

The Economics of Racism

Introduction

In the past two weeks, revulsion at racist violence on the part of U.S. police forces has spread across the country and around the world. In this context, people who are concerned with macroeconomic issues such as income, output, employment and the price level may start to wonder: **What are the economics of racism?**

In this essay I sketch some of the ways that people (myself included) have thought about this question over the past sixty years. Normally I focus on helping people to understand the Modern Monetary Theory (MMT) approach to macroeconomics. To that end, I often post on the [MMT google groups mailing list](#). Like MMT, the economics of racism falls within the scope of the field of political economy, but the two topics are somewhat orthogonal to each other. For that reason -- and because what I have to say here is much longer than what I think works on a mailing list -- I'm posting this on my own website. Feel free, however, to post comments in the thread I've started on the MMT google group which points to this essay.

My Politics and Personal History

What I have to say here about the economics of racism informs what I have to say about MMT, but my argument is independently derived.

When I began to study political economy in the 1970s my interest stemmed from my politics. Short-hand description: anti-racist and anti-imperialist.

Some personal history.

I was in grammar school during the peak period of the Civil Rights movement. I was in high school during the peak period of the 1960s urban rebellions and the Johnson administration's escalation in Vietnam. I was in college during the period when protests over the Indochina War reached their largest scale.

In coming into adulthood in the early 1970s, however, I missed the period when the antiwar movement, though smaller, was undergoing its most rapid period of intellectual and ideological development. Another short-hand description: I missed the New Left/SDS (Students for a Democratic Society) period. By the time I entered the New School's Political Economy program in 1974, SDS was definitely a thing of the past and the New Left was already somewhat ... mature.

Nonetheless I quickly learned that I had to pay attention to one of the major ideological debates within the New Left in the United States: the political economy of racism. In what follows I'll try to characterize that debate as best as I can remember. I'm not attempting to do any research into primary sources here. I'm relying mostly on memory. At the end, I'll try to draw some lessons relevant to the events of the past two weeks and perhaps draw some connections to macroeconomics and MMT.

The Major Questions in the Economics of Racism

At the broadest level, the question the New Left faced was one we still face five-and-a-half decades later: **How do you explain racism?** This could be broken down into a number of sub-questions such as:

- How do you explain economic discrimination along "racial" lines in areas such as employment, income and housing.
- Who benefits from racism? How do they so benefit?
- Given that, from the Declaration of Independence onward, there has always been an aspect of egalitarianism in the American ethos, how then do we explain the persistence of racism and racial discrimination?
- Given that persistence of racism, is there any basis to hope that things might change for the better? Can we develop a political strategy to bring about that change?

Providing good answers to these questions requires an interdisciplinary effort. In a college curriculum, these questions would, at a minimum, traverse economics, sociology, psychology and political science. Here I am only going to talk about economics, albeit broadly defined to include both orthodox and heterodox approaches. And my focus will be on the ways economists thought about these questions in the 1960s and early 1970s.

Orthodox Economics: Two Approaches

Racial Inequality as Market Imperfection

Orthodox economics sees racial discrimination as a transitory phenomenon -- a manifestation of market imperfections which the force of competition, if left unimpeded, would eventually eliminate. In the orthodox view, if, for instance, the wages of black workers were significantly less than those of white workers, employers would start to hire those black workers. Competition among employers for those black workers would eventually bid up their wages to the level of white workers, thereby eliminating racial discrimination in wages.

In short, let the markets handle the problem. No need for the government to do anything. No need for historical context (*e.g.*, no need to ask why the wages of black workers were lower in the first place).

Which, of course, is pretty much the stance orthodox economics takes on everything.

1960s Mainstream Economics: Non-Macroeconomic Interventions Against Racial Inequality in the Labor Market

While the view that racial inequality as a market imperfection not requiring government intervention increasingly came to dominate orthodox economics during the 1970s, we have to note that other approaches had their moment in the sun in the 1960s. Many liberal economists and politicians were willing to acknowledge that racial inequality was not transitory and could not be eliminated by the market alone. Some kind of government intervention would be needed -- but what kind of intervention?

Many liberals felt that generations of racial discrimination and poverty had left black workers

short of skills demanded by labor markets. The role for government would then be to create job-training programs that would upgrade the skills levels of minorities to the point where they could compete against white workers for jobs.

Note that while this approach acknowledges the historical impact of racism, it locates that impact in alleged defects in black workers -- defects that were the consequence of past racial discrimination, but defects nonetheless. This was akin to the "culture of poverty" approach common in sociology at the time.

It is not surprising that the focus on job training never amounted to much. Indeed, one dissenting voice at the time was MMT forefather Hyman Minsky, who noted that most job skills are acquired on the job -- not in pre-job training. Have the government provide jobs for all those who want them, Minsky argued, and that's where any skills deficit will be made up. Minsky's "employer of last resort" was the germ of what we now know as the Job Guarantee.

But the larger weakness of the liberal approach was that it said that it was black people who had to change, not white people. Though it did not deny the impact of racism, it implicitly denied the need to take racism head on.

On the Political Left: Two Approaches

On the political left it was clear that racism and racial discrimination were not simply transitory phenomena. Any explanation of them had to have historical context. Y'know, that slavery thing. Both the persistence of measurable economic discrimination along racial lines and the persistence of racist attitudes (white supremacy) had to be explained.

Two schools of thought appeared within the New Left. Both argued that racism and racial discrimination had to have a **material** basis. That is, they could not simply be explained by saying people hold incorrect ideas. Though incorrect ideas might be a major obstacle to change, they were not sufficient to explain racism and had to be understood with reference to real social and economic relationships among people irrespective of the ideas in people's heads.

In short, the explanation had to be **materialist**, not idealist.

Two schools of thought emerged.

White Skin Privilege

The first school of thought on the Left argued that the white working class materially benefited from racial discrimination against blacks. This school argued that racial discrimination meant that capitalists, by paying black workers less, were able to pay white workers more. Those higher wages would, in effect, be a payoff to white workers that would give them a material reason to defend racial discrimination. That, it was argued, would explain the racial prejudice many elements of the white working class manifested.

This concept became known as White Skin Privilege. Anti-racist forces therefore had to rule out white workers as potential allies.

Following this approach, and given the 8 to 1 numerical superiority of whites over blacks within the U.S. population, what hope was there for ending or even lessening racial discrimination? The advocates of the white skin privilege theory argued that a small number of highly politically conscious white revolutionaries -- people who supposedly had risen above their white skin privilege -- could ally with black revolutionaries and lead struggles to overturn racism. Expending efforts to change attitudes within the white working class would be unnecessary and a waste of time.

The Weather Underground pursued this approach to its logical conclusion. Needless to say, it did not succeed.

Critique of the White Skin Privilege Approach

The second school of thought launched several criticisms of the White Skin Privilege (WSP) approach.

1. The WSP approach explicitly assumed that white and black workers were caught in a zero-sum game. Any improvement in economic conditions for blacks would come at the expense of whites.
2. The WSP approach implicitly assumed that the wage share in national income was fixed. If the wage share were not fixed -- that is, if wages could rise at the expense of profits -- then it would be mathematically and politically possible for the incomes of both white and black workers to increase.
3. In assuming that the wage share is fixed, WSP implicitly dismissed the existence of class struggle and the impact that class struggle might have on both:
 - the distribution of income between capital and labor; and
 - the attitudes of white and black workers about each other as they engaged in class struggle.

The WSP approach, in short, was very static. It treated the both the current distribution of income between capital and labor and the distribution of income between white and black workers as fixed and, for practical purposes, unchangeable. It was not dynamic or, as a Marxist would put it, dialectical.

The Class Struggle Approach

The second school of leftist thought -- I don't know if it gave itself a name, so I'll call it the Class Struggle (CS) approach -- started from the premise that, at any given point in time, the distribution of income between capital and labor is the result of past class struggles over wages and the conditions of work. That distribution is not fixed because the class struggle is not static.

The CS approach further argued that white and black workers were not playing a zero-sum game. It argued that lower wages for black workers was evidence of **superexploitation** -- extraction of surplus value from the labor of black workers above and beyond the "normal" level of exploitation of workers as described by Marx in *Capital* in the mid-nineteenth century.

Implication: wage gains for black workers could come out of profits, not out of the wages of white workers.

The CS approach argued still further that an upsurge in the class struggle (*e.g.*, labor militancy) would almost certainly presume an improved degree of solidarity between white and black workers, opening up the possibility of

- reducing the gap in wages between the two groups;
- an overall increase in wages for **both** black and white workers; and
- an overall increase in the wage share of national income at the expense of the profit share.

The CS approach is clearly dynamic, but it is also an argument in the subjunctive. "*If we were to have an upsurge of labor militancy, would both black and white workers benefit and would the wage gap decrease?*" The argument could move from the subjunctive to the conditional and then to the indicative if there were data to support it.

Some economists, particularly those around the Union for Radical Political Economics (URPE) in its earliest days, did try to gather that data. I recall one study by a fellow named Michael Reich, then at Berkeley, which took the degree of unionization in a given metropolitan area as a proxy variable for its cumulative history of labor militancy. The study then looked at wage levels and the gap between white and black wages in various metropolitan areas. The study did indeed find that, on average, the higher the level of unionization, the higher wages were for both black and white workers and the narrower the gap between them.

The CS approach thus found at least some empirical validation and lay the basis for rejecting the notion that white workers had a material basis for holding racist beliefs and supporting racial discrimination. White workers would actually be better off if there were less racism toward black workers. Whatever attraction racism might have for white workers would have to be explained much more by psychosocial and historical factors, *e.g.*, conscious attempts by ruling classes (first, plantation slaveholders; later, capitalists) to persuade white workers to identify primarily as white rather than as part of a working class which included both blacks and whites.

Reflections, Forty Years Later

By mid-1980 I had come to realize that, notwithstanding my intellectual aptitudes, I would not thrive in academia. So I dropped my graduate studies at the "all-but-dissertation" level. (Curiously, the last economics book I bought before I left was Minsky's *John Maynard Keynes*.) I did not follow economics again until I started reading Paul Krugman's Op-Ed columns in *The New York Times* in the mid-2000s. Somewhat later I also read several of Joseph Stiglitz's books during and after the Great Financial Crisis (GFC). But in general I did not follow developments in economics closely again until early 2018, when I first encountered modern monetary theory. I read lots of books on the politics and history of racism during that time and led some study groups on those topics. But on the economics of racism I haven't read much since 1980.

I haven't looked at economic data closely, but I strongly suspect that the relative economic positions of whites and blacks in the U.S. has not significantly changed since 1980. What improvements African-Americans make during economic expansions tend to get wiped out in crises such as the GFC and the COVID-19/Trump recession.

If we were to revisit the debates about the economics of racism today, we'd have to take into

account a number of important changes over the past half century. To simply list three:

- Relative decline of the industrial working class
- Rise in women's labor-force participation
- Immigration and change in ethnic composition of the U.S. population

I still think that the Class Struggle approach is valid. I do not think that the wage share is fixed. Nor do I think that improvements in the economic status of African-Americans would come at the expense of the economic status of white Americans (or of others such as Latinos and Asians). I think that a resurgence of labor militancy would lead to bigger paychecks for all groups and a reduction of the black/white gap. I think that there is a material basis for white workers to reject appeals to racism and white-race solidarity.

However, it's clear that the overwhelming majority of white people in the U.S. have a strong, albeit perhaps unacknowledged, investment in their own whiteness: the perception that no matter how unfortunate their own situations might be, there is always some social group whose status is permanently lower than their own. The psychological benefits of that investment in whiteness have probably outweighed the benefits of divesting from that belief and acting in solidarity with black people. The events of the past two weeks, however, make me hopeful that that is changing.

And here's where an MMT connection comes in.

For me, the strongest political implication of Modern Monetary Theory is that we do not as a nation face **financial** impediments to vital social transformations such as universal health care or a just transition to a post-fossil-fuel economy. We face a few technological constraints, some real resource constraints and lots of political constraints.

But no financial constraints. That's a basis for hope.

Similarly, if we have a rational basis for rejecting the notion that economic gain for blacks must come at the expense of whites, then we have a material basis for multiracial unity and the rejection of racism. Just a basis, but hope nonetheless.

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