



Fall 2019

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Recommended Citation

Kayastha, Pranav, "Economic Implications of Racism in the United States" (2019). *Student Publications*. 846.

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Economic Implications of Racism in the United States

Abstract

Racism in the United States has evolved with time, and has now taken a subtle and discreet, yet equally dangerous, form. Hiding under seemingly innocuous political agendas, media outlets, and criminal justice system, the current form of racism is not as easy to call out as it once used to be. Nonetheless, we as a society are targeting, discriminating, and denying equal opportunities to the African American community in a variety of ways. This is hurting not just those directly affected, but the U.S. economy as a whole. To identify and fight against the subtle forms of discrimination, therefore, is not just a moral obligation, but also an economically optimal decision.

Keywords

Economics and race, criminal justice system, equal opportunity, cost of racism, subtle racism

Disciplines

Africana Studies | Economics

Comments

Written for AFS 130: Introduction to African-American Studies

Economic Implications of Racism in the United States

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Racism has taken different forms in the United States. From slavery, to Jim Crow segregation, to the current system of subtle racism in the form of mass incarceration and other structural discriminations, what we are seeing is not a progress towards equality, but different ways of targeting and discriminating certain groups of people, particularly the African American communities. This trend of discriminating African Americans, denying them equal opportunities, and relegating them to second class citizens through the criminal justice system, is affecting not just the African American communities, but the U.S. economy as a whole.

Increasing labor force participation, and providing everyone equal opportunity to succeed is key to advancing a country's economy. President Roosevelt acknowledged that "the growth of a nation [...] requires an expansion of citizens' rights to life, liberty, and the pursuit of happiness, which would not be possible without economic security and independence" (Banks, 2019). According to a report by McKinsey Global Institute that was featured in The Wall Street Journal, "the U.S. could add \$2.1 trillion to the nation's GDP in less than two decades if states made varying strides to raise women's rate of labor-force participation and spread them into

more-productive sectors” (Adamy, 2016). The study also suggests that the U.S. needs to invest in creating support services like more child care that are needed to improve women productivity. This study confirms our intuition that when every citizen is given the necessary care, together with the opportunity to succeed and contribute, we will have a more productive and thriving economy. Therefore, different acts of racism in the present day U.S. that is preventing African Americans from succeeding, is damaging not just the lives of those affected directly, but also the lives of all Americans, as it affects the U.S. economy. Similar to the cost of gender inequality, the cost of racism in the U.S. is likely to be billions, if not trillions of dollars.

There are different ways through which African American communities are still targeted and discriminated. Today, the acts of racism are not as explicit as slavery, but are hidden in the laws, conscious and sub-conscious biases, political agendas, and seemingly benign systems. Most notably, racism is incorporated in the criminal justice system, where the increase in the rate of incarceration has no relationship with the increase in crime, and a black man has 32 percent chance of entering a federal prison during his lifetime (Schwartzapfel, 2008). African Americans also find themselves to be the most vulnerable group in the workforce, where they are denied equal opportunity. Finally, racism embedded in the structural system in this society hampers growth and proper nurture of African American children. All these ways of discrimination slows down the economy, decreases everyone’s purchasing power, and increases crime rates in the society.

Hiding under the umbrella of “colorblindness,” the criminal justice system in the U.S. serves as an excellent tool to oppress millions of African Americans. What seems like a benign system to keep our streets safe by giving criminals the punishment they deserve, instead works

as a system of racialized oppression. Today, two million or so people are currently behind the bars in the U.S., and more than 70 percent of them are people of color. We have witnessed an eight-fold increase in prison population in past three decades, and drug offenses account for two-thirds of this rise. Since the beginning of War on Drugs, 31 million people have been arrested with drug offenses, majority of whom are African Americans (Alexander, 2011). While one might be tempted to conclude that this reflects the high drug usage by African Americans, the truth is far from it. In fact, white population are equally, if not more, likely to buy and sell illegal drugs (Alexander, 2011). Busting a frat house, instead of running a whole operation in the “ghettos” would be a better option if one’s goal is to reduce drug use. As economist Glenn Loury said, the disproportionate number of African Americans under the surveillance of the criminal justice system “reflects the social dishonor to which African Americans are still subject to today, a dishonor with roots in U.S. slavery” (Schwartzapfel, 2008). Racism, not crime, is responsible for the extra-ordinarily high number of people behind bars.

This rapid increase in the prison population comes with a huge cost for an average American. Recourses that otherwise could be used for social projects like rehabilitation, public education, housing, etc., will now need to be re-allocated to build prisons, provide guards and food for prisoners, and fund the federal police and the DEA. Furthermore, because of the privatization of the prisons, the profit in the process goes in the hands of few individuals. As a result, average Americans lose their purchasing power through tax, and millions of promising individuals are left without any chance to contribute to this society. As a result, inequality keeps on growing. In the words of Angela Davis, “It devours the social wealth” (Banks, 2019). While we could have helped people rehabilitate and become productive members of the society, thus

stimulating and improving the economy, we are using tax money to create this expensive system to lock them up. Economists like Loury has rigorously studied the effects of rise in prison population; he also appeared before a U.S. Congressional committee examining its economic costs.

The economic damage of the system of mass incarceration does not end with inefficient use of tax money and unproductive time spent by inmates. For most African Americans, the mark of being a felon, or even being accused of false charges, carries on for their entire life, hampering any opportunity of employment. Even after getting arrested for a small possession of marijuana, one will likely be ineligible for federal educational assistance, public housing, and other assistances. Their driver's license may be suspended, and they could be disqualified from certain employment and professional certificates. With a mark of a felon, an African American individual will find it tremendously difficult to hold and retain a sustainable source of income. The criminal justice system is preventing people of color from contributing to the national economy.

Even when they do not have the stint of a felon, black workers often find themselves in the most vulnerable position "who are the last hired and the first to be fired," solely due to the color of his/her skin (Banks, 2019). Considering the issue of this sustained discrimination against the people of color and the hurdles they face to find and hold a job, economist Sadie Alexander suggested that government intervention would be necessary to ensure employment for anyone willing and able. She wrote:

When labor, white or black, native or foreign born, understands that full employment means greater purchasing power for all people, which can be obtained only by giving every man capable of holding a job the right to work, labor will have solved its own problems.... The right to work is not a black, nor a white problem but a human problem....

The more men and women who are working, the greater is the demand for goods and the more money is invested to build factories to produce goods to satisfy the demands of workers. Every man should be concerned that every other man is employed, for only in full employment is the individual laborer assured a job.

Alexander was also the first economist to provide specific policy recommendations for implementing and financing a federal job guarantee under which the government would provide jobs at livable wages to all people who are willing and able to work (Banks, 2019). She believed that this would make all workers better off and solve all over national difficulties. She said, "Federal job guarantee should appeal to people on both left and right since it affirms the dignity of work, the freedom from deprivation, and the right of all people to contribute to the economy through meaningful production." Roosevelt also stated that the nation must move to implement the right to work (Banks, 2019).

This line of thinking, however, tends to create some edginess among economists. Neo-classical economics theory postulates that humans are perfectly rational beings, who always makes the most optimal decision based on perfect information (Alian, 2019). Based on these assumption, neo-classical economists such as Adam Smith conclude that the market will find its equilibrium, where no one can be made better-off without making someone worse-off. In this framework, government interventions like affirmative action and the one suggested by Sadie Alexander can only be detrimental.

However, the neo-classical model has some serious flaws, specifically in the beginning assumptions. Recent studies in psychology and behavioral economics, most notably by Daniel Kahneman, have shown that humans rarely act rationally or under perfect information. Instead, we are subject to high amount of bias, and make non-optimal decision in a systematic manner (Kahneman, 2012). Our thinking is subject to insufficient knowledge, highly influenced by

readily available information in memory, and affected by the physiological and emotional states. For example, an interesting study conducted by Kahneman found that the decisions made by judges were affected by their sugar level (Kahneman, 2012).

Hence, we cannot rely on the conclusions from neo-classical economics because they are based on inaccurate assumptions about human behavior. In considering a job applicant, for example, most recruiter do not make decisions solely based on the applicant's ability, as assumed by neo-classical economists. The decision is affected by how they look, how they speak, and what impression come to their mind.

However, the general impression of a Black applicant is heavily distorted through media, which portrays them as welfare queen, porno chick, or criminals (Littlefield, 1999). The use of mass media in depicting African American women as the sexual prowler, and men as beasts causes many people to see these images as the defining characteristics of African Americans. All these popular images of African Americans significantly decrease their chance of being hired and makes them most vulnerable for layoffs.

Furthermore, whether they have any connections with the company also makes a huge difference. In his PhD dissertation at MIT, economist Glenn Loury asserted that "who a person knows matters as least as much as a person's intelligence or hard work" (Schwartzapfel, 2008). In this aspect also, African Americans are put in a disadvantageous position as they tend to have far less connections than their white counterparts.

Because of these reasons, the job market is far from the idealized world of neo-classical economics which would require no government intervention. Qualified African Americans are systematically being seen as unfavorable candidates, solely because of the color of their skin.

Sadie Alexander herself is one example as she was unable to establish a career in economics despite having a PhD from one of world's finest institutions. As a result of this, the economy operates in a non-optimal condition, where companies are missing out on qualified candidates and talented people are being unemployed or under employed.

Given that we as a society let the economy run in a non-optimal condition with our conscious and sub-conscious biases, government intervention with programs like affirmative action and federal job guarantee are necessary to improve and amend the situation. Through programs like these, targeted communities get more opportunities to unleash their potential. It would be a loss to the nation if we fail to nurture the most capable leaders and thinkers because of our irrational bias and structural set-up. Programs like these do not solve the root cause of these problems, but serve the role of a Band-Aid that is needed, given the current problems in our society.

This line of reasoning is not completely new in economics. Economists have come a long way from relying on the ideal world of rational actors, and the importance of government intervention is well acknowledged. For example, economists have realized that during times of a recession, it is wise to increase government spending and decrease interest rates in order to increase purchasing power and boost the economy. Alexander offers a similar reasoning, and argues that government can take actions to reduce systematic unemployment and ensure adequate purchasing power, when the private sector fails to offer equal opportunity. Yet, the idea of providing a boost to a community that has been oppressed from centuries tends to create much irritation.

The system of racialized oppression through various ways is not only preventing African Americans from becoming productive members of this society — it is also affecting their ability to raise and nurture their kids who will soon become the face of this nation. For starters, more than half of federal inmates are parents of minor children (Schwartzapfel, 2008). As discussed above, most of them are victims of this racialized system of oppression called the criminal justice system. When you come from a minority group with limited resources, taking good care of your children while your spouse is in prison becomes almost impossible. Even after they complete their sentence, getting a well-paying job to take care of their children turns out to be a lot harder with that permanent stain of criminal conviction.

The children themselves also face a high risk of being incarcerated in juvenile facilities. As of 2015, African American youth were five times as likely as white youth to be detained or committed to youth facilities. Similarly, 44 percent of juvenile population were black, while the black youth comprise of only 16 percent of national youth population. As Glenn Loury remarked, “In many inner-city neighborhoods, a stint in prison is as much as a rite of passage as graduation from high school” (Schwartzapfel, 2008). This will have obvious detrimental effects in the growth and nurture of the children. Even if one is not directly convicted, the psychological effects of seeing your friends and family get frequently arrested is extremely harmful.

Outside of the grip of the criminal justice system, the nurture of African American children is also affected by the quality of education and the limited resources available at their schools. Even though racial segregation in public education has been declared unconstitutional after the ruling of *Brown v. Board of Education* in 1954, we still see extremely high segregation

and inequality in public education. According to a New York Times article, “More than half of nation’s schoolchildren are in racially concentrated districts, where over 75 percent of students are either white or non-white” (Mervosh, 2019).

Since public schools are funded by local taxes, this has direct implications on the quality of education that one receives. This is mainly because the properties around Black communities almost always have lower value. The same article reports that “school districts that predominantly serve students of color received \$24 billion less in funding than mostly white school districts in the United States in 2016, despite serving the same number of students” (Mervosh, 2019). From a perspective of an African American parent, your property loses value because your community lives there, and the schools get less funding because your property has low value. You cannot help but feel trapped.

Furthermore, there is also the issue of gerrymandering, where people in power draw borders around small, wealthy communities, which “benefits the few at the detriment of the many” (Mervosh, 2019).

Less funding, of course, means that the children have fewer resources like computers and textbooks, the hygiene is not well maintained, the quality of food is not up to par, and the teachers are not well compensated. This directly affects the upbringing of African American children and discourages them from attending and completing their education. Everyone needs to understand that this does not work in anyone’s favor. Good education for everyone is arguably one of the best investments we can make as a society. It is essential to ensure better future for the nation, with higher productivity and less crime.

Thus, we see that different ways of racial oppression that is prevalent in today's society is affecting the economic progress of this nation. The subtle nature of these acts of racism makes them hard to detect and acknowledge, but it is in everyone's interest to tear apart the truth and work towards a more equal society. The cost of racism in the U.S. economy is tremendous, as it devours social wealth by reallocating tax money from social projects to unnecessary prison facilities, denies millions of African Americans from the opportunity to contribute to the society, and hampers proper nurture of African American children. While many might not realize it, acts of racism is detrimental to every person in the society.

Although the purpose of this paper is to argue that different acts of racism, conscious and sub-conscious biases, distorted images of African Americans in the media, and the structural oppression of targeted communities is damaging the national economy, this, of course, should not be the only reason to stop discrimination. There is an obvious obligation on all of us to treat everyone equally. The U.S., being the most powerful and advanced country in the world, should provide all citizens with equal opportunity to succeed, regardless of the economic returns. Denying basic human rights to millions of people based on racist laws and targeted operations is against human rights; as declared in the UN declaration of human rights, "all human beings are born free and equal in dignity and rights" (Article 1) and "no one shall be subjected to arbitrary arrest, detention or exile" (Article 9). The injustice against African American communities can by no means be compared to the economic returns. This paper only provides one more reason to work towards a just and equal society, especially for those who might be thinking that it is in their interest to oppress certain groups of people, without realizing that their actions are hurting the progress of the economy that they are a part of.

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