African Americans in the U.S. Economy

EDITED BY
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Preface

Over the past several decades, academic discourse on racial inequality has focused primarily on political and social issues with significantly less attention to the complex interplay between race and economics. *African Americans in the U.S. Economy* represents a contribution to recent scholarship that seeks to lessen this imbalance.

This project builds on important thematic precedents established by the *Review of Black Political Economy*. From 1970 to the present, the *Review* has been the only professional organ wholly committed to the publication of research examining the intricate role of race in economic life. Influenced by the pathbreaking studies conducted by the many scholars responsible for the *Review*’s success, this volume is designed primarily to provide a political-economic analysis of the past and present economic status of African Americans.

The broad range of topics explored in this volume reflects the multifaceted approach to issues of race, racial inequality, and the operation of the U.S. capitalist economy that has characterized most issues of the *Review*. A multidisciplinary design and theoretical orientation are employed that apply principles and methods adapted from political economy investigations. The book’s multidisciplinary framework blends knowledge from history, economics, political science, sociology, and other disciplines to generate new insights about the persistence of racial economic inequality and discrimination. We present a distinct black political economic model of the relationship between race and economic outcomes that draws on and further extends several decades of scholarship by our colleagues in the National Economics Association.

The forty-three chapters in this volume represent the work of some of the nation’s most distinguished scholars on the topics presented, covering a range of contemporary economic issues. The individual chapters cover several well-defined areas, including black employment and unemployment, labor market discrimination, black capitalism and entrepreneurship, public policy and racial economic inequality, urban revitalization, and black economic development. While the chapter authors present the topics from a variety of public policy and theoretical perspectives, their work shares a common premise—race matters. Indeed, many of the chapters show that racial discrimination persists despite the optimistic expectations generated by standard economic analysis and despite the widespread publicity to the contrary.

In editing this volume, we have tried to make each chapter as reader-friendly as possible. We have worked closely with each contributor to ensure that individual chapters are written in a style free of the complex and technical jargon that characterizes scholarly economics journals and most economics textbooks. We have done so, however, without sacrificing our commitment to the scholarly integrity, theoretical coherence, and empirical rigor that the data and topics presented require. Although the book is accessible and relevant to a range of students and to the general public, its methodological sophistication and its practical and theoretical knowledge should be appealing to academicians and practitioners alike. It can be used as either a primary or a supplementary text for university and community college courses in economics, ethnic studies, political science, sociology, and urban studies.

The development of this book has stretched over a two-year period, during which we have communicated regularly to complete the final manuscript. Thus, this project truly represents a collaborative effort—from the selection and arrangement of the chapters, to the writing of the introduction, to the final editing phase.
Throughout the development of the book, we received valuable assistance from the contributors, including their reviews of companion chapters. We thank them for their support.

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Cecilia A. Conrad
John Whitehead
Patrick Mason
James Stewart
Black Political Economy: An Introduction

Despite over three hundred years of participation in the U.S. economy, African Americans continue to be excluded from the full realization of the American dream. African Americans represented 12.3 percent of the U.S. population in 2000 but received only 9 percent of the income and owned only 3 percent of the assets. With the exception of the American Indians, African Americans have the highest poverty rates of any racial and ethnic group. Racial inequality persists despite the passage of civil rights and equal employment opportunity legislation, the convergence of black–white school completion rates, and the predictions of economists that racial discrimination cannot thrive in a free market economy. Yet, economics textbooks, particularly those for introductory students, are either silent about the economic influence of race or provide only a cursory overview of Gary Becker's theory of discrimination. Becker, a Nobel Prize–winning economist, conducted a thought experiment in the 1950s: what would happen if employers, workers, or consumers were willing to forfeit profits, wages, or utility to avoid an economic exchange with someone of a different race? Becker argued that in the highly stylized world of orthodox economic theory, the racial animus of white employers, employees, and consumers would not lead to persistent racial discrimination. Instead, Becker believed that when employers, employees, and consumers did not possess market power, discrimination would disappear rather swiftly from the market.

Moreover, economic historians—or the so-called New Institutionalists—who wish to explain the economic success of North America and Western Europe on the one hand and the poverty of Africa on the other hand steadfastly ignore the role of the slave trade and the long-term practice of chattel slavery in the Americas. The standard argument is that rich countries are rich because of private ownership of capital, competitive markets, and civic institutions that are able to enforce contracts. African countries are poor because they lack sufficient private ownership of capital; they do not have competitive markets; and their civic institutions are not sufficient to enforce private contracts.

Becker's theory and the work of the New Institutionalists has had a powerful impact on how economists and other social scientists think about the relationship between race and economic status. Because Becker's theory predicts that race does not matter, scholars of racial inequality have focused on developing explanations other than race for persistent racial differences in economic status.

This book takes a different approach. The chapters in this book begin with the premise that race matters—and then proceed with an analysis of the implications of race and racism for the economic status of African Americans and for the operation of the American economy. This approach challenges the adequacy of neoclassical, mainstream economic analysis as a useful paradigm in explaining the persistence of racial inequality; hence, it also challenges the validity of the neoclassical paradigm for explaining the general distribution of income and wealth, the operation of labor and capital markets, and the competitive process. The intellectual origins of this approach lie in the last three decades of scholarship generated by black political economists in the African diaspora. James Stewart and Major Coleman, drawing on these three decades of scholarship, identify two major foci of the black political economy paradigm, "(1) the role of economic forces in intensifying or mitigating conflicts between 'racial' groups, and (2) the extent to which economic institutions can be viably orga-
nized and operated while simultaneously accommodating sustained patterns of racial stratification." The chapters in our book build on and significantly extend the principles, terminology, and methods derived from Stewart and Coleman's work and other variants of the black political economy paradigm.

The chapters in this book span the ideological spectrum of economics, from neoclassical theory to Marxian analysis of class. While most of the chapters focus on the economic impact of racism on African Americans, not all of the authors are economists, nor are they exclusively African American. Although the authors begin with the shared premise that race matters, they do not always agree about its implications for the economic status of African Americans, nor do they agree about the appropriate public policies to ameliorate its effects. For example, one author advocates school vouchers to improve black educational attainment; another opposes it. Some authors promote black capitalism as a strategy for black economic advancement, whereas others not only question the ability of black-owned firms to create employment but also worry that black capitalism worsens class divisions within the black community.

UNDERSTANDING RACIAL INEQUALITY

Despite the diversity of perspectives represented in this volume, several broad themes do emerge. The first is that neoclassical economic theory cannot adequately explain racial differences in economic status. Neoclassical economic theory argues that, first, competitive markets will eliminate discrimination; and, second, that black–white income disparities are caused by racial differences in culture, tastes, and innate abilities; or by racial differences in investments in education, training, and other activities that increase productive capacity. Although the authors represented in this volume generally concede that differences in education and training contribute to black–white economic inequality, they challenge the conclusion that competitive markets will eliminate discrimination or create a level playing field. They point to the persistence of gaps in earnings and employment status among blacks and whites with the same education and training as evidence that racial bias continues to constrain the choices and opportunities of African Americans. For example, in chapter 14, Susan Williams McElroy reports that the median earnings of black male high school graduates in 2001 were nearly $7,500 less than the median earnings of white male high school graduates.

Competitive markets not only fail to erase the effects of racial discrimination, but they tend to reproduce the inequality that racial bias creates. For example, the lower earnings of African Americans combine with racial bias in credit markets to create racial differences in wealth. Even if racial bias were eliminated in both the labor and the credit market, the difference in wealth of black and white households would persist. As Gary Dyminski and Patrick Mason conclude, "If all personal bias against black applicants for capital and credit were to disappear tomorrow, the huge racial wealth gap would remain; and this alone would insure that credit and capital flows are lower in the black community; and this leads to fewer opportunities for capital accumulation and wealth-building."

A second broad theme in this book is that history matters. Because competitive markets tend to reproduce inequality, restrictions on economic opportunities in the past affect the present. Profits from the Atlantic slave trade and from plantation slavery not only fueled U.S. economic growth in the 1800s but also contributed to the contemporary prosperity of the United States and Europe and to the economic stagnation in many African countries. Slavery has long-term consequences for the descendants of slaves, for slave owners, and for those who were neither slaves nor slave owners but who enjoyed privileges associated with white skin. Long after emancipation, African Americans continued to be denied full social citizenship in the United States. In the South, improvements in the education of white school children were financed by paying black teachers low salaries and by spending little on textbooks and other supplies for black children. Even as blacks escaped the political and economic repression of the South to enter the industrial workforce of the North, they were met with racial hostility. White workers
acted to exclude black workers from union membership and from industrial workplaces. Eligibility rules for New Deal social insurance programs such as Social Security and unemployment insurance excluded the occupations in which most African Americans worked.

This history of racial oppression and exclusion created the conditions under which African Americans participate in the contemporary U.S. economy. The emasculating effects of slavery, Jim Crow, and continuing racial discrimination in labor markets contribute to the high proportion of black families headed by women. The denial of full social citizenship to persons of African descent for nearly two centuries created the racial differences in wealth observed today. As Thomas M. Shapiro and Jessica L. Kenty-Drane conclude, “African-Americans cannot earn themselves out of the racial wealth gap. The huge racial wealth gap is a historical legacy that the past continually visits upon current generations.”

This history has also left African Americans especially vulnerable to structural changes in the U.S. and the global economy, the third broad theme in this book. Globalization in particular poses new challenges to the economic prospects of people of African descent. Globalization has been a powerful force in creating a new global village, characterized by increasing cooperation, cultural exchanges, and democratic practices among inhabitants. This and other features of globalization have created new possibilities for the struggle against fear, ignorance, and white privilege. However, globalization has also led to a move away from the welfare state, to the disappearance of key industries and high-wage jobs from minority communities, and to increased competition for low skill jobs. These features of globalization have contributed to the widening social inequality within the African American community and between blacks and whites.

As described, most conservative economists believe that competitive markets are self-correcting and that the effects of racial discrimination will disappear over time and without government action. Once again, this book offers a different perspective, of which the fourth theme is that a laissez-faire approach will not reduce racial inequality. The authors in this book advocate traditional forms of intervention, such as enforcing antidiscrimination laws and endorsing new strategies.

Much of the improvement in black economic status since the 1960s has required government intervention through equal employment opportunity legislation, minority contracting programs, equal credit laws, and so forth. However, while some African Americans achieved middle-income status, the economic status of others has deteriorated. High unemployment, low wages, inferior schooling, and the related problems of poverty and welfare dependency plague many African Americans. To reverse the tendency toward growing inequality, unconventional and unpopular policies (such as reparations) may be required.

A final broad theme that emerges from the chapters of this book is that social capital matters. Paraphrasing Shonda Nash and Cedric Herring in this volume, social capital “consists of cohesive community networks that indicate trust and cooperation based on a common culture and goals, group loyalty, a sense of identity and belonging, and coordinated actions.” Social capital is a critical ingredient to community economic development strategies, and institutions such as churches, community-based businesses, and cooperative organizations help to build and sustain social capital. Black-owned businesses, regardless of location or industry, are more likely to hire African Americans as employees than are businesses not owned by blacks. The black church has given birth to colleges and universities as well as to mutual aid societies that have developed into black-owned insurance companies that exist today. In a 1990 survey, 71 percent of black clergy reported that their churches were engaged in community-outreach programs, including day care, job search, substance abuse prevention, food and clothing distribution, and so forth. Many churches have spun off community development corporations to develop housing and entrepreneurial ventures. Other community-based organizations have played similar roles. In a critique of a conservative free market proposals for inner-city revitalization, John Whitehead and David Landes write, “Inner-city economic revitalization requires considerably more than the provision of a favorable environment for attracting private profit-seeking mainstream firms. In fact, the over
thirty years of research on inner-city revitaliza-
tion suggests that revitalization initiatives must be
comprehensive and holistic, extending beyond
economic issues. The motor of a local revitaliza-
tion initiative may be economic development, but
of course its success may be programs in such ar-
eas as family support, improved public education,
drug rehabilitation, mental health, environmental
clean-up, and community policing."

James Stewart focuses specific attention on how
black labor was mobilized on plantations to gen-
erate profits that fueled economic growth in the
Southern and the Northern states.

The last two chapters in part I provide ac-
counts of the economic circumstances of
African Americans following the Civil War.
Daniel Fusfeld and Timothy Bates describe the
operation of the Southern sharecropping sys-
tem, which led to the superexploitation of black
sharecroppers and their condition of chronic
debt. Philip Foner examines how World War I
created new employment opportunities for
blacks in the urban North, spurring the large-
scale emigration of blacks from the South.

Part II continues the examination of black la-
bor in the post–Civil War period. It chronicles
the early attempts to recruit black workers into
organized labor and the racist union practices
that excluded blacks from most trade unions in
the period immediately following the Civil War.
William Harris describes the history of blacks
and trade unions. Philip Foner recounts how the
exclusion of blacks from white unions led to the
formation of the Brotherhood of Sleeping Car
Porters. In the final chapter of part II, James
Stewart provides a detailed case study of at-
ttempts to overcome racism within the United
Steel Workers of America during the pivotal
years 1948–1970.

Part III builds on this historical foundation to
analyze the economic status of African Ameri-
cans. Part III presents and critiques the major
theories of discrimination and racial economic
inequality. John Whitehead's chapter compares
conservative and liberal theories of discrimina-
tion, highlighting the strengths and weaknesses
of each theory. Whitehead concludes that neither
conservatives nor liberals have developed an ade-
quate theoretical model of how capitalism can
exploit a racial distribution of resources. Peter
Bohmer’s chapter continues Whitehead’s discus-
sion of the capitalism–racism nexus by looking at
its treatment within the Marxist theory of racism
and racial inequality. Timothy Bates and Daniel
Fusfeld present a radical version of the crowding
model. They argue that the crowding of black
workers into the secondary, low-wage job sector
worsens black–white income differentials and
contributes to other racial differences in eco-
that part IV concludes with Thomas Shapiro and Jessica Kent-Dane's chapter on racial differences in the accumulation of wealth.

The chapters in part V examine the impact of globalization on the socioeconomic well-being of people of color in the United States with particular attention to African Americans. Peter Dorman gives an in-depth analysis of the impact of increased capital mobility on employment in black and Latino communities. Jessica Gordon Nembhard, Steven Pitts, and Patrick Mason describe the consequences of corporately driven globalization for economic inequality within the black community. The remaining three chapters focus on specific aspects of globalization: the shrinkage of the public sector (Mary King), immigration (Steven Shulman and Robert Smith), and the expansion of the penal system (Andrew Barlow).

Part VI examines the characteristics of black-owned businesses, from barbershops to hip-hop entrepreneurs, and debates the merits of black capitalism as a strategy for black economic advancement. Manning Marable describes the early history of black-owned businesses. The next two chapters examine the current status of black-owned businesses (Cecilia Conrad) and banks (Gary Dyskinski and Robert Weems Jr.). Part VI continues with two provocative chapters, written by Robert Weems Jr. and by Dipannita Basu, on hip-hop culture and its implications for black business development. In the final chapter of part VI, Earl Ofari Hutchinson worries that black capitalism will exacerbate class divisions among African Americans. He cautions that black capitalism by itself will not have a major impact on black economic well-being because of the small size of the black-owned business sector.

The remaining sections of the book suggest alternative strategies for improving the economic position of African Americans. Part VII examines public policies to improve the educational attainment and incomes of individual blacks. Howard Fuller and Louis Schubert each debate the merits of school voucher programs, and Michael Stoll and Bernard Anderson each identify effective policies to increase black youth employment prospects. Linda Burnham discusses the consequences of welfare reform for black families.

Part VIII explores critical aspects of the
growing and controversial reparations movement. Robert Allen presents an overview of past and present black efforts to obtain reparations. Richard America uses a general theory of restitution to make the case that reparations are due to African Americans, and he discusses policy options for payment. William Darity Jr. and Dana Frank discuss precedents for reparations payments to blacks emerging from the experiences of Americans Indians, Japanese Americans, and Jews.

Part IX presents various economic development and revitalization strategies to address some of the challenges that face African Americans in the dawn of the new millennium. John Whitehead and David Landes emphasize the importance of attracting debt and equity capital to support the development of minority businesses that are linked to high-growth sectors of the economy. The Whitehead and Landes chapter and the chapter by Kalima Rose advocate equitable development strategies. Rose shows how equitable development strategies can be used to lessen the adverse effects of gentrification that often accompanies community revitalization efforts. The next chapters discuss the job and wealth creation potential of the black church (Shondrah Nash and Cedric Herring) and of black-owned businesses (Thomas Boston). In the final chapter of this section, John Whitehead and James Stewart examine the potential role of black athletes as a funding source for broad-based inner-city investment initiatives.

Taken as a whole, the volume provides a comprehensive overview of the historical, contemporary, and prospective economic challenges that have confronted and currently confront African Americans in an ever-evolving global capitalist regime. The range and detail of the information presented in the various chapters provide a solid foundation for developing new approaches that can move our society toward providing true equal economic opportunity for all.

NOTES

1. Using data from the 2000 census of the population, poverty rates were 8.1 percent for non-Hispanic whites, 12.6 percent for Asians, 17.7 percent for native Hawaiians and Pacific Islanders, 24.9 percent for blacks or African Americans, 25.7 percent for American Indians and Alaskan Natives, and 22.6 percent for Hispanic or Latinos (who may be of any race). Information available at www.census.gov/prod/2003pubs/c2kbr-19.pdf.

2. The quantitative coverage of race and gender may have increased, but a survey of textbooks and economics journals from 1972 to 1987 finds a decline in the serious treatment of discrimination.

3. An illustration of the New Institutionalist perspective on African economic development is an article by Stephen Haber, Douglass C. North, and Barry Weingast, "If Economists Are So Smart, Why Is Africa So Poor?" (Wall Street Journal, July 30, 2003). They argue that the problem is not financial or resource constraints but the need to craft political institutions that limit the discretion of government. No reference is made regarding the role of the slave trade or colonialism on the development of those institutions.

4. A laissez-faire policy is one where the government does not actively intervene in the workings of the competitive market.