

Webinar:

# The economic and social implications of racial disparities

Lisa  
Cook



2020-06-08

Intro: Markus Brunnermeier

# Markus' intro

- Previous webinar:



Darrell Duffie  
“Fixing US Treasury market”

- Today:



“Economic and social  
implications of racial  
disparities”

- Next webinars:



Ken Rogoff  
“Global Sovereign Debt and  
the Dollar Post COVID”



Raj Chetty  
“Tracking impact of COVID  
with real time data”

# Opportunity gap

- Ken Frazier, CEO of Merck



- “What put my life on a different trajectory was that someone intervened to give man opportunity not close that *opportunity gap*” (on CNBC)
- Free society
  - Can we really be free if we don't have equal opportunity?

- DIAGRAM HERE

# Poll

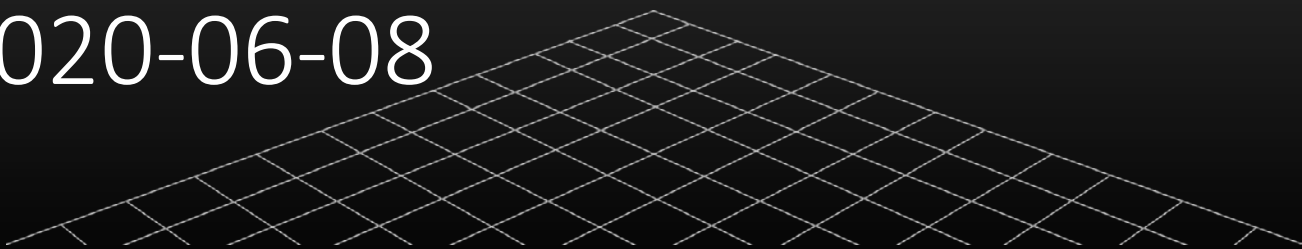
1. The whole framework has to be changed
  - a. Yes
  - b. Two/three key measures will improve whole framework
  
2. Current movement will persist unlike Anti-School shooting, Occupy Wall Street
  - a. Yes
  - b. No

# Poll from Lisa

3. When were the peak years for patenting per capita for blacks?
  - a. 1875-1900
  - b. 1900-1925
  - c. 1945-1970
  - d. 1990-2015
4. Link violence-economic growth
  - a. for blacks, but not for whites, hate-related violence has a negative and persistent effect on economic activity.
  - b. For blacks and for whites, ...ditto ..
  - c. For whites, but not for blacks, hate-related violence has ... ditto
5. Median Size Investor team
  - a. 1
  - b. 5
  - c. 10
  - d. 15

# Markus' Zoominar with Lisa Cook

2020-06-08



# Economic and Social Implications of Racial Disparities

Lisa D. Cook

Economics and International Relations

Michigan State University

Bendheim Center for Finance, Princeton

June 8, 2020



# COVID-19 Pandemic Exposed Fissures in Economy and Society

- Health
- Work, occupations
- Income, wealth
- Policing and violence

# COVID-19 Pandemic Exposed Fissures in Economy and Society

- Health
- Work, occupations
- Income, wealth inequality
- Policing and violence
- Common feature: Systemic racism ➔ racial disparities

# COVID-19 Pandemic Exposed Fissures in Economy and Society

- How do we think about the origins, channels, and implications of systemic racism?
- There's a lot of literature.
  - North's lack of diligence and consistency on Reconstruction (Foner)
  - Entrenchment, spread, and legalization of racial animus (Plessy v. Ferguson, Wilson's segregation of the federal government)
  - Racist redevelopment policies that deliberately destroyed Black neighborhoods with highways during the period of urban renewal
  - Schooling, housing/redlining, car purchases, job callbacks, segregation, violence, credit
- Literature largely did not address macro inputs and outcomes, like innovation and GDP

# Violence, Innovation, and Economic Activity

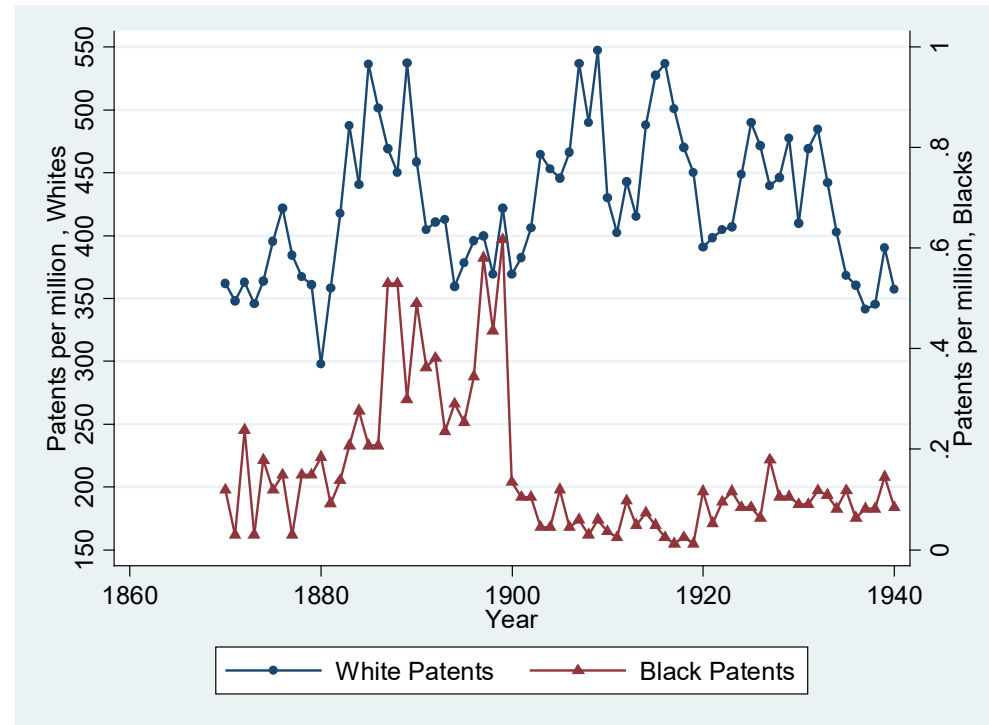
- Innovation is a key driver of the economy
- Romer (1990)
- Current contribution: 10% of GDP for Intangibles (see Corrado, Hulten, and Sichel 2009)
- Driver of business investment: 20% of GDP

# Violence, Innovation, and Economic Activity

- In Cook (2014), I show that threats to the rule of law can undermine innovation, economic activity, and the rise in living standards.
- Race-related violence in the United States increased significantly between 1870 and 1940.
  - Segregation laws peaked in 1908, 1928, and 1933
  - Race riots peaked in 1919
  - Lynchings peaked in 1892 and 1893
  - These are proxies for absence of rule of law in estimation.

# Violence, Innovation, and Economic Activity

**Figure 1: Black and White Utility Patents, Per Million, 1870-1940**

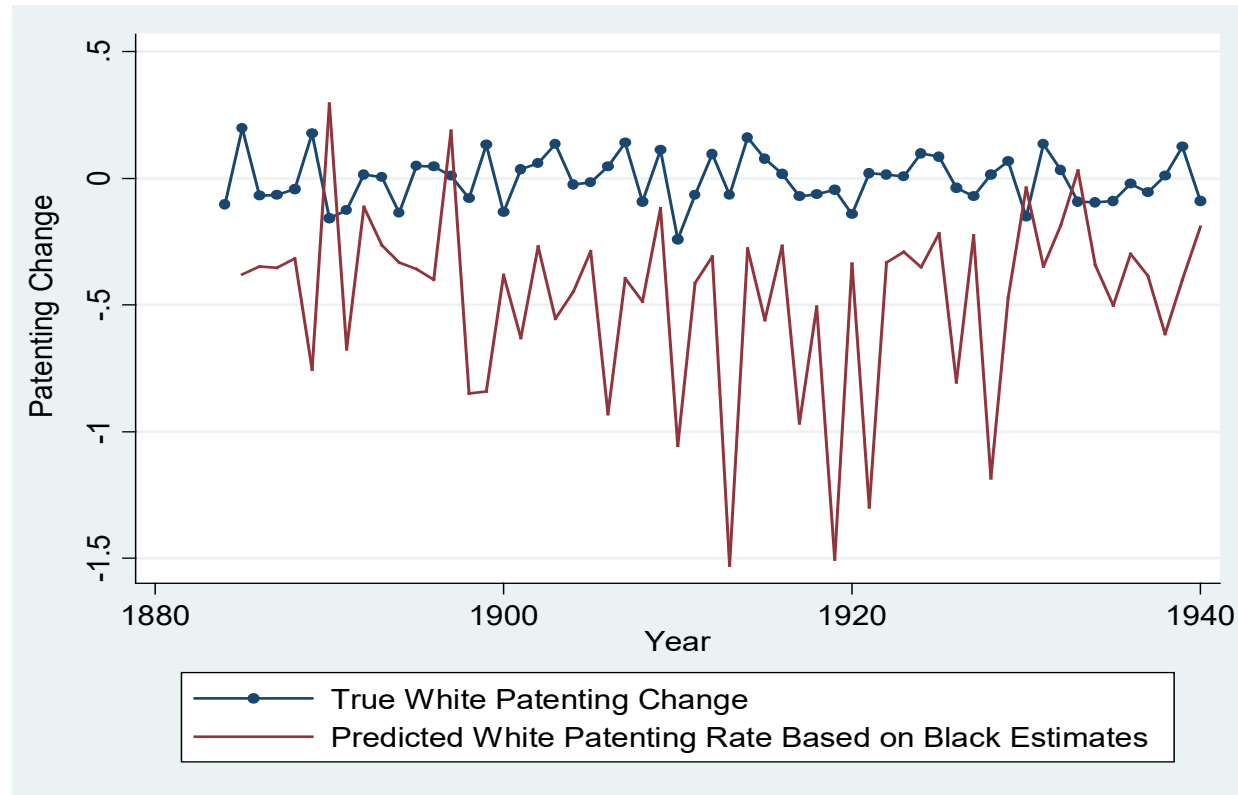


# Violence, Innovation, and Economic Activity

- Main Findings
  - Violence diminishes innovation and economic activity with persistent effects
  - 1899 is STILL the peak year for patenting per capita for African Americans
  - Lynchings affect patents of African Americans significantly
  - Segregation laws hurt most valuable patents – Electrical
  - Missing patents equivalent to medium-size European country then (1870-1940)

# Violence, Innovation, and Economic Activity

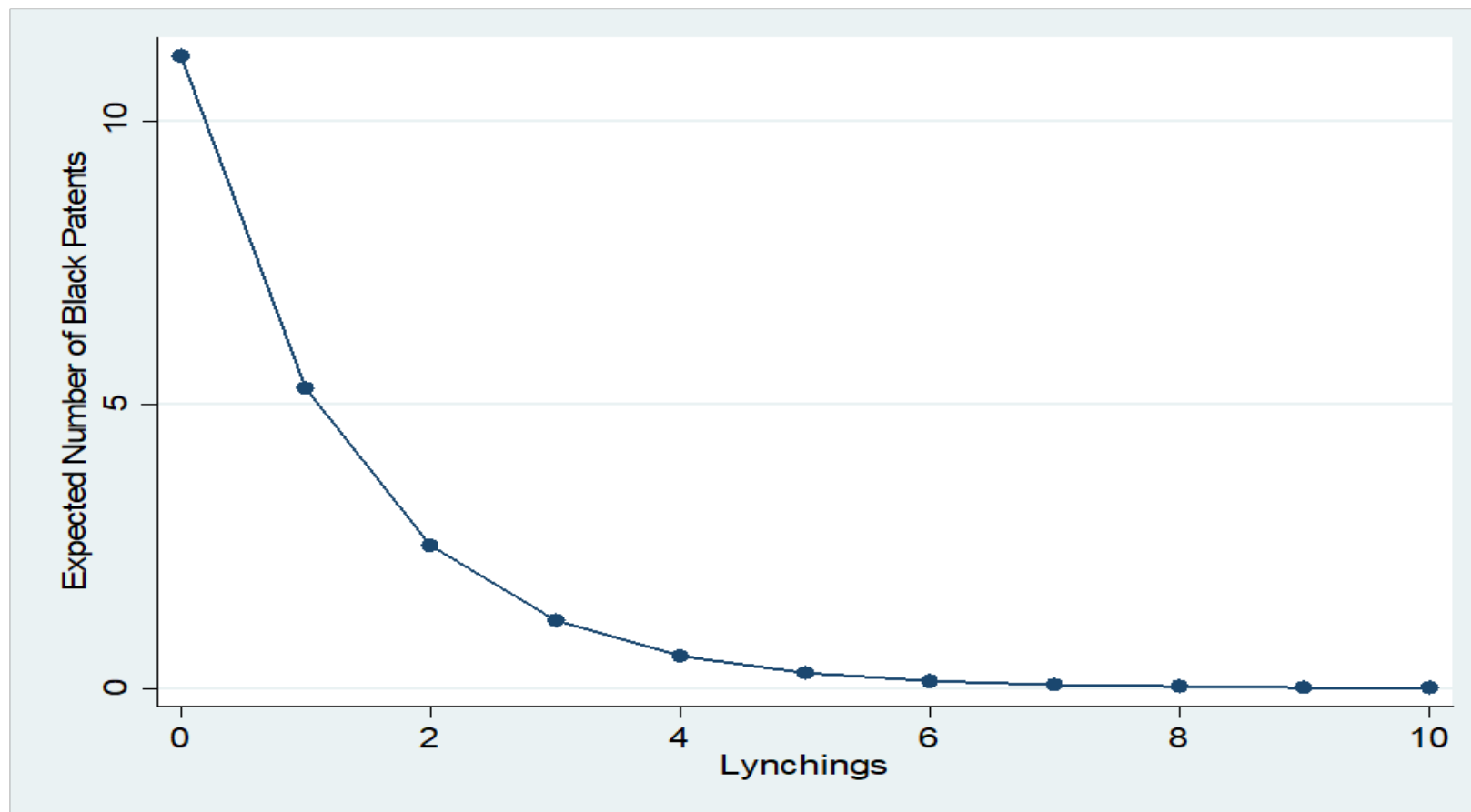
**Figure 4. Predicted White Patent Activity Using African American Estimates**





# Violence, Innovation, and Economic Activity

**Figure 4. Predicted Effect of Lynchings on Expected State Patent Counts**



# Contemporary Innovation and GDP

- From Cook and Kongcharoen (2010), Cook (2019), and Cook and Gerson (2019)
- 3 stages: education, training/lab, commercialization
- At each stage, there could be implications for income or wealth inequality
  - Education
  - Training
  - Commercialization

# Contemporary Innovation and GDP

- Commercialization is where largest wealth gap is
  - Racial disparities in entrepreneurship: 50/1 White to Black entrepreneurs
  - Racial disparities in founders receiving VC funding: 1% of founders receiving are Black
  - Racial disparities in tech firm IPOs
    - Top 10 wealthiest people – 7 are tech entrepreneurs
    - None is African American

# Contemporary Innovation and GDP

- What are we losing because of missing African Americans?
  - 4.4% GDP per capita
  - Compared to 2.7% for women (Hunt, et al. 2014)
  - Consistent with findings of Hsieh, Hurst, Jones, and Klenow (2018)
    - Analyze gender and racial distribution for highly-skilled occupations last 50 years
    - Show change in occupational distribution since 1960 suggests that substantial pool of innately talented women and African Americans in 1960 not pursuing their comparative advantage
    - Misallocation of talent affects aggregate productivity in the economy:
      - 1/4 of growth in aggregate output from 1960 to 2010 can be explained by improved allocation of talent

# Policy Prescriptions

- Learn about and address racism, encourage anti-racist behavior, policies and practices
  - E.g., American Economic Association code of conduct, etc.
  - Reverse California's Prop 209; Berkeley grad student Zach Bleemer is showing that it significantly diminished opportunities, mobility for Black students, particularly in tech; adopt Texas-style targets
- Improve pipeline, especially STEM, including exposure to invention (cf Chetty, et al. 2019)
- Enhance mentoring, and generally improve workplace environment, including reporting and prosecuting racial and gender harassment and misconduct and addressing racial bias

# Policy Prescriptions

- Release the report on white supremacist groups, prosecute hate crimes, and other fundamental police reforms
- Return military equipment to federal government, demilitarize police forces
- Complete restructuring of police forces
  - E.g., Camden, NJ dismantled police department; homicides down 50%

# Policy Prescriptions

- Congressional Legislation
  - From Cook and Kongcharoen (2010):
    - SUCCESS Act, IDEA Act
  - Improve opportunities for commercialization (NAS SBIR/STTR Report 2020)
  - Address racial wealth gap
    - Black HH in Boston area has \$8 in net worth (Darity, Hamilton, et al.)
    - Not enough to weather unexpected events, like a pandemic

# Policy Prescriptions

- Big Ideas
  - Movement: protest → policy → structural change needed to address SYSTEMIC issues
  - Continuation, reinvigoration of the War on Poverty?
  - Have to think about fundamental resets
  - Have we seen this before? Yes!



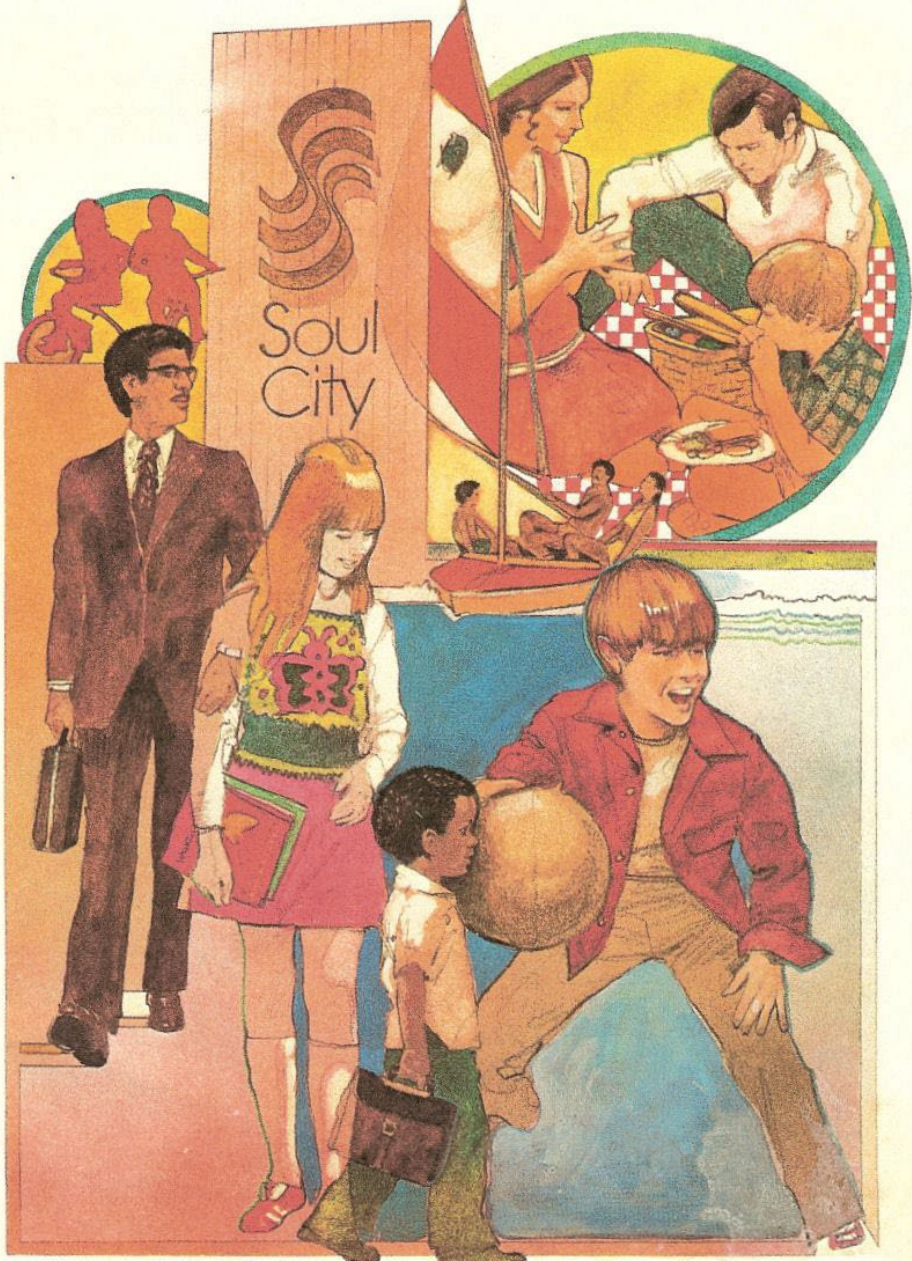
# March on Washington for Jobs and Freedom



# Policy Prescriptions

- Big Ideas
  - My cousin Floyd McKissick, Sr. dreamed of and built an entire city, Soul City, North Carolina, to address the racial income, wealth, and financial gaps
  - People moved there from urban areas with limited job opportunities and acute environmental racism
  - IBM was major component of plan for job creation
  - Podcast: <https://99percentinvisible.org/episode/soul-city/>

**THE FIRST CITY IN THE WORLD  
THAT'S BUILT AROUND YOUR FAMILY.**



Soul City,  
North Carolina





Soul City,  
North Carolina



Soul City,  
North  
Carolina

# Policy Prescriptions

- Big Ideas
  - Reparations: Coates (2014), Darity and Mullen (2020)
  - Job guarantee (Darity)
  - Baby bonds
  - Blue-sky thinking necessary!
  - All relevant ideas must address racism and racial disparities!

# Thank You!

- I look forward to your questions!
- Join me at @drlisadcook for more conversation!