

## **Econ 105: Introduction to Political Economy**

### **Lecture Twenty One: Political Economy of Race**

Topics covered:

1. Empirical evidence of racial disparities and discrimination
2. Race and Rise of Capitalism
3. Race and the Circuit of Capital
4. Immigration: Discussion of Morristown

#### **Empirical Evidence of Racial Disparities and Discrimination in the US**

- In times of stress, wealth makes a crucial difference. A sudden income drop due to job loss or illness can mean poverty.
- When hard times hit, the typical white household is more likely to have reserves to fall back on, with 38 times the average financial wealth of black households and 210 times that of Hispanic households.
- Wealth passed down the generations explains much of this disparity. In 2001, some 21% of white households report having received an inheritance at some time, with an average value of \$274,000. Only 8% of African American and 3% of Hispanic households had received inheritances, averaging \$78,000 and \$22,000 respectively.

#### **Employment discrimination**

Job audits 1990 - 91 by the Fair Employment Council of Greater Washington, Inc. in DC:

- White testers were about 10% more likely to get interviews than Blacks.
- Among those interviewed, 1/2 of the white testers got job offers versus 11% of the Black testers.
- When both received the same job offers, the white testers were offered 15 cents more per hour than Black testers.
- Black testers were disproportionately "steered" toward lower level positions after job offers were made, while white testers were disproportionately considered for positions at higher levels than advertised.[1]

#### **Credit discrimination**

A 2002 study<sup>[1]</sup> discovered that African-American and Latino families systematically pay more for their credit than whites; even when household incomes are identical.

-Exclusion from conventional bank loans forced them to resort to the subprime markets - where interest rates are substantially higher.

-On average, 49% of the refinance loans made to African-American families were subprime, compared to 17% for whites. These figures were 30% for Latinos and 28% for Native Americans.

Federal Reserve Study in 1991:

-Nationally, mortgage applications are twice as likely to be approved for whites as for blacks: 34% of applications from Blacks were rejected compared with 14% of those from whites.

-Even after adjusting for differences in income, the differential between white and Black approval rates was still around 20%.

-A Wall Street Journal analysis of the Fed data in 1990 found that even federal mortgage programs were guilty of discrimination: a low income white was more likely to get a government backed mortgage than was an upper-class Black. Just 2.5% of the loans supported by Fannie Mae (the Fed. National Mortgage Assoc.) were in neighborhoods with populations of 80% or more of people of color.

[1] *Center for Community Change (2002). Risk or Race? Racial Disparities and the Subprime Refinance Market. Washington, D.C. (copies of the report can be downloaded from [www.communitychange.org](http://www.communitychange.org)).*

### **Race and the Rise of Capitalism**

Racial oppression has played a crucial role in the rise of capitalism.

1. Europeans' violent seizure of the lands of native American, African, and Asian peoples allowed them to vastly expand the reserves of labor (free or slave), natural resources (including gold and silver to be used as money), and potential markets which are necessary to have the circuit of capital function smoothly.

2. The European wars of conquest as well as disease decimated a large proportion of the indigenous population in the Americas. Between 1540 and 1640 the indigenous population of Latin America was reduced by some 70 million as a result of forced labor and disease.

3. The European working class would naturally prefer to own land and means of production rather than work for a wage. The remaining option was to ship labor from Africa.
4. From the conquest to the abolition of slavery, 10 million African were brought into Brazil alone where together with the enslaved indigenous population they were forced to work on plantations and mines, the earliest large industrial capitalist enterprises.
5. At its peak colonialism, much of it justified by racist beliefs in the superiority of the European race and of the Christian religion, opened vast new areas of cheap resources and captive markets for emerging European industry. In 1800, the European Powers effectively controlled 55% of the total global land mass. By 1878 this had increased to 67%, and by 1914, it was 84.4%.
6. The economic surplus drained from Mexico between 1760 and 1809 (a mere half century), through gold and silver exports has been estimated at around five billion present day dollars.
7. Various theories of race concocted to show the African and indigenous American populations as inferior, served to justify this highly exploitative system.
8. The specific role of slavery in capitalist development in England and the US:
  1. Profits accrued directly from the slave trade.
  2. Profits accrued from slave plantations in the Caribbean and in the US. By one estimate, the profits of the slave system in the United States alone between 1806-1860, compounded to present value (at a modest interest rate of 5%) come to \$9.12 billion.
  3. Slaves as consumers of manufactured goods from England and from the US North.
  4. Slaves as producers of cheap cotton and other raw materials (sugar, rice, tobacco).
  5. Slave-trade and slave-produced output contributed to the rise of British finance.

Some of you may have heard the expression “40 acres and a mule.” This was the promise made to freed African-American slaves and represented economic independence in the form of 40 acres of land for farming plus a mule standing for other means of production.

However this land reform was never carried out. Notes economist William Darity notes:

“Had such a racial land reform taken place in the United States during the late 1860s, it is easy to envision that the vast current differences in wealth between blacks and nonblacks would not exist.”

Even after slavery came to an end, Jim Crow laws, segregations and lynching, accompanied by land seizure either by force or through fraudulent legal means, continued to serve as the purpose of accumulation of capital.

For example, in the post-emancipation period, despite the failure of land reform, ex-slaves managed to accumulate 15 million acres of land by their own initiative, but the cumulative effects of land taking have reduced that to about 1 million acres of black-owned land today.

Contemporary demands of affirmative action as well as reparations for African-Americans (as well as other minorities and oppressed groups) are based on this litany of historical oppression and exploitation.

Opponents of AA, who declare racial quotas and other special efforts to support minorities and women, seem to forget the centuries of AA that served white, male interests in the US. E.g:

1. The Right to Vote was initially reserved only for white, males
2. Property rights were set aside for white men exclusively
3. Native American land was confiscated and distributed free to white settlers
4. Universities accepted only white male faculty
5. Women did not receive the Right to Vote until the 20<sup>th</sup> century, and were not allowed into several occupations well into the 20<sup>th</sup> century

### **Race and the Circuit of Capital**

Let us go back the circuit of capital and see how racism can aid or hinder capital accumulation.

#### **First some potential benefits of racism to capitalist accumulation:**

1. Used to justify "primitive accumulation" (theft of land and resources from Native Americans and Mexicans; plunder of resources from today's third world; slavery; imperialism)

2. Divide and Conquer:
  - Divisions among workers weakens their ability to take collective action to raise wages, improve working conditions, workplace rights and push for redistributive policies such as progressive taxation, ending corporate welfare, etc.
  - Racism deflects white workers' attention from struggle with business owners to struggles with people of color (e.g. Vincent Chen, a Chinese-American was murdered by unemployed autoworkers who thought that he was Japanese.)
  - Lack of unity between workers of color and white workers means that one group is willing to work as strikebreakers when the other group is on strike.
  - Capitalists often play on the racial and ethnic differences between their workers in order to prevent them from uniting to form a solid front against capitalist exploitation. For example, it is all too easy for the average American to blame Mexican immigrants and low-wage *maquiladora* workers in Mexico for falling wages.
3. Provides low-paid, super-exploitable labor forces of color (including prison labor; "workfare" moms; contract workers from other countries; illegal immigrant labor). A race which is already oppressed in various ways, especially through deliberate humiliation, is easier to exploit economically. Does this ring a bell with respect to the documentary we saw last time?
4. Makes perpetual maintenance of a reserve army politically viable (those groups most likely to suffer from unemployment are least politically empowered)
5. "Accommodates" white workers to the capitalist system -- "buys them off" by assuring them that at least they are better off than workers of color (historian David Roediger argues that the status and privileges conferred by whiteness played a role in accommodating white workers to alienating and exploitative class relationships)
6. Can charge higher prices and interest rates in communities of color.
7. Provides markets for low-quality and unsafe goods
8. Provides neighborhoods (countries) in which to dump toxic waste, and locate unsafe workplaces. In his context, the famous 1991 leaked memo from then Chief Economist of the World Bank, Larry Summers (whose

name is being considered by Barack Obama for Treasury Secretary), is a study in how economists can also be affected.

9. Used to justify slashing social programs that people perceive disproportionately benefit people of color.
10. Less competition for sales and contracts (fewer successful minority-owned businesses; less competition from third world producers; privileged access to good contracts)

### **Immigration**

Based on the documentary we saw last time:

How do you think corporations can benefit from capital and labor mobility?

In fact, the real culprits are multinational corporations and their ability to take advantage of capital mobility (and also of *illegal* immigration which helps firms reduce labor costs provided they are willing to risk conflict with the INS).