

Diversity and Global Policy: Institutional Persecution

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We study the factors driving observed differences in group outcomes.

We focus on:

- **Socio-psychological factors**
 - Focus on gender differences in preferences
- **Culture, norms, and stereotypes**
 - Focus on their formation and persistence across time and space
- **(Unfair) institutions** (today's lecture)
 - Focus on the history of slavery in the United States
- **Discrimination**
 - Theoretical models of discrimination
 - Quasi-experimental evidence of discriminatory practices of employers

Institutions and Inequality

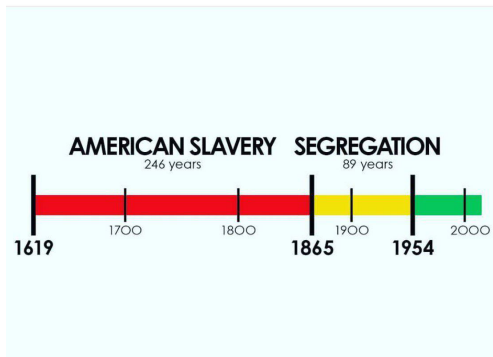
We saw in the previous lecture that culture matters for explaining differences between groups.

Another essential factor is formal institutions.

By defining the “*rules of the game*,” they have an enormous influence in shaping (in)equality.

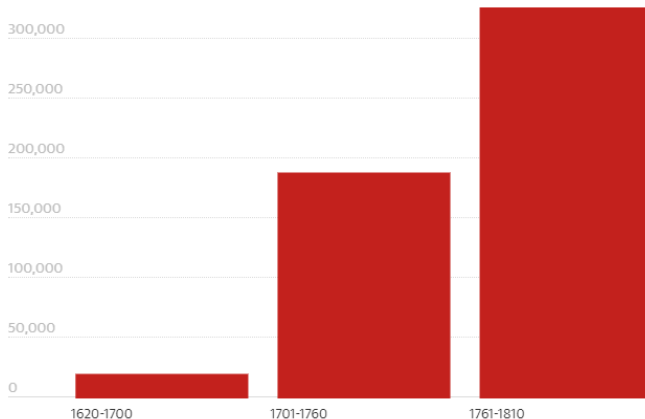
As a case study, we will discuss the history of slavery and segregation in the United States.

A Brief Timeline



Slavery (1619 – 1865)

Number of african slaves brought to British North America and the US



Guardian Graphic | Source: American Abolitionists

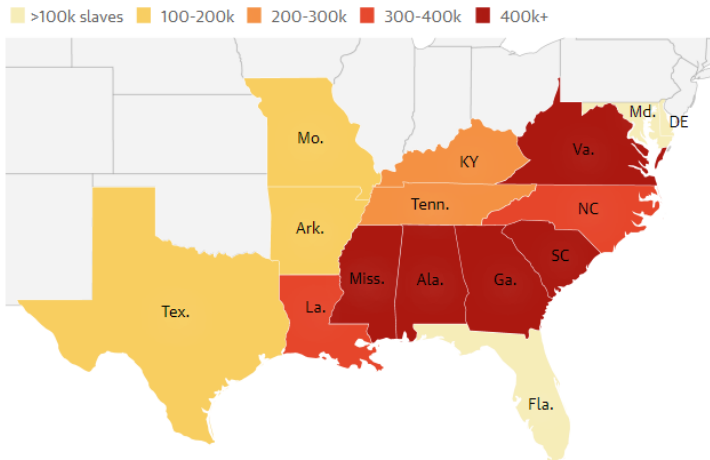
1790 US Census

At the time of the first US Census, non-white slaves accounted for a sizable portion of the population of southern states

State	Crops	Total population	Percentage of population that were slaves
Virginia	Tobacco	747,610	39.1%
North Carolina	Tobacco, cotton	395,005	25.5%
Maryland	Tobacco	319,728	32.2%
South Carolina	Rice, indigo, cotton	249,073	43.0%
Georgia	Rice, indigo, cotton	82,548	35.5%

📷 Guardian graphic | Source: Kolchin, Peter. American Slavery, 1619-1877 and IPUMS NHGIS, University of Minnesota, www.nhgis.org

By 1860, Black slaves represented approximately 13% of the US population.



Guardian graphic | Source: 1860 census

The US Civil War

Between 1861 and 1865, US Civil War between the Union (northern states) and the Confederacy (southern states).

The loss of the South put an end to slavery.

In 1868, under the 14th Amendment, African-American men were allowed to vote.

But racist institutions persisted beyond this point...

Segregation (1865 – 1954)

In southern states, segregation forbade African Americans from:

- drinking from the same bathrooms
- eating at the same water fountains/restaurants
- taking the same buses
- attending the same schools
- taking the same jobs as white Americans

All lasted until, and sometimes well past, the 1960s.

These are also known as the *“the Jim Crow laws”* – Jim Crow being a pejorative term for African Americans.

The Making of Modern America

- In 1954, in the *Brown v Board of Education* ruling, the Supreme Court ruled that segregation was unconstitutional and schools would have to integrate.
- In 1964, President Lyndon Johnson signed the Civil Rights Act into law. Bussing African American children to white schools in white neighborhoods was deemed constitutional.
- Nowadays, the US legal system does not discriminate against Black Americans (on paper at least).

In 2014, Ta-Nehisi Coates published *The Case for Reparations* in the Atlantic.

Since then, how to settle the financial debts of 250 years of slavery and 90 years of segregation has risen up to the political agenda...

What does the bill look like?

Approaches to Measuring the Bill

There are two broad approaches to putting a dollar value on reparations (Darity Jr et al., 2022):

- Itemizing the costs of slavery and racial oppression on past Black generations
 - Costs of slavery
 - Costs of post-Civil War massacres
- Unified measures of the costs of slavery and oppression on contemporary Black generations
 - The unpaid debt
 - The modern racial wealth gap

Refresher on Present Discounted Value

Formula

$$PV = FV \frac{1}{(1 + r)^n}$$

PV = present value

FV = future value

r = rate of return

n = number of periods

Costs of Slavery

Different methods to measure the costs of slavery:

- **Wage rates paid to free laborers**

- i.e., Total wages lost over the period 1776 – 1860
- Likely an underestimate because wages would have been higher without all this forced labor

- **Market price of slaves**

- Captures the discounted present value of the net expected stream of income generated for the slave owner
- In 1860, one slave = 1000\$

Costs of Slavery

Different methods to measure the costs of slavery:

- **Price of freedom**

- The price of freedom generally was 20 percent greater than the market price for an enslaved person.
- In 1860, one slave = 1200\$

- **Contribution of slave labor made to US GDP**

- Enslaved labor was responsible for 18.7 to 24.3 percent of commodity output growth during the two-decade interval between 1839 and 1859.
- In both years (1839, 1859), slave production contributed to at least 15 percent of total national output.

Comparison of the Measures of the Cost of Slavery

<i>Measure</i>	<i>3 percent interest compounded to the present (2021 dollars)</i>	<i>6 percent interest compounded to the present (2021 dollars)</i>
Missing wages 12-hour estimate	\$8.46 trillion	\$860.2 trillion
Missing wages 24-hour estimate	\$14.2 trillion	\$7 quadrillion
Asset value of the enslaved	\$466.5 billion	\$47.5 trillion
Expense of self-purchase (price of freedom)	\$559 billion	\$56.9 trillion
Contribution to American economic development (1839)	\$33.4 billion	\$6.2 trillion
Contribution to American economic development (1859)	\$72.9 billion	\$105 trillion

Source: Various studies discussed in the text.

Cost of Massacres

Between the end of the Civil War and the 1940s, approximately 100 White massacres directed against Black communities took place.

The period is known as “*the Red Summer*” (James Weldon Johnson).

Robert Smalls, a Black Civil War hero and South Carolina congressman, asserted that White terrorists had killed 53,000 Blacks (1865 – 1900).

This would have meant about 1,750 murders per annum in the late nineteenth century – about five Blacks killed by Whites daily.

The most recent estimates of Black deaths on the twentieth-century lynching estimate the amount to be about 1,500.

Nowadays, the value of a statistical life is 10 million \$ in the United States.

Some Limitations

The itemization approach has the advantage of making the atrocities committed against African Americans concrete.

But it also faces serious limitations:

- Data limitations
- It isn't easy to know what should be accounted for. In other words, the list can get very long...
- It is hard to justify paying current Black generations for the atrocities committed against their ancestors.

It appears more legitimate to pay current Black generations for ongoing consequences of the harms that limit their lives in the present moment...

Intergenerational Convergence

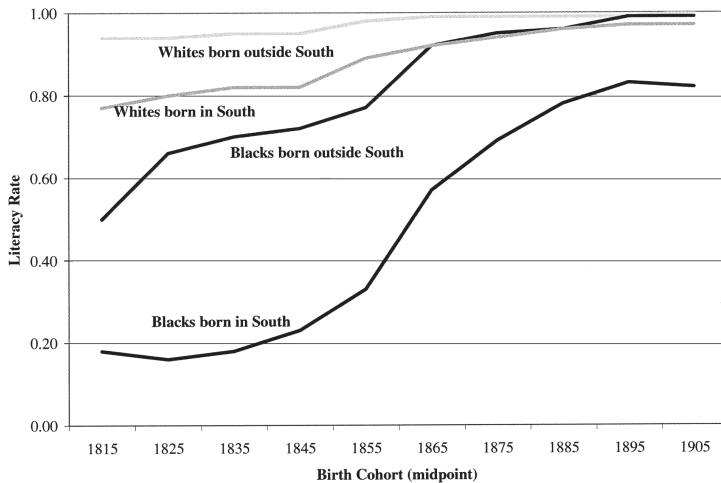
Sacerdote (2005) shows that it took roughly two generations for the descendants of slaves to catch up to the descendants of free black men and women (in terms of educational attainment).

Three main sources of disadvantage faced by blacks:

1. the direct effects of past slavery (the focus of his paper)
2. the effects of being black in a society with racist institutions
3. the effects of being in the South

⇒ Suggests the effects of being black in a society with racist institutions explain contemporary gaps (more so than the direct costs of slavery).

FIGURE 4.—LITERACY RATES BY BIRTH COHORT FOR WHITES AND BLACKS BORN INSIDE AND OUTSIDE THE SOUTH



The Unpaid Debt

In January 1865, General William T. Sherman issued Special Field Orders No. 15, designating **5.3 million acres** stretching from the Sea Islands of South Carolina to northern Florida bordered by the St. Johns River, to be settled by land grants of **40 acres** to freed slaves.

However, after 40,000 of the formerly enslaved had settled on **400,000 acres** allotted under Sherman's order, President Andrew Johnson ended the project and restored the land to the former slaveholders.

Many other historical anecdotes of unfulfilled promises.

What would have been the value of such land distributed to all slaves?

The Unpaid Debt

Assumee 40-acre allotments being made, on average, to four-person households.

Since there were 4 million freedmen, the total promised allocation would have been about 40 million acres.

An average land price of \$10 per acre in 1865 implies that the projected land distribution would have been worth \$400 million

i.e., about 10 percent of the value that these human beings were worth to their owners during the period of slavery.

⇒ The present value of \$400 million in 1865 compounded to the present at 3% interest is \$40.2 billion and at 6% interest is \$3.5 trillion.

The Unpaid Debt

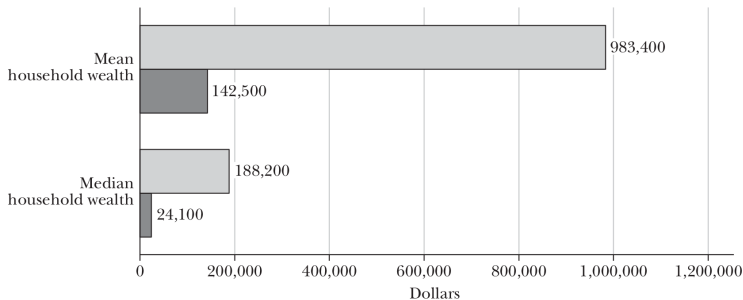
Under the conditions of the Homestead Act of 1862, 1.5 million White families ultimately each received 160-acre land grants in the western territories...

This is four times the size of what was promised but not delivered to Black families.

⇒ Black Americans were deprived of a possible avenue to intergenerational wealth that still affects current generations' economic prosperity.

The Racial Wealth Gap

Two Views of the Black–White Wealth Gap



Source: Bhutta et al. (2020).

The Racial Wealth Gap

The current Black–White disparity in wealth is perhaps the best single economic indicator of the cumulative, intergenerational impact of White racism over time.

There are approximately 40 million African Americans who are descendants of persons enslaved or freedmen (out of a total of 45 million Black Americans).

⇒ The sum of the Black–White wealth gap across households would be \$2.7 trillion if evaluated at the median.

⇒ The sum of the Black–White wealth gap across households would be \$14.3 trillion if evaluated at the mean.

Class Discussion

Do you think there is a case for reparations?

Which approaches to measurement do you find more convincing?

Assuming we agree on a dollar amount, should the US government hand out unconditional cash transfers to Black families?

Or should the money be invested in specific areas?

- Darity Jr, W., Mullen, A. K., and Slaughter, M. (2022). The cumulative costs of racism and the bill for black reparations. *Journal of Economic Perspectives*, 36(2):99–122.
- Sacerdote, B. (2005). Slavery and the intergenerational transmission of human capital. *Review of Economics and Statistics*, 87(2):217–234.

Tips for the Exam

Understand the notion of Present Discounted Value.

Understand the different valuation approaches for the cost of reparations.

Understand the pros and cons of these approaches.