

14.193, Symposium on Discrimination  
Lecture 1: Economics and Politics of Labor Coercion  
and Discrimination

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# This Course

- This course is intended to encourage you to think more deeply about issues of race and discrimination, primarily in the US context but also beyond.
- The ultimate objective is to encourage top young researchers to start doing first-rate research in these areas.
- Because we believe that existing approaches in economics do not cover many of the important aspects of this problem, we have also included lectures by non-economist guests.

# This Lecture

- This lecture will review the history of slavery and coercion in the US, emphasizing their political and social as well as economic implications.
- I will then attempt to provide a conceptual framework for thinking about what I will term “structural economic racism” — how economic opportunities are restricted for the particular group (in this case Black Americans).
- I will in particular dwell on economic aspects of an equilibrium in which there is systematic discrimination against Black Americans, undergirded by institutions, norms and overt and covert discriminatory labor market practices. (This is narrower than “*structural racism*”, which has many other elements and dimensions.)
- Many other aspects of structural economic racism (unequal education, segregation and law enforcement in incarceration problems) are equally or even more important but will be discussed more later.

# Slavery and Coercion in History

- Slavery has been endemic in history, dating back at least 10,000 years, and in all likelihood systematic coercion dates back even earlier.
- In the words of the historian of the ancient world, Moses Finley, when discussing Fogel and Engerman's book (see below): "In the context of universal history, free labor, wage labor, is the peculiar institution".
- The most visible form of coercion is slavery, which was systematically practiced in ancient Egypt, Israel (even if the Old Testament encourages better treatment of slaves), ancient Greece, ancient China, India, Rome and later in Islamic empires, the Aztecs and the Maya.
- The code of Hamurabi, dating back to the 18th century BC, makes it clear that slavery was widespread in Babylon. It emphasizes that slaves are viewed as property, and grants masters the power to kill their slaves and ask for compensation if their slaves were injured or harmed (Meltzer, 1993).

# Political Underpinnings of Slavery

- Slavery is always associated with repression and monopolization of the means of coercion in the hands of slave-owners — otherwise, slaves would never accept their harsh work and living conditions and meager compensation. For example, in colonial Barbados a handful of big planter families controlled all political, judicial and military power.
- Despite often savage repression, slave revolts are as common as slavery.
- This use of force to coerce slaves to accept unequal employment relations will be key for our conceptual framework.
- This meant that slavery and coerced labor were often associated with top-down, repressive political institutions, which tended to persist and shape future political equilibria in various ways (Acemoglu, Johnson and Robinson, 2002; Acemoglu and Robinson, 2012).
- But slavery is seldom maintained just with coercion.
- It almost always has ideological underpinnings as well.

## Social Underpinnings of Slavery

- Dating back to Aristotle, one common argument supporting slavery and other coercive relations is that some people are not capable of “governing themselves” or even of making rational economic and social decisions.
- As a corollary to it, a tale of harmony between slaveholders and slaves is often concocted.
- But in the acerbic words of Vann Woodward for the US South

*“There is not much in the record that supports the legend of racial harmony in slavery times, but there is much evidence of contact.” (1955, p. 12)*

- These arguments then not only justify coercion and the unequal exchange that it entails, but ensure that social relations and norms that underpin such coercive relations are highly persistent.

## Other Forms of Coercion

- Many other types of labor relations, though not as awful as chattel slavery, are still highly coercive.
- This is clearly the case for serfdom and non-European versions of servile relations, where peasants are tied to the land and have onerous economic and social responsibilities.
- Even in modern-looking economies, coercive relations can be endemic.
- English law, for example, enabled employers to coerce their workers in a number of ways, dating back to the Middle Ages, but also continuing all the way to the late 19th century.
- The Statute of Laborers, enacted in the 14th century, empowered landowners to force workers to accept employment at set wages.
- The historian Robert Steinfield describes this as (2001, p. 8) “The English laboring poor of this periods... were subject to an oppressive regime over legal regulation.” and “. . . justices regularly ordered imprisonment for those who violated their oral employment agreements by departing before the term ended.” (p. 28).

## Master and Servant Acts

- These laws evolved over time but persisted and sometimes intensified, especially in the form of Master and Servant Acts, until their complete repeal in 1875.
- The Master and Servant Acts were also exported to America and were incorporated into colonial laws (Steinfeld, 2001).
- Naidu and Yuchtman (2013) study the workings and repeal of these laws.
- They find that greater labor demand translates into more prosecutions and the repeal of the law led to higher wages.
- There is qualitative and some quantitative evidence from other settings supporting similar conclusions.

## Slavery in the 18th-Century US

- Slavery in parts of the US, Georgia, Virginia and the Carolinas, dates back to the first half of the 17th century. It also spread in other areas, including Florida, Louisiana and Mississippi, was also present in New England, New York and New Jersey, though it was later abolished in these latter states.
- Much as in ancient times, slaves quickly came to be viewed as mere property. A Virginia act for example stated

*“if any slave resist his master and by the extremity of the correction should chance to die, that his death shall not be accompted Felony, but the master. . . be aquit. . . since it cannot be presumed that. . . malice. . . should induce any man to destroy his own estate.”*

- By the 18th century, the Southern economy strongly relied on plantation and slavery, much like the plantation economies of the Caribbean.

## Slavery in the 18th-Century US (continued)

- In 1790, close to 20% of the US population, 700,000 people, were slaves. Slavery was not secondary to the economy of the colonies and the early independent US.
- From this point on, the slave population expanded further, reaching almost 4 million by 1860 (out of a total population of 31 million or so).
- A major issue for the framers of the Constitution was the slavery problem.

# US Constitution and the Slavery Problem

- Madison, Hamilton and Washington, as well as many others, were intent on building a stronger federal state in order to strengthen the governance of the new country and for defense.
- But to do this, they had to convince the Southern state elites to come on board, which meant acceptance of slavery and the doctrine of “states rights”, which left anything not specified in the Constitution to the states, thus empowering state elites, especially in the South.
- The compromise was actually worse, because it counted “all other persons” (meaning slaves) as  $3/5$  of a citizen for the purposes of representation, thus further empowering Southern states at the national level.
  - The  $3/5$  clause also applied to taxation, but the federal government did not impose poll taxes, so this wasn't very relevant.
- Moreover, many of the founding fathers, including Jefferson, Madison, Washington, Benjamin Franklin and Benjamin Rush, were slaveholders themselves (Morgan, 1975).

# The Long-run Political Implications of the Constitution

- The Constitution not only enshrined slavery as part of the law of the land, but significantly curtailed federal power, especially against states — as a guarantee for non-interference with slavery.
- This created a political environment in which state elites could use their political, economic and social power in order to further their interests. Federal law and the Bill of Rights were not meant to interfere with this, and often did not.
- The states were granted “police power”, which overrode the Bill of Rights. The Supreme Court in 1833 ruled explicitly that that the Bill of Rights did not apply to state legislatures, only to the national legislature.
- In 1885, Associate Justice Stephen Field concluded:

*“neither the Fourteenth Amendment. . . nor any other amendment was designed to interfere with the power of the state, sometimes termed its police power”.*

# The Long-run Economic Implications of the Constitution

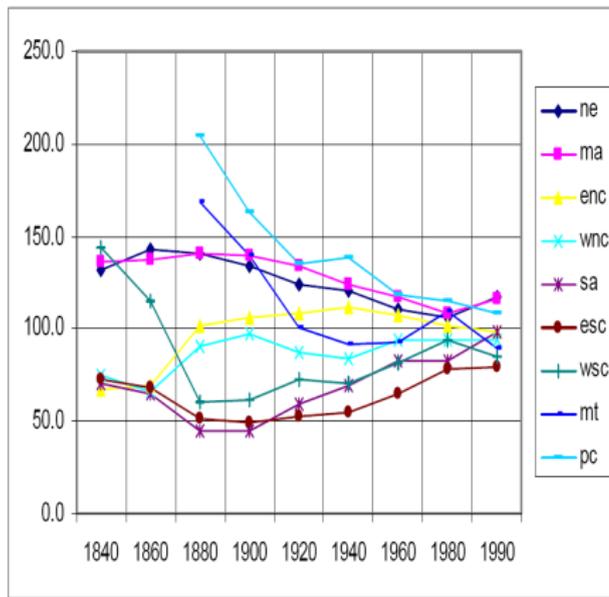
- The economic implications of the Constitution were more sweeping.
- Most importantly, as argued in Acemoglu and Robinson (2019), this hampered efforts by the federal state to control violence, enforce laws, provide broad-based public services and even systematically regulate economic activity.
- In many cases, especially after the end of Reconstruction, this further strengthened various coercive practices and discrimination against Black Americans.
- It also created a political equilibrium supporting law enforcement and public services sharply biased against Black Americans.
- Equally important was that it made it very difficult to have federal policies to fight poverty and improve educational and other opportunities for poor Americans. The burden often fell more heavily on the backs of minorities.

## Underdevelopment in the South

- Around the beginning of the 19th century, plantation labor and cotton made the South fairly prosperous.
- But as the northern economy took off in the 19th century, mostly with industrialization and technological change, the South fell behind, with its income per capita declining to as little as 50% of the US average.
- In 1860 the total manufacturing output of the South was less than that of either Pennsylvania, New York or Massachusetts (Cobb, 1984, p. 6)
- The South was always technologically backward, even in the areas, such as cotton, in which it specialized.
- There were very few patents in any area, even related to cotton, from the South, while patenting took off in the North in the 19th century.

# Underdevelopment in the South: Summary

Regional Income Per Capita, 1840-1990  
(U.S. = 100)



Sources: Easterlin (1960, 1961), Statistical Abstract of the U.S., various years.

# Underdevelopment in the South: Causes and Consequences

- As we will see below, this underdevelopment was costly for Whites as well as Blacks (but probably not for the plantation owners).
- Two key questions, which I do not have the time to get into, are:
  - ① Was Southern underdevelopment caused by certain Northern policies? The answer appears to be a clear no. But I will not focus on this issue in this lecture.
  - ② Was labor repression and coercion in the South critical for Northern industrialization? This is hotly debated (e.g., Beckert and Rockman, 2016; Baptist, 2016; vs. Olmstead and Rhode, 2018; Burnard and Riello, 2020). Most probably “critical” is too strong, but coercion in the South probably helped industry in the North, by reducing wages and thus costs of raw material including cotton.

## Fogel and Engerman

- An important book on US slavery is Robert Fogel and Stanley Engerman's *Time on the Cross*. It provided a comprehensive analysis of US slavery, relying on new microdata. There was already a vibrant debate on this topic among US historians and economic historians, some much more tolerant to slavery than others.
- Fogel and Engerman brought a “cliometric” perspective, but the quality of the data was not always very good.
- More controversial were some of Fogel and Engerman's conceptual framework and conclusions:
  - slavery was a viable economic institution and may have been “economically efficient”. They reached this conclusion by looking at productivity and wages, both before and after the abolition of slavery;
  - they even claimed that slavery may have generated some benefits for Black Americans.
- There are many issues with their arguments, which I discuss below.

# The Civil War and End of Slavery

- The Civil War may not have been fought to free slaves, but it ended the “old Southern equilibrium”.
- This was recognized by abolitionists, who argued:

*“We have entered upon a struggle, which ought not to be allowed to end until the Slave Powers completely subjugated, and emancipation make certain.”*

- Indeed, on New Year’s Day in 1863, the Emancipation Proclamation was made, and the Thirteenth Amendment followed in 1865.
- The Fourteenth Amendment, ratified in 1868, granted citizenship and equal protection to all freedmen. Federal troops were stationed in the South to implement some of these changes.
- The Fifteenth Amendment in 1870 gave Black Americans formal political power, making denial of the vote on the basis of “race, color or previous condition of servitude” illegal.

## Incomplete Reforms

- This was the heyday of the Reconstruction era in the South, where Black Americans made notable economic, social and political gains, including in education.
- But all of this was incomplete for at least two reasons.
- First, economic independence and power, “forty acres and a mule”, that was promised to freed slaves never materialized.
- General William Sherman started distributing confiscated lands in Georgia and South Carolina (and army mules) in 1865. But after Lincoln’s assassination, Pres. Andrew Johnson revoked Sherman’s orders as well as the broader plans to provide land to freed slaves.
- The implications of this were well understood at the time. Congressman George Washington Julian argued:

*“Of what avail would be an act of congress totally abolishing slavery ... if the old agricultural basis of aristocratic power shall remain?”*

## Incomplete Reforms (continued)

- The Southern Homestead Act of 1866 was meant to open new land in Alabama, Arkansas, Florida, Louisiana and Mississippi, but was not implemented and was resisted by local elites, and the land offered was often remote and of poor quality.
- Second, the political power of Southern elites and the racist political and social structure in the South was not uprooted.
- In the five counties of the Black Belt of western Alabama, Weiner (1978, p. 9) found: “of the 236 members of the planter elite in 1850, 101 remained in the elite in 1870.” This is similar to the pre-Civil War era: “of the 236 wealthiest planters families of 1850, only 110 remained in the elite a decade later” (p. 9). Moreover, “of the 25 planters with the largest landholdings in 1870, 18 (72%) had been in the elite families in 1860; 16 had been in the 1850 elite group.”
- Ager, Boustan and Ericksson (2020) show that slave-holding households lost significant wealth after 1865, but recovered and surpassed comparable households in the next several decades.

## Incomplete Reforms (continued)

- So the political power of the planter elites was not demolished but was temporarily held back with the federal troops, but after the Hayes-Tilden compromise in 1877 (after the disputed election between Republican Rutherford Hayes and Democrat Samuel Tilden), things changed.
- Hayes agreed to pull federal troops away from the South and end Reconstruction in order to get the support of Democrats for his presidency. This paved the way for the Redemption era, where the South would be “redeemed”, reversing the economic and legal changes of Reconstruction.

# Persistence of Plantations

The persistence of the landed elite in three “Black Belt” counties of Alabama

Name	County	Real estate holdings <sup>a</sup>		
		1870	1860	1850
Minge, G.	Marengo	\$ 85,000		30,000
Lyon, F.	Marengo	75,000	115,000	35,000
Paulling, William	Marengo	72,000	150,000	29,000
Hatch, Alfred	Hale	70,000	120,000	40,000
Alexander, J.	Marengo	69,000	38,000	10,000 <sup>b</sup>
Whitfield, B.	Marengo	65,000	200,000 <sup>b</sup>	100,000
Terrill, J.	Marengo	62,000	93,000	
Taylor, E.	Marengo	61,000		
Robertson, R.	Marengo	60,000		
Dew, Duncan	Greene	52,000	200,000 <sup>b</sup>	41,000
Walton, Jhon	Marengo	50,000	250,000	25,000
Collins, Charles	Hale	50,000	201,000 <sup>b</sup>	30,000
Hays, Charles	Greene	50,000	113,000	
Brown, Jhon	Sumter	50,000	69,000	13,000
Pickering, Richard	Marengo	50,000	42,000	15,000
Withers, Mary	Hale	50,000	40,000	75,000 <sup>b</sup>
Jones, Madison	Hale	50,000	36,000 <sup>b</sup>	27,000
Nelson, A.	Hale	48,000		10,000 <sup>b</sup>
Taylor, J.	Hale	48,000		
Pickens, Wm.	Hale	45,000	210,000 <sup>b</sup>	51,000
Reese, Henry	Marengo	45,000	52,000	24,000
Walker, R.	Hale	42,000	55,000	
Smaw, W.	Greene	42,000	32,000	
Blanks, E.	Marengo	41,000		
Walker, Morns	Marengo	41,000		
Number of planters		25	18	16
Percent present in 1870			72%	64%

<sup>a</sup>Rounded off to the nearest thousand; as reported in the U.S. Census of Population, manuscript schedules. To convert to constant gold prices, see p. 14, note 13.

<sup>b</sup>Wealth of father or husband

## Politics during Reconstruction

- While it lasted, Reconstruction enabled active political participation by Black Americans in the South.
- For example, Black members had representation in every session of the Virginia General Assembly between 1869 and 1891, while 52 Black Americans served in the state legislature of North Carolina, and 47 in South Carolina General Assembly (Woodward, 1955, p. 54).
- The situation was similar in other states. Two Black US Senators were elected from Mississippi, and from 1870 onwards, several Black US Congressmen were elected from South Carolina, North Carolina, Texas, Louisiana, Mississippi, Virginia, Georgia, and Alabama.
- Logan (2020) exploits variation in the number of free blacks before the Civil War (in 1860) as a potential exogenous determinant of Black representation during Reconstruction, and shows that Black politicians increased tax revenue and spending and improved Black literacy, but that this effect was transitory and disappeared after the end of Reconstruction.

## Politics during Reconstruction (continued)

- During Reconstruction, political participation by former slaves was so common that even Democrats furthered this cause, courted their votes and brought them to positions of power. Southern populists were the apogee of this movement, making equal political rights and representation for Blacks a key of their political agenda.
- After the Hayes-Tilton compromise, this all changed, but the change was at first a complex one.
- Black political power and participation did not disappear at once after 1877. Voting continued in the 1880s and early 1890s, and Black Americans were represented in state legislatures sometimes as late as 1902 (Woodward, 1954).

# End of Reconstruction

- In Woodward's analysis, "The South's adoption of extreme racism was due not so much to a conversion as it was to a relaxation of the opposition" (1955, p. 68).
- Supreme Court decisions were critical in this process. For example, in *Plessy v. Ferguson*, in 1896, the Court concluded that "legislation is powerless to eradicate racial instincts" and supported "separate but equal".
- Racism in the North became stronger as well, especially as the United States started participating in foreign expansion.
- The editor of the *Atlantic Monthly* summarized the changing opinions:

*"If the stronger and cleverer race is free to impose its will upon 'new-caught, sullen peoples' on the other side of the globe, why not in South Carolina and Mississippi?"*

# Jim Crow

- The Jim Crow, segregationist, model that evolved over time created a “new Southern equilibrium”, different but with strong commonalities with the slavery-based system.
- At its root was the disenfranchisement and complete subjugation of Southern Blacks. In the words of W.E.B. Du Bois (1903, p. 88), the South became “simply an armed camp for intimidating black folk.”
- Indeed, law enforcement in the South turned into a way of controlling Blacks, helped amply by threat of violence and actual violence, including lynchings, by the Ku Klux Klan.
- Jim Crow was socially supported by “separate but equal” conceit, which maintained that it was better to keep the races separate, provided that they all received adequate public services, education and support. In practice, it meant very low level education, health care and transport for Black Americans, and complete residential segregation. The South turned into an effective “apartheid” economy.

## Social Basis of Jim Crow

- As Woodward shows, all of this was a post-Reconstruction social construct (and this is the period during which many of the Confederate monuments were erected, as part of the intimidation of Black Americans).
- Counterfactually, but very influentially, many politicians and intellectuals started arguing that racial separation and differences between races extended back to the past.
- Leading sociologists, such as William Graham Sumner, started arguing: “legislation cannot make mores and that state ways cannot change folkways” and “The whites [in the South] have never been converted from the old mores and vain attempts have been made to control the new order by legislation.”
- These arguments convinced many, including Pres. Eisenhower, who opposed intervention in the South, and is supposed to have said in response to Warren Court’s decisions, “law and force cannot change a man’s heart.”

# Jim Crow and Structural Economic Racism

- Jim Crow economic institutions forced Blacks into a low-wage, repressed agricultural economy, different from but still similar to the pre-Civil War one.
- This started before Redemption. In 1865 the state legislature of Alabama passed the Black Code, for repressing Black labor.

*“The Black Code of Alabama included two key laws intended to assure the planters a reliable supply of labor—a vagrancy law, and a law against the ‘enticement’ of laborers”. Wiener (1978, p. 58)*

- (Anti-)Vagrancy laws meant that Blacks could not leave their employers for new once in the area or migrate, because the moment they were without an employer, they were arrested as vagrants.
- Other states passed similar laws, preventing within-county mobility and outmigration of Black labor.

## Jim Crow and Structural Economic Racism (continued)

- KKK also policed labor mobility and prevented workers from changing employers or migrating.
- The new Klan originated in Georgia in 1915 and may have 5 million strong by the mid-1920s. It dominated several state governments, most notably in Texas and Oklahoma.
- KKK violence also meant that employers could “offer security” against this violence if there Black workers agree to work for low wages: “Planters used Klan terror to keep blacks from leaving the plantation regions, to get them to work, and keep them at work, in the cotton field” (Wiener, 1978, p. 62).
- Some of the worst aspects of slavery then came to be replicated under a system of “social control by prison” and “convict labor”, where Black laborers were charged for small (sometimes no) offenses, convicted and then hired out as convict labor to farms (for very little pay and under harsh conditions). See, e.g., Oshinsky (1997), Blackmon (2009).

# Jim Crow and Limited Labor Mobility

- As a result, Black outmigration from the South was heavily curtailed until at least the 1940s.

NET MIGRATION FROM THE SOUTH, 1870–1880 TO 1990–1995  
(in thousands)

Decade	White	Black
1870–1880	91	-68
1880–1890	-271	88
1890–1900	-30	-185
1900–1910	-69	-194
1910–1920	-663	-555
1920–1930	-704	-903
1930–1940	-558	-408
1940–1950	-866	-1,581
1950–1960	-234	-1,202
1960–1970	1,807	-1,380
1970–1980	3,556	206
1980–1985	1,810	87
1985–1990	971	325
1990–1995	754	276

*Note:* Figures for 1985–1990 and 1990–1995 are sums of the annual figures.

*Source:* Eldridge and Thomas, *Population Redistribution*, p. 90; U.S. Bureau of the Census, *Historical Statistics*, pp. 94–95; Kasaida, Irwin, and Hughes, “South,” p. 35; Robinson, “Blacks,” p. 43; and U.S. Bureau of the Census, *Current Population Reports*, annual reports for 1985–1995.

# The New Southern Equilibrium

- The New Southern Equilibrium, which emerged after Redemption, was even more “anti-growth” than the previous ones in some ways.
- To exclude Blacks from voting, their education had to be kept low. So while all but two non-Southern states had compulsory schooling laws in the first half of the 20th century, none of the Southern states did.
- They also continued to rely on low-wage, repressive agriculture, supported by Jim Crow era legislation and de facto arrangements mentioned above. This held back industrialization:

*“The industries that grew most rapidly in the post-Reconstruction decades were typical of an underdeveloped economy in that they utilized both cheap labor and abundant raw materials ... such industries hardly promised to elevate the region to economic parity with the rest of the nation” Cobb (1984, p. 17).*

- Myrdal (1944) and Wright (1999) have argued that this was an underdevelopment trap, impoverishing Whites as well as Blacks.

## Systemic Effects of New Southern Equilibrium

- However, the New Southern Equilibrium and the structural economic racism that it engendered did not just impoverish Black Americans, but many Whites as well.

*"[The South] remained an agrarian society with a backward technology that still employed hand labor and mule power virtually unassisted by mechanical implements" Ransom and Sutch (2001 pp. 175-176).*

*"Even in the 1930s, southern representatives in Washington did not use their powerful positions to push for new federal projects, hospitals, public works and so on. They didn't, that is, as long as the foundations of the low-wage regional economy persisted." Wright (1986, p. 78):*

- In 1900, the South's urbanization rate was 13.5%, as compared to 60% in the Northeast (Cobb, 1984, p. 25).

# Technology in the New Southern Equilibrium

- Mechanization of agriculture was highly delayed (Wright, 1999):

Percentage of Cotton Harvested Mechanically, by State

Year	Delta states <sup>a</sup>			Non-Delta states						
	AR	LA	MI	AL	GA	NC	SC	TN	TX	VA
1949	1	<sup>b</sup>	4	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	1	<sup>b</sup>	11	<sup>b</sup>
1950	1	3	3	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	12	<sup>b</sup>
1951	2	11	7	<sup>b</sup>	2	1	3	<sup>b</sup>	19	<sup>b</sup>
1952	2	13	7	1	3	1	1	1	22	<sup>b</sup>
1953	9	34	13	3	6	3	7	1	24	<sup>b</sup>
1954	16	28	11	2	3	3	4	1	21	<sup>b</sup>
1955	25	28	23	2	3	2	2	2	24	<sup>b</sup>
1956	27	31	25	3	2	3	4	4	25	<sup>b</sup>
1957	16	35	17	2	2	<sup>b</sup>	1	1	37	<sup>b</sup>
1958	22	43	19	1	2	1	1	4	35	<sup>b</sup>
1959	36	50	38	6	4	5	1	8	44	<sup>b</sup>
1960	42	49	40	8	14	12	6	19	58	1

<sup>a</sup> The term "Delta" states, used in some USDA publications, is given for convenience. This designation is flawed, however, since part of each of Arkansas, Louisiana, and Mississippi lies outside the Mississippi Delta subregion.

<sup>b</sup> Less than 0.5%

## New Underdevelopment in the South

- In summary:

*“Southerners erected an economic system that failed to reward individual initiative on the part of blacks and was therefore ill-suited to their economic advancement. As a result, the inequities originally inherited from slavery persisted. But there was a by-product of this effort at racial repression, the system tended to cripple all economic growth” (Ransom and Sutch, 2001, p. 186).*

*With over half the population held in ignorance and forced to work as agricultural laborers, it is no wonder that the South was poor, underdeveloped, and without signs of economic progress” Ransom and Sutch (2001, p. 177).*

# Civil Rights

- The Civil Rights movement started changing some of this.
- Since the nature of this equilibrium was political first and foremost, civil rights leaders, rightly, first tackled the politics, attempting to re-obtain the vote and also weaken the social subjugation of Black Americans.
- Federal action and supreme court decisions, such as *Brown vs. Board of Education* in 1954 and the decisions of the Warren court limiting the police power of states in the 1960s, were also important. But in many cases (even if not all), this was a result of earlier political mobilization by civil rights activists in the South.
- For example, “freedom riders”, mixed-race groups writing interstate buses against Southern segregation laws, or the “children’s crusade”, marches by young children, triggered actions and violence from Southern law enforcement and racist mobs, sometimes against children as young as eight years old, forcing the hand of the Justice Department to intervene.

## Civil Rights (continued)

- Robert Kennedy was forced to send 600 US marshals after mobs attacked freedom riders in May 1961, even though the Kennedy administration did not want to interfere in the South.
- Pres. Kennedy concluded: “the events in Birmingham and elsewhere have so increased cries for equality that no city or state or legislative body can prudently choose to ignore them.”
- The 1964 Civil Rights Act soon followed.
- But this was just one more step in the struggle. 600 demonstrators were attacked on March 7, 1965 in Selma Alabama.
- Lyndon Johnson, now in power after Kennedy's assassination, had to up the ante and the dismantling of many of the instruments of the subjugation of Black Americans started. The Voting Rights Act of 1965 was signed into law in August that year.

# Political Implications of Civil Rights

- Electoral power of Black Americans increased massively (even if later voter suppression issues and other problems still exist).

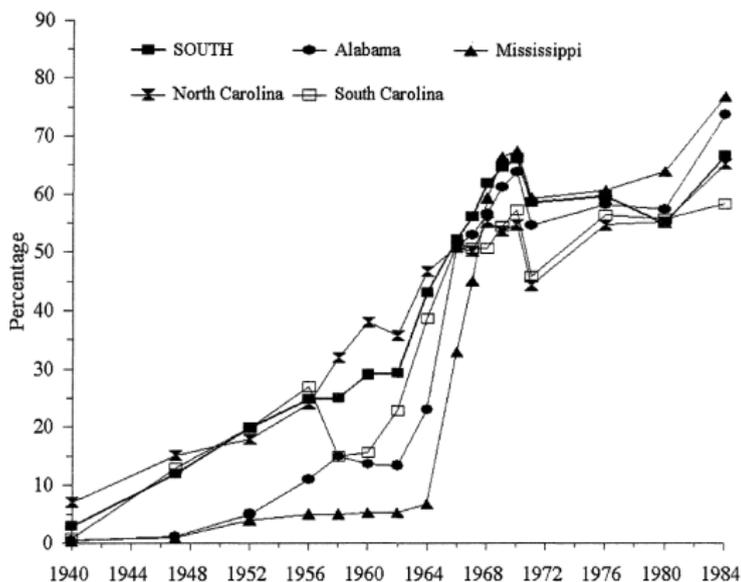


FIGURE 2  
PERCENTAGE OF VOTING-AGE BLACKS REGISTERED, SOUTHERN STATES

## Economic Implications of Civil Rights

- There is much controversy about the economic effects of civil right era legislation, which you will discuss in later lectures.
- But it is clear that things had already started changing and they were fundamentally transformed thereafter.
- Civil right leaders understood that economic change was critical as well, and campaigned for the cessation of the most overt discriminatory practices and legislation to protect Black workers. These were the focus of the 10 demands of the March on Washington for Jobs and Freedom, led by Martin Luther King Jr. They included an executive order banning discrimination in federal contracts and housing as well as in employment, a national minimum wage, and a broadened Fair Labor Standards Act.
- Moreover, as Gavin Wright (2013) argues, there is evidence that civil rights era legislation and actions, by ending the Jim Crow economy, helped not only Blacks but also many White Americans (because it ended the new Southern underdevelopment).

# Economic Implications of Civil Rights (continued)

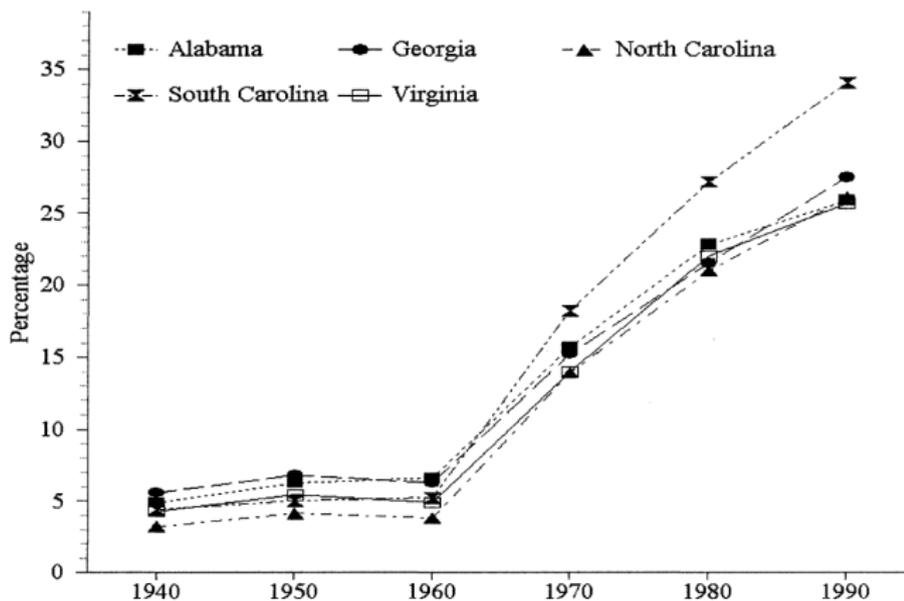


FIGURE 4  
PERCENTAGE OF TEXTILE WORKERS WHO ARE BLACK, FIVE SOUTHERN STATES,  
1940–1990

Figure: Wright (1999) .

# Limits of Civil Rights

- But many aspects of Jim Crow persisted in various ways.
- First, residential segregation and unequal access to education and health care have persisted in many parts of the South.
- Second, Nixon and then Reagan used the “Southern strategy”, meant to attract conservative Southern Whites to the Republican Party, which rekindled some of the racist social attitudes and behaviors (Kuziemko and Washington, 2018).
- Third, national legislation always creates a backlash and we may be experiencing some of its effects now (see, e.g., Wheaton, 2020).
- Fourth, the political equilibrium that the Constitution created (discussed above) made it very difficult to control local law enforcement, and the racist bias of many local law enforcement agencies continued.
- As a result, labor market and pre-market discrimination continue to hold back the economic opportunities of Black Americans, creating what I referred to above as “structural economic racism”.

## Other Unintended Consequences of Civil Rights

- While civil rights legislation and actions did not completely change the Southern equilibrium, they did have meaningful effects.
- But they also impacted the conditions of Blacks in the North.
- As the data presented above show, there was a huge increase in migration of Black Americans from the South.
- The arrival of many Southern Blacks may have changed the equilibrium in many Northern cities, especially in terms of law enforcement, incarceration, segregation and education.
- Recent work by Derenoncourt (2019) argues that this migration reversed the economic gains made by Northern Blacks, and one of the main channels might have been through the reaction of law enforcement, policing and incarceration in the North.
- Policing and incarceration strategies from the South may have been exported to the North, in the process.

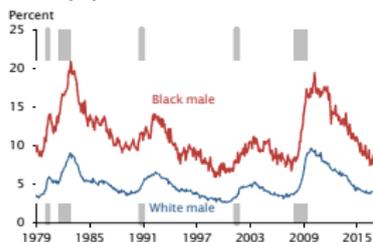
# Persistence and Widening of the Black-White Wage Gap

- The strong gains for Black Americans in the 1960s and 70s stagnated and then reversed. From Daly, Hobijn and Pedtke (2017)

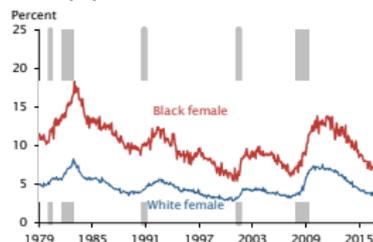
Figure 1

Labor market outcomes for black and white workers

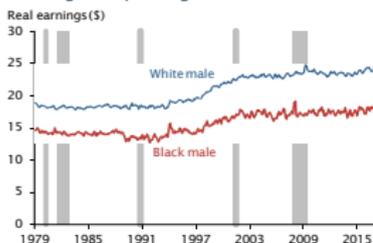
A. Unemployment rates for men



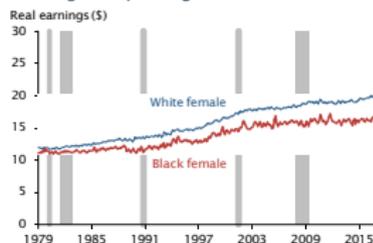
B. Unemployment rates for women



C. Average hourly earnings for men



D. Average hourly earnings for women



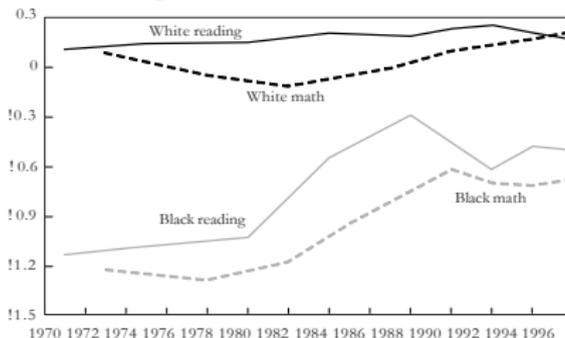
Note: Shaded bars reflect NBER recession periods.

## Growing Black-White Education Gap

- The human capital gap between Black and White workers, which had started narrowing for the post-civil rights era cohorts, reversed and started expanding in the 1990s, probably because of educational segregation. From Jencks and Phillips:

Figure 1-2. *NAEP Reading and Mathematics Scores for Black and White Seventeen-Year-Olds, 1971-96*

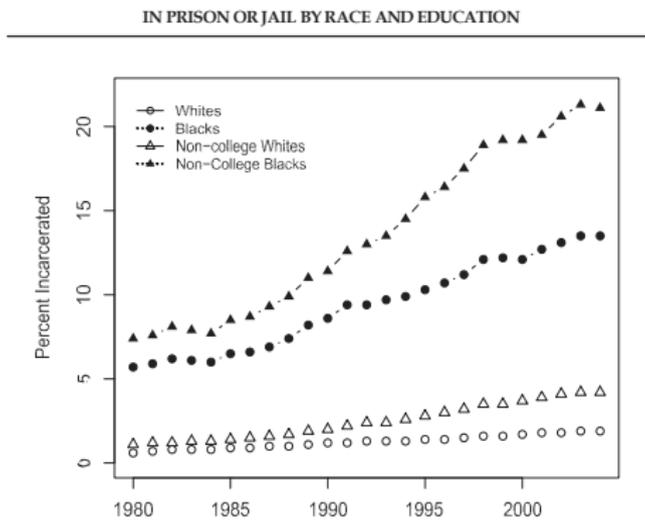
Standardized score using 1996 mean and SD



Source: National Assessment of Educational Progress. Tests in all years are in a common metric and have been rescaled so that the 1996 population mean is zero and the 1996 standard deviation is 1.00.

# The Social and Judicial Basis of Continuing Discrimination?

- Growing mass incarceration of Black men.



SOURCE: Authors' tabulations, following Western (2006, 17).

Figure: Western and Wildeman (2009).

## Objective and Plan for the Rest of the Lecture

- After this (extremely brief) history of slavery and economic, political and social discrimination against Black Americans, in the rest of this lecture I provide a framework for thinking about “*structural economic racism*”.
- I maintain that existing economic approaches (taste-based discrimination and statistical discrimination, which you will see in the next lecture, are not sufficient for capturing such an equilibrium).
- For this reason, I will first introduce a framework of explicit coercive employment relations, then show how “soft coercive relations” lead to similar outcomes, and then document how certain labor market imperfections, when supported with racist or racist-tolerant norms, can lead to similar outcomes.
- Throughout the emphasis will be on: **strategic complementarities** (how racism/discrimination begets racism/discrimination) and **spillovers** on non-racist sectors/employers, leading to what I will call a (pervasive) **discrimination premium** in the economy.

## How to Model Labor Coercion?

- Michael Chwe (1990): think of employment as a principal-agent relationship and coercion corresponds to “along the equilibrium path” punishments conditional on the realization of output.
- Punishments are indeed common in coercive relationships, such as slavery and even serfdom, debt peonage and servile household labor.
- But this approach does not capture the essence of most coercive relations — the terms of the arrangement would not be acceptable to workers without the exercise or the threat of force.
- Acemoglu and Wolitzky (2011): labor coercion arises if employers use force or threat of force to make agents accept *contracts that they would not otherwise accept*.
- Thus the distinguishing feature of coercion is to force people into employment relationships that are not otherwise good/acceptable for them.

# Model

- Let us give some basic ideas about such a model, with an emphasis on some of the main economic messages that will apply to both coercive and what I will call “soft coercive” relationships.
- Let  $x$  be the productivity/quality type of the employer and  $P$  the market price of the product.
- The agent exerts effort  $a \geq 0$ . The cost of effort is  $c(a)$ .
- Effort stochastically leads to some realized output  $y$ .
- The revenue of the firm is  $Pxy$  (so that we can do comparative statics with respect to  $x$ ).
- Let the utility specified by the contract offered by the employer when the outputs realization is  $y$  be  $u(y)$ .
- When there is no punishments along the equilibrium path,  $u(y) = w(y)$ , and when in addition we have limited liability,  $u(y) = w(y) \geq 0$ , or alternately, when there are punishments available, we may have  $u(y) = w(y) - p(y)$ .

# Contracts

- Let me summarize the employment contract for a worker by  $u(y)$ , and let  $U(a) = [u(y)|a] - c(a)$ .
- A contract intending to induce effort level  $a^*$  will have to satisfy:

Incentive compatibility :  $U(a^*) \geq U(a)$  for all  $a \geq 0$ .

Participation constraint :  $U(a^*) \geq \bar{U}$ .

- Here  $\bar{U}$  is the overall (extrinsic) outside option of the worker.
- How does coercion come in?

# Coercion

- Let us suppose:

$$\bar{U} = \bar{u}_0 + \bar{u}_m - R - g.$$

- Here:  $\bar{u}_0$  is the worker's intrinsic outside option (minimum utility from not working);  $\bar{u}_m$  is the market outside option (to be modeled later).
- Most importantly:
  - $R$ : "repression" by state/institutions that's common to all workers.
  - $g$ : "guns" or coercion by the employer.
- In history, both have played important roles. They both also share the same critical feature: they reduce overall outside options, thus forcing them to accept contracts they would not accept otherwise.
- Suppose that the per worker cost of coercion for an employer with  $L$  workers is  $\eta\chi(g)/L$ , where  $\chi(g)$  is convex.
- The division by  $L$  captures the fact that there may be *economies of scale in coercion*: once the coercive apparatus, such as the guns in regards, is there, it can be applied to many workers.

## Three Key Questions

- Is coercion increasing or decreasing in  $\bar{u}_0$ ,  $\bar{u}_m$  and  $R$ ?
  - Or when we come to “*soft coercion*” how does that vary with outside options, minimum wages, unions etc.?
  - This is relevant for comparative statics and also to know which types of employers and environments are more likely to be coercive and which types of workers are more likely to be coerced?
- Are the coercive decisions of employers *strategic substitutes* or *strategic complements*?
  - How does coercion by coercive/racist employers affect non-coercive employers? Could coercion become self-fulfilling even without further social/political feedbacks?
- What are the *spillovers*: Does coercion in some part of the economy create lower wages/opportunities throughout the economy?
  - Can this create a pervasive *discrimination premium* throughout the economy and create *structural economic racism*?
- Also investigate the role of supporting *social norms* and *institutions*.

## Partial Equilibrium Results

- Acemoglu and Wolitzky (2011) show, under some mild conditions, that:
  - ① This problem is well defined and has a solution.
  - ② Coercion is decreasing in  $\bar{u}_0$  and  $\bar{u}_m$ : better outside options provide protection against coercion. Conversely, workers that are weaker and less organized (that are poorer and have few opportunities) are more likely to be coerced.
- A number of implications follow from this comparative static.
- What's the intuition for this comparative static?
  - It is actually a little subtle. In principle, there are forces going in opposite directions (for example, higher outside options imply higher wages, and you may want to coerce to reduce the wage you pay).
  - The reason why higher outside options lead to lower coercion in this model is because of their effects on effort: workers with lower outside option are induced to exert greater effort and greater effort implies higher wages on average, which coercion enables employers to reduce.

# Implications

## Corollary

*In partial equilibrium:*

- 1 *Agents with worse outside options (lower  $\bar{u}_0$  or  $\bar{u}_m$ ) are subject to more coercion.*
- 2 *Bigger employers (high  $L$ ) coerce more.*
- 3 *Easier coercion (lower  $\eta$ ) leads to higher effort and reduces worker welfare.*
- 4 *Higher product price (higher  $P$ ) leads to more coercion.*
- 5 *More productive (higher  $x$ ) employers coerce more and make their employees worse off (the opposite of the large employer premium in modern economies).*
- 6 *Greater institutional coercion (higher  $R$ ) leads to greater employer coercion (greater  $g$ ) — a double whammy.*

## Implications (continued)

- This is our first glimpse of an important type of *complementarity* in this model — for now, between institutional and employer coercion.
- It follows from the same source: workers with lower outside option (in this case because of greater government/institutional action) are subject to greater coercion.

## Further Results

### Corollary

*In addition:*

- 1 *If coercion is sufficiently easy ( $\eta < \eta^*$ ), effort is above first-best.*
- 2 *Banning coercion increases social welfare.*

- Both of these results are important.
- The first one implies that looking at productivity in a coercive environment may be misleading. It may be artificially high because coercive workers are forced to work excessively hard.
- The second is a consequence of wasteful activities that transfer resources from workers to employers.
  - This is for utilitarian welfare. Of course, it is reasonable to put more weight on the utility of coerced individuals and less weight on the profits of those doing the coercing, and in that case this result is strengthened.

# Coercion and Wages

## Corollary

*The correlation between expected wage payments and coercion is ambiguous.*

- More coercion increases effort, which may require greater compensation, despite the coercion.
- In what follows, unless otherwise stated, let us assume that coercion reduces wages.

## Corollary

*Greater demand (higher  $P$ ) increases coercion and may or may not increase wages.*

- Greater labor demand may not translate into higher wages because it also becomes optimal for employers to use more coercion.

## Contrast of Fogel and Engerman

- In contrast to Fogel and Engerman, which we discussed previously:
  - Coercion increases effort, but generally this is **not** efficient. It also reduces “social welfare”. Thus reasonable productivity levels in plantations is not evidence that slavery is “productively efficient” or “economically viable”.
  - Part of the reason why the end of slavery did not increase wages may be the change in effort after coercion ceased (and also the South went through a highly tumultuous period after the end of the Civil War).
- In fact, Fogel and Engerman may have failed to capture both the essence of coercion and its stifling effects on economic activity, including via technology, economic efficiency and broader norms and institutions.

# General Equilibrium

- Two (potential) channels of general equilibrium:
  - ①  $P$ : demand linkages:
    - More coercion leads to more output, which leads to lower price and thus lower coercion.
    - A source of *strategic substitutability*.
    - Less likely to be first-order in practice (for example when all sectors are coercing or have some coercive employers)
  - ②  $\bar{u}_m$ : outside option linkages — potentially more interesting and what I will focus on next.

## Endogenizing Outside Options

- If an agent rejects a contract, let us assume that she is then matched with a random, previously unmatched coercive producer with probability  $\gamma$ , and is matched with a non-coercive producer with probability  $1 - \gamma$  and receives utility  $\tilde{u}(L, G)$ , where  $\tilde{u}$  is decreasing in  $L$  and  $G$ .
- This is because of diminishing returns in the non-coercive sector, but also because, due to bargaining or other factors, lower wages and worse conditions in coercive sector enables non-coercive employers to pay lower wages (see below).

- Then

$$\bar{u}_m = \gamma \int_{\underline{x}}^{\bar{x}} (\bar{u}_m - g(x)) dF(x) + (1 - \gamma) \tilde{u}(L).$$

- This is a reduced-form of a dynamic outside option equation (see more on this below).

## Endogenizing Outside Options (continued)

- Let  $G$  be the average number of guns used by a matched, coercive producer, or equivalently *aggregate coercion*. Then

$$G \equiv \int_{\underline{x}}^{\bar{x}} g(x) dF(x).$$

$$\bar{u}_m = \tilde{u}(L) - \frac{\gamma}{1-\gamma} G.$$

# Existence and Comparative Statics

## Proposition

*Suppose  $P = P_0$ , so that there are no equilibrium feedbacks from prices. Then, coercion decisions of different employers are strategic complements — greater coercion by some, increases coercion by others.*

- *Intuition:* same as our main result above — more coercion reduces outside options, encouraging get more coercion.
- Multiple equilibria are possible. If so, for the same parameters, one equilibrium will have more coercion than another.
- In addition, it is possible to enrich this model so that coercion by the coercive sector reduces wages in the non-coercive sector (see below).
- This will create another source of strategic complementarities: lower wages from the non-coercive sector imply lower outside option and thus greater coercion from the coercive sector.

## Interpretation: Structural Economic Racism

- *Main takeaway*: The threat of force and other private and institutional means of creating a playing field against (certain) workers can generate low wages for them.
- **Strategic complementarities** arise naturally in this setting, so that more coercion by some employers encourages more coercion (and typically lower wages) by others.
- **Spillovers** to the non-coercive sector are important as well. These may take the form of lower wages in the non-coercive sector because of coercion in the rest of the economy.
- In the context of race, this can be interpreted as “non-racists” employers and the implicitly benefiting from the behavior of “racist” employers. Hence: *structural economic racism*, endogenously arising in this model.
- The role of institutions and norms is clear: if coercive behavior was not tolerated or even better, banned, none of this would happen.

# Coercion and Human Capital

- Suppose now that employers can invest in the general skills of their workers. Would they like to do so?
- The answer is typically no for coercive employers, because general skills increase outside options. Since they are taking costly actions to reduce these outside options, they will be unwilling to invest much in general skills.
- Worse, they may have an incentive to discourage or prevent workers from doing so.
- So coercive labor markets naturally leads to lower human capital investments.
- But then *strategic complementarities* come back into the picture, now as a *persistence mechanism*: low capital investment by this generation leads to lower outside options for the next generation, encouraging coercion.

# Coercion and Technology

- Let us take a framework related to Acemoglu and Restrepo (2018, 2019) adapted to a coercive labor market. Let us focus on automation technologies, which capture the mechanization related technology decisions in many coercive settings.
- There is a continuum of tasks  $x \in [0, 1]$ , which are combined with a constant elasticity technology to produce output.
- Workers have productivity  $\psi(x)$  in task  $x$ . Let's suppose  $\psi$  is strictly increasing, and  $\psi(0)$  is sufficiently low and  $\psi(1)$  is sufficiently high.
- The gross cost of employing a worker is  $W$  (inclusive of costs of coercion or other costs).
- These tasks can also be automated/mechanized with a machine that costs  $Q$ , and the machine performs each task with productivity 1.

# Technology and Wages

- Then it is clear that there will exist  $x^*$  such that

$$\frac{W}{\psi(x^*)} = Q$$

and all tasks below  $x^*$  will be automated.

- What happens if  $Q$  declines?
- Automation/mechanization becomes cheaper. This will increase  $x^*$ .
- The overall effect on labor demand/wages/employment will depend on two competing effects (see Acemoglu and Restrepo, 2018, 2019):
  - the displacement effect: more tasks go to capital/machines, less are left for workers.
  - the productivity effect: 1 for labor substitution reduces costs and increases labor demand.
- Suppose that the productivity effect is *larger*, so that mechanization increases wages (this is important; can you see why?).

## Coercion and Technology Decisions

- Now consider the effect of coercion on technology adoption.
- As stated above, under our assumptions, coercion reduces wages
- This implies lower technology adoption.
- But under the assumption that the productivity effect dominates the displacement effect, this creates yet another force towards lower wages — another type of *complementarity*.
- Moreover, if mechanization is a first step towards the development and adoption of other technologies, low wages, by discouraging mechanization, delay other aspects of technological development.
- Recall how backward the South was in mechanization of cotton.
- Hornbeck and Naidu (2014) provide evidence consistent with this interpretation: following the Great Mississippi Flood of 1927, the low-out-migration equilibrium in Mississippi was disrupted. Landowners tried to resist this, but given the hardship of the flood, could not. Consequently, in affected counties capital intensity increased significantly.

## From Hard to Soft Coercion

- The model presented so far may appear as a good fit to explicitly coercive labor markets, such as those that involve slavery-like relations or overt violence or threat of violence.
- But the logic of hard to coercion extends to “soft” coercion.
- Suppose that the employer cannot use guns or guards, but can do one of the following:
  - monitor workers, thus worker rents and autonomy;
  - distort the composition of firm-specific and general skills;
  - make worker mobility more costly;
  - make it harder for workers to get other jobs;
  - use costly ways to undercut worker power or collective bargaining opportunities.
- All of these will work similar to greater  $g$  in the above model, even if they do not appear as extreme as the use of guns or threat of violence.
- All (qualitative) results from “hard coercion” apply with “soft coercion”.

## Main Takeaway: Structural Economic Racism Again

- A range of employer actions, which we can classify as “soft coercion”, will have the same effects as coercion. In particular:
  - reduce worker utility and wages;
  - reduce overall welfare (because they are costly and transfer utility from workers to employers);
  - exhibit the same **strategic complementarities** — the more soft coercion some employers engage in, the more attractive soft coercion becomes for others;
  - same **spillovers**: soft-coercion may reduce wages in non-coercive employers, and undergird the same type of **structural economic racism**.

# The Role of Social Norms and Institutions

- What about social norms and institutions? Toleration of racist behavior is critical here.
- If it was acceptable to treat **all workers** this way, probably employers would do so. They cannot because of the protections for the majority provided by norms and laws. But if these do not apply to a group (in the US context, to Black Americans), then soft-coercive practices will be pervasive even when slavery-like hard-coercive options are off the table.
- Strategic complementarities and spillovers will imply that wages of Black Americans will be lower both with employers using self-coercive tactics and other employers.
- Also the same negative effects on human capital accumulation and persistence.

# Endogenous Norms

- An important topic, which I do not have the time to cover here, is how such equilibria support and are supported by endogenous norms.
- Myrdal (1944) may have been the first one to note this: discrimination keeps Blacks poor and then their poverty motivates norms that facilitate discrimination (such as “cultural theories” of why Blacks are not working hard or have their own subculture, making it more likely for them to commit crime etc.).
  - One approach towards these questions in economics may be models of learning and belief updating based on heterogeneous priors and self-confirming equilibria (with or without self-confirmatory bias).
- The massive rates of incarceration of Black men (which Bruce Western will talk about in December) is an important element here.
- High rates of incarceration also reduce the outside option of Blacks, facilitating soft coercive activities towards them.

## Beyond Soft Coercion

- In fact, these issues are not even confined to soft coercive-activities.
- Similar aspects of endemic discrimination can arise and spread throughout the economy in other models of (realistic) labor market imperfections.
- The first formal model of this is by Dan Black (1995), who uses an “old style” search model, where one group of employers do not hire Black workers. (See also Naidu, 2020, for in monopsony-based approach).
- I will now go over the version of the model in Acemoglu (2001), to show that “racist” employers can not only significantly reduce the wages they pay to a particular group of workers (Black Americans) but also induce “non-racist” employers to pay lower wages.
- This has similar effects on human capital and technology.
- What unifies this model/approach with those of hard or soft coercion is that it is again the norms and institutions that enable this type of behavior can be directed to one group.

# Preliminaries

- To communicate the main ideas in a simple manner, I'm going to focus on a single group of workers with two groups of employers, indexed by  $r$  (racist) and  $n$  (non-racist).
- To obtain the comparison to the majority group (not affected by racism), we can just do comparative statics (as I will explain).
- This also implicitly assumes that vacancy-posting is directed to majority and minority workers (so that the vacancies for the two types of workers do not compete/interact).
- I'm also going to presume that you have some familiarity with the basic Diamond-Mortensen-Pissarides model (see my 661 lecture notes).

# Model

- Consider a group of (Black) workers in a (continuous-time) dynamic economy, matching with two groups of vacancies (same as firms when all jobs are accepted),  $r$  with fraction  $\phi$ , and  $n$  with fraction  $1 - \phi$ . All workers are risk neutral.
- Consider an unemployed worker. Her Bellman value can be written as:

$$rJ^U = z + \theta q(\theta) \left[ \phi J_r^E + (1 - \phi) J_n^E \right],$$

where  $r$  is the discount rate;  $z$  the unemployment benefit/value of leisure;  $\theta q(\theta)$  is the flow job-finding rate, and  $J_i^E$  is the value of being employed in the firm of type  $i$  (assume to be the same within groups of firms).

- Similarly, denoting the job separation rate by  $s$  (the same for both groups of firms):

$$rJ_i^E = w_i + s(J_i^E - J^U).$$

# Bargaining

- Let us assume that the only difference between the two types of firms is that racist employers do not like employing Black Americans. We can capture this in one of two ways (both giving similar results), and let me include both of them here for giving you a menu.
  - 1 Because they do not like sharing the pie with Black Americans, they bargain harder, and thus have a higher bargaining power vis-à-vis these workers. Let us denote the bargaining power of workers, when matched with the two types of firms, by  $\beta_n$  and  $\beta_r < \beta_n$ .
  - 2 They have a non-pecuniary cost of employing Black Americans. Let us denote this by  $\Gamma_r > 0$ .

## Bargaining and Wages

- First values for firms (let  $J_i^F$  and  $J_i^V$  be the values of the firm of type  $i$  when filled and when vacant):

$$\begin{aligned} rJ_i^F &= y_i - w_i - \Gamma_i - s(J_i^F - J_i^V) \\ rJ_i^V &= -\gamma + q(\theta)(J_i^F - J_i^V) \end{aligned}$$

where  $y_i$  is the output of firm type  $i$  when matched with the minority (Black American) worker. This could vary between the two types of firms because of technology differences.

- I wrote this equation compactly for the two types of firms with  $\Gamma_n = 0$ .
- Then the bargaining equations can be written as, for  $i = r, n$ :

$$\beta_i(J_i^F - J_i^V - \Gamma_i) = (1 - \beta_i)(J_i^E - J^U),$$

where, as usual, we are assuming Nash bargaining over net present discounted values,

# Wage Comparative Statics and Discrimination

- Putting these equations together, we have:

$$w_i = \beta_i(y_i + sJ_i^V - \Gamma_i) + (1 - \beta_i)J^U.$$

- Racist employers will pay lower wages either because they have lower  $\beta_i$  (they bargain tougher against Black Americans) or because they have  $\Gamma_i > 0$ .
- They may also pay lower wages because they are less productive (as they do not invest in certain technologies that are complementary to Black Americans).

# Discrimination

- What about discrimination?
- We can easily observe this discrimination by considering another group of workers with exactly the same technologies, but where  $\beta'_r = \beta'_n = \beta_n$  and  $\Gamma'_r = \Gamma'_n = 0$ , we can also assume  $y'_n = y'_r = y_n \geq y_r$  (no productivity differential between the two groups except those caused by racism for Black Americans).
- Then majority Americans will have higher wages in all jobs and these premia could be quite large as we will see next.

# Spillovers and Structural Economic Racism

- As in the hard and soft coercion models, non-coercive or non-racist employers also benefit from the direct discrimination against Black Americans.
- To see this *spillover effect*, let us return to the value of unemployment for Black Americans.
- Discrimination by racist employers reduces  $J^U$ .
- But then this weakens the hand of Black Americans against non-racist employers, who then bargain to a lower wage with them.
- Conclusion: **spillovers** — non-racist employers **benefit** from the direct discrimination of racist employers.
- Thus we have yet another instance of structural economic racism, and this time without any overt or covert coercive actions.
- The role of social norms and institutions permitting such behavior is key again.

## Minimum Wages, Union and Unemployment Benefits

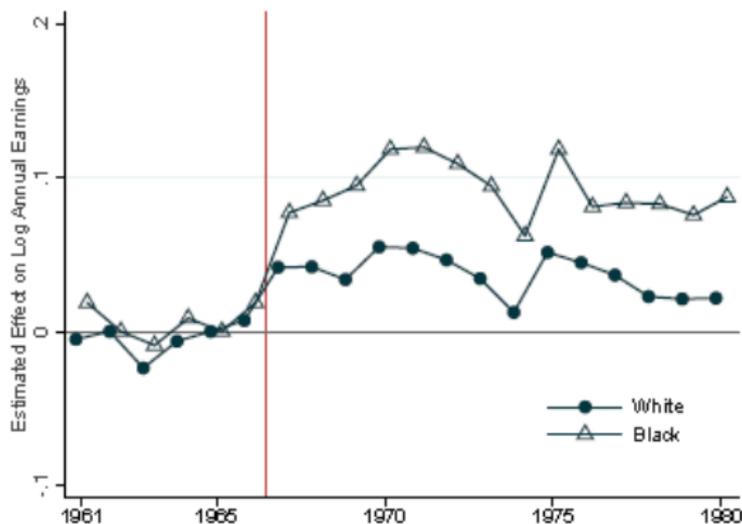
- The analysis of minimum wages and unemployment benefits is very similar to the one discussed in Acemoglu (2001).
- The main result relevant for our focus here is that these policies will reduce the ability of racist employers to offer low wages and via this channel also increase wages of Black Americans in non-racist jobs.
- This is easy to see for minimum wages. With a minimum wage of  $\underline{w}$ , the wage for Black Americans in racist jobs becomes:

$$w_r = \min \left\{ \beta_r (y_r + sJ_r^V - \Gamma_r) + (1 - \beta_r)J^U, \underline{w} \right\}.$$

- But if the wage of racist employers increases, this also pushes up the wage of non-racist employers with the same argument.
- The reasoning for unemployment benefits is very similar and also for unions (provided that they are themselves not “racist”, which is not uncommon in US history). The effects of norms may also be analyzed similarly.

# Minimum Wages: Effects of the Fair Labor Standards Act

- In 1966, FLSA extended the federal minimum wage to agriculture, restaurants and other low-skilled services where Black workers were predominantly employed. Derenoncourt and Montialoux (2020) show its effects on Black earnings:



# Minimum Wages and Black Economic Outcomes in Practice

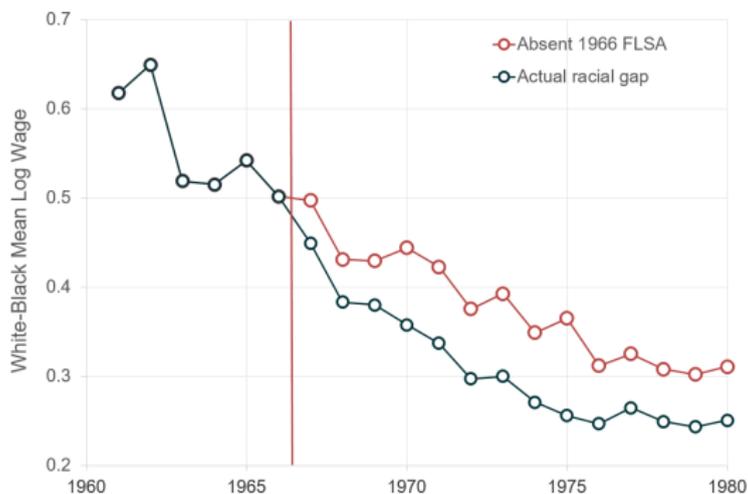


Figure: Deroncourt and Montialoux (2020)

## Main Takeaway

- As in the hard and soft coercion models, we again have a form of *structural economic racism*, whereby discrimination or bad behavior by some group of employers ends up benefiting “neutral” employers.
- Once again, this equilibrium is undergirded by institutions and norms — if social norms were different, racist employers would not be able to bargain so hard against Black Americans.
- Policies that protect workers, especially low-pay workers, can rectify some of these problems.

# Wages and Employment

- In the model so far, I simplified matters by assuming that discrimination (and coercion) always reduce wages but do not affect employment.
- In practice, discrimination also affect employment, especially employment in “good jobs” that tend to pay higher wages, have greater job security and better safety and amenities (see Black, 1995).
- In the South, until the civil rights era, Black Americans were excluded from these jobs, which then facilitated other jobs to pay lower wages to them.
- Underscoring our argument that soft coercion and discrimination are supported by institutions and norms, this equilibrium was disrupted by the civil rights movement.
- This can be seen from the huge changes in the sectoral composition of employment of Black Americans in the South.

# Civil Rights and Changes in Economic Structure

- A glimpse of the change in Black employment structure in the South can be seen from the increase in black employment in manufacturing (Wright, 1999):

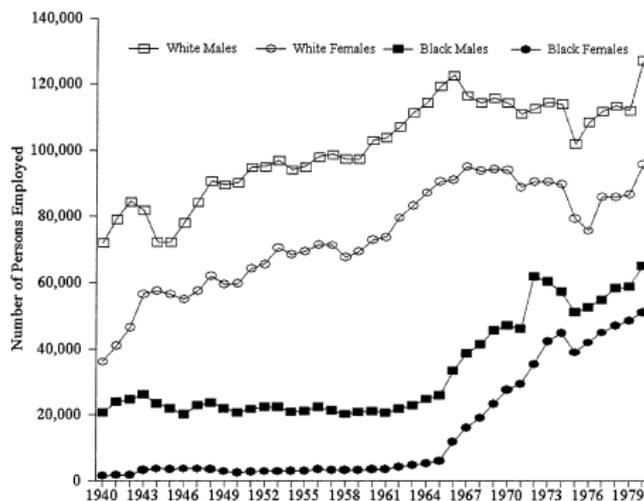


FIGURE 5  
EMPLOYMENT IN SOUTH CAROLINA MANUFACTURING, 1940–1980

Source: South Carolina Department of Labor, *Annual Reports*.

# Multiple Equilibria

- As in Acemoglu (2001), this mechanism can generate multiple equilibria, but with a twist (with an interpretation that again touches on social norms).
- Suppose being racist is more profitable (because you are effectively bargaining to lower wages for Black workers). Then “entry” of racist employers could be greater, which could be either because racist potential entrepreneurs are more likely to enter or because potentially neutral entrepreneurs are more likely to become racist, or act as if they are racists.
- This highlights the presence of **strategic complementarities** in this model.
- But there are also even more interesting forms of strategic complementarities and sources of multiple equilibria. I next discuss two, which are again related to social norms.

## Other Sources of Multiple Equilibria

- Asa Rosen (2003): suppose that workers have to apply to a job and they can be a good match or a bad match for the job.
- Workers receive a signal of whether they are likely to be a good match and then employers do interview/tests that give them a signal about the worker match quality.
- Rosen shows that there are multiple equilibria and one group could be in a bad equilibrium with low wages and norms of discrimination, while another group could be made with equilibrium.
- Here is the idea: suppose that one group (Black Americans) are thought not to be a good match for a job conditional on applying.

## Other Sources of Multiple Equilibria (continued)

- Then even when they get moderately good scores from their tests/interviews, they are unlikely to be hired, unless they generate really high scores (which can be thought of as a “tail event”).
- This encourages them to apply to all available jobs, since there is no point in waiting for “good matches” (this requires some conditions, but these are not overly restrictive, and essentially require that tail events continue to be possible even conditional on bad signals about job quality for workers).
- Because they apply to all jobs, the belief that they are not a good match conditional on applying becomes self-fulfilling.
- The equilibrium could be very different for the other group, which only applies to jobs likely to be good matches and thus are hired more often and receive higher wages.

## Other Sources of Multiple Equilibria (continued)

- Mortensen and Vishwanath (1994): suppose there is homophily by race (meaning that Blacks are more likely to socialize and be friends with other Black Americans and the same for the majority) and job finding is through recommendations by friends and acquaintances.
- Then an equilibrium in which, for historical or other reasons, Whites get into good jobs can become self-fulfilling because they recommend their White friends to their employers.
- Black Americans are in lower-pay jobs and those are the only ones they can give recommendations for their friends.
- These mechanisms for multiple equilibria apply for any groups. But with norms and institutions that permit (or even encourage) bad outcomes for ones (socially-discriminate-against) group, they become more likely to put that group in the bad equilibrium.
- The same effects, even stronger, work from the presence of Black managers to both mentor and higher Black workers. But without hiring of Black workers, there won't be Black managers.

# Conclusion

- US history is replete with political, social and economic discrimination and various types of coercive actions towards Black Americans.
- Many of those practices came to an end after the civil rights era.
- But did their economic (and other) implications disappear? Or do we have an equilibrium with “structural economic racism”, seriously impeding the progress of Black Americans?
- This is mostly a historical and empirical question, but a conceptual framework for interpreting economic equilibria under institutions and norms supporting discrimination is also useful.
- After reviewing some of the history, this lecture provided some elements of such a conceptual framework.
- The rest of the course will delve much deeper into empirical patterns and some of the economic and non-economic approaches to discrimination, especially the context of race in the US.