

1

Economic Justice

Fifty Years after the Kerner Report

JOSEPH E. STIGLITZ

FIFTY YEARS AGO, the Kerner Report on the civil disorders that had broken out the previous year provided a stark description of the conditions in America that had led to the disorders. Their basic conclusion still rings true: “Our Nation is moving toward two societies, one black, one white—separate and unequal.”¹ It featured a country in which African Americans faced systematic discrimination, with inadequate education and housing, and totally lacking economic opportunities—for them, there was no American dream. Underlying all this was a diagnosis of “the racial attitude and behavior of white Americans toward black Americans [as the cause]. Race prejudice has shaped our history decisively; it now threatens to affect our future.”²

I have been asked to assess how things have changed in the subsequent half century. As I set about this, a passage from the report resonates:

One of the first witnesses to be invited to appear before this Commission was Dr. Kenneth B. Clark, a distinguished and perceptive scholar. Referring to the reports of earlier riot commissions, he said: “I read that report . . . of the 1919 riot in Chicago, and it is as if I were reading the report of the investigating committee of the Harlem riot of ’35, the report of the investigating committee on the Harlem riot of ’43, the report of the McCone Commission of the Watts riot [of ’65]. I must again in candor say to you members of this Commission—it is a kind of Alice in Wonderland—with the same moving pictures re-shown over and over again, the same analysis, the same recommendations and the same inaction.” These words come to our minds as we conclude this report.”³

And they come to my and everyone's mind as we review the nation's progress. These words are still true. Some problematic areas identified in the report have gotten better (participation in politics and government by black Americans—symbolized by the election of a black president), some have stayed the same (education and employment disparities), and some have gotten worse (wealth and income inequality).

The civil rights era did make a difference. It was not just that a variety of forms of discrimination were illegal. Societal norms changed. Many large corporations and most educational institutions believed in affirmative action; to be openly racist in many, if not most, quarters became unacceptable. Large corporate boards and major universities sought diversity as a policy. They believed in it and believed diversity would strengthen them.

But deep-seated and institutional racism continued. New tests of discrimination in hiring and housing revealed the extent: blind resumes were sent, with the only difference being the name of the individual, giving a suggestion of race. Callbacks were markedly different.⁴

And several countertrends impeded progress. Martin Luther King realized that achieving economic justice for African Americans could not be separated from achieving economic opportunities for all Americans. Five years before the release of the Kerner Report, King's March on Washington (which I attended, and the memories of which remain so vivid)⁵ was called a march *for jobs and freedom*. Fifty-five years on from that march, America is a country more divided, with less economic opportunity. Thus, the struggle for opportunity for African Americans has been an uphill battle: it would have been difficult in any case, but all the more so as the economic environment was becoming harsher, especially for those without college degrees; 73 percent of African Americans did not have a bachelor's degree in 2016.⁶ Moreover, while educational attainment has been on the rise, it has been rising faster for white Americans than for nonwhite Americans.

With the rungs of the ladder becoming further apart, middle-class families invested increasing amounts in ensuring that their children had an advantage. They worried that urban schools would not give their children the competitive edge they needed. White flight led to increased economic segregation;⁷ and in a country where schools were local, both in control and in finance, it meant that the disparity increased in the quality of education between African Americans left behind in the urban areas and the children of the privileged living in suburban areas or sending their children to private schools. This meant that even in our needs-blind selective schools, the fraction of students from the economic bottom half remained appallingly low.⁸ (Today, students from the bottom quartile make up only 3 percent of the total number of students in the most competitive postsecondary schools.)⁹

Moreover, while American politicians might speak forcefully about the role of American values, it seemed that there was increasing weight on materialism—what mattered was material success, no matter how achieved. In the aftermath of the financial crisis of 2007–2008, much attention was paid to the moral depravity of the bankers—exhibited, for example, in their predatory lending, abusive credit card practices, market manipulation, and insider trading. But the cheating of many automobile companies in their environmental testing showed that the bankers were not alone. With money the only object, anybody and anything was fair game—and the less well educated, including African Americans, were particularly the subject of exploitation.¹⁰ The aspirations of African Americans wishing to live the American Dream were cruelly exploited by private universities offering promises of a higher living standard but delivering nothing but debts to be paid later, combined with bankers willing to take advantage of bankruptcy laws that made it almost impossible to discharge student debt. One of America's largest banks, Wells Fargo, had to pay a huge fine for discriminatory lending. They were caught. The question was only how many others got away with it.

In many quarters, too, there was a backlash. As poorly educated white Americans struggled to stay above water, they came to resent anyone who seemed to be making it. When hard-working African Americans got ahead, these whites wanted to believe that it was because they got some advantage. In a world of zero-sum thinking, if someone got ahead, it meant someone else was pushed further down; they thus viewed the notable successes of a few African Americans as coming at the expense of themselves and their children.

The backlash to the limited success in the first years after the Kerner Report manifested itself in politics as well, with America electing an openly racist president and with major campaigns at disenfranchisement. The politics of the culture wars meant that the agenda of equality of opportunity often got caught in the cross fire.

Fifty years ago, there was an ongoing debate over the relative role played by the historical legacy of slavery and oppression,¹¹ the absolute and relative deprivation faced by African Americans in their youth, the continued discrimination against African Americans in every aspect of American life, and the breakdown of the family. In some ways, parsing the relative role was impossible and irrelevant; the effects were intimately intertwined. What mattered were solutions: Where could we, as a society, intervene?

Economics as a discipline had little to contribute to this debate. The Kerner Report was written before the development of the subfield of the economics of discrimination and before more recent advances in behavioral economics.

Most importantly, the nation has unintentionally been conducting a field experiment: What happens if you deprive large numbers of white Americans of hope? If you create a divide within white America, perhaps not quite as large as that between black Americans and white but large nonetheless? Thus, we have come to a new understanding: if one deprives any group within the population of opportunity and hope, social and economic problems will appear. Of course, the deprivations facing African Americans are compounded by a historical legacy and ever-present discrimination. We now have better evidence of the pervasiveness of this discrimination and new understanding of what needs to be done to ameliorate it and its effects.

This chapter briefly describes the faltering progress we have made in each of these areas, the insights provided by changing perspectives in economics, and some suggestions about the way forward.

PROGRESS

Overall, as I have noted, progress in achieving equality and equality of opportunity for African Americans has been at best faltering. In some areas, things are worse. Though there are some remarkable successes at the top, *average* numbers are very disappointing, as the statistics below suggest. Part of the reason is the remarkable increase in inequality in the country as a whole, the evisceration of the middle class, and the lack of opportunity for those at the bottom.¹² America has among the lowest levels of equality of opportunity of any of the advanced countries, meaning that the life prospects of a young American are more dependent on the income and education of his or her parents than in other advanced countries.¹³ Since today's African American parents are disproportionately poor, that means tomorrow's will be, too. And there is some evidence of a diminution of equality of opportunity.¹⁴

Institutional changes have also worked against the advancement of the goals set forth by the Kerner Commission. Industrial unions played an important role of compressing wage differences and opening industrial job opportunities for African Americans (as well as women). They also played an important political role, in advancing legislation to create a country with more equality and equality of opportunity. Unions have weakened, going from around 35 percent of private employment in the 1950s¹⁵ to 6.4 percent now.¹⁶ Part of the reason is the changing structure of the economy: manufacturing has declined from about 25 percent of the economy in 1968 to under 12 percent in 2016.¹⁷ But there are other forces at play, including antiunion legislation and interpretations of existing legislation. Indeed, the latter alone can be closely linked with the increase in inequality in the country.¹⁸

A host of other institutional changes have played a role more broadly in the increase in inequality, such as a Federal Reserve policy focusing on

inflation more than unemployment¹⁹ and deregulation, including the elimination of usury laws, which provided greater scope for predatory lending.

Jobs

For African Americans, the glass ceiling has been broken, as they have taken on positions in boardrooms and as chief executive officers of major corporations. However, this gives a distorted picture of economic advancement. Incomes and wages, after improving slightly, going from 55 percent of that of whites in 1967 to about 65 percent in the late 1990s, have remained stuck at around 60 percent of that of whites in recent years.²⁰ Gaps exist at every educational level—and have in fact grown the most for the college educated, with whites now receiving an hourly wage that is 46 percent higher than what African Americans receive.²¹ Unemployment rates remain as they were then, roughly twice that of whites. With youth unemployment roughly twice that of the national average, this has meant that youth black unemployment soared to almost 50 percent at the peak of the recession.²² The only area in which relative performance may have improved is long-term unemployment, and this is because of the large increase in the number of white long-term unemployed, not a decrease in the number for African Americans; African Americans are still overrepresented among the long-term unemployed (constituting 23 percent of the long-term unemployed but only 11 percent of the employed).²³

There was one period in which African Americans did well, and that was in the late 1990s, as the overall unemployment rate fell to record lows. At last, marginalized groups were drawn into the labor force.

This makes the recommendations of the Kerner Report truly prescient. The report, at least in parts, really has a remarkable vision of what sort of labor policy would be adequate to tackle the problem of un- and underemployment. In addition to the obvious proposals (more jobs and removal of the clear race-based barriers), the authors proposed job training (both public and private), behavioral counseling (ranging from motivation, personal dress, and hygiene to social relationships and job performance), transportation to and from work, appropriate medical and social services, flexible work schedules and patterns that fit the needs and abilities of the potential laborers (they recognized that many people have innate intelligence and skills that are unquantifiable), on-the-job training, a computerized (!) system for matching workers with jobs, work tryouts, and moving people out of the ghetto for work.

As I have noted, the changing structure of America's economy has disadvantaged African Americans because it has disadvantaged those with lower levels of educational attainment. But then, as now, America's discrimination in housing, dysfunctional health care system, and weak

public transportation systems have had repercussions in the labor market. There is a mismatch between jobs and workers that disadvantages African Americans. If anything, matters may have become worse: as more jobs moved to largely white suburbs, the distance between African Americans and jobs may have increased. The Clinton administration tried some experimental programs to bring jobs to the cities, but these appear to have had limited success—partly because they received limited funding. As the Kerner Report recognized, the private sector on its own cannot be expected to create the requisite jobs. Strong macroeconomic policies are needed to ensure that the total number of jobs are sufficient to provide opportunities for all who wish to work; but structural policies are also required to ensure that there is an adequate supply of jobs accessible to African Americans with the skills that they have or that they could acquire through training programs.

Education

Lack of access to quality education was one of the most important impediments in economic advancement then and now. More broadly, education is one of the bases for the strong momentum for the perpetuation of poverty, whether white or African American: poor children of any race are likely to get a poorer education than the rich (of any race).

Again, if anything, the problem is worse today than it was then: the skill premium has increased (college graduates have an annual income that is 163 percent that of high school graduates now, compared to 123 percent then).²⁴ This is in spite of the increase in the overall fraction of those with a college education and reflects a move to a knowledge economy and that technological change has been skill biased—increasing the demand for skilled labor relative to unskilled—and thus depressing unskilled workers' wages at the same time that it has increased the value put on skills.

While there was some decrease in racial segregation—legislation reinforced changing norms—there was an increase in economic segregation.²⁵ Some of the white flight was in fact partially motivated by attempts to avoid integration (in the name of ensuring quality education for their children). While initially, in some locales, courts enforced busing to ensure integration, such forceful integration has fallen by the wayside. All of this has, as I have noted, disadvantaged those remaining in the urban centers.

The nation has repeatedly recognized these and other deficiencies in the quality of education. Americans scores in cross-country standardized tests are, in general, mediocre, with U.S. students performing just at or below OECD averages and having falling scores in reading and mathematics.²⁶ Yet a succession of programs have failed to improve not only the

overall quality of education but especially that of those in our urban ghettos or our rural centers of poverty. Programs like No Child Left Behind, focusing on improving performance through standardized testing, have not been accompanied by the expenditure increases called for by the Kerner Commission.²⁷ The national consensus over the act's failures, from the left, right, and center, led to its replacement by the Every Student Succeeds Act. The titles of the acts say more about the ambitions than the commitments, especially of funds.

Again, the Kerner Report was prescient in calling for an "extension of quality early childhood education to every disadvantaged child in the country."²⁸ Fifty years later President Barack Obama was calling for the same things (as was candidate Hillary Clinton), and it still has not gotten done. In New York, while Mayor Bill de Blasio proposed making early childhood education available to all,²⁹ a conflict over funding between the mayor and New York's governor has stymied implementation.

Research by Nobel Prize-winning economist Jim Heckman has shown the disadvantaged position of African American children as they enter kindergarten³⁰ and how early childhood education can help remedy these deficiencies.

Fifty years ago, the focus was on equalizing educational opportunities. They are still not equal. But we now realize, far more clearly than then, that equalizing opportunities will require unequal expenditures. Disparities in expenditure persist, but they go in the wrong direction. The Kerner Commission recognized too that the additional resources required would have to come from the federal government. Fifty years ago, there were huge disparities between income per capita in different states, with income per capita in the richest state (Connecticut) twice that of the poorest state (Mississippi); now, those disparities are even larger.³¹ Continued reliance on the states will mean continuing large disparities in expenditures per pupil.

Welfare

One of the most vivid quotes of the report is this: "Our present system of public welfare is designed to save money instead of people, and tragically ends up doing neither."³² The welfare programs that existed at the time were inadequate and arguably contributed to the perpetuation of poverty. The Clinton administration enacted reforms, but unfortunately did not provide the funding needed for education, training, and childcare programs that would have really helped the poor (including African Americans) move from welfare to work. The reforms have had mixed effects, with some claiming they encouraged some movement into the labor force; but when they were tested by the financial crisis of 2008, they were found wanting. The food programs provided what safety net the country offered,

with one out of seven Americans turning to the government. Still, almost a seventh of Americans went to bed hungry at least once a month, not because they were on a diet, but because they could not afford the food they needed. The Affordable Care Act (ACA) sought to ensure that all Americans, no matter how poor, were provided with health care. But a Supreme Court decision combined with extreme conservative views about the role of government meant that many states decided not to avail themselves of the opportunity afforded to provide health care to their very poor, even though the cost would be borne almost entirely by the federal government. Some 28.5 million (including 4.25 million African Americans) were left uncovered.³³ As this book goes to press, Republican efforts to roll back ACA in ways that would leave millions more uncovered have failed.

The most important program for helping the poor, enacted under Clinton, was the great expansion of the Earned Income Tax Credit (EITC). This is much aligned with what the report calls for. But the report asks for more. The EITC is limited to those with children. What the report calls for is effectively a universal basic income scheme (for families with dependent children, but it also uses similar language when speaking about the population as a whole), to provide a “minimum standard of decent living.”³⁴

ADVANCES IN THE SOCIAL SCIENCES

The Kerner Commission drew heavily on the findings of social scientists. Since then, race and racism have continued to be the object of intense study.³⁵ My remarks here draw on a few of the strands of work most important for understanding what has happened to the economic situation of African Americans over the past half century.

The first is the economics of discrimination, a subject formally explored by the Nobel Prize winner and Chicago economist Gary Becker in his book of that title. He argues that in a competitive market, there could not or would not be discrimination because nondiscriminatory employers would have an incentive to hire any workers that were underpriced as a result of discrimination.³⁶ That the theory was contradicted by the evidence shows that the assumptions of the model are deeply flawed.³⁷ There followed a rash of models explaining how discrimination could persist with rational individuals with rational expectations—that is, under all the simplifying assumptions used in economics. Particularly instructive were advances in game theory, which showed how systems of Jim Crow could persist, even when large numbers of the population did not have discriminatory attitudes: the system would punish those who deviated from the norm of segregation—and punish those who did not punish those who deviated.³⁸ While some social scientists talked about the importance of social capital and group identity,³⁹ it became clear that these

constructs could lead to discriminatory equilibria, advantaging one group at the expense of another.⁴⁰ The notion of statistical discrimination was developed,⁴¹ in which those who engaged in it did not even believe that they were unfair but were just using statistical information about differential productivity. It was shown how this could lead to an equilibrium with persistent differences in outcomes among races or ethnic groups, even if there were no innate differences or even differences in the provision of education but even more so if (as is the case) there were. Because they knew that they would have fewer job opportunities, it was rational for African Americans to invest less in education, in a self-fulfilling prophecy.⁴²

But even more important were advances in behavioral economics, in which models of persistent racism were developed.⁴³ Perception—both of oneself and of others—affected performance;⁴⁴ and because of confirmatory bias, one's perceptions of reality were biased by one's prior beliefs. Thus, racist yet seemingly rational fictions—in which individuals' beliefs were in accord with reality *as they perceived it*—could persist, with again different groups being treated differently and leading to different behavior even when there were no intrinsic differences.⁴⁵ But of course, given differences in education and the host of other factors affecting productivity, these only amplified and further sustained the resulting differentials.

The increasing economic divide afflicting the country provided more opportunity to understand better the effects of poverty itself. Poverty was self-perpetuating, with those at the bottom, whether white or black, caught in a poverty trap. Mobility matrices—tracing out the likelihood of someone at the bottom making it up to the middle or top—showed how unlikely such transitions were for anyone of any race or color.⁴⁶ Those in poverty, focusing on survival, had less ability to think long term and thus were less likely to make the kinds of long-term investments that would help them get out of poverty.⁴⁷

Contributing to this was the growth of single-parent families, which used to be thought of as the province of African Americans. Overall, 35 percent of children in the United States grow up in single-parent households, but the percentage is almost twice that—67 percent—for African American kids. Since almost half of all children with a single mother—47.6 percent—live in poverty, it is perhaps no surprise that the poverty rate among black children is 38.2 percent, more than twice as high as the rate among whites.⁴⁸ There was evidence that growing up in families without fathers was particularly hard on boys; and as the labor force was restructured to favor service sector jobs and jobs requiring higher levels of education, this mattered more and more.⁴⁹

There was a growing consensus that inequality itself was bad for overall economic performance;⁵⁰ but some of the adverse effects related to how bad it was for those at the bottom. It was not just that those at the bottom

were less likely to be able to live up to their opportunity. There were worries that attempts of those at the bottom to emulate the lifestyle of those higher up led to excessive debt—especially in the context of an economy rife with predatory lenders willing to take advantage of them and a bankruptcy law willing to impose what amounted to partial indentured servitude through the garnishing of wages.⁵¹

POLICY RESPONSES

The experience of the past half century has shown that an attack on racial disparities must be conducted on multiple fronts. First, there must be a broadside attack against inequality and poverty in the United States. The most important policy is to maintain a very tight job market: the only time that marginalized groups were brought into the economy was when the unemployment rate fell to record lows in the late 1990s under President Clinton. The benefits of this and the growth that it brings about far outweigh any deficits that might be experienced to support it or any inflation that might be engendered.

A range of expenditures would improve equality of opportunity. Earlier, I noted gaps in our education, employment, welfare, and health care programs. Most importantly, there is evidence that growing up in a family in poverty hurts future prospects, and not just in the ways described earlier, such as access to education. It affects learning and aspirations,⁵² determines the experiences the individual is exposed to, and shapes the individual's sense of identity and worth.

Increasing taxes to finance investments in the country's future—including the kind of education, welfare, and jobs programs that the Kerner Commission called for—would simultaneously increase economic performance and reduce inequality. The evidence that reducing inequality would itself improve performance enhances the reasons for instituting such policies. Most important are (a) taxing “bads,” like excessive financialization (through a set of taxes on the financial sector), or pollution (including the greenhouse gas emissions that contribute to global warming); (b) taxing inelastically supplied resources, like land and natural resources (land is there, whether it is taxed or not, and so too for oil and minerals),⁵³ which raises revenues without causing distortions; (c) taxing those at the very top at a rate at least the rate imposed on those less well off (the current tax system is regressive, with billionaires often paying a lower effective tax rate than those much poorer); and (d) increasing taxes on inheritances to reduce the intergenerational transmission of advantage.

But reducing inequality and poverty in general will not suffice. Racism and other forms of discrimination also have to be attacked. There is an important interplay between laws, norms, and politics. Changing laws may not necessarily on its own be as effective as we would like unless we

change attitudes and norms. Racism, as we have learned, is often subtle. Sometimes, those acting in a discriminatory manner are hardly aware of it. As the Kerner Report emphasized, racism is deeply ingrained in the country. But changing laws can help, for they do affect what is expected and thus affect norms. Changing norms, though, is difficult, and there needs to be a concerted effort in early education and in public discourse, through television, the media, and films.⁵⁴ Perhaps there should be a nationally mandated course in civil rights. At the very least, the federal government should provide massive funding for summer schools and research programs advancing a broader understanding of racism in America and what can be done about it. Unfortunately, it will have to be a federal program, because not all states are committed to an agenda of full equality. And this is where politics matters. In many places across the country there is an active attempt to disenfranchise African Americans and Hispanics. Those in power realize that politics matters; and if more minorities (or as is the case in some places, more of the majority) vote, the policies will change.⁵⁵

A large literature, both academic and popular, has identified the resentments of the large numbers of Americans who have not been doing well. They resent those who are doing better; they believe the system is rigged; they believe (in many cases wrongly) that they would do well in a fair game. Their zero-sum logic leads them to believe that the reason that others are getting ahead, including the few African Americans who are, is because they are getting an unfair boost. This makes it particularly hard to address historical legacies, but it makes it all the more imperative to undertake the broad-based policies to reduce the economic inequalities I have described.

CONCLUSION

The Kerner Commission was prescient in many ways in setting out an agenda for the country on how to achieve a more equal society, free from the racism that played such an important role in the riots, the cause of which had led to the commission's creation. A recent report of the Roosevelt Institute,⁵⁶ as well as a multitude of other studies, shows that the glass is far less than half full. While many of the reforms the Kerner Commission called for required significant increases in spending, the last fifty years have seen a squeezing of the overall budget of the federal government for expenditures other than the military and programs like Social Security and Medicare.⁵⁷ It is not that the country cannot afford these expenditures; it can, and as I suggest, there are ways of raising revenue that would actually enhance economic performance.

President Donald Trump ran on a platform of "Make America Great Again." A familiar retort was that America was still great. But it was not

as great as it could be. Its greatness arises not so much from its military power but from its soft power and its economic power. In today's world, America's continued racism undermines that soft power and our overall economic performance. The warning of the Kerner Commission is as relevant today as it was then: "Our Nation is moving toward two societies, one black, one white—separate and unequal." That kind of society will not be a beacon to the world. And that kind of economy will not flourish. Everyone will lose if we continue in that direction. An alternative world is possible. But fifty years of struggle has shown us how difficult it is to achieve that alternative vision.