



Edited by Thomas D. Boston

A Different Vision

Race and Public Policy

VOLUME TWO

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A DIFFERENT VISION

Since the civil rights movement of the 1960s, public discourse on race relations has tended to focus on political and social inequality rather than the economic impact of racism. *A Different Vision: Race and Public Policy* redresses this imbalance.

A Different Vision brings together for the first time, the ideas, philosophies and interpretations of North America's leading African American economists. Presented in two volumes, each of the thirty-five chapters focuses on various aspects of the social and economic experiences of African Americans, past and present. The volumes thus present a unique perspective on the most important contemporary economic issues. **Volume 2** includes:

- an analysis of urban poverty;
- discussion of aspects of racial inequality and public policy, including affirmative action and self-help solutions;
- an examination of the theory and method which underlie public policy;
- studies of the impact of racism on the socio-economic status of African Americans; and
- an accessible approach which is free of technical jargon.

Volume 1, *African American Economic Thought*, assesses the contribution and influence of major African American economic philosophies and economists, and provides a detailed discussion of the economics of race and gender.

The authors' findings clearly illustrate that African American economists do indeed have "a different vision." These volumes demonstrate that the impact of racial inequality is immense and race is an important variable in every sphere of American life. By investigating its various dimensions, the authors arrive at a common conclusion—race matters.

Thomas D. Boston is Professor of Economics at Georgia Institute of Technology. He is editor of *The Review of Black Political Economy*. He previously served as a Senior Economist to the Joint Economic Committee of Congress and was President of the National Economic Association. He has lectured and published widely on issues of race and economics.

A DIFFERENT VISION

Race and Public Policy,
Volume 2

Edited by Thomas D. Boston



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To Catherine Laverne Ross
My Best Friend, Closest Colleague, and Wife

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PREFACE

These two volumes are designed to fill a major void in our knowledge of the African American economic experience. The chapters contained herein represent the thinking of some of America's most distinguished scholars on the topic. We have entitled the book, *A Different Vision*. As you read the various essays, you will see that the idea of a "different vision" is more than just a title. Indeed, these authors have a different set of scholarly priorities and interpretations that are grounded in the dissimilar life experiences and life chances of African Americans.

Each author was given the freedom to write on any aspect of the African American economic experience, but was asked to write in a style that is accessible to a wide audience. The contributions cover several well defined areas. These include economic philosophy and history, the political economy of race and gender, the history of African American economic thought, public policy and racial inequality, and economic method. They are organized into two volumes. Volume 1 is subtitled "African American Economic Thought" and Volume 2 is subtitled "Race and Public Policy".

This enormous undertaking has stretched over quite a long period of time. During this period, each author has graciously given of his or her time not only in developing the essays, but also in responding to editor's queries and even serving as reviewers of companion essays. This unusual level of commitment reflects the dedication of each author to the successful completion of this project.

To add a finishing touch to *A Different Vision*, we asked Atlanta artist Michael Ellison to illustrate the jacket covers of each volume. His two panel subtractive woodblock color prints, entitled "Everyday Life", capture the essence of contemporary urban black life. The background symbols and visual imagery he employs are haunting reminders of the past and present racial barriers.

We thank all contributors for their generosity. We thank the following individuals for serving as reviewers: Robert S. Browne, Robert Cherry, William Darity, Jr., Julian Ellison, Augustin K. Fosu, Herbert M. Hunter, Wilhelmina A. Leigh, Margaret C. Simms, and Stephanie Y. Wilson. Each made invaluable

PREFACE

comments on various chapters of the two volumes. Graduate assistant Paula Stevens also provided extremely helpful editorial assistance.

This is the second time that I have had the opportunity of undertaking a project with Routledge and on each occasion, the experience has been very pleasurable. The editors have provided tremendous support and great optimism throughout. In particular, we thank Alan Jarvis, Alison Kirk and Ann King.

We hope the essays contained herein are useful to all individuals interested in learning more about the African American economic experience. Of course, a project such as this, no matter how ambitious, cannot cover all relevant areas. In this regard, we chose to sacrifice empirical and theoretical contributions for others focusing on philosophy, history, and public policy. In this way, the subject can be digested by a broader audience of readers.

Finally, we sincerely hope this project is worthy of the efforts of so many fine contributors. We thank you all.

Thomas D. Boston

PREAMBLE

The economic cost of discrimination against black Americans*

Andrew F. Brimmer

* * *

ANDREW FELTON BRIMMER

Dr. Andrew Felton Brimmer is President of a Washington, DC-based economic and financial consulting firm, and he serves simultaneously as Wilmer D. Barrett Professor of Economics at the University of Massachusetts-Amherst. He is also Chairman of the Presidentially-appointed Financial Control Board which oversees the fiscal affairs of the District of Columbia.

Brimmer was born in 1926 in Newellton, Louisiana, a small town located in the northeast section of the State a few miles from the Mississippi River. His family had been long-time cotton farmers who were forced off the land as the boll weevil devastated the crops.

After graduating from the local, racially segregated high school, Brimmer joined an older sister and her family in Bremerton, Washington, in 1944. During the day, he worked as an electrician's helper in the Bremerton Navy Yard where war-damaged ships were repaired. At night, he continued his education at the equivalent of a community college. He was drafted into the US Army in May 1945, and served through November 1946. Ten months of that service was in Hawaii.

In January 1947, Brimmer enrolled in the University of Washington, Seattle. He completed his undergraduate work in three years. He first studied journalism; but, half way through, he switched his major to economics earning a BA in March 1950. He continued in the field and was awarded an MA in the summer of 1951. Brimmer won a Fulbright grant for the academic year 1951–52, which enabled him to study at the Universities of Delhi and Bombay in India. Between September 1952 and June 1955 he was enrolled in the doctoral program at Harvard University. He received his PhD in economics in March 1957, with a dissertation entitled "Monetary Policy, Interest Rates, and the Investment Behavior of Life Insurance Companies."

From June 1955 through August 1958, Brimmer was an economist at the Federal Reserve Bank of New York. During three and a half months of that period, he served on a three-man

* Reprinted, with permission, from *Economic Perspectives on Affirmative Action*, edited by Margaret Simms (Washington, DC: Joint Center for Political and Economic Studies, 1995).

ANDREW F. BRIMMER

mission to Sudan to help that country establish its central bank. He taught economics at Michigan State University from 1958 to 1961. He taught money and banking and macroeconomics at the Wharton School, University of Pennsylvania, during 1961–63. On leave of absence from the University, he served as Deputy Assistant Secretary and Assistant Secretary for Economic Affairs in the US Department of Commerce, from May 1963 until early March 1966. From March 9 of that year Brimmer began a fourteen-year term as a member of the Board of Governors of the Federal Reserve System—having been appointed by President Lyndon Johnson. He served for eight and a half years. He resigned in August 1974 to return to Harvard University, where he was appointed Thomas Henry Carroll Visiting Professor in the Harvard Business School. He held that position during the period 1974–76. In 1976 he established his consulting firm.

Brimmer is a Director of a number of major corporations—including Bank of America and the Du Pont Company. He has published extensively, and is the author of several books and many articles in economic and financial journals—with the main concentrations in banking and monetary policy, international finance, and the economic status of black Americans. Brimmer states that the economic research of which he is most proud is the Testimony he prepared when he was in the US Department of Commerce which demonstrated the burden of racial segregation on interstate commerce. The US Supreme Court cited it extensively in its unanimous opinion upholding the Public Accommodations Section of the Civil Rights Act of 1964.

Brimmer has been honored a number of times by the economics profession. He was the Richard T. Ely Lecturer of the American Economic Association in 1981, and he was Distinguished Lecturer on Economics in Government of the Association (joint with the Society of Government Economists) in 1988. He was Vice President of the AEA in 1989. He served as Westerfield Lecturer of the National Economics Association in 1990. He was President of the Eastern Economics Association in 1991–92, and he was elected a Fellow in 1993. He was President Elect (1996) of the North American Economics and Finance Association.

* * *

The disparate treatment of blacks cost the American economy about \$241 billion in 1993. This figure is equal to roughly 3.8 per cent of that year's gross domestic product (GDP). While part of the loss can be attributed to the lag in blacks' educational achievement, the bulk of the shortfall appears to be related to continued discrimination, which limits their access to higher-paying jobs. Furthermore, over the last quarter-century, the relative cost of discrimination seems to have risen. And, given the slow rate at which blacks are being absorbed into managerial, professional, and technical positions, the income deficit they face—and the corresponding economic cost to the nation—will probably narrow very little in the years ahead.

ECONOMIC IMPACT OF RACIAL DISCRIMINATION

The earliest assessment of the economic cost of discrimination against nonwhites in the United States was prepared by the President's Council of Economic

THE ECONOMIC COST OF DISCRIMINATION

Advisers (CEA) in 1962.¹ The CEA estimated the cost at approximately \$17.8 billion, or 3.2 per cent of gross national product (GNP)—which totaled \$554.9 billion in that year. (Note that GNP, the value of total production of goods and services measured at market prices, was the official measure of economic activity in use in 1962.)

In 1965, when I was assistant secretary of commerce, at my request the US Bureau of the Census made estimates of the cost of discrimination against nonwhites for the years 1949 through 1963. The Census Bureau's estimating procedure was more comprehensive than that employed earlier by the CEA. The Census Bureau's estimates sought to account for the economic losses originating from two sources: inefficiencies in the use of the labor force arising from failure to use fully the *existing* education, skills, and experience of the population, and failure to develop fully *potential* education, skills, and experience. The losses were described in terms of the gains that might accrue to GNP if discrimination were eliminated—or had been eliminated in the past. However, the Census Bureau recognized that, because the legacy of past discrimination affects the contemporary occupational, geographic, and capital structures as well as the education, training, and skills of the nonwhite labor force, the gains would accrue only over time as the labor force is upgraded and the economy adjusts.

Based on the Census Bureau's analysis described above, I estimated that discrimination against nonwhites cost about \$20.1 billion in lost GNP in 1963, equal to 3.5 per cent of that year's total GNP of \$583.9 billion. Roughly \$11.1 billion (1.9 per cent of GNP) reflected the failure to use fully nonwhites' existing skills, and \$9.0 billion (1.6 per cent of GNP) arose from the failure to improve and fully use their educational achievement.²

Applying the Census Bureau's technique as used in 1965, I have recently updated the estimates for the economic cost of discrimination against blacks. The detailed results for four years (1967, 1973, 1979, and 1993) are shown in Appendix Tables 1.A1 and 1.A2.

TRENDS IN THE ECONOMIC COST OF DISCRIMINATION

The figures show that, over the last twenty-five years or so, the American economy has been losing between 1.5 per cent and 2.2 per cent of GDP because racial discrimination against blacks limits the full use of their existing educational attainment. In 1967, this loss amounted to 1.5 per cent of GDP or \$12.1 billion (Table 1.1). Another 1.4 per cent (\$11.1 billion) of GDP was lost because of the failure to *improve* and fully utilize blacks' educational level. In combination, lost GDP amounted to \$23.2 billion, equal to 2.9 per cent of the 1967 total of \$814.3 billion. By 1993, the shortfall in GDP due to the failure to use blacks' existing education amounted to \$137.5 billion (2.2 per cent of GDP). Failure to improve

Table 1.1 Economic cost of discrimination against blacks, 1967–93 (estimated loss of Gross Domestic Product, \$ billion)

<i>Year</i>	<i>Gross Domestic Product</i>	<i>Gain from full use of present education</i>		<i>Gain from full use of improved education</i>		<i>Total gain from full use of present and improved education</i>	
		<i>Amount</i>	<i>Percentage</i>	<i>Amount</i>	<i>Percentage</i>	<i>Amount</i>	<i>Percentage</i>
1967	814.30	12.10	1.49	11.10	1.36	23.20	2.85
1973	1,349.80	22.90	1.70	19.40	1.43	42.30	3.13
1979	2,488.60	45.80	1.84	38.20	1.53	84.00	3.38
1993	6,374.00	137.00	2.15	103.90	1.63	240.90	3.79

Source: Prepared by Brimmer & Company, Inc. Data for GDP from the US Department of Commerce, Bureau of Economic Analysis. Percentage increases in compensation and other income estimated by Brimmer & Company, Inc., based on data from the US Department of Commerce, Bureau of the Census

their education cost \$103.9 billion (1.6 per cent). The aggregate loss was estimated at \$240.9 billion—3.8 per cent of GDP.

The statistics in Table 1.1 enable one to apportion the loss in GDP between contemporary discrimination against blacks (failure to use fully their existing education) and the legacy of past discrimination (failure to improve their education). The figures suggest that, while no dramatic shifts have occurred over the last two and a half decades, the proportion of the loss that can be attributed to current discrimination has risen slightly. The latter component varied from 52.2 per cent in 1967, to 54.31 per cent in 1973, to 54.44 per cent in 1979, and to 56.87 per cent in 1993.

FACTORS CONTRIBUTING TO THE COST OF RACIAL DISCRIMINATION

A number of interwoven factors lie behind the loss of GDP from racial discrimination. In the first instance, discrimination has historically restricted many blacks to working in positions in which they could not fully utilize their qualifications. For example, for many years, the US Postal Service employed thousands of black men with college degrees in mathematics, chemistry, and other sciences who could not find jobs in the private sector. There were numerous cases where blacks with BA and MA degrees in business administration worked as warehouse and stockroom clerks—while their white counterparts held managerial jobs in areas such as banking, insurance, and real estate. Even today, despite the lessening of restrictions because of equal opportunity laws and the spread of affirmative action practices in industry, many blacks are still concentrated in positions which do not make full use of their talents. If racial discrimination were to be eliminated, blacks could migrate more freely from low to high productivity

THE ECONOMIC COST OF DISCRIMINATION

occupations where their contribution to total production would be increased. The result would be a gain in the nation's total output of goods and services.

Furthermore, a more rational use of the labor force most likely would require increased investment in the stock of capital. Plant and equipment outlays would rise—further boosting the gain in output. Thus, capital as well as labor incomes would be enhanced.

Self-employed entrepreneurs (particularly blacks) would have greater access to markets—and thus, become more efficient—in the absence of racial discrimination. In response, their incomes would rise to reflect their higher productivity. This is another source of the gain in GDP resulting from the elimination of racial discrimination.

LONG-TERM OUTLOOK

There appears to be little likelihood that the economic cost of racial discrimination will diminish appreciably over the current decade. While overt acts of discrimination in industry will almost certainly continue to decline, institutional or systemic discrimination will nevertheless persist due to the legacy of previous discrimination. Consequently, blacks' educational levels will remain well below those of whites, and they will continue to be underrepresented in the higher-paying positions and overrepresented in those at the low end of the occupational scale. The net result will be a continuation of large deficits in blacks' employment and income. The latter will continue to be translated directly into a sizeable loss in GDP.

The significant gap between blacks' educational attainment and that of the nation at large can be seen in Table 1.2. The figures compare the distribution of black workers by years of school completed with the corresponding distribution of all workers in 1990. It will be noted that, while blacks represented 10.15 per cent of total employment, they accounted for 13.29 per cent of workers with less than a high school education. At the high school

Table 1.2 Distribution of total and black workers, by years of school completed, 1990 (thousands)

<i>Years of school</i>	<i>All workers</i>		<i>Black workers</i>		
	<i>Number</i>	<i>Percentage distribution</i>	<i>Number</i>	<i>Percentage distribution</i>	<i>Percentage of all workers</i>
Less than High School	17,922	15.20	2,381	19.90	13.29
High School	46,340	39.30	5,157	43.10	11.13
1–3 Years of college	25,353	21.50	2,669	22.30	10.53
4 Years of college or more	28,299	24.00	1,759	14.70	6.22
Total	117,914	100.00	11,966	100.00	10.15

Source: Prepared by Brimmer & Company, Inc. Data from *Monthly Labor Review*, November 1991

level, they represented 11.13 per cent of the total. The black proportion was 10.53 per cent among workers with one to three years of college, and 6.22 per cent among those with four or more years of college. Expressed differently, in 1990, 45.5 per cent of all workers had at least some college education compared with 37.0 per cent of all black workers. The weighted average number of years of schooling for all workers combined was 13.29. The corresponding weighted average for blacks was 12.66 years. This meant that the typical black worker's average level of education lagged about 4.75 per cent behind that of all workers. Although the differential will probably narrow somewhat, it most likely will not be closed any time soon.

In a similar vein, blacks will continue to hold a disproportionately small share of the high-ranking occupations. The occupational profiles of blacks and all employees in 1990 are shown in Table 1.3. A projection by the US Bureau of Labor Statistics (BLS) for all workers for the year 2005 is also shown—along with Brimmer & Company's estimate for blacks in the same year.

Several features stand out: While blacks represented 10.0 per cent of total occupational employment in 1990, they fell progressively short of that proportion as one moved up the occupational scale. At the opposite end of the spectrum, their actual shares were 1.5 to 1.7 times their proportion of total employment. By the year 2005, BLS projections suggest that blacks' overall occupational profile will probably have changed only moderately. They will then hold about 11.1 per cent of all jobs. Using this benchmark, blacks will have raised their already above-par share of administrative and clerical positions, and they will be near parity with respect to technical and related jobs. They will also have narrowed slightly the gaps between parity and their actual holdings of managerial and professional occupations. Nevertheless, blacks will still be overrepresented in jobs at the foot of the occupational ladder.

The foregoing black employment and occupational disparities translate into large and persistent deficits in blacks' share of money income. The scope of these disparities is shown in Table 1.4. The statistics describe estimates and projections of the US population, civilian labor force, employment, and money income, by race, for the years 1991, 1992, 1993, and 2000. It will be noted that, in each year, blacks' labor force share, employment share, and income share all fall short of their share of the total population. Moreover, in each case, the size of the gap is projected to narrow only slightly over the remainder of this decade.

The magnitude of the disparity in blacks' money income can be seen in Table 1.5. For example, it is estimated that in 1993 blacks received \$300.7 billion in money income, equal to 7.6 per cent of total money income received. This amount represented a sizeable deficit in the income of the black community—no matter what benchmark is used to measure parity. If

Table 1.3 Occupational distribution of employment, by race, 1990 and projection to 2005 (thousands)

Occupation	All workers			2005			1990			Black workers			2005			Percentage of all workers		
	Number	Percentage distribution	Number	Percentage distribution	Number	Percentage distribution	Number	Percentage distribution	Number	Percentage of all workers	Percentage distribution	Number	Percentage of all workers	Percentage distribution	Number	Percentage of all workers	Percentage distribution	Number
Executive, Administrative, Managerial	12,451	10.2	15,866	10.8	747	5.9	6.0	1,269	7.8	8.0								
Professional specialty	15,800	12.9	20,907	14.2	1,106	8.8	7.0	1,882	11.5	9.0								
Technicians and related	4,204	3.4	5,754	3.9	378	3.0	9.0	604	3.7	10.5								
Marketing and Sales	14,088	11.5	17,489	11.9	845	6.7	6.0	1,259	7.7	7.2								
Administrative Support, including Clerical	21,951	17.9	24,835	16.9	2,415	19.2	11.0	3,186	19.5	12.8								
Service occupations	19,204	15.7	24,806	16.9	3,265	26.0	17.0	3,857	23.6	16.0								
Agricultural, Forestry, Fisheries	3,506	2.9	3,665	2.5	210	1.7	6.0	201	1.2	5.5								
Precision production and Craft	14,124	11.5	15,909	10.8	1,130	9.0	8.0	1,511	9.2	9.5								
Operators, Fabricators, and Laborers	17,245	14.1	17,961	12.2	2,587	20.6	15.0	2,571	15.8	14.3								
All Occupations	122,573	100.0	147,191	100.0	12,573	100.0	10.0	16,340	100.0	11.1								

Source: Estimates for blacks prepared by Brimmer & Company, Inc. Data from *Monthly Labor Review*, November 1991

Table 1.4 Estimates and projections of the US population, civilian labor force, employment, and money income, by race, 1991–2000 (numbers in thousands, money income in \$ million)

Population	1991		1992		1993		2000	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
White	210,899	83.63	212,648	83.42	214,778	82.78	224,574	81.72
Black	31,164	12.36	31,673	12.42	32,137	12.62	35,525	12.93
Other race	10,114	4.01	10,601	4.16	11,012	4.27	14,696	5.35
Total	252,177	100.00	254,922	100.00	257,927	100.00	274,815	100.00
Civilian labor force								
White	107,486	85.78	108,776	85.65	109,222	85.33	120,374	84.83
Black	13,542	10.81	13,780	10.85	14,080	11.00	15,893	11.20
Other race	4,275	3.41	4,444	3.50	4,698	3.67	5,633	3.97
Total	125,303	100.00	127,000	100.00	128,000	100.00	141,900	100.00
Employment								
White	101,039	85.45	101,583	86.38	102,789	86.16	114,568	85.69
Black	11,863	10.15	11,960	10.17	12,192	10.22	13,985	10.46
Other race	3,975	3.40	4,057	3.45	4,319	3.62	5,147	3.85
Total	116,877	100.00	117,600	100.00	119,300	100.00	133,700	100.00
Money income								
White	3,228,041	88.98	3,347,468	89.00	3,517,240	88.90	5,055,765	88.30
Black	277,552	7.65	284,347	7.56	300,686	7.60	455,191	7.95
Other race	122,367	3.37	129,385	3.44	138,474	3.50	214,712	3.75
Total	3,627,960	100.00	3,761,200	100.00	3,956,400	100.00	5,725,668	100.00

Source: Estimates by Brimmer & Company, Inc. Data from US Department of Commerce, Bureau of the Census, and US Department of Labor, Bureau of Labor Statistics

Table 1.5 Black money income deficit, 1993 and projection to 2000 (\$ million)

Benchmark	1993		2000		Deficit		Deficits as	
	Percentage share of total income	Amount of income	Percentage share of total income	Amount of income	Amount	Percentage	percentage of GDP	1993 2000
Gross Domestic Product		6,374,000		8,942,000				
Money income: Total		3,956,400		5,725,668				
Black income								
Actual	7.60	300,686	7.95	455,191				
Parity								
Population	12.46	492,967	12.93	740,329	-285,138	-38.52	-3.02	-3.19
Civilian								
Labor Force	11.00	435,204	11.20	641,275	-186,084	-29.02	-2.11	-2.08
Employment	10.22	404,344	10.46	590,905	-135,714	-22.97	-1.63	-1.52

Source: Prepared by Brimmer & Company, Inc. Data from Table 1.4

blacks' share of population is used as the yardstick, the shortfall was \$192.3 billion, or 39.1 per cent. Using their share of the civilian labor force, the income gap was \$134.5 billion, or 30.9 per cent; by share of employment, it was \$103.7 billion, or 25.6 per cent.

It is estimated that, in the year 2000, blacks' income may amount to \$455.2 billion. This figure would represent 7.95 per cent of the total. Again, if blacks' share of population is taken as parity, the income deficit would amount to \$285.1 billion, equal to 38.52 per cent. Using blacks' civilian labor force share as parity, the deficit would be \$186.1 billion (29.02 per cent), while using their employment share would produce a deficit of \$135.6 billion, equal to 22.97 per cent.

It should also be noted that all of the projected deficits in the year 2000 would be essentially unchanged in percentage terms compared with what they were in 1993.

The black income deficits also represent losses in GDP over and above those discussed earlier, because the income loss reduces consumption. As shown in Table 1.5, using blacks' population share as the parity benchmark, the income deficit was equal to 3.02 per cent of GDP in 1993. With the labor force share as benchmark, it was 2.11 per cent; and for employment, it was 1.63 per cent. By the year 2000, these three parity measures are projected to yield income deficits equal to 3.19 per cent, 2.08 per cent, and 1.52 per cent of GDP, respectively.

Again, it will be noted that black income deficits in relation to GDP remain essentially unchanged over the remainder of this decade. Thus, the economic cost of racial discrimination will continue as a major burden on the American economy.

CONCLUDING OBSERVATIONS

The analysis presented here has shown that, while blacks' educational attainment continues to fall short of that for the population as a whole, many blacks also continue to be employed in jobs well below what their actual education and skills would justify. To a considerable extent, these disparities mirror the effects of past—and present—racial discrimination.

The failure to use fully blacks' existing educational attainments—compounded by the failure to improve their educational levels—results in a sizeable shortfall in the money incomes earned by blacks. The income deficits can be translated into losses in GDP. Since the mid-1960s, these losses have represented between 3 per cent and 4 per cent of GDP. Thus, they provide a rough indication of the cost to the nation of discrimination against blacks.

Looking ahead, there is little reason to expect this cost to be diminished very much by the unaided operation of the labor market. Consequently, there is a continuing need for investment to improve blacks' education

THE ECONOMIC COST OF DISCRIMINATION

and skills. There is also a continuing need for vigorous affirmative action programs to eradicate the lingering racial discrimination in American industry.

APPENDIX: TECHNIQUE FOR ESTIMATING THE COST OF RACIAL DISCRIMINATION

The first step in gauging the magnitude of the loss in Gross Domestic Product (GDP) because of discrimination against blacks was to estimate the gain that would occur if their present educational achievement were fully used. The question to be answered was: What would be the gain in GDP if blacks, with a given level of education, had the same average earnings as whites in the jobs which blacks actually hold? To make this estimate, data from the US Census Bureau's *Current Population Reports* on "Money Income" were used.

Initially, for each age-sex-education group, the mean earnings of blacks were multiplied by the number of persons in each category and the results summed to produce the amount of money income received by blacks in a given year. This level was expressed as the *Base Case*.

Next, for each of the same age-sex-education categories, the mean earnings of blacks were changed to equal the mean earnings of whites. The multiplication and summation steps described above were repeated. These calculations produced *Adjusted Case I: Full Use of Present Education*. The resulting percentage increases in earnings for the years 1967, 1973, 1979, and 1993 are shown in Appendix Table 1.A1, Column (1).

In the second step, an estimate was made of the gain in income that might result if blacks' educational levels could be improved to the point where they equaled the levels achieved by whites and if blacks had the same mean earnings as whites at the same level of education. These calculations produced the percentage increases expressed as *Adjusted Case II: Full Use of Improved Education*, shown in Appendix Table 1.A.1, Column (2).

The results of Adjusted Case I and Adjusted Case II were combined to produce *Adjusted Case III: Total Gain From Full Use of Improved Education (II) and Present Education (I)*, shown in Appendix Table 1.A.1, Column (3).

In the third step, the percentage increases in earnings were used to estimate gains in GDP. These are shown in Appendix Table 1.A2.

Initially, the wages and salaries component of GDP (including supplements) was raised by the percentage increases in total earnings brought over from Appendix Table 1.A.1. The resulting gain in wages and salaries for Adjusted Case I is shown in Appendix Table 1.A.2, Column (4). Next, the remaining component of GDP (equal to GDP minus the wages composition of employees) was derived. Column (6) for Case I shows the gain. Finally, the resulting combined increases in GDP for Case I are shown

in Column (8). The same procedure was used to estimate the increase in GDP that might occur from full use of improved educational achievement by blacks—Adjusted Case II. The corresponding gains in this case are presented in Columns (10), (12), and (14).

The potential gain in GDP from the full use of blacks' present educational achievement and the full use of their improved education is shown in Case III, Columns (16), (18), and (20).

Table 1.A1 Gains in earnings from full use of present and potential educational achievement of blacks in the United States, 1967–93 (percentage)

<i>Year</i>	<i>Adjusted Case I Full use of present education</i>	<i>Adjusted Case II Full use of improved education</i>	<i>Adjusted Case III Total gain from full use of improved education (II) and present education (I)</i>
1967	1.88	1.72	3.60
1973	2.12	1.80	3.92
1979	2.30	1.92	4.22
1993	2.70	2.04	4.74

Source: Estimates prepared by Brimmer & Company, Inc. Data from US Department of Commerce, Bureau of the Census

NOTES

1See Council of Economic Advisers, Press Release issued 25 September 1962.

2See Andrew F. Brimmer, "The Negro in the American Economy."

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Part I

POVERTY, INEQUALITY AND PUBLIC POLICY

MYRDAL'S CUMULATIVE HYPOTHESIS

Its antecedents and its contemporary applications

Robert Cherry

It is now fifty years since Gunnar Myrdal's study *The American Dilemma* (1944) was first published. It was a pivotal study in changing public attitudes towards racism and racial inequality. He was hopeful that informed public policies would help society overcome these problems. Rather than representing a historic relic, this paper will argue that his work continues to provide a foundation for some of the current liberal perspectives on the persistence of racial economic inequality. In particular, this paper will highlight one aspect of Myrdal's work: his culture-of-poverty explanation for the persistence of racial inequality. Embedded in his cumulative hypothesis, this explanation focused on the role of behavioral traits in the persistence of black poverty. According to Isabell Sawhill (1988: 1109), the culture-of-poverty thesis contends that

the poor, or at least a subset of them, are different from the nonpoor in terms of their attitudes, values, or aspirations and that these personality traits produce behaviors that mire them in long-term poverty. A softer version of this hypothesis is that attitudes and behaviors, whatever their origins, change only slowly in response to greater opportunities, and thereby contribute to the persistence of poverty.

Myrdal did not invent the culture-of-poverty thesis, and this paper will identify some of the early presentations of this thesis. We will find that these earlier presentations focused on European immigrant groups. Myrdal was the first economist, however, to use this thesis to explain the persistence of racial inequality. After Myrdal, behavioral explanations for the persistence of racial inequality have had their defenders and detractors. This paper will identify three prominent liberal social scientists whose work continues to incorporate culture-of-poverty aspects of Myrdal's pathbreaking work.

RACIAL THOUGHT IN THE EARLY ECONOMICS PROFESSION

During the first part of the twentieth century, racial theories supporting the belief in Nordic superiority developed and thrived in the United States. These theories buttressed anti-immigration responses to the increasing labor unrest of that period. General Amasa Walker, one of the founders of the American Economics Association (AEA) maintained that the immigrants of the 1880s and 1890s were inferior. He stated,

[They] are beaten men and beaten races; representing the worst failures in the struggle for existence. Centuries are against them, as centuries are on the side of those who formerly came to us. They have none of the ideas and aptitudes which would fit them readily and easily to take up the problems of self-care and self-government, such as belong to those who are descended from the tribes that met under the oak tree of old Germany to make laws and choose a chieftain.

(1896: 828)

Many other leading economists were vocal in their racial beliefs at the turn of the century. For example, Richard T. Ely (1891: 402) felt that the “most general statement possible is that the causes of poverty are hereditary and environmental, producing weak physical, mental and moral constitutions.” To support his thesis, Ely (1891: 403–5) cited the cases of the “Jukes and the Tribe of Ismael.” These family histories, which were thought to demonstrate how individual genealogy explains intergenerational poverty, were often cited by supporters of eugenics measures. These attitudes were also reflected in the content of American economics journals.¹

Within the movement for immigration restriction economists were quite influential. Mark Haller (1963: 74) considered Irving Fisher to be the most influential spokesman for the Eugenics Movement: Thomas N. Carver, Henry P. Fairchild, and Prescott Hall were active members of the Immigration Restriction League; John R. Commons was a member of the National Civic Federation; and Jeremiah Jenks and W. J. Lauck were the principal investigators for the US Immigration Commission. An important concern of all of these economists was the racial composition of recent immigrants. Let us now describe the various positions held by economists.²

The genetic racial position

This position argued that the recent immigrants, were of inferior genetic stock, thus reducing the quality of racial strains in America. These immigrants allegedly had hereditary criminal traits, as well as inferior intelligence. Hence, these economists urged immediate immigration restrictions as part of a general eugenics

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program. Economists of note who supported this position were Prescott Hall, Frank A. Fetter, and Irving Fisher. Hall claimed,

The class of persons, other than the state officials, who are becoming interested in immigration matters, consists of medical men and the medical society. These men come in direct contact with the evil results of the immigration of people of poor racial stock. The studies made under the auspices of the Eugenics Record Office show how much damage bad racial strains can do.

(1913: 753)

His book, *Immigration and Its Effects*, was considered by individuals of similar views, such as Fetter (1916: 353), to be the outstanding scientific work in this area. Fetter was also a vocal advocate of eugenics measures. He believed,

The ignorant, the improvident and the feeble-minded are contributing far more than their quota to the next generation . . . Unless effective means are found to check the degeneration of the race, the noontide of humanity's greatness is nigh, if not passed . . . Great changes in thought are impending, and these will include the elimination of the unfit . . . and the conscious improvement of the race. Under the touch of the new science of eugenics, many of our most perplexing problems would disappear, making possible the better democracy which we are just beginning to seek.

(1907: 91)

In his early writings Fetter (1904: 179–80) had thought that “education and native talent are in a degree interchangeable,” but by 1915 he discounted any effects of education. At that point Fetter (1915: 419) stated, “Few thoughtful persons now hold the view that the race can be improved biologically, rapidly if at all, or by the process of education of individuals.” Finally, Fetter (1918: 234) claimed that labor unrest was the result of the changing racial composition of the working class toward groups which had no appreciation of democratic institutions.

Irving Fisher believed an individual's rate of time preference played a critical role in determining economic inequality. He reasoned,

The effect will be, for society as a whole, that those individuals who have an abnormally low appreciation of the future and its needs will gradually part with the most durable instruments, and that they will gravitate into the hands of those who have the opposite trait. By this transfer an inequality in the distribution of capital is gradually effected and this inequality once achieved tends to perpetuate itself.

(1907: 232)

Fisher then posited that racial theory indicated which groups are present-oriented and hence poor. He (1907: 292) said, "Among communities and people noted for lack of foresight and for negligence with respect to the future are China, India, Java, the negro communities of the southern states, the peasant communities of Russia, and the North and South American Indians."

Fisher (1907: 298–9) initially felt that environmental factors and "the influence of training" were also great. Like Fetter, however, he came to believe that only genetic factors were significant in explaining social and mental characteristics. By 1911 Fisher (1911: 476) saw the problem in the United States as one of "race suicide" and indicated approvingly that a "method of attaining the contrary result—namely reproducing from the best and suppressing reproduction from the worst—has been suggested by the late Sir Francis Galton of England, under the name of 'eugenics'."

While vice president of the Race Betterment Foundation, Fisher [1916: 710–11] recommended that "by a policy of restricting immigration by excluding those unfit to become American citizens . . . we shall help solve some of our problems, including that of the distribution of wealth." He (Fisher and Fisk 1915: 299–300) suggested that "the 80,000 prisoners supported in the United States are recruited not evenly from the general population, but mainly from certain family breeds." To correct this, Fisher (Fisher and Fisk 1915: 324) recommended the "segregation of defectives so that they may not mingle their family traits with those of sound lines . . . [and] sterilization of certain groups of hopeless defectives."³

Environmental position

The environmental position was held by many of the Progressives, including Jencks and Lauck. These Progressives argued that continued immigration would lead to a lowering of native workers' wages. Indeed, Hall criticized the US Immigration Commission for saying little about heredity and nothing about eugenics. He said,

The instincts and habits which cause a low standard of living, willingness to underbid native labor, and migratory habits are matters of race and inheritance. One can not imagine the Baltic races being willing to live as do many of our recent immigrants, no matter how poor they might be.

(1912: 676)

Fisher (1921: 226) also voiced this same criticism: "The core of the problem of immigration is one of race and eugenics, despite the fact that in the eighteen volumes of the report of the Immigration Commission scarcely any attention is given to this aspect of the immigration problem."

Environmentalists did not focus on racial differences because, unlike the genetic racialists, they had a hopeful view of acculturating the southern and

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eastern European immigrants who had already entered the United States. They were hopeful because most Progressives believed that the racial inferiority of immigrants was primarily due to cultural and social factors. While they did not dispute the “fact” that genetic differences were present, most Progressives felt that cultural changes could effectively offset these deficiencies. The most influential economist among Progressives was John R. Commons who agreed that there were genetic differences between Nordic and non-Nordic European immigrants. He said,

The North Italian is an educated, skilled artisan, coming from a manufacturing section and largely from the cities. He is teutonic in blood and appearances. The South Italian is an illiterate peasant from the great landed estates, with wages one-third his northern compatriot. He descends with less mixture from the ancient (nonteutonic) inhabitants of Italy.

(1920: 78)

Commons (1920: 213) believed, however, that the problem of southern and eastern European immigrants was one of primitiveness of civilization and that “all children of all races of the temperate zone are eligible to the highest American civilization.”

Commons's union strategy was interwoven with his racial and nativist notions.⁴ He (1920: 220) believed that unions were instrumental to the assimilation of the new immigrants:

The influence of schools, churches, settlements, and farming communities applied more to the children of immigrants than to the parents. The immigrants themselves are too old for Americanization, especially when they speak a non-English language. To them the laborunion is at present the strongest Americanizing force.

Commons (1919: 108) considered the union shop particularly important in helping develop democratic values in the eastern and southern European immigrants:

When this particular shop scheme was started, many of the workers were newly arrived immigrants, acquainted only with the despotism of Austria, Hungary, Russia . . . Many were what is known as Bolsheviks . . . Many were successful agitators, hostile to employers as a class. In the course of time their employers were astonished with the changes that came over them.

ATTITUDES CONCERNING AFRICAN AMERICANS

Genetic racialists, like Walker (1891), had little fear that the extremely inferior “black race would overwhelm civilization.” Their position was supported by

Frederick Hoffman's "Race Traits and Tendencies of the American Negro" which was a widely circulated publication of the AEA. Hoffman (1896: 95) believed that the high incidence among American Negroes of diseases, such as tuberculosis and syphilis, would lead to their extinction. Better health conditions would not help:

It is not the conditions of life but the race traits and tendencies that we find the causes of excessive mortality. So long as these tendencies are persisted in, so long as immorality and vice are a habit of life of the vast majority of the colored population, the effect will be to increase mortality by hereditary transmission of weak constitutions and to lower still further the rate of natural increase until the births fall below the deaths, and gradual extinction results.

This position was reinforced by the 1902 AEA publication. "The Negro in Africa and America." by Joseph Tillinghast. Tillinghast blamed the social and economic difficulties faced by African Americans on their African heredity, for this resulted in a race lacking in industry, energy, and foresight. Like Hoffman, Tillinghast foresaw the elimination of the inferior black race as it was forced into greater competition with whites.

That those who took a genetic racial position on non-Nordic Europeans should have a similar view of African Americans is not surprising. What is noteworthy, is that many Progressives, including John R. Commons and Walter Willcox, who had an environmental position with respect to the newer immigrants, took a genetic racial position with respect to African Americans.

John R. Commons

Commons held open little possibility that African Americans as a group could attain equality with Americans of European descent.⁵ Commons did not believe that social institutions could overcome the genetic inferiority of African Americans. Only crossbreeding would allow African Americans to rise up to the standards of European Americans. Commons (1904: 222) stated, "Amalgamation is their door to assimilation. Frederick Douglass, Booker Washington, Professor Du Bois are an honor to any race, but they are mulattoes." Like Fisher, Commons accepted the notion that an African American is so present oriented that he is notorious for his improvidence:

His neglect of his horse, his mule, his machinery, his eagerness to spend his earnings on finery, his reckless purchase of watermelons, chickens and garden stuff when he might easily grow them on his own patch of ground, these and many other incidents of improvidence explain the constant dependence of the Negro upon his employer and creditor.

(Quoted in Ramstad and Starkey, 1992)

Commons believed that unions were necessary to protect workers from competing against themselves, thus lowering the wages for all workers. Since African Americans were docile and uncompetitive, unions were unnecessary. Indeed, Commons (1920: 136) claimed that the tropical climate produced a race which was so "indolent and fickle" that "some form of compulsion" was necessary if it were to adopt the industrious life. While he was careful not to exclude individual African Americans from equality, Commons predicted that the race was doomed once it had entered into competition with European Americans after emancipation. Echoing the thoughts of Tillinghast and Hoffman, Commons believed that African Americans were ill-prepared for freedom. Commenting on the failure of education and democracy to uplift southern blacks, Commons (1920: 3-4) claimed, "[T]he fearful collapse of the experiment is now recognized . . . as something that was inevitable [given] the nature of the race at that stage of development."

Walter Willcox⁶

With respect to African Americans, Willcox was the most influential economist. He was instrumental in the decision of the AEA to publish both the Hoffman and Tillinghast articles; in 1900 he handpicked the members of the AEA Committee to Investigate the Condition of the Negro; and shaped the census data on African Americans gathered in his capacity as statistician for the Census Bureau from 1899 to 1931. Willcox sympathized with the higher aspirations of African Americans, was a regular contributor to many black institutions, and found white racism distasteful. Willcox did not completely rule out the possibility that environmental factors might explain a substantial portion. He even suggested that African Americans could approach equality if they were raised by whites until they were twenty-one years old. He believed, however, that African Americans were inferior primarily due to genetic deficits. Willcox wrote, "My own tendency is to believe that a large part, perhaps the large part of the difference between the two races is due to racial heredity" (quoted in Aldrich 1979: 4).

Similar to Commons, he believed that the Negro was deficient and "what the Negroes need most of all to learn are those habits of obedience, industry, self-restraint, and sexual morality, the lack of which is now gradually undermining the race and may prove its destruction." Like Commons, he too believed that slavery had protected African Americans and with emancipation they were unable to compete. Like Tillinghast and Hoffman, Willcox predicted that they would suffer extinction due to disease, vice, crime, and discouragement brought on by their own inability to compete in the economic struggle for existence.

Willcox's (1908) work on Negro criminality became a source of scientific support for Southern oppression of blacks. In particular, Mississippi governor

James Vardaman cited Willcox's work to support his view that suffrage and education should be withheld from African Americans. As Aldrich notes,

Although objecting to Vardaman's shrillness and his conclusion that education and suffrage for blacks should be restricted, Willcox agreed with his basic premise that [Negro] crime partly stemmed from racial characteristics. This and several other incidents such as his introduction to Tillinghast's work and the role which he played in the Census Bureau's decision not to collect lynching statistics . . . alienate[d] black leaders such as [Roscoe] Bruce [of Tuskegee], Du Bois, and others, as they accurately came to perceive that Willcox was in fact providing scientific support for the emerging Southern caste system.

(1979: 11)

EMERGENCE OF A CULTURE OF POVERTY THESIS

While the genetic racial view was widely held during the first quarter of the twentieth century, eventually the culture-of-poverty thesis became the major explanation for the alleged inferiority of African Americans. This section will summarize the views of a number of social scientists who had important roles in shifting professional attitudes.

Booker T. Washington

Booker T. Washington was an early exponent of a culture-of-poverty thesis with respect to African Americans. He (1902: 26) rejected the genetic racial position noting that the "Negro is behind the white man because he has not had the same chances, and not from any inherent difference in his nature or desires." Washington did, however, believe that African Americans were culturally inferior to whites. He (1970: 74) contrasted the "semi-barbarous" African race with the white race having attained "the highest civilization that the world knows." Washington (1970: 16) believed that the African culture was at a lower stage of development than European society. Washington said

The natives have never been educated by contact with the white man in the same way as has been true of the American Negro. . . . their ambitions have never been awakened, their wants have not been increased, and they work perhaps two days out of the week and are in idleness during the remaining portion of time. . . . How different in the Southern part of the United States where we have eight million of black people! . . . these people have not by any means reached perfection but they have advanced on the whole much beyond the condition of the South Africans.

(1970: 59–60)

To explain why African Americans were the most advanced blacks in the world, Washington (1970: 16) believed we must admit that "the Negro did gain certain benefits from slavery." Through slavery, African Americans gained self-discipline and future-oriented values. While slavery improved blacks, they still were not the equal of whites at the time of emancipation. As a result, Washington (1963: 58–61) considered the Reconstruction era to be an inappropriate preparation for an "ignorant and inexperienced" black population. Reconstruction, by offering blacks preferential treatment increased their present-orientedness by enabling them to begin "at the top instead of at the bottom;" to seek "a seat in Congress . . . [rather] than real estate or industrial skill." While recognizing the importance of legal rights, Washington claimed that "it is vastly more important that we be prepared for the exercise of these privileges."

Washington's and Commons's views on black inferiority differ substantially. Commons claimed individual African Americans gain equality with Nordics only by crossbreeding while Washington (1970: 13) claimed it was due to the "Negro imitating the best" of the white man's culture. Whereas Commons considered the failure of Reconstruction preordained since African Americans were unable to compete against whites, Washington believed that the failure stemmed from a wrong set of policies.

Edward A. Ross and Louis Wirth

Another important building block of the culture of poverty thesis was the sociological thesis that the transition to an urban culture creates disorganization among those who migrate from rural areas. Interestingly, this thesis was first developed to explain the alleged inferiority of Polish-Russian Jewish immigrants by liberal sociologists Edward A. Ross and Louis Wirth. During the early twentieth century, these Jews had all of the social disorganization found in other immigrant groups. Jewish criminal activity was widespread resulting in public outcries. The desertion of families became such a large problem that the *Jewish Daily Forward* routinely ran a "Gallery of Missing Husbands" to assist women in locating their errant husbands.⁷

Wirth completed his dissertation on Jewish immigrants in 1927. He believed that the newer Jewish immigrants from eastern Europe were culturally inferior to earlier German-Jewish immigrants. He stated,

While the Jews of the east lived in large part in rural communities, in a village world, those of the west were predominantly a city people in touch with the centers of trade and . . . with the pulsating intellectual life of the world. While the Jews of the Rhine cities were associating with men of thought and of affairs, their brethren in Russia were dealing with peasants and an uncultured, decadent nobility. While the Jewries of the west were already seething with modernistic

religious, political, and social movements, those of the east were still steeped in mysticism and medieval ritual. While the western Jews were moving along with the tide of progress, those of the east were still sharing the backwardness and isolation of the gentile world of villages and peasants.

(1956: 267)

There were two ways in which these allegedly deficient qualities of eastern European Jews led to their social disorganization. On the one hand, city life created conflict with traditional relationships. In rural societies social interactions are limited and characterized by long term, stable relationships. In contrast, Wirth (1956: 120) emphasized that the “segmental character and utilitarian accent of interpersonal relations in the city find their institutional expression in the proliferation of specialized tasks.” The need to judge the limits and choices of social relationships according to Wirth (1956: 123) “may be regarded as prerequisites for rationality and which lead toward the secularization of life.” Thus, Wirth (1956: 128) believed that the urban mode of life is associated with “a substitution of secondary for primary contacts, the weakening of bonds of kinship, and the declining significance of the family, the disappearance of the neighborhood, and the undermining of the traditional basis of social solidarity.”

Wirth (1956: 130) considered this mode of life to be difficult for individuals so that “personal disorganization, mental breakdown, suicide, delinquency, crime, corruption, and disorder might be expected under these circumstances to be more prevalent in the urban than in the rural communities.” This would be the case for groups, like eastern European Jews who he (1956: 268) claimed “were still clinging to the old bonds that exclusion and oppression had fashioned.”

Like Wirth, Edward Ross also believed cultural deficiencies explained the antisocial behavior of Jewish immigrants from eastern Europe. Writing at the time of the First World War, Ross focused on the criminal behavior of this immigrant group and believed it was a product of the oppression they faced:

The truth seems to be that the lower class of Jews of eastern Europe reach here moral cripples, their souls warped and dwarfed by iron circumstance. The experience of Russian repression laws made them haters of government and corrupters of the police. Life amid a bigoted and hostile population has left them aloof and thick-skinned. A tribal spirit intensified by social isolation prompts them to rush to the rescue of the caught rascal of their own race. . . . When now they use their Old World shove and wile and lie in a society like ours . . . they rapidly push up into a position of prosperous parasitism, leaving scorn and curses in their wake.

(1972: 68–9)

MYRDAL'S CUMULATIVE HYPOTHESIS

Similar to Commons's views, Ross believed that once these immigrants experience the fairness of society these traits would wane:

Gradually, however, it dawns upon this twisted soul that there is no need to be weasel or hedgehog. He finds himself in a new game, the rules of which are made by all the players. He himself is a part of the state that is weakened by his law-breaking, a member of the profession that is degraded by sharp practices. So smirk and cringe and trick presently fall away from him and he stands erect.

(1972: 69)

Like Wirth, Ross believed that the immigration process had separated Jews from stabilizing institutions. While eventually this would lead to a more rationalist secular individual the undermining of old world institutions made things worse in the short run. Ross noted,

Enveloped in the husks of medievalism, the religion of many a Jew perishes in the American environment. The immigrant who loses his religion is worse than the religionless American because his early standards are dropped along with his faith. With his clear brain sharpened in the American school, the egoistic, conscienceless young Jew constitutes a menace.

(1972: 71)

Ross lamented that too few Jews had adopted the socialist ethics of Jewish labor leaders to replace their lost religious orthodoxy.

Wirth's views on the impact of urbanism on eastern European Jewish immigrants became more generalized into a thesis which was applied to all rural migration. In particular, it became a basis for explaining the rise in crime rates and the breakdown of traditional families as African Americans migrated to urban areas. This became a staple of culture-of-poverty theories which developed in the post-Second World War era.

Gunnar Myrdal

In *American Dilemma*, Myrdal (1944: 208) noted "the low standards of efficiency, reliability, ambition, and morals actually displayed by the average Negro." Unlike the earlier Progressives, however, Myrdal (1944: 149) rejected genetic explanations. For Myrdal (1944: 928–9), cultural deficits were the predominant explanation:

American Negro culture is not something independent of general American culture. It is a distorted development, or a pathological condition, of the general American culture. . . . [Its] characteristic traits are mainly forms of social pathologies which, for the most part, are created by caste pressures.