EconoFact Chats: Historical Roots of Economic Disparities for African-americans

Trevon Logan, Ohio State University

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Michael Klein:

I'm Michael Klein, Executive Editor of EconoFact, a nonpartisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

Discrimination is costly because it limits one's customer base, pool of workers or source of talent, at least that's an economic argument made by some people. But we see evidence of persistent discrimination nonetheless, for example, in the racial wealth gap, through analyses of hiring opportunities and in the health outcomes of blacks versus whites. Part of this is undoubtedly due to the long shadow cast by chattel slavery and Jim Crow laws. Economic history can offer insights that speak to the discrimination of the past and how this contributes to current racial disparities. But to do so, this often requires a deep dive into data sources and not just those that involve numbers, but also those that shed light on the lived experiences of black men and women.

Michael Klein:

One of the leading researchers in this area is my guest today, Professor Trevon Logan. Trevon is a Hazel C. Youngberg Trustees distinguished professor of economics at the Ohio State University. He's also the inaugural director of the National Bureau of Economic Research Working group on race and stratification, whose members explore, document, and disseminate research on the causes and consequences of racial disparities in economic outcomes. Trevon, welcome to EconoFact Chats and thanks for joining me today.

Trevon Logan:

Thank you for having me.

Michael Klein:

Trevon, let's start off with an economic statistic. Borrowing among blacks is lower than that among whites who have a similar level of income. This has important economic implications because borrowing is a way to build wealth, for example, by borrowing to purchase a home, or to fund higher education. Lower borrowing by blacks reflects both actions by borrowers and by lenders. We know that there's evidence of racial bias by lenders. One example of this is redlining, where housing loans for Blacks were not made within certain neighborhoods. But there could also be a reticence to borrow and you have a compelling story about this that reflects a wider issue. Could you share that story for our listeners?

Trevon Logan:

Yes, I'd be happy to. My father grew up in the segregated south in Mississippi in a very small town called Coffeeville, and he was a sharecropper. And those types of contracts typically left families without enough at various times of the year. Now in a share cropping contract, once the crop was harvested and sold, you sort of [inaudible] the books. And so during the growing season, you could take out small loans with the landowner for various things that you would need. And so [when] my father was young, my paternal grandmother sent him to the landowner to borrow $10 and what they needed was basics, flour, sugar, coffee, to sort of get through the next short period of time. And at the time when he, he went with my uncle, his brother, and the landowner had a very large jar that was full of silver dollars. And so this is a long time ago, this is in the 1950s. I don't know if anybody's seen a silver dollar in the last several years. I certainly haven't.

Trevon Logan:

But he had in his hand orders of magnitude more than what they were asking for, but he told my father very simply, "I can't let you guys have that kind of money," which is a really strange response to someone who is a sharecropper on a contract who's going to be able to get all the money that he wants at the end of the growing season. And my father made a really serious determination then to avoid any type of consumption-based debt. This would be sort of credit card debt, other things like this. So I don't want to give people the impression that my father saved up for 40 years to buy a home with cash or something like that. But there really was this idea that not owing someone else something, particularly for consumption, was a really big part of independence.

Trevon Logan:

And not independence just in a general sense, but independence economically, independence socially, independence politically, was comingled with this idea of not being in debt for consumption. And so when we look at these relationships that we see about sort of lower debts and what types of debt people take on as a function of, or correlated with race, there may be these sorts of experiences where people are avoiding particular types of financial instruments, for reasons that are sort of only slightly related to their economics, but much more deeply related, say to their history, to really their sociology and perhaps even to their politics.

Michael Klein:

So that's a really striking and heartbreaking story. Does the data show generalization of this beyond the experience of your father? It seems to suggest from what you're saying, that there is evidence that this is more broadly seen in the economy.

Trevon Logan:

Yeah. We see this in a number of different ways. You talked about lower rates of wealth for African Americans, and what we also know is that African Americans, even conditional on say they're being involved in retirement savings, so on average, African Americans have less retirement savings, they're less active, for example, in financial markets as a mechanism to accumulate wealth for retirement. But even conditional on their being active in the market, they do not invest in risky assets at the same rate as others, even conditional on their participation at all. So they're much more risk averse, even if they're participating in these markets and part of that could be a desire not to be sort of exposed to risk, but there could be some historical properties involved in African Americans being more likely to be scammed by financial institutions.

Trevon Logan:

So there's some great research that looks for example, at trust in financial institutions in the form of the Freedman's bank, which is a bank that failed historically in the late 19th century and areas where the Freedman's Bank was active, and it was a bank that expressly solicited African American patrons, and subsequently failed. And so you'll see lower rates of participation in financial institutions as a function of having a Freedman's Bank in your local area in the past. And there's some more recent research that looks, for example, at indebtedness for student debt, other sorts of instruments that African Americans participate in which show some level really of what I would call historical persistence.

Trevon Logan:

Even if you take it to racial violence, for example, historical racial violence is related to lower levels of social trust and cohesion today, even though the primary data source that we use for lynching stops in 1932 and recent work by Jhacova Williams, for example, which shows that historical lynchings, once again, these lynchings stop in the 1930s, or at least in the data, stop being recorded in the 1930s, are related to lower rates of political participation today as well. So all of this is really saying that these historical circumstances, whether they be economic, political, violence still have an influence on the behavior that people exhibit down to today.

Michael Klein:

Yeah. We have a prior podcast with Lisa Cook where she talks about her study of the race riots in Tulsa and how that very deeply affected the number of patents going to black inventors. And that's I guess just yet one more example of this. Trevon, in a paper that you wrote in the Journal of Economic Perspectives, where you talk about that incident with your father, you make a distinction between racial mistrust and racial distrust. Can you explain what you meant by that?

Trevon Logan:

Yeah. Thank you for that. That's one of the pieces, it's one of those sort one lines I used in the paper that people ask about a lot. I think... and so taking a step back, I think the language that we use to describe some of these racially disparate impacts is really important and I think we need to interrogate it. And when I was looking through, there's a really large literature that looks at racial mistrust. For example, it looks at African Americans are less likely to believe that they're being treated fairly by say, governmental institutions, by the police, by the medical establishment, et cetera, and we typically use the word mistrust to describe that. We say black people don't have a lot of trust in say, as we were just talking about, financial institutions. So they're less likely to have large bank accounts, are less likely to say that they trust financial institutions. And so we call that mistrust.

Trevon Logan:

But if you open up the dictionary, you go to Websters and you look up mistrust, mistrust is an irrational behavior. So mistrust is, "I'm not trusting you and I don't have any basis to not trust you." So it's an irrational activity. So when you call it mistrust, you're really saying that the people who exhibit this lack of trust are doing so without any actual basis. But if we turn that around and think about the word distrust, distrust happens based upon experience. So if you swindle me out of $2 million, I have every reason to distrust you in the future if you were to ask me for a loan, so that would be distrust. And that would be completely rational behavior to distrust someone after your experience of them.

Trevon Logan:

So it's really interesting that given what we were just talking about, all these historical experiences, whether it's racial violence and patenting, whether it's the closure of the Freedman's Bank, whether it's individual experiences with sort of racialized oppression, that we continue to call these experiences mistrust as opposed to distrust. And I think that's really important because when you call it mistrust, then you don't have to talk about the historical experiences which might give rise to this type of response because you've implicitly called it irrational. In other words, you're saying that Black people should be trusting of these institutions, but if you called it distrusting, you'd have to explain why they don't trust these institutions. So I am sort of pushing, in that very simple sentence, really wanting to push economists to think about why we see this racial disproportionality in sort of measures of trust and what it might mean for the historical process that's behind it.

Michael Klein:

That's a really important distinction. I'm glad that you're pushing on that. And then another point emerged from the story you told about your father, that racists like to engage in racism, they derive pleasure from it. So the economic argument of people like Milton Freedman and so on that discrimination is costly doesn't recognize that there are non-monetary benefits to racists of discriminating and market pressures just may not erode racial barriers because racists like to be racist.

Trevon Logan:

Yeah, I think it goes back to, I think and it's related to what we were just talking about in terms of mistrust and distrust, whether something is rational or not, so if you say for example, that discrimination is costly, and I think it's important to note that when we're talking about discrimination, that's one thing, when we're talking about racism, that's a much larger view of activities that one might be participating in. And so I think a lot of economists have of conflated racism and discrimination. And those two don't necessarily walk as closely as the literature in economics has assumed that they do. But leaving that aside, we have this idea that racism is ever and always irrational and that people who engage in racism are engaging in something that is irrational. And so, again, just like when we use mistrust versus distrust, we sort of obviate a discussion of what might actually be going on.

Trevon Logan:

But people might derive utility from racism. There are people who enjoy doing and participating in racism. You don't get people to show up for protest movements, for example, to put on white hoods and burn crosses and all the other things that we see unless they're deriving some utility from that. So we always assume that racism is irrational, but what if people actually derive something out of it? What if their membership in the dominant group gets them things, even if it's something as simple as a sense of superiority. That is utility enhancing to them, and then they therefore might engage in racism, there might be a return to that. And then we have to ask ourselves, what's the value of that?

Trevon Logan:

So similar to that sentence, pushing that, I'm thinking about racism as consumption because we saw this historically where people, for example, would attend lynchings, which really is the book that Tolnay [inaudible] A Festival of Violence, it is consumption, there is this element to some of these racist practices that people consumed. And therefore, if we're thinking about this in just standard neoclassical economic theory, then there is some utility that's derived from it. There is some consumption aspect of racism that I don't think our theories have really carefully articulated yet.

Michael Klein:

So this is the idea of stratification economics and I guess it was started by Professor William Darity, of Duke and Professor Darity, Sandy has been a guest on EconoFact Chats, he talked about reparations. Trevon, another persistent feature of discrimination was a lack of access to public accommodations. Before the passage and enforcement of the 1964 Civil Rights act, African Americans could not eat in many restaurants or stay in many hotels or motels and this didn't just happen below the Mason-Dixon line. An important resource for African Americans during this time was The Negro Motorist Green Book, and there was a series of these, I guess they came out every year between 1936 and 1966. And that listed places that served African Americans. Many people might be familiar with this through the movie, Green Book, and you've actually done important research about that. Can you explain what the Green Book was, and when it was used?

Trevon Logan:

Yeah. Thanks for that question. I think the simplest way for me to describe what the Green Books are, is it really is a historical Yelp that gave you really places that you could solicit as an African American patron in a time in which public accommodations could be racially discriminatory. And let me first talk about sort of how that racial discrimination occurred. I think a lot of us have this preconceived notion, whether it's from movies, about the Jim Crow era, or sort of really blanket histories of this. There are so many different types of ways in which a public accommodation could discriminate against an African American. And so I want to use a couple of examples here.

Trevon Logan:

Mia Bay in her great book, and it just won a Bancroft Prize, Traveling Black, which is about African American access and traveling across the United States in the Jim Crow era, basically from late 19th century to the middle of the 20th century, and she's talking about this in terms of say railway cars where you would have a segregated railway car, and it would be for Black patrons, that is the railway car for Black people. So that is a segregated public accommodation where you're traveling and you're in a separate car that has a lower class of service. Another way that people could be discriminated against is at the extensive margin. So another thing that Mia Bay notes is a survey from the 1950s, that found that over 90% of the hotels in the United States simply did not allow African Americans to lodge there.

Michael Klein:

So you're using a term that economists use a lot, intensive versus extensive. So intensive, you mean it was a lower quality railroad car. Extensive, you mean that you were just shut out of certain places, right?

Trevon Logan:

Yeah. Exactly. So if you're thinking about hotels are discriminating at the extensive market, you just can't get a room. And part of the reason why you might find this extensive margin discrimination is when you can't really segregate the services in a way that you would like. So if you go into a hotel, you're not going to have a floor for Black people in a floor for white people. So if it's impossible to do this what I would call intensive discrimination, in other words give people a lower class of service, then you might be more likely to do extensive margin discrimination, just not have them solicit the establishment at all. And so gas stations are something that as a type of establishment that discriminated at the intensive margin, which is the quality of service. So you could, as an African American patron, go to the gas station and get gas, but you couldn't use the restroom. And so that's a level of discrimination and the type and the quality of service that the establishment is giving you.

Trevon Logan:

So you have all of this variation in the types of discrimination that African Americans faced in these public accommodations. So you may be able to, for example, another example of intensive discrimination, is you may be able to go to the clothing store downtown and purchase items, but you would not be allowed to try those items on to see if they fit and you wouldn't be allowed to return them if you were an African American patron. Or you could go and get food from the restaurant, but it would be to-go order, you could not eat in the restaurant as a patron. That's another example of intensive margin discrimination. And so it's important for people to understand that it's not always about of, "you can't go here, you can't go there." It was about controlling both the range and the type of ways in which you could access those businesses.

Michael Klein:

That's really interesting. I mean, it's a little bit like you have to sit in the back of the bus. I mean, that's an example people are probably more familiar with, but less so with all these other examples. You have a forthcoming paper in one of the leading economic journals, in the Quarterly Journal of Economics, and you talk about the Green Book and you use the data from the Green Book series and lots of other data to look at the way that discrimination was sort of spread across the country, things that were correlated with it and so on. Can you mention a few of the findings from that paper, please?

Trevon Logan:

Yeah. Thank you for that question. So a couple of the sort of highlighted things that we look at there is first of all, looking at where the Green Book businesses were, and there were, as you mentioned, all over the United States. And I think it's really important for people to understand that state laws banning racial discrimination in public accommodations really began to surface in about the middle of the 1950s. This is not something where the north was this wonderful place of freedom where you wouldn't have racial discrimination in public accommodations. In fact, one of the first lunch counter sit-in protest that we typically associate with the south and being able to go into a restaurant and eat, actually took place in Chicago, Illinois in 1941. So there was extensive racial discrimination and public accommodations nationwide. There really was not as much variation as people might think about in that.

Trevon Logan:

But we also find some really interesting correlations of where these places of public accommodations and non-discriminatory public accommodations were. They tended to be located in places that had fewer discriminatory laws and be more likely to be located in places that had more anti-discriminatory laws, as coded in Pauli Murray's Laws of Race and Color, which was published in 1950, and Martin Luther King called it the sort of Bible of race and the law in the United States. So we see these sort of macro-level correlates of places where there were and were not more or fewer places of non-discriminatory public accommodations. And then we also are able to show that there really is probably some sort of market response into the growth of these businesses, in response to population shifts. And the way you can think about it is if you're in an area that's say 90% Black, it probably doesn't make a whole lot of sense to discriminate against Black patrons and not serve them, such a large portion of the population. But at the other extreme, you still have the same thing where if you're in an area that's say 99% white, you might not have a really large cost to being racially discriminatory. So if you see your sort of market changing and your composition of your market changing, you might as a business decide to become non-discriminatory to try to capture some more of that market.

Michael Klein:

So, if you have a small Black population and a white population that derives, as you say, sort of pleasure, utility from the racism, then there's actually a market force pushing you to be more discriminatory, even if you yourself wouldn't want to be that way.

Trevon Logan:

Yes. And one of the big things that we are talking about in this paper, and we really are skirting about it because empirically testing it has been really much harder, is this idea of consumer discrimination. And even if you take the sort of classic models that economists have about discrimination, there really isn't a market solution to consumer discrimination. So if you as a business are discriminating and say, you just don't want to hire Mexican Americans, for example, what's going to happen in those models is other businesses will hire these people you're discriminated against, and they're going to be able to hire them at a lower wage and they're going to be more productive in the wage that they're paying them. And the firm that isn't discriminating will be more profitable than the firm that is discriminating.

Trevon Logan:

And eventually then of course, if the profit motive works and the market is clearing, what's going to happen is the discriminating firm will be driven out of business. That's a classic model of sort of the firm being the one who's discriminating. But if it's consumers who have these discriminatory tastes, they're willing to pay for discrimination. And what's really important is the profit maximizing firm will make more profit by being discriminatory because their consumers are willing to pay for that discrimination. There isn't a market process that ends that type of discrimination.

Michael Klein:

So as I mentioned, the Green Books were no longer published after 1966, which was after the passage of the Civil Rights Act. Does that indicate in some way that the federal non-discrimination policy was effective, that there was sort of less of a need of the Green Books at that point and what does that say more broadly about the role for laws and regulations against discrimination? You alluded to that a little bit already, but can you speak a little bit more about that?

Trevon Logan:

Yeah, what's so interesting about the Civil Rights Act of 1964 from the perspective of today is that we think about it largely in terms of what it did for say labor markets in terms of banning discrimination employment and these other aspects. But the most contentious issue at the time in 1964 was about public accommodations, was about restaurants and hotels having to practice non-discrimination on the basis of race in terms of their provision of services. And when we look at it today, it's really largely a non-issue. You really just don't think about not being able to go to Macy's or Target and not be able to enjoy the services that every consumer would have. But that really is a very modern feature of the United States and it's amazing how that change happened instantaneously with the passage of the Civil Rights Act in 1964 and American society didn't crumble, we didn't see large scale riots and we didn't see businesses revolt in terms of this, which I think is really surprising given the discussion that people had up to the passage of the Civil Rights Act in 1964.

Trevon Logan:

So I do think it says something about the power of federal legislation to end these entrenched practices of racial discrimination and thinking about groups that might need protection today where there are lots of debates about their ability to access public accommodations. We see this probably most prominently with members of the transgender community and bathroom bills and other sorts of things that are designed to restrict their movement. One thing that I've noted, and I want to continue to press and impress upon people, is that public accommodations in a capitalist society like the United States and access to public accommodations in the United States is really heavily comingled with our ideas about citizenship, because citizenship in a highly capitalist country like the United States is inherently related to your ability to solicit and be solicited as a business. And so our full participation economically is really highly correlated with our full participation politically.

Michael Klein:

Trevon, this is really interesting and your co-authors have brought a lot of important information to the economics literature and I applaud you for that. And I also want to thank you for joining me today on EconoFact Chats.

Trevon Logan:

Thank you so much.

Michael Klein:

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