

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

American University
March-May, 2022

Host: Jon Haveman, Ph.D.
National Economic Education Delegation

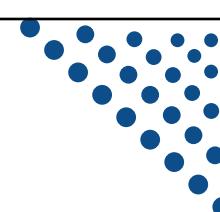


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Available NEED Topics Include:

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



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Course Outline

- Contemporary Economic Policy

- Week 1 (3/11): US Economy & Coronavirus Economics
- Week 2 (3/18): Federal Debt (Brian Peterson, Central College)
- Week 3 (3/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- Week 4 (4/1): Healthcare Economics (Veronika Dolar, SUNY-Old Westbury)
- Week 5 (4/8): Economics of Immigration (Jennifer Alix-Garcia, Oregon St. Univ.)
- Week 6 (4/15): Economic Inequality (Kyle Montanio, Colorado University - Denver)
- Week 7 (4/22): Economic Mobility (Kathryn Wilson, Kent State University)
- **Week 8 (4/29): Discrimination in US Policy History (Jon Haveman, NEED)**
- Week 9 (5/6): The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)
- Week 10 (5/13): The Gender Wage Gap (Mallika Pung, Univ. of New Mexico)



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Government Policies with Racial Implications

Jon Haveman, Ph.D.
NEED
April 29, 2022



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Credits and Disclaimer

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

- Darrick Hamilton, Ph.D., The New School
- 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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Outline

- **History of Policies**

- Discriminatory
- Anti-discrimination

- **Economic consequences**



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Race in Policy

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



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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

- **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.**



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Slavery Economics

- 1860:

- More millionaires in the Mississippi River 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 U.S. GDP at the time.
- 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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Value of Slaves

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

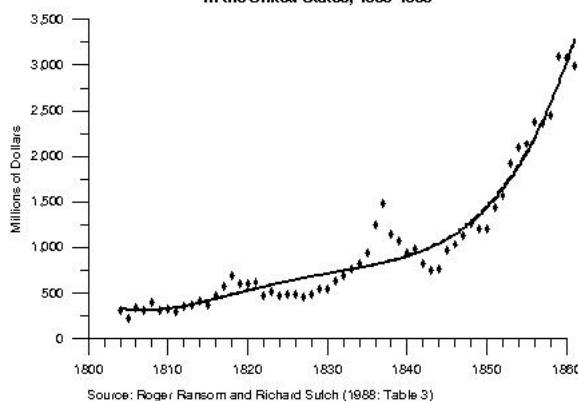
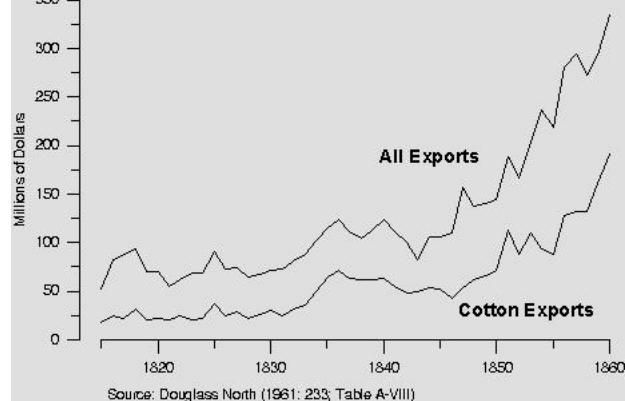


Figure 2
Cotton Exports from the United States, 1815-1860



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

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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

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



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Entire U.S. economy
benefitted from
cheap cotton.

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

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Why Slavery?

- Opportunity and familiarity.

- Slavery had been practiced in Europe for 1000 years by the time it came to the Colonies.
- Enslavement of indigenous peoples in European colonies was standard practice. Disease and extermination necessitated the importation of African slaves.

- 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: $10\text{-}12 \text{ pounds} * 4 \text{ years} = 3 \text{ pounds per year.}$
 - Slaves: $16 \text{ pounds} * 20 \text{ years} = 1 \text{ pound per year.}$
 - Higher productivity of free/indentured did not make up for the difference.
 - Slaves were driven/incentivized to be extremely productive.
 - Availability given seasonal nature of agricultural labor demand.



Source: The Atlantic Slave Trade: A Tentative Economic Model

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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 land owners 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.**
- **Overturned 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.



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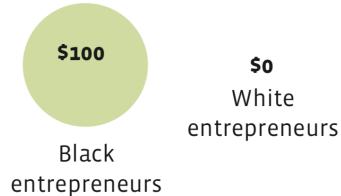
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Black Codes: 1865-1877

- **Special laws that applied only to Black persons.**

- Both progressive and restrictive.
 - o 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
 - o 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



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Jim Crow (1877-1964)

- **Sets of laws**

- Segregation, restrictions on:
 - o Voting, education, work, public office, juries, justice system.
 - o 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.

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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.

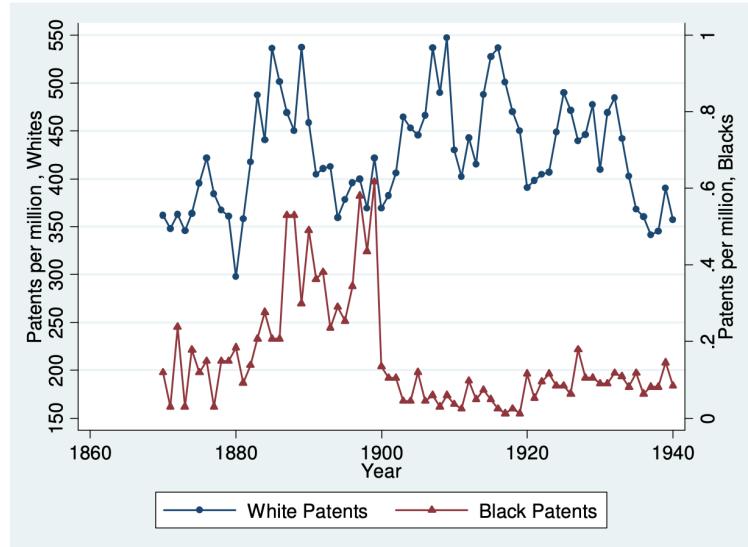


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Jim Crow & Black Patenting



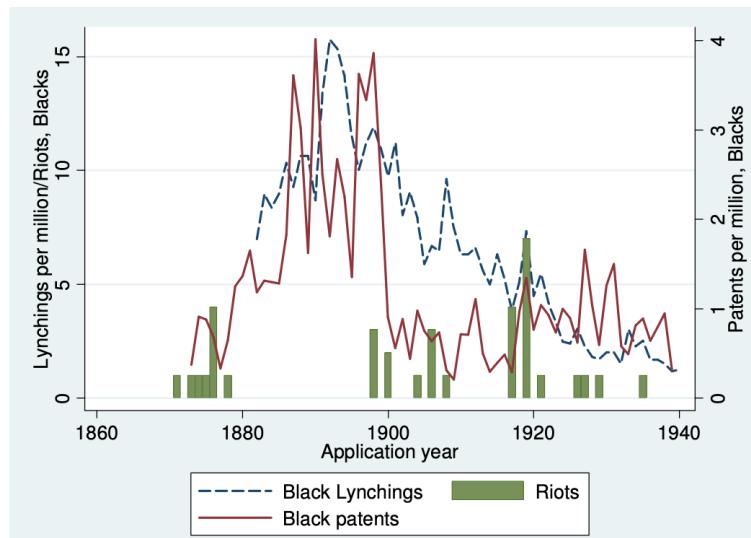
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Source: https://lisadcook.net/wp-content/uploads/2014/02/pats_paper17_1013_final_web.pdf

Conflict and Black Patenting



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Source: https://lisadcook.net/wp-content/uploads/2014/02/pats_paper17_1013_final_web.pdf

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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



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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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FHA Discrimination

- Between 1934 and 1962, the federal government backed \$120 billion of home loans.
 - Three out of five homes between 1930 and 1959.
- 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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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 (Green/“Best”)
 - Green areas represented in-demand, up-and-coming neighborhoods where “professional men” lived. These neighborhoods were explicitly homogenous, lacking a single foreigner or Negro.”
- Grade B (Blue/“Still Desirable”)
 - These neighborhoods had “reached their peak” but were thought to be stable due to their low risk of “infiltration” by non-White groups.
- Grade C (Yellow/“Definitely Declining”)
 - Most yellow areas bordered Black neighborhoods. They were considered risky due to the “threat of infiltration of foreign-born, negro, or lower grade populations.”
- Grade D (Red/“Hazardous”)
 - Red areas were neighborhoods where “infiltration” had already occurred. These neighborhoods, almost all of them populated by Black residents, were described by the HOLC as having an “undesirable population” and were ineligible for FHA backing.



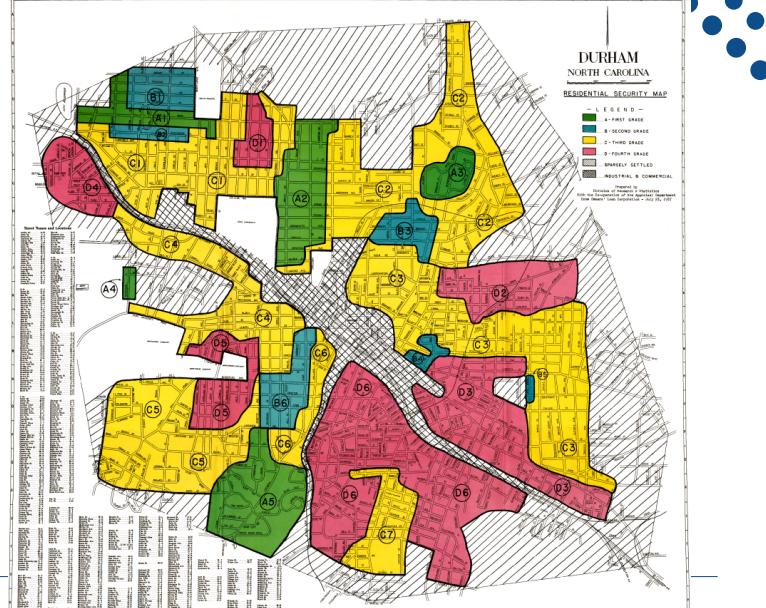
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Misguided Past Policies: Redlining

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.

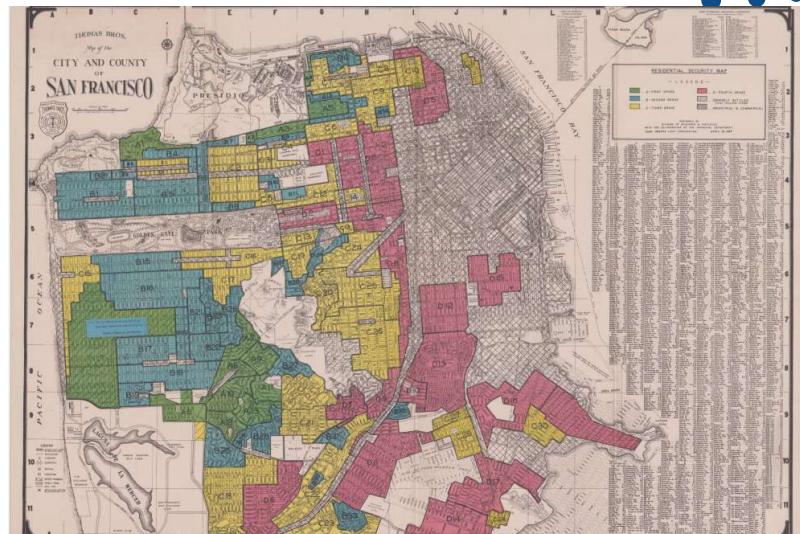


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Misguided Past Policies: Redlining

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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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Redlining's Impact Persists

- 74% of neighborhoods that HOLC graded as “hazardous” more than 80 years ago are low-to-moderate income (LMI) today.
- 64% of the hazardous-graded areas are racial and ethnic minority neighborhoods.
- 91% of areas deemed “best” in the 1930s remain middle-to-upper income (MUI) in 2022, and 85% are still predominantly White.

“As homeownership was arguably the most significant means of intergenerational wealth building in the United States in the twentieth century, these redlining practices from eight decades ago had long-term effects in creating wealth inequalities that we still see today.”

- University of Richmond Mapping Inequality Project



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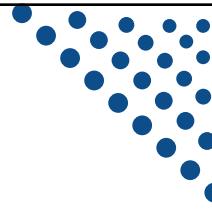
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Housing Post-WWII

- **Residential covenants and discriminatory zoning**
 - Single family vs multifamily zoning was an effort to segregate housing.
- **GI Bill – (largely) 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.

Policies w/Discriminatory EFFECT

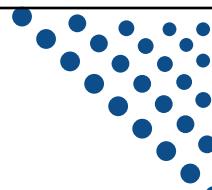
Effect: Often Intended, But Not Overt



- How?

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

Example: Discriminatory, but Not Intended



- Give every child with a library card a free book!
 - Targeting free books to those assumed most likely to read them.
- How can this go wrong?
 - Suppose White children have access to a library and Black children do not.
 - o Perhaps because white parents have the time and resources to advocate for one.
 - More white children will have library cards.
 - More white children will get free books.
 - Black children less likely to get free books.
- Discriminatory in effect.

Policies: Discriminatory Effect

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



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Maybe Education Policy?

- Privileged parents get to make decisions and hoard resources.
- Property taxes fund education
 - Property values are lower in lower income neighborhoods.
 - Property values are lower in minority neighborhoods.
 - Education spending is lower in lower income and minority neighborhoods.



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Homestead Acts

- **Original Homestead Act (1862-1934)**

- 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.



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Source: <https://aeon.co/ideas/land-and-the-roots-of-african-american-poverty>

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.
 - o Nearly all are White.



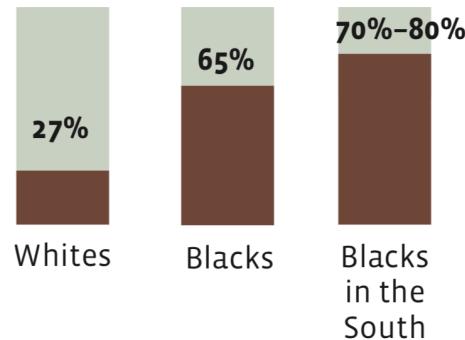
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The New Deal

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INELIGIBLE FOR SOCIAL SECURITY IN 1935



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Other New Deal Programs

- **Unemployment Insurance**
 - 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 workers, and self employed. Also permitted unions to exclude workers.
- **Minimum Wage**
 - Same exclusions as other provisions.



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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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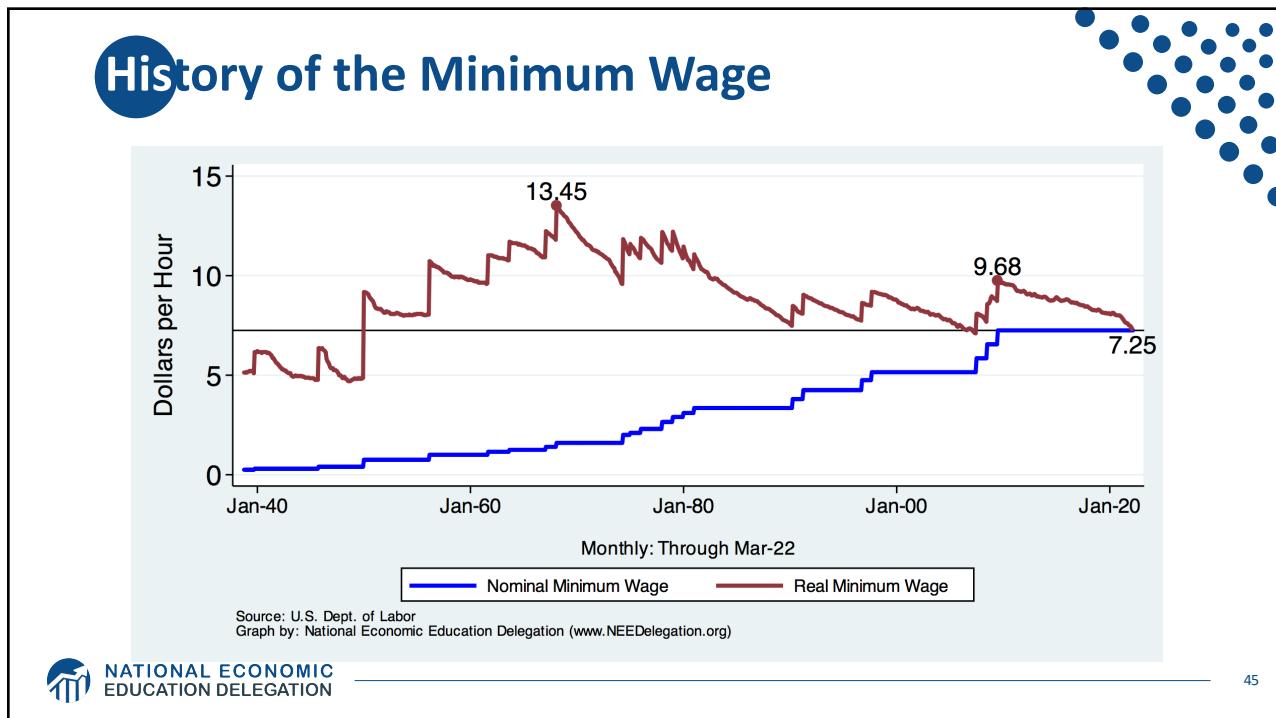
Minimum Wages

- 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 46% (13.45 to 7.25)
 - Or in 1968, was 86% higher than it is today.
 - Exacerbating the Black-White wage gap.



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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.
 - 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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Housing

- Areas of potential discrimination:

- Disparate treatment
 - Service area
 - Community Reinvestment Act (CRA)
 - Lenders are obligated to meet the needs of their entire service area.
 - Advertising and marketing
 - Prescreening mortgage applicants
 - Loan terms – interest rates or maturities
- Adverse impact
 - Lending standards
 - What criteria are used?



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Local Zoning

- Designed to reflect the concentration of power in the hands of wealthier white residents.
 - Less in the way of services to minority and low-income communities.
- Lot size & setbacks
- Single family residences



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Anti-Discrimination



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Note About Legislation and Other Efforts

- **There is always a tradeoff inherent (apparent?) 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.



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1954 Brown v. Board of Education

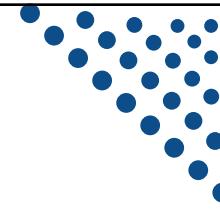
- **1896: Plessy v. Ferguson**
 - Ruled that segregated public facilities were legal, so long as of equal quality.
 - Applied to buses, school, and other public facilities
 - o Sanctioned Jim Crow laws.
- **Brown: helped to establish that separate-but-equal is not equal at all.**
 - Lower court ruled:
 - 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.



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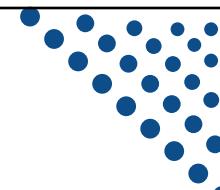
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Brown Impact



- 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%
 - Because of increasing legal activity, local officials were taking the “equal” part of “separate but equal” more seriously.
 - Also clear that equality affects extent of education.
 - Parental education is important for child’s level of education.
 - 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."

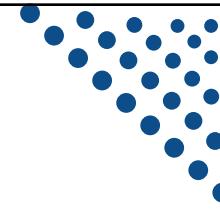


<https://www.history.com/topics/black-history/civil-rights-act>

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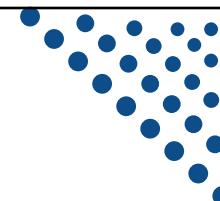
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Affirmative Action



- Education
- Employment
- Government Contracting

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.

Affirmative Action – Economic Consequences

- Some evidence specific to prop 209 in California (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.
- Many policies are not inherently discriminatory, but have a discriminatory effect.
 - Effectively discriminatory laws have played a massive role in the distribution of wealth across races.
- The effect of more than 100 years of discrimination in policy is still readily measurable.



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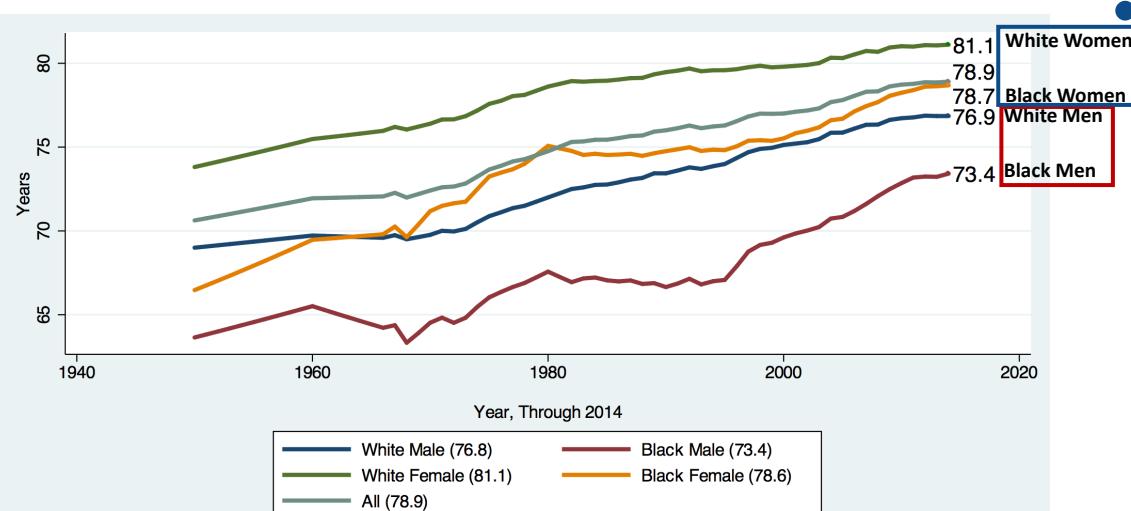
Economic Consequences



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Life Expectancy

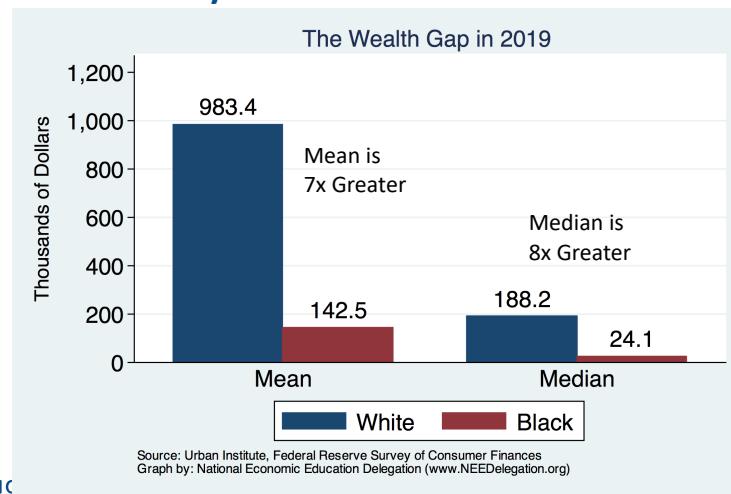


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Enormous Disparity of Outcomes

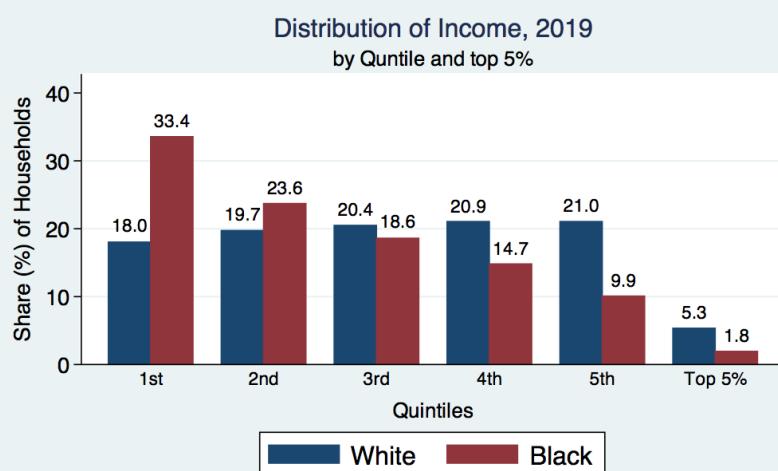
- Perhaps best illustrated by the difference in wealth accumulation.



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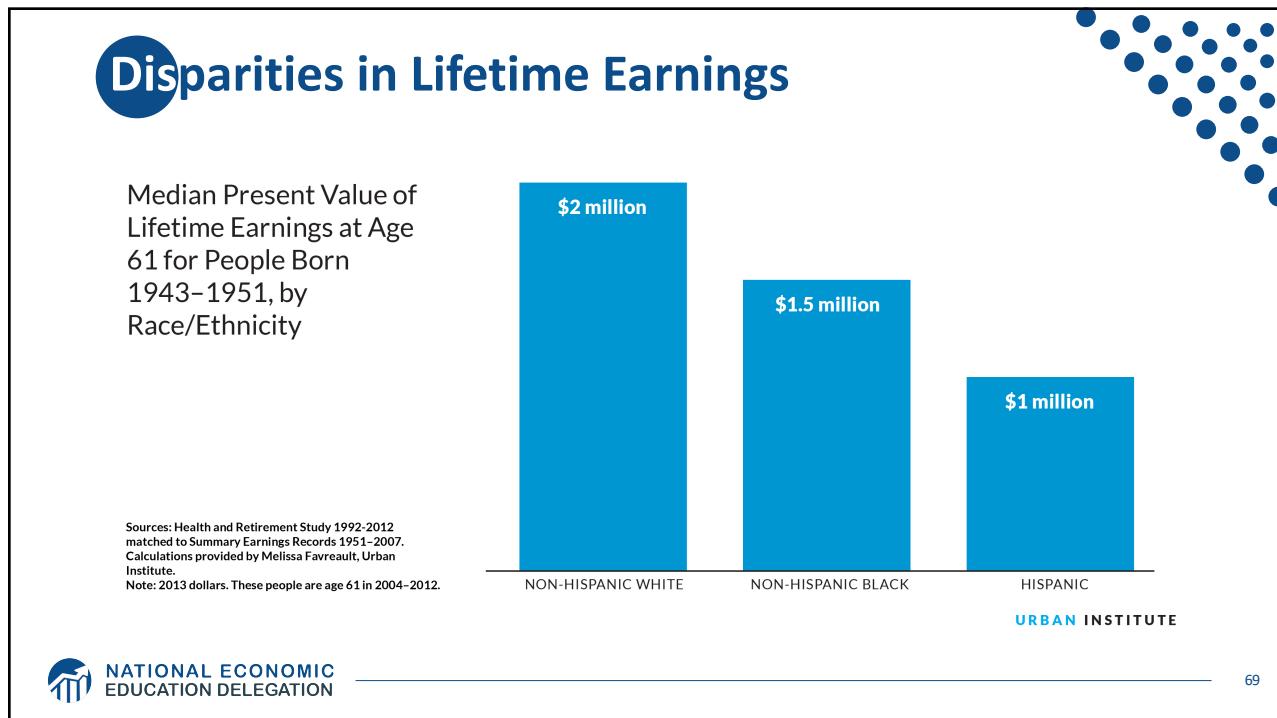
Black Household Incomes Relative to White



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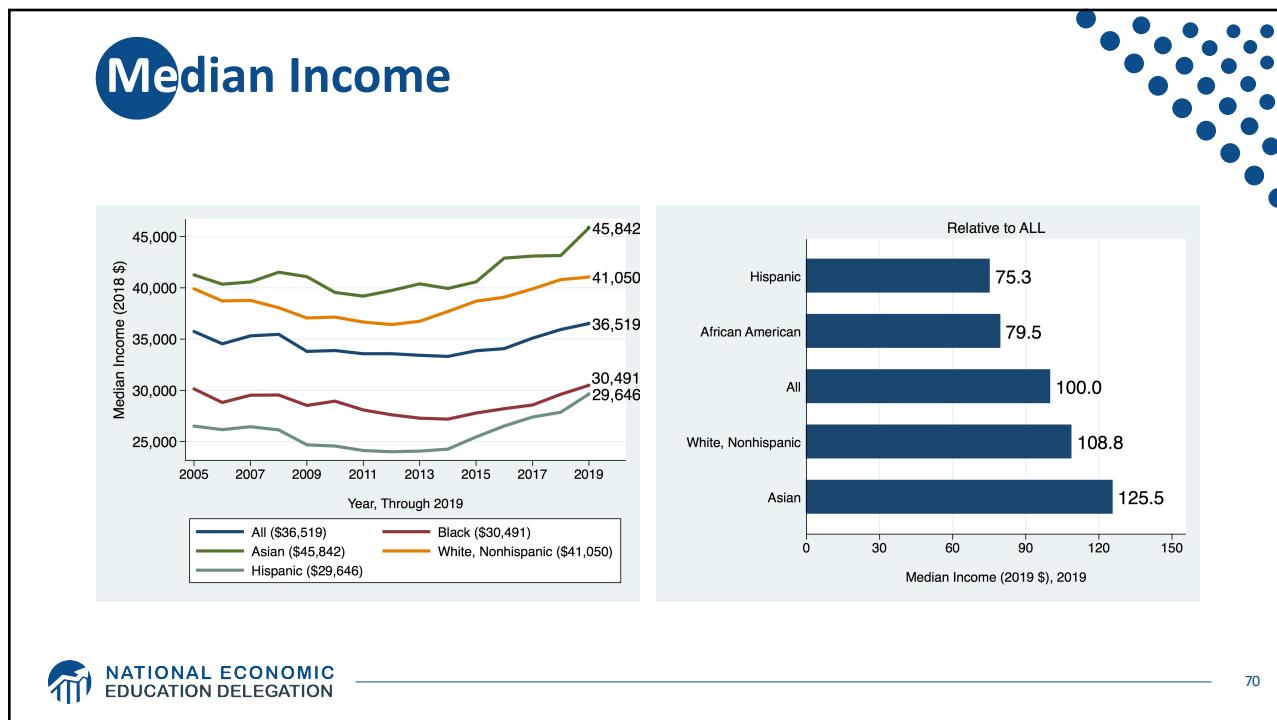
Source: pewsocialtrends.org

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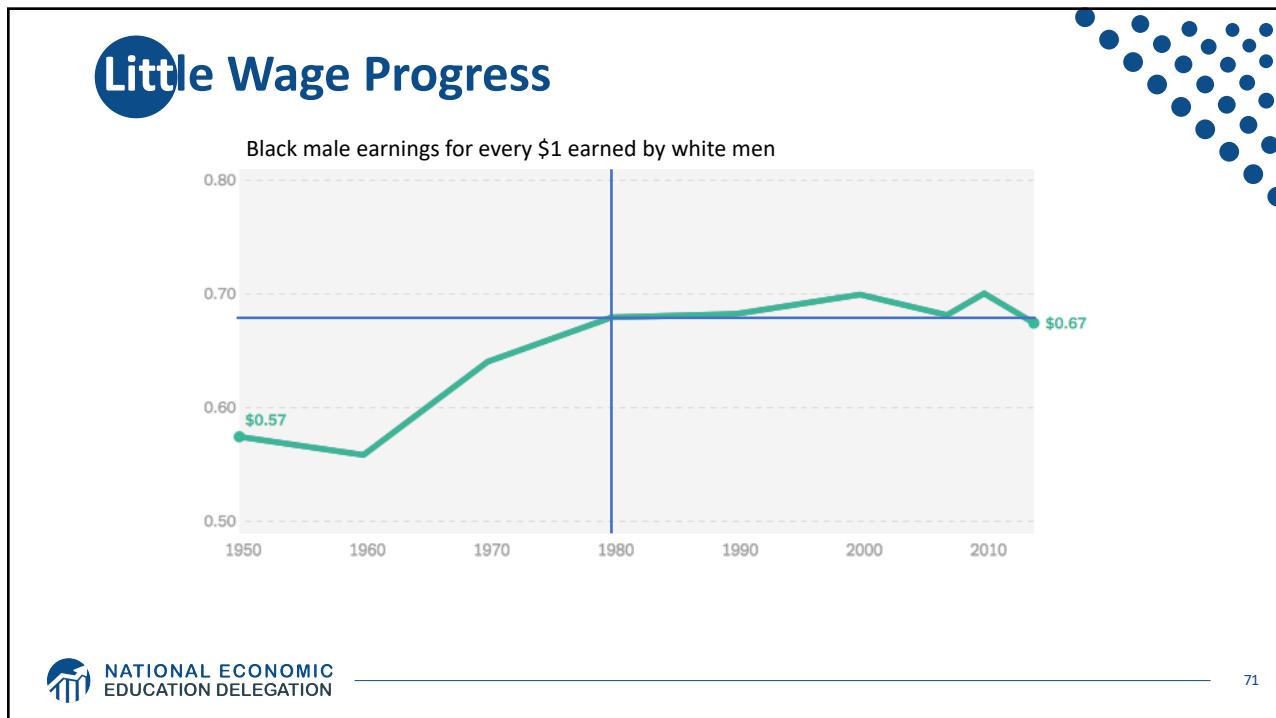
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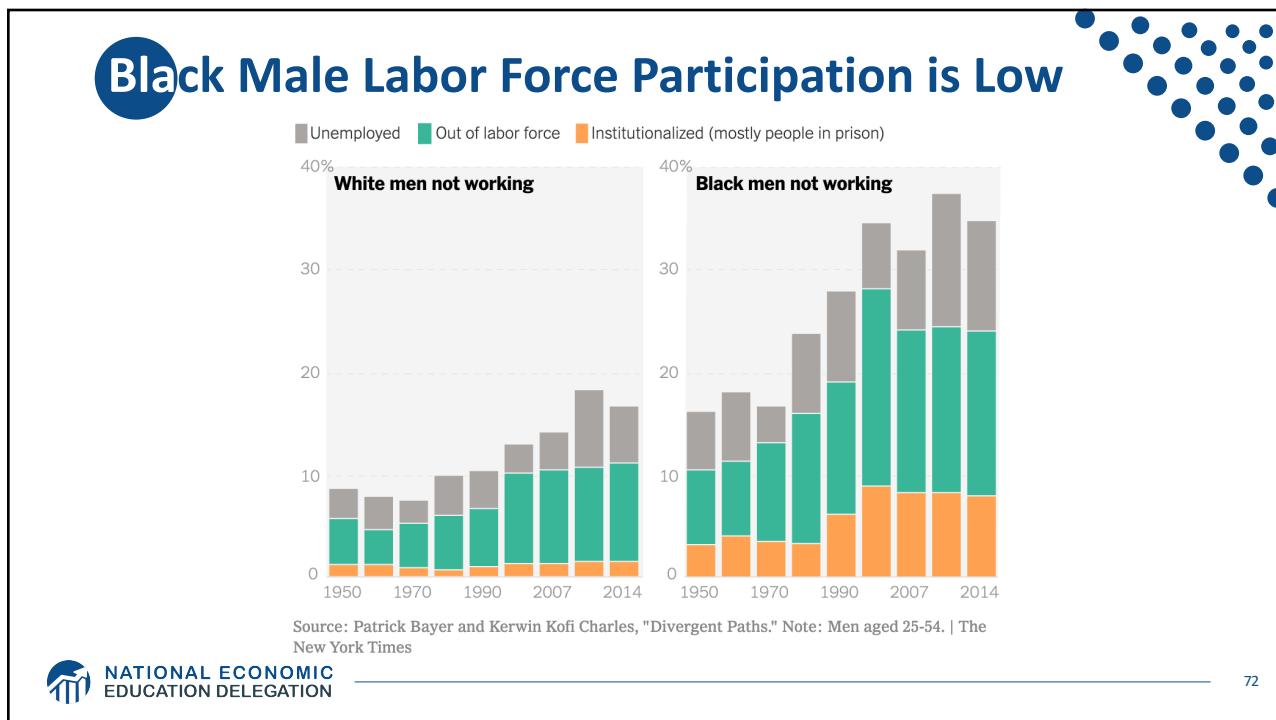
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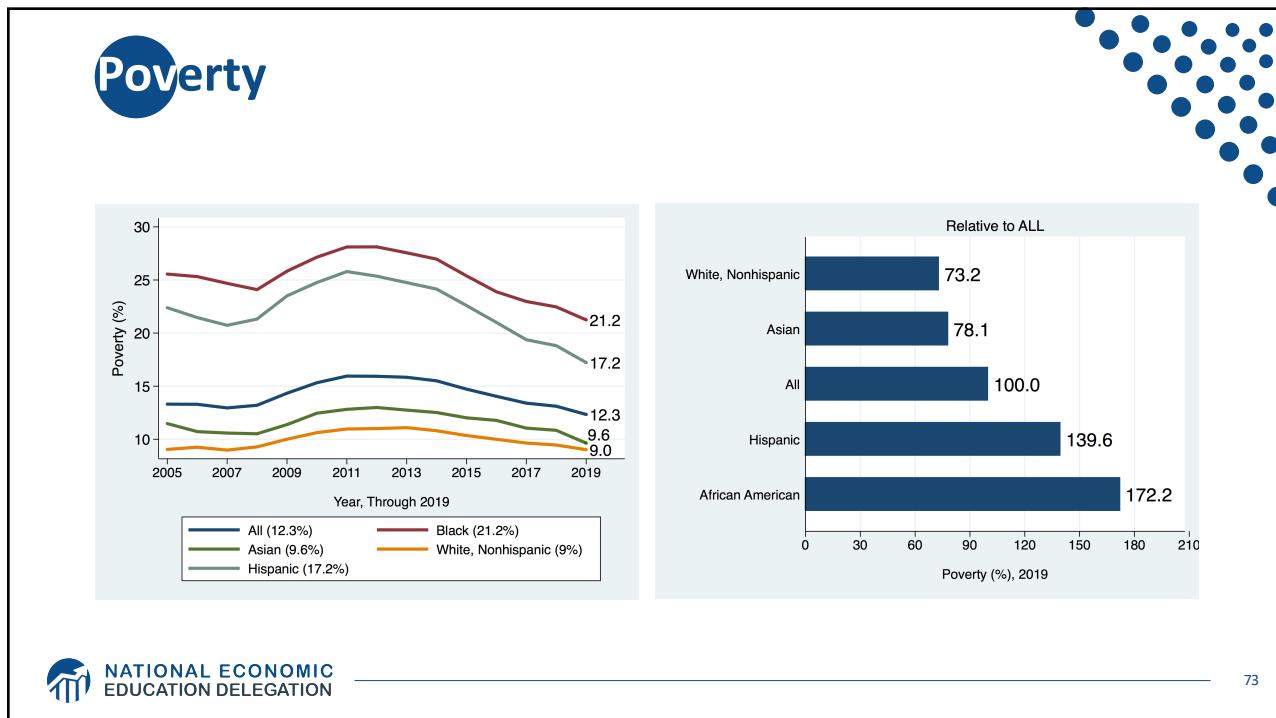
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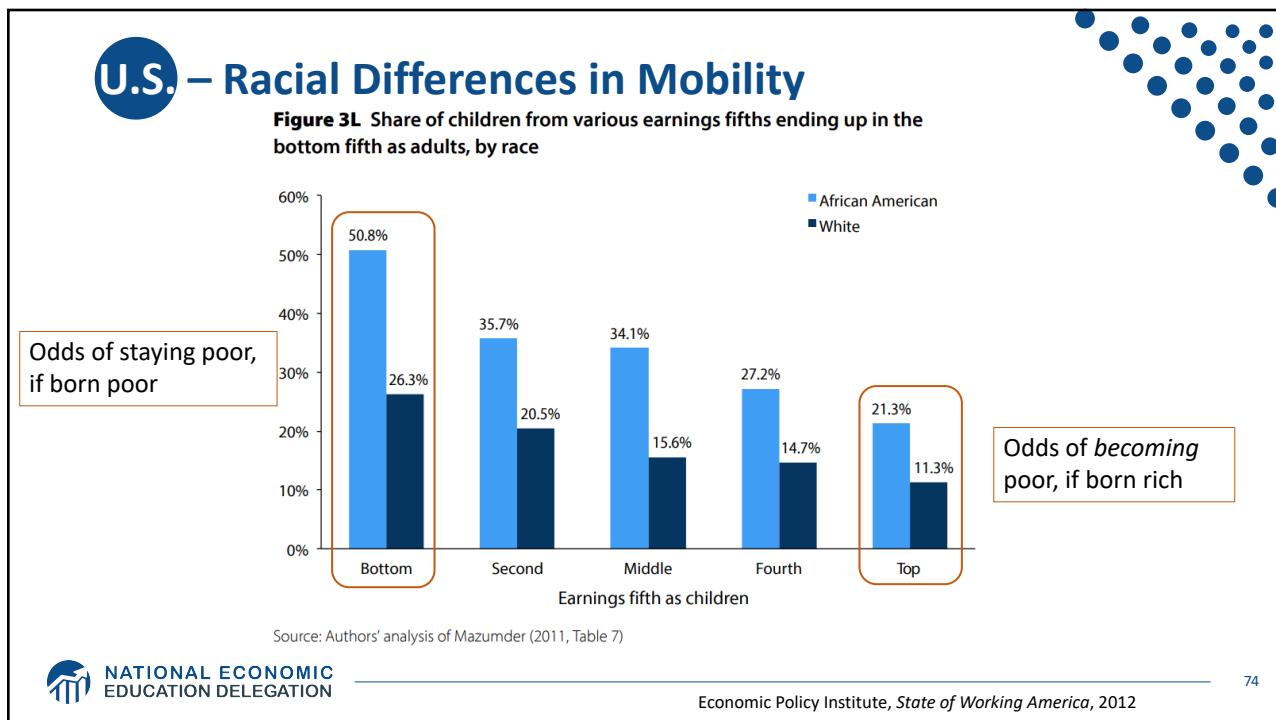


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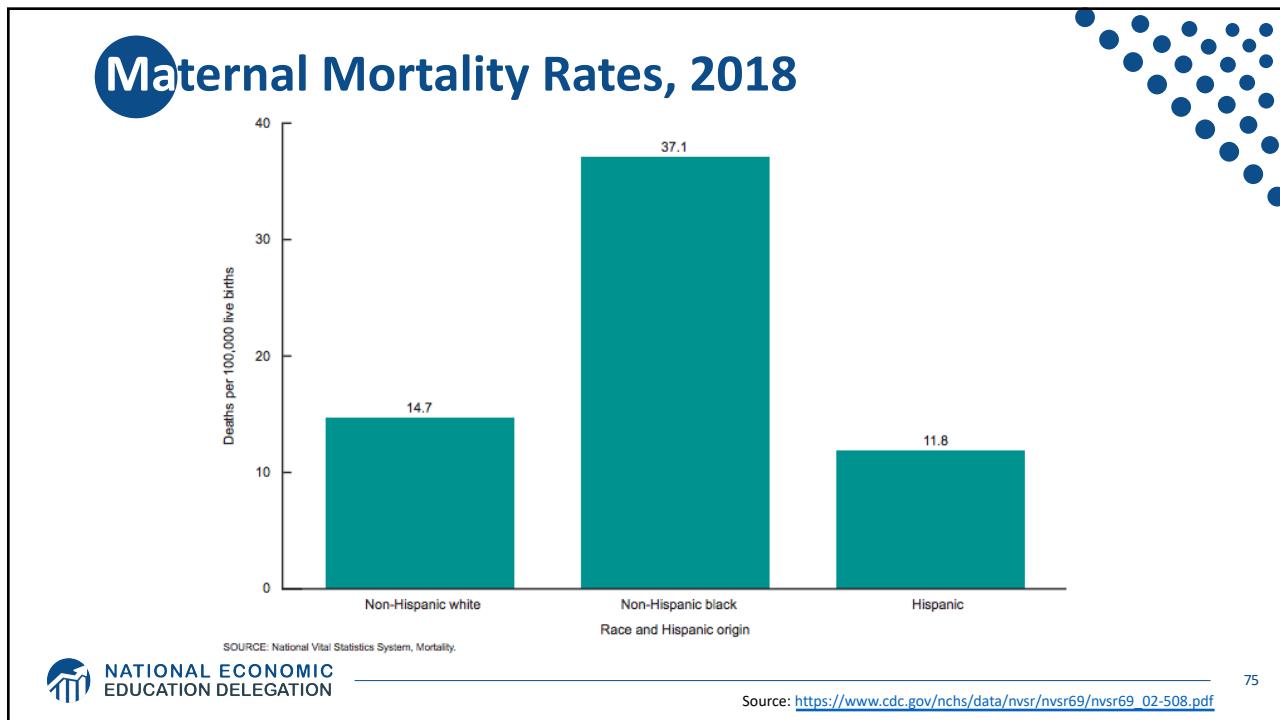
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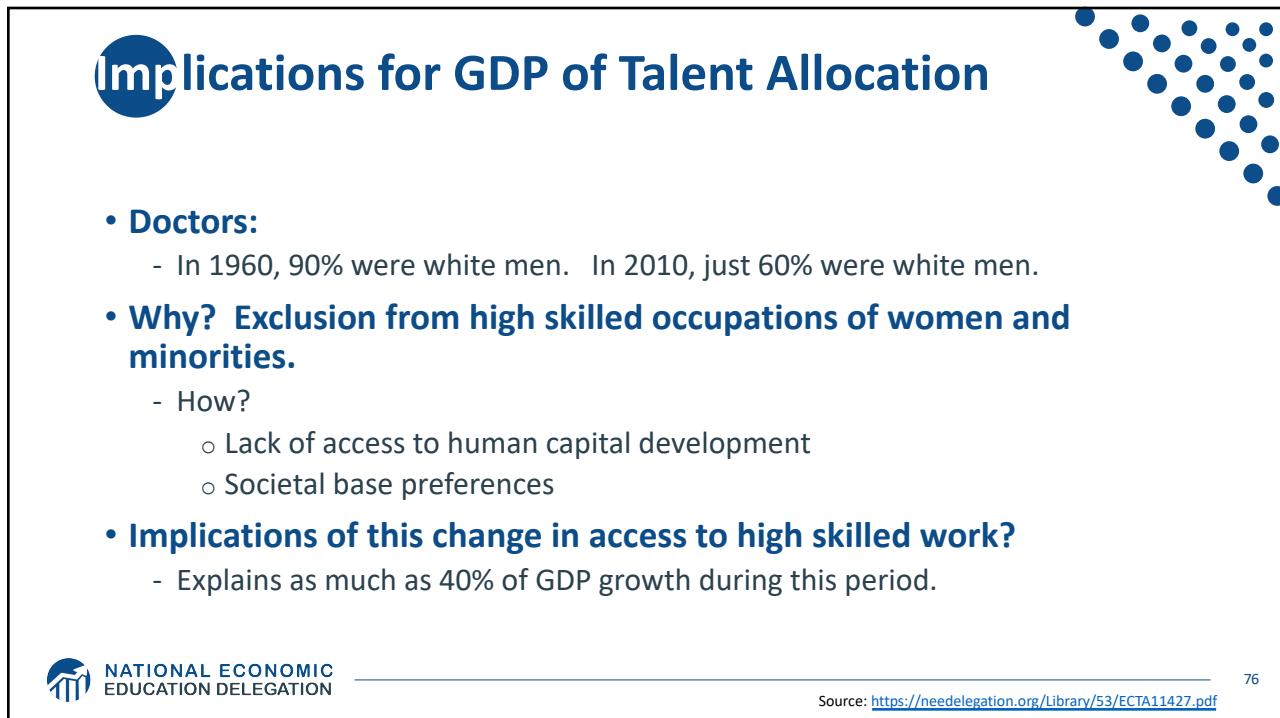


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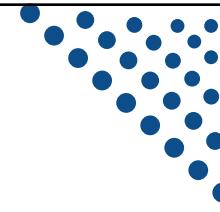
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Policy Solutions

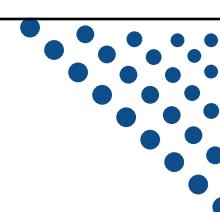


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Categories of Policy Areas

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

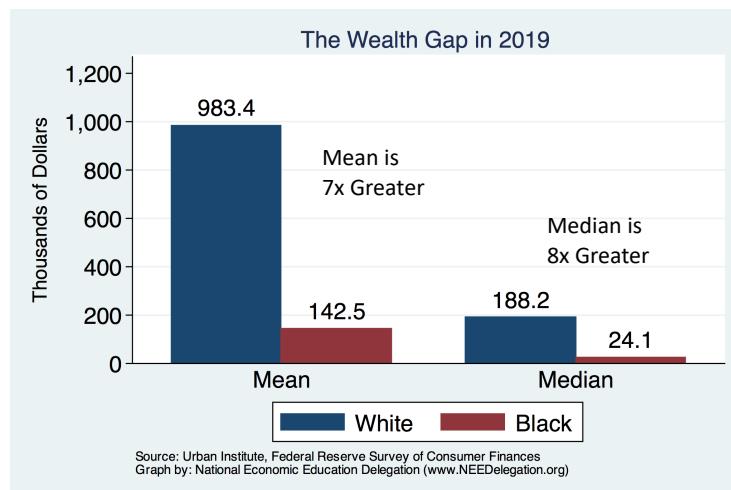


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The Black-White Wealth Gap: Mike Shor



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Thank you!

Any Questions?

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