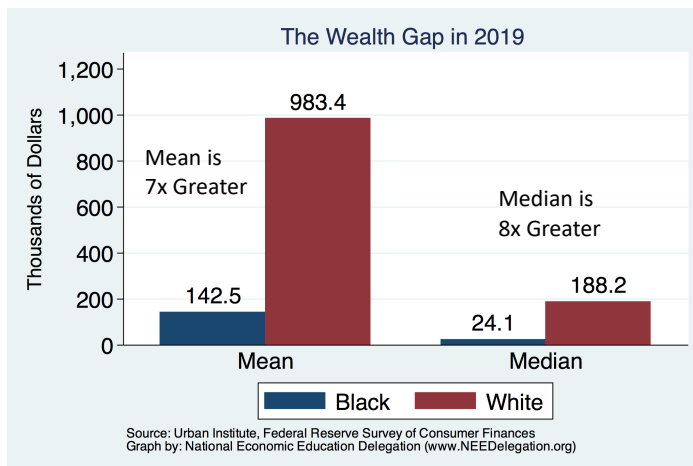
In the Appendix

- Anti-discrimination
- Economic consequences

Evidence of Racial Disparities

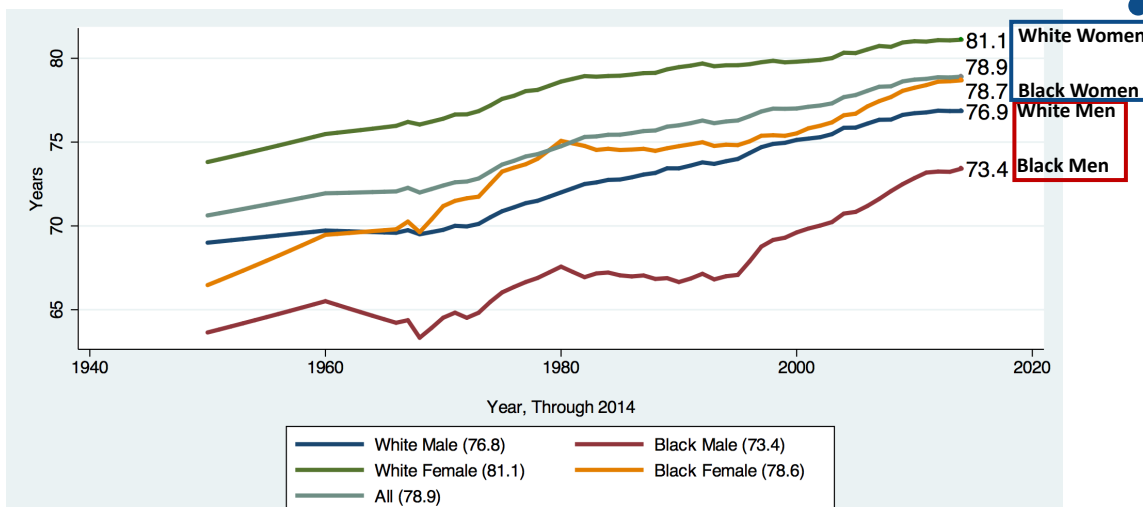
Enormous Disparity of Outcomes

- Perhaps best illustrated by the difference in wealth accumulation.



7

Life Expectancy



8

Race in Policy

- **Policies with discriminatory intent**
 - Slavery
 - Redlining
- **Policies with discriminatory effect**
 - Perhaps highway location.
 - Often discrimination written in covertly.
- **Anti-discrimination policies**
 - Civil Rights Act
 - Affirmative Action



Policies: Discriminatory Intent

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



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.**



11

Slavery

- **Slave Codes**
 - Legally considered property – a heritable condition.
 - 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.**



12

Slavery's Contribution to Southern Income: 1860

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

Entire U.S. economy benefitted from cheap cotton.

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

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



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

13

13

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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14

14

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.**



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.**
 - Value of the land and the proceeds from having been able to work it independently.



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)

- **Sets of laws**

- Segregation, restrictions on:
 - Voting, education, work, public office, juries, justice system.
 - Segregated use of both private and public facilities.

- **Sets of customs**

- Defining interactions between Black and Whites.

- **Late 19th century through 1960s.**

- **Exploited a loophole in the 13th Amendment.**

- Provision allowed slavery as a punishment for a crime.



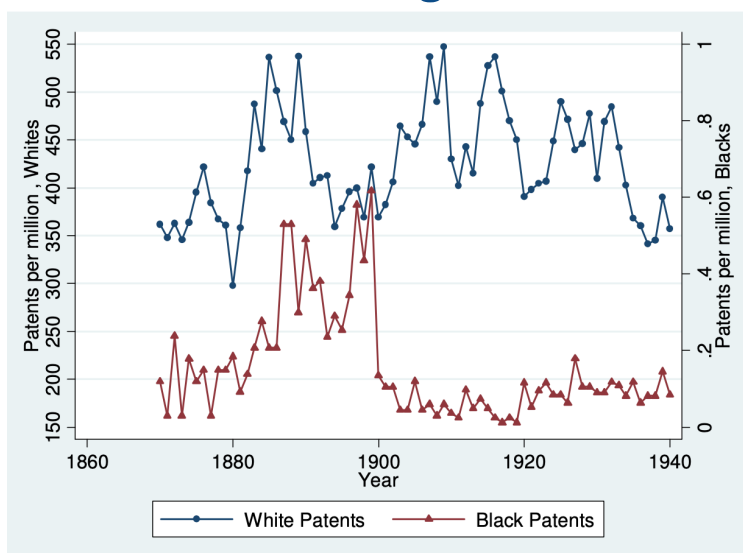
The Second Slavery?

- **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.



19

Jim Crow & Black Patenting



20

Other Forms of Disenfranchisement

- Poll taxes
- Literacy tests
- Other measures: <https://www.history.com/news/african-american-voting-right-15th-amendment>
- Klan – with complicity from the police and government



21

The New Deal

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



22

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.
 - 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.
 - Note this is a failure introduced by government!



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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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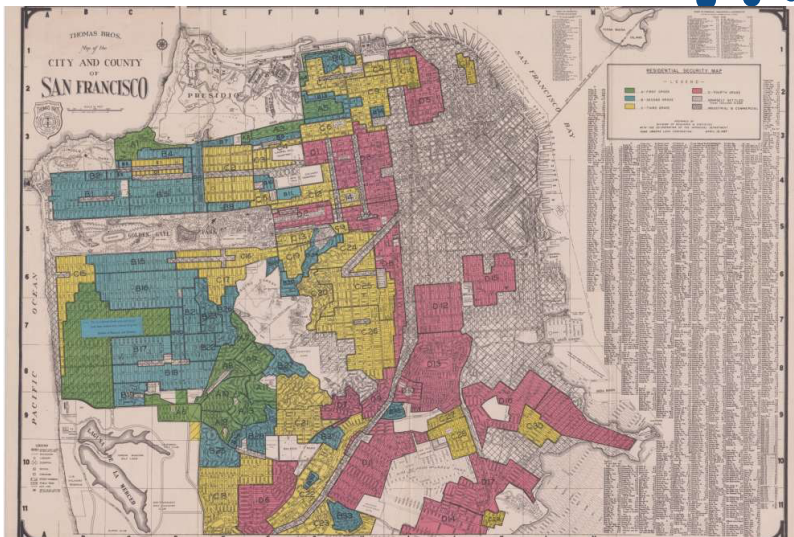
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24

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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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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26

26

Policies w/Discriminatory EFFECT



27

Effect: Often Intended, But Not Overt

- How?

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



28

Policies: Discriminatory Effect

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



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:
 - o File an application, improve the land for 5 years, file for deed of ownership.
 - 1.5 million White families
 - o 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.



Homestead Acts – Effects on Relative Wealth

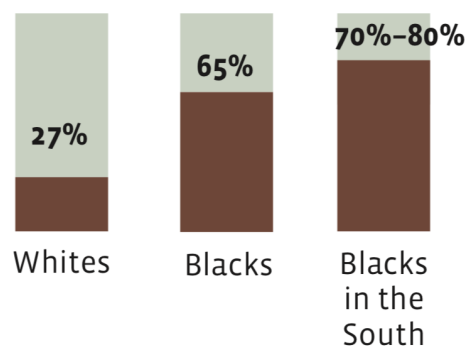
- **Nearly 10% of all U.S. land was given (for a filing fee) to White families in the 5 decades following the Civil War.**
 - This is an enormous head start in terms of wealth development for White families relative to Black families.
 - An estimated 46 million current Americans trace their lineage back to homesteaders.
 - Nearly all are White.

31

The New Deal

- **FHA Policy – Redlining**
 - Explicitly discriminatory
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INELIGIBLE FOR SOCIAL SECURITY IN 1935



32

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



33

GI Bill: by the Numbers

- **Federal spending between 1944 and 1971: \$95 billion (15% of budget)**
- **Housing:**
 - 200,000 small business loans
 - Mortgages for 5 million new houses
- **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.



34

GI Bill: Education

- **Volume:**

- 2,250,000 participated in higher education
- 5,600,000 enrolled in vocational institutions

- **Quality differences:**

- White colleges and universities actively increased enrollment.
- HBCUs did not have the resources to do so.
- Black veterans often pushed toward vocational training.



35

GI Bill: Housing



36

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.**

Thank you!

Any Questions?

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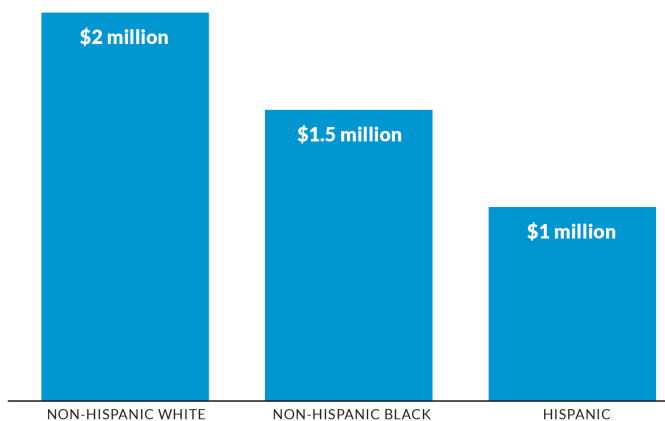
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Disparities in Lifetime Earnings

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.

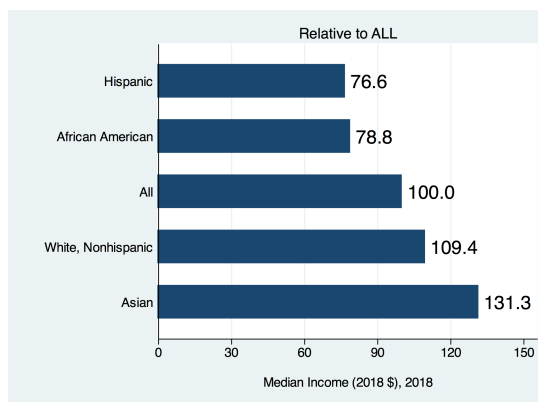
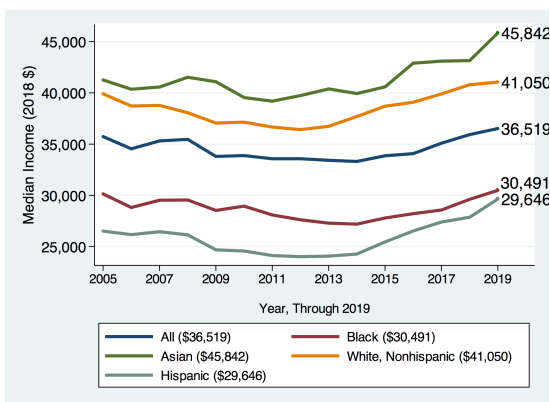


URBAN INSTITUTE



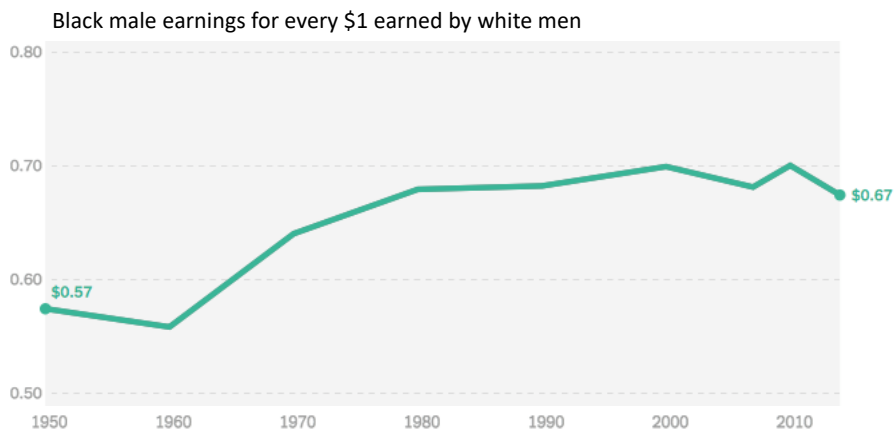
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Median Income

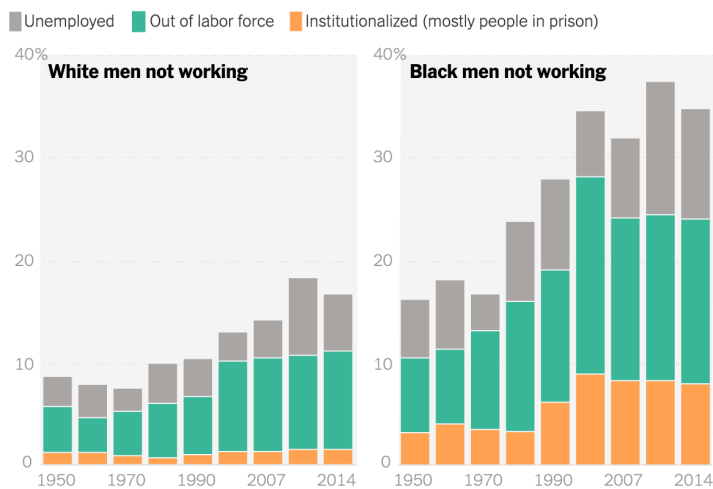


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Little Wage Progress

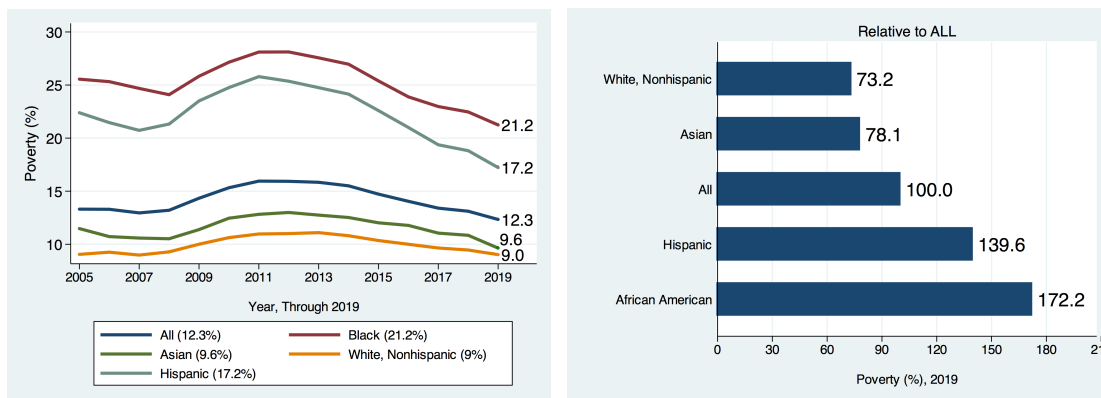


Black Male Labor Force Participation is Low



Source: Patrick Bayer and Kerwin Kofi Charles, "Divergent Paths." Note: Men aged 25-54. | The New York Times

Poverty



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43

43

Mobility

- **Generally the case that Black men are:**
 - less likely to move out of the bottom than White men.
 - More likely to drop out of the top than are White men.
- **Overall rates of mobility in the post Civil War era have been slower for Black men than for White men**
- **Racial differences in income are persistent if race and human capital are strongly transmitted across generations.**
 - Which they are in U.S. history.



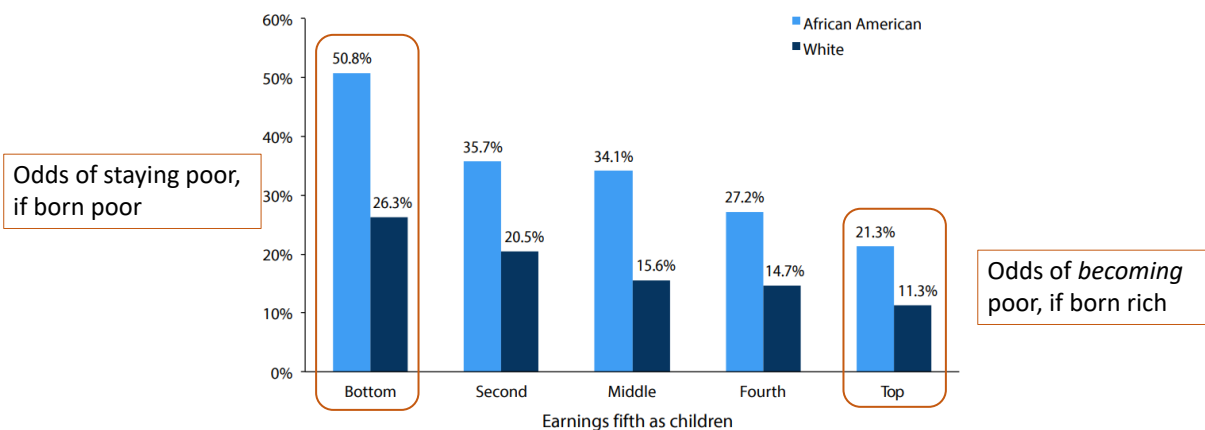
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44

44

U.S. – Racial Differences in Mobility

Figure 3L Share of children from various earnings fifths ending up in the bottom fifth as adults, by race



Source: Authors' analysis of Mazumder (2011, Table 7)



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Economic Policy Institute, *State of Working America*, 2012

45

45

Evidence on Mobility

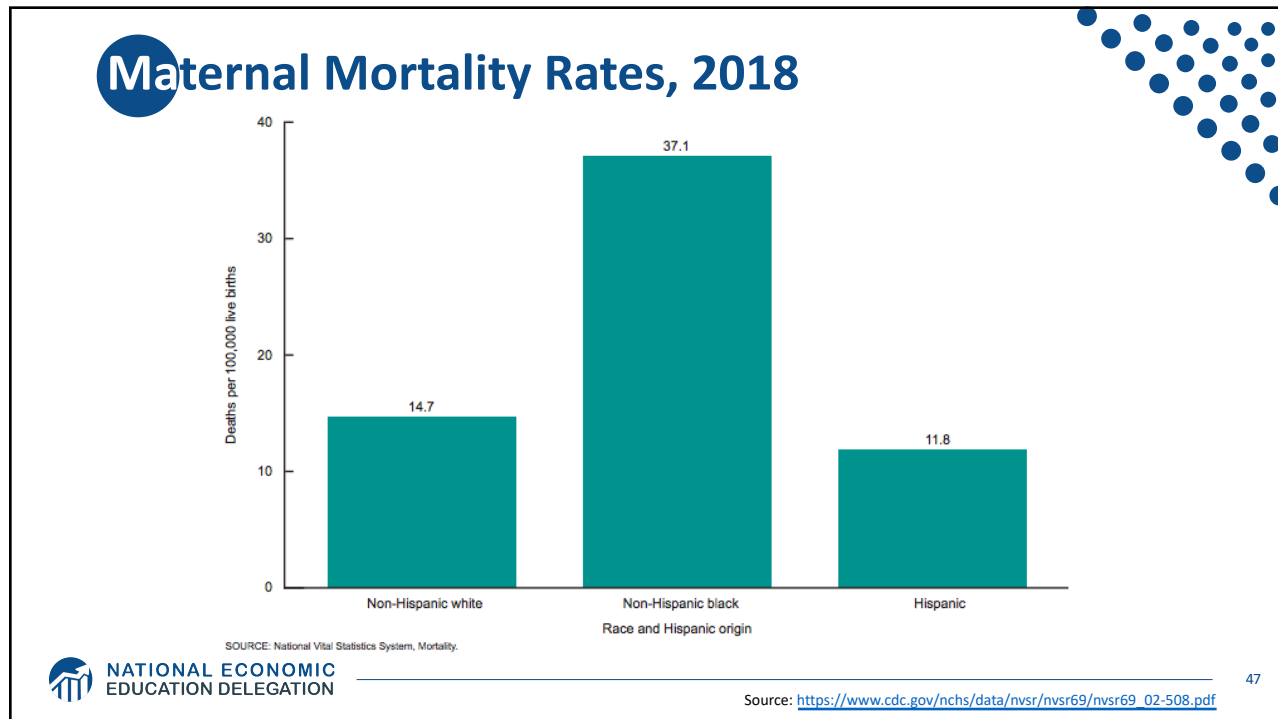
- Had Black children from 1880 to 1900 transitioned as White children had, the income gap in 1900 would have been the same as it was in 2000.
 - The inheritance of race prevented 100 years worth of achievement.



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46

46



47

Implications for GDP of Talent Allocation

- **Doctors:**
 - In 1960, 90% were white men. In 2010, just 60% were white men.
- **Why? Exclusion for high skilled occupations of women and minorities.**
 - How?
 - Lack of access to human capital development
 - Societal base preferences
- **Implications of this change in access to high skilled work?**
 - Explains as much as 40% of GDP growth during this period.

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Source: <https://needelegation.org/Library/53/ECTA11427.pdf>

48

48

Anti-Discrimination



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.

53

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.

54

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.



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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<https://www.history.com/topics/black-history/civil-rights-act>

57

57

Affirmative Action

- **Education**
- **Employment**
- **Government Contracting**



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58

58

Affirmative Action – Costs and Benefits

- **Costs:**

- Potential to displace those of other races/ethnicities.
 - o 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 .



Affirmative Action – Economic Consequences

- **Some evidence specific to prop 209:**

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



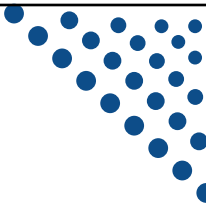


Policy Solutions

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61

61



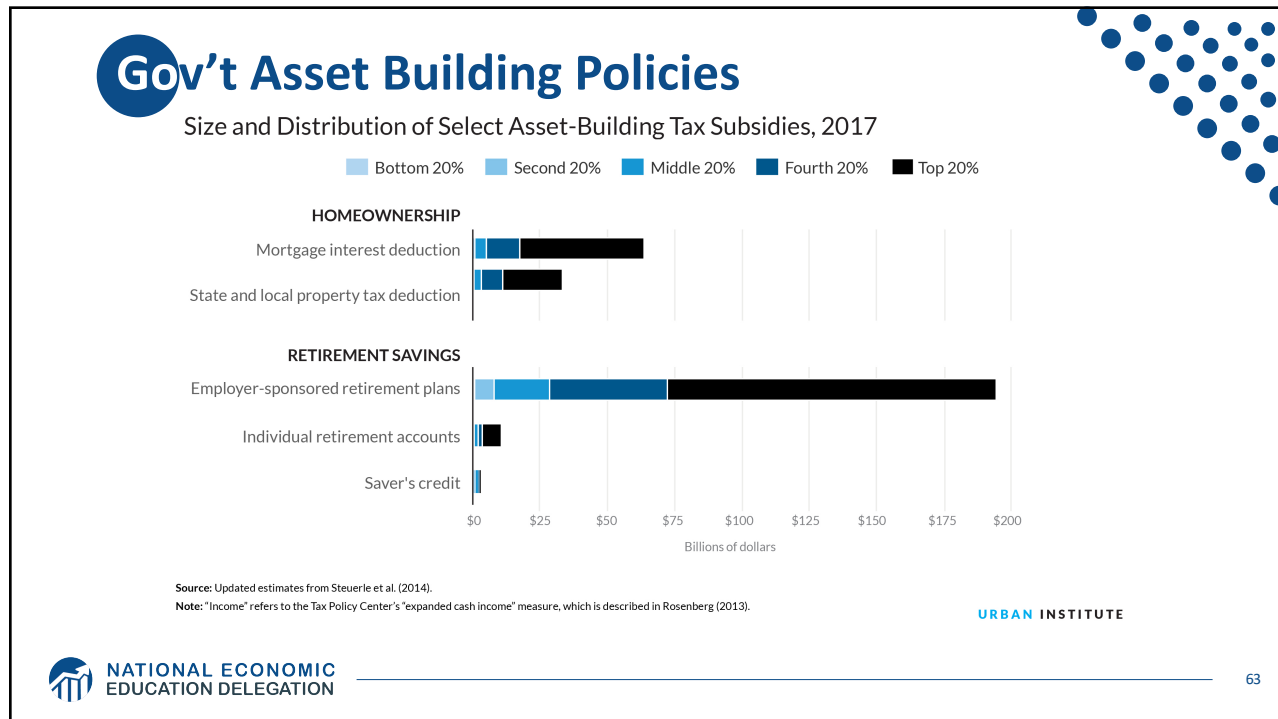
Categories of Policy Areas

- Asset Accumulation
- Education
- Housing
- Health Care
- Incarceration/Criminal Justice
- Transportation
- Broadband
- Hiring

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62

62



63

Solutions: Part I

- **Do persistent gaps in one domain (wealth) block progress in other domains?**
 - Education and employment, for example
- **Solutions focused on a single domain (education) can be undermined by persistent disadvantages in another.**
- **Broad based – multi-domain – solutions are necessary.**

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64

64

Solutions: Part II

- **Universal approaches**
 - If you subsidize everybody, you subsidize nobody
- **Strategies focused on disadvantaged groups become politicized.**

4 Goals from Urban Next50

- **Closing the racial wealth gap** so all people can invest in their own and their children's futures, buy a home, obtain a quality education, and save for a secure retirement.
- **Eliminating racial inequities in public school quality** so every child can achieve the solid educational foundation needed to succeed in the 21st-century economy.
- **Closing employment and earnings gaps** so all people have the dignity and security of a quality job, the opportunity to contribute to the nation's prosperity, and the resources to support their and their children's well-being and future prospects.
- **Ending punitive policing** so people and communities can be safe and more confident in the justice system.

Discrimination vs Prejudice

- **Discrimination:** treating someone differently based on characteristics such as gender, race, or religion.
- **Prejudice:** may lead to discrimination but only if you act on it.

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 effects of more than 100 years of discrimination in policy is still readily measurable.**

Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles

