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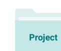

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The Economics of Reparations

WILLIAM A. DARITY JR. and DANIA FRANK

There is a nationwide movement and debate over the claim by African Americans for compensation for the enslavement of their ancestors. This chapter presents a brief introduction to the economics of reparations to African Americans for slavery and decades of Jim Crow practices. We first explore the black–white wealth differential as a basis for the reparations movement. We then propose two criterions to determine eligibility for reparations. Finally, we discuss the size of a reparations payment and how the way in which it is financed and distributed effects the incomes of blacks as well as nonblacks.

REPARATIONS AND SLAVERY

The U.S. government's posture at the 2001 World Conference against Racism—where the transatlantic slave trade was declared a crime against humanity—evaded a warranted claim by African Americans for compensation for the enslavement of their ancestors. This evasive posture is anomalous in light of U.S. government support for, and administration of, reparations for other groups subjected to recent or historical grievous wrongs.

Indeed, the U.S. government has undertaken numerous reparations payments to American Indian tribes for atrocities and treaty violations. Two examples include the 1971 grant of $1 billion and forty-four million acres to Alaskan natives and the 1986 grant of $32 million to the Ottawa tribe of Michigan (Benton-Lewis 1978, chart). In addition, in 1990 the U.S. government issued a formal apology to Japanese Americans subjected to internment during World War II and made a $20,000 payment to each of sixty thousand identified victims (Benton-Lewis 1978, 1, chart).

In a non–United States precedent, the 1952 German *Wiedergatmachung* established group-based indemnification for Jewish people worldwide in the aftermath of Nazi persecution. Compensation included payment of more than $800 million to "the State of Israel, on behalf of the half million victims of the Nazis who had found refuge in its borders, and the Conference on Jewish Material Claims against Germany, on behalf of the victims of Nazi persecution who had immigrated to countries other than Israel" (Westley 2003, 120). Thus, German reparations payments went to institutional entities (Israel and the claims conference); to survivors of the Holocaust who could reasonably establish specific harms or losses, such as property lost through confiscation; and relatives of those killed in the concentration camps. Similar principles governed the much later payment of $25 million by the Austrian government in 1990 to Jewish claimants.

Almost 250 years of domestic enslavement of African people and their descendants have not elicited a similar response from the U.S. government. The paradox has not been lost on Robert Westley (2003, 122):

> Blacks have never received any group compensation for the crime of slavery imposed upon them by the people and government of

From: African Americans in the U.S. Economy by C.A. Conrad, J. Whitehead, P. Mason, and J. Stewart. Rowman & Littlefield Publishers, Inc., Lanham, MD 2005.

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the United States. As in the case of the Japanese, Jews received not only material compensation for their losses, but their victimization was also publicly memorialized in Germany, Israel, and the United States (even though there was no legitimate claim of oppression or genocide that Jewish survivors of the Holocaust might assert against the United States). The only "memorial" dedicated to the suffering of Black slaves and the survivors of slavery in the United States is contained in a series of legislative enactments passed after the Civil War. The history of Black Reconstruction shows how these enactments were successively perverted by the courts, and by Congress itself.

JIM CROW OVERLOOKED?

Another compelling pillar of the case for reparations for African Americans is the practice of nearly a century of state-sanctioned apartheid in the United States. The harms of Jim Crow practices are extensive; moreover, unlike U.S. slaves, direct victims of Jim Crow practices are still living.

Particularly in the U.S. South, the post-Reconstruction period gave way to a climate of terror that allowed whites to take black lives and black-owned property with impunity. An Associated Press report documented 406 cases of black landowners who had twenty-four thousand acres of farms and timberland stolen from them in the first three decades of the twentieth century (Lewan and Barclay 2001, A1, A3).

Raymond Winbush (2003, 48–49) has referred to "'whitecapping' as denoting the habit of night riders who confiscated land from vulnerable blacks during the era of Jim Crow." James Grossman reports that 239 cases were recorded in Mississippi alone between 1890 and 1910. Furthermore, perpetrators of black property theft "often colluded with local, state and even the federal government to defraud African Americans of property. . . . Wholesale burning of courthouses, Black churches, and homes were common ways of destroying evidence of Black land ownership illegally obtained by white terrorists" (1997, 48).

The process of white destruction of black wealth reached its apex in the literal annihilation of prosperous black communities in Wilmington, North Carolina, in 1898; in Tulsa, Oklahoma, in 1921; and in Rosewood, Florida, in 1923. Moreover, lynching may have often conjoined the murder of blacks with property theft. Winbush speculates that the lynching trail was a trail of stolen black land, contending that lynching victims frequently were black landowners (Barclay 2001, A3).

Today, while the black–white per-capita income ratio is in the 50 percent range, the black–white wealth disparity is far wider. The highest estimates of the racial wealth ratio run in the 15 percent to 25 percent range (Chiteji 1999; Chiteji and Stafford 1999). Since the major source of wealth for most persons today is inheritance (Blau and Graham 1990), the forced deaccumulation of black wealth during the Jim Crow era has to have played a key role in producing contemporary racial wealth differentials.

American apartheid subjected three successive generations of African Americans to separate schools with inferior facilities and resources. Patterns of systematic residential segregation in the North and the South restricted black access to neighborhood amenities, quality housing, and hospital services. Differential sentencing and punishment of blacks, extending from slavery times to the present, has imposed immense costs on individual blacks and on communities of black persons (Betsey 2001).

Employment discrimination has further constrained the opportunity of blacks to transform their skills and credentials into incomes comparable with that of whites with similar levels of attainment. Moreover, in a recent study using data from the Integrated Public-Use Microdata Series (a national census database), Darity, Dietrich, and Guilkey (2001) showed that labor market discrimination and imposed schooling deficits faced by blacks in the interval 1880–1910 significantly weighed down the occupational attainment of their descendants in 1980 and 1990, a century later. Furthermore, current labor market discrimination continues to penalize black earners (Darity, Dietrich, and Guilkey 2001), affording a further justification for reparations.

ECONOMICS AND REPARATIONS

Given the suitability of reparations to compensate blacks for having been subjected to slavery, Jim Crow practices, and ongoing discrimination, economics can provide useful insights in determining eligibility for reparations, types of reparations programs, the long-term effects of reparations, methods of financing reparations, and the magnitude of reparations.

The moral hazard principle alerts us to potential problems in establishing criteria for eligibility for receipt of African American reparations.[1] Reparations create a premium for being black in America that previously did not exist. Thus, individuals who had not previously been self-identified as black will have an incentive to suddenly declare their African ancestry. To mitigate this problem, we propose two criteria for eligibility: first, an individual would have to provide reasonable documentation that they had at least one ancestor who was enslaved in the United States; and, second, an individual would have to demonstrate that at least ten years before the onset of the reparations program, they self-identified as black, African American, colored, or Negro on a legal document.

Economics also leads us to contemplate a reparations program taking a number of forms, none mutually exclusive. One approach would be lump-sum payments to eligible individual African Americans. A second approach would be the establishment of a trust fund to which eligible blacks could apply for grants for various asset-building projects, including home ownership, additional education, or start-up funds for self-employment. A third option would be the provision of vouchers that could be used for asset-building purposes, including the purchase of financial assets. Thus, reparations could function as an avenue to undertake a racial redistribution of wealth akin to the mechanism used in Malaysia to build corporate ownership among the native Malays. In that case, shares of stock were purchased by the state and placed in a trust for subsequent allocation to the native Malays. A fourth approach would be reparations in kind—for example, guaranteed schooling beyond the high school level or medical insurance. Still, a fifth approach would be use of reparations to build entirely new institutions to promote collective well-being in the black community. Finally, any combination of these five approaches is yet another possibility.

The venerable transfer problem (Johnson 1955; Keynes 1929) in international trade theory provides a warning that reparations payments to blacks need not have the long-term effect of closing the racial income or wealth gap.[2] In an extended theoretical inquiry (Darity and Frank 2002), we examined how different methods of reparations payments to African Americans would affect the black and nonblack populations in the United States. We found that reparations payments that either mandate or provide incentives for blacks to spend on goods and services produced by nonblacks would raise the relative incomes of nonblacks. Without significant productive capacity in place before reparations, a lump-sum payment could actually result in an absolute decline in black income. Thus, the structure of a reparations program is critical if it is to close the black–white economic gap in the United States.

How are reparations to be financed? Public finance theory suggests that nonblacks could finance the transfer by paying additional taxes, borrowing (dissaving), or by lowering their spending. Or the United States government could borrow by issuing bonds to finance the reparations program. In general, African Americans should not bear the tax burden of financing their own reparations payments. Blacks paid local, state, and federal taxes for more than eighty years while being disenfranchised in the U.S. South, a paradigmatic case of "taxation without representation." If, however, taxes are levied universally to finance reparations, guarantees must be put in place that the reparations payment net of the tax is substantial for black taxpayers. Furthermore, reparations income should be tax-free.

Finally, economic analysis can be mobilized to establish the magnitude of the reparations payment. Contributors to Richard America's *Wealth of Races* (1990) used a variety of procedures to calculate the debt owed to blacks for slavery. Ransom and Sutch computed the difference between the market value of slaves' net of food, shelter, and other consumption over the last fifty years of slavery, which led them to an estimate of $3.4 billion by 1860. Larry Neal used a

similar measure of unpaid wages to slaves between 1620 and 1840 compounded at 3 percent of 1983 dollars to reach a figure of $1.4 trillion. James Marketti's estimate of Africans' income foregone via slavery came to a present value estimate by 1983 of $3 trillion to $5 trillion. Vedder, Gallaway, and Klingaman sought to estimate the accumulated gains in wealth to white Southerners from ownership of enslaved blacks to arrive at a bill of $3.2 million as of 1859. In current dollars these procedures generally lend themselves to present-value estimates in the range of $5 trillion to $10 trillion for the debt for slavery. These numbers do not take into account the costs of Jim Crow or the costs of present discrimination. Estimates by David Swinton (1990) and by Chachere and Chachere (1990) of the costs of labor market discrimination during the forty-year period 1929–1969 alone run between $500 billion and $1.6 trillion in 1983 dollars. Suffice it to say, the damages to the collective well-being of black people have been enormous and, correspondingly, so is the appropriate bill.

NOTES

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1. *Moral hazard* refers to incentives associated with a policy that induce people to alter their behavior dishonestly to take advantage of the benefits provided by the policy—for example, setting a fire to get the insurance benefit.

2. In international trade, the transfer problem poses the following question: Does a unilateral transfer from one country to another impose a secondary burden or a blessing on the paying country through an adjustment in the terms of trade? If the paying country experiences an increase in their terms of trade or in their balance of payments account due to the transfer, then the receiving country necessarily receives a decrease in their terms of trade or a decrease in their balance of payments account. It is possible that a transfer payment could result in a real income loss to the receiving country. In the case of reparations, a payment to blacks could result in a real income loss.

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