Forty Acres for the Modern Day: The Economic Implications of Reparations for African Americans

Patrick Roehm

As part of the national racial reckoning in the United States, reparations for African Americans have been proposed to correct the injustices of slavery and discrimination. The main economic goal of reparations is to close the racial wealth gap. While the gap is substantial, uncertainties remain about the program’s scope, magnitude, method, financing, effectiveness, and equity. Potential methods include lump sum or monthly cash payments, targeted investment in the Black working class, college scholarships, health care subsidies, favorable home loans, a trust fund for borrowing, and institutions to promote community building. Design of the reparations program is crucial to ensure recipients do not transfer the benefit back to payers when spending the benefit on goods and services. For this reason, reparations must invest in African American workers’ productive capacity, job skills, and training. Despite the potential economic benefits, concerns remain regarding equity and political feasibility. Policymakers should carefully weigh the benefits and costs of a reparations program and pay attention to how the design impacts its effectiveness and equity.

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Patrick Roehm is a second-year Master of Public Policy candidate at the Trachtenberg School. He is currently a Research Consultant with The Lewin Group, a healthcare and human services consulting firm. Patrick graduated from Boston College, summa cum laude, with a degree in History and Economics. His Scholar of the College thesis examined the history of Section 2 of the Fourteenth Amendment to the United States Constitution. He lives in Washington, DC, where he enjoys reading, cooking, and running.

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OVERVIEW AND THEORY

In the wake of George Floyd’s murder at the hands of the police, the topic of reparations for African Americans entered the spotlight as part of a national reckoning of how to atone for and combat systemic racism. Systemic racism in the United States, beginning with slavery, has repeatedly prevented African Americans from equitable opportunities to accumulate wealth and enjoy equal rights. Reparations seek to repay African Americans who have suffered reduced wealth and opportunity as a result. Reparations have been proposed as a remedy many times, but there was a newfound urge in 2020, as the United States struggled to chart a path forward. As with many historical discussions, the issue remains fraught with unresolved questions about necessity, scope, magnitude, method of payment, effectiveness, and equity. Underlying racial inequities have not disappeared and designing and implementing a successful reparations program to combat them remains a challenge.

Reparations for African Americans are, in a basic sense, compensation for damages stemming from slavery, racial segregation, and discrimination (Swinton 1990, 154). The damages include both recompense for moral wrongs and economic damage. From a moral perspective, reparations are an acknowledgement and redress for the grievous injustice of slavery. Even African Americans who do not need financial payments could still be owed payment for the moral wrong (Brookings Institution 2020). From the economic perspective, centuries of enslavement denied most African Americans the opportunity to earn an income or build wealth. After slavery was abolished, African Americans remained segregated by law for nearly 100 years, again denied the opportunity to earn equal wages for their work. Across the country, federal and local government policies systemically denied African American communities the opportunity to benefit from government programs to improve education, increase home ownership, and accumulate wealth (Darity 2008, “Forty Acres,” 658–9; Darity and Frank 2003, 326–7; Rothstein 2018, 4–13, 19–34, 63–75). Even in freedom, African Americans were locked into institutionalized discrimination by government policies.

Over 150 years after the abolition of slavery, the racial wealth gap is one of the most illustrative examples of the generational impact of discriminatory government policies: the average White family has a net worth eight to ten times greater than the average Black family (Oliver and Shapiro 2006, 116–7). The U.S. government allowed and perpetuated the wealth gap by protecting slavery, allowing segregation, and discriminating in welfare programs. For example, New Deal government construction, employment, and job agencies discriminated systematically against Black workers. Those Black workers were then denied access to affordable housing, removing their best modes to gain income and accumulate wealth (Rothstein 2018, 18–24). By paying reparations to African Americans, the government can close the racial wealth gap and “make whole” those harmed by discriminatory policies.

The quest for reparations has a long history within the African American community. “As early as 1854, a Black emigrationist convention called for ‘national indemnity’ for a ‘redress of our grievances for the unparalleled wrongs, undisguised impositions, and unmitigated oppression which we have suffered’” (Allen 1998, 2). As the Civil War ended, Union general William T. Sherman issued a field order to provide “forty acres and a mule” to establish recently freed slaves on the South Carolina coast (Sherman 2003, 325–7). Anti-slavery activists and religious leaders
continued to call for this policy into the twentieth century. Forty acres and a mule grew into a broad platform in the 1960s when the Black Panthers demanded payment in currency to be distributed as restitution for slave labor and the mass murder of Black people. James Forman of the Student Nonviolent Coordinating Committee called for $500 million from Christian churches and Jewish synagogues in aid to Black farmers, funding for Black print and electronic media, funding for training and community centers, aid for Black welfare recipients, and funding for a Black university (Allen 1998, 2–3).

Reparations surfaced in public discourse again in the late 1980s. The National Coalition of Blacks for Reparations in America and the African Reparations Movement were founded to raise public awareness for the cause. The organizations prompted Congressman John Conyers (D-MI) to introduce a bill in every congress to create a presidential commission to study reparations. Conyers based his proposal on reparations to Japanese Americans interned during World War II (Allen 1998, 5–6). Prominent authors such as Browne (1990), Craemer et al. (2020), and Darity and Frank (2003) cite German financial support to Israel as reparation for the Holocaust. While proposals for reparations gained more prominence, none were enacted.

Economist Robert S. Browne cites a powerful historical example to argue for reparations. From 1965 to 1975, Black militancy forced a government and corporate commitment to improve opportunities for African Americans. The decade saw substantial improvement in employment, education, housing, and voting indices, followed by a deterioration during the 1980s. Browne argues a commitment to close the racial wealth gap, backed by financial resources, can be successful (Browne 1990, 199). A government-funded reparations program would leverage Browne’s argument and marshal government resources to close the wealth gap.

Designing an efficient and equitable reparations program presents many challenges. Leaders must agree on the program’s scope and magnitude, which would require calculating damages from a dearth of data. Eligibility requirements would determine which people qualify. Payment options range from lump sum payments to in-kind transfers, and each type produces transfer implications that strengthen or weaken its efficacy. Finally, there is no clear right answer about whether a proposed program is equitable. These considerations and economic impacts will be analyzed from the perspective of a policymaker.

DISCUSSION OF REPARATIONS

The theory behind reparations for African Americans relies on copious historical data indicating the program is necessary to correct historical inequities. However, there is less agreement about the economic impacts and the best way to deliver reparations to achieve those goals. Economist William A. Darity advocates for three goals in a reparations program: 1) acknowledgement of the injustice of slavery, Jim Crow laws, and ongoing discrimination; 2) redress for the injustice; and 3) closure of the grievances. Acknowledgement is a public recognition of wrongdoing and a formal apology by the U.S. government. Redress means designing and implementing a program to eliminate historical disparities generated by centuries of slavery and discrimination. Closure is a healing process for those affected (Darity Jr. 2008, “Forty Acres,” 656-7). In Darity’s view, reparations have both a moral and economic component: acknowledging
the federal government’s role in perpetuating slavery and segregation and eliminating racial inequities they caused.

Browne also frames reparations in moral and economic terms. Reparations will require a significant wealth transfer to the African American community. Racial disparities in wealth and political power can be traced to disparities in ownership of capital assets. From a moral perspective, reparations would compensate African Americans for centuries of unpaid labor that built the country’s early economy. Browne justifies this substantial capital transfer by the peace that will result from closing the racial wealth gap. Gross racial inequality in the wealth distribution causes racial tensions that could be placated by such a capital transfer. Browne argues the price of that peace is in the national interest (Allen 1998, 5).

The economic goal of a reparations program is to compensate African Americans for the toll of centuries of slavery and segregation, yet there is no consensus on how to quantify those costs. As a simplifying assumption, the racial wealth gap is a standard method to measure the cost. Political scientists Thomas Craemer et al. calculate the 2016 per capita net worth of a White American is $393,966, while for a Black American it is $55,726. They propose a minimum reparations target to close that wealth gap for all African Americans (Craemer et al. 2020, 221). A working paper from the University of California, Berkeley calculates a $638 million impact of occupation, education, employment, and wage discrimination against Black Americans over a 40-year period from 1929 to 1969. The benefit is average White income, minus what White income would be if White people were distributed by occupation and education in line with the population, rather than skewed in their favor. This difference between real and hypothetical White income reflects the benefits to White workers of wage discrimination. The present value was $638 million, but the cumulative impact over the time period was $1.278 billion (Udinsky and Chachere 1972, 165-8). Darity and Mullen cite a gap of $795,000 per household from a 2016 survey. Based on the average number of persons per household, that amounts to approximately $240,000 per person (Darity and Mullen 2020, 257–63).

While academics may not agree on the exact magnitude of a reparations program, the scope must be massive to close the racial wealth gap. This level of investment may seem staggering, however, there are many economic and moral arguments in its favor. Reparations act as additional income to recipients, which would increase consumption and provide a net boost to the economy. But even if reparations did not have an overall stimulating effect, the investment would still be justified as recompense for a moral wrong. While some people would have to pay for African Americans to gain, the literature makes a compelling argument that is a necessary price to bear for atonement. Because the U.S. government ignored or even promoted discriminatory policies, it may need to bear a cost to close the racial wealth gap or right the moral wrong.

Even with sound theory, there is no consensus on the best method of paying reparations. The simplest method is direct cash payments, like the COVID-19 stimulus payments, and designed as either lump sum or incremental payments, like Social Security. Sociologist Robert L. Allen argues that direct cash investments are most effective. Specific types of aid, like affirmative action in jobs or education, are important to spur progressive change, but do not address the systemic long-term decapitalization of the African American community. Allen argues reparations must be targeted payments to increase Black working-class income (Allen 1998, 7).
If cash payments prove politically infeasible, reparations could instead be in-kind grants or subsidies, such as college scholarships, health care subsidies, or favorable home loans. Darity envisions a portfolio of funding for reparations, rather than one single program. A large portion of the portfolio would be direct payments, for which he suggests allocating $1–6 trillion (Darity 2008, “Forty Acres,” 662). He also recommends establishing a “trust fund from which African Americans could borrow for asset-building projects like home ownership, education, or start-up funds for self-employment” (Darity and Frank 2003, 327–8). Other suggestions include providing in-kind reparations for medical care or schooling or building new institutions to promote collective well-being in the African American community (Darity and Frank 2003, 328).

Economist David H. Swinton argues the real monetary damage of slavery and segregation is the loss to African American capital stock, which includes the collective education, technical skills, and work experience of the population (Swinton 1990, 154–8). There are not comprehensive studies on Black wealth ownership or the impact of discrimination on historical wealth accumulation. While welfare cash payments have increased dramatically, they provide current assistance to low-income populations regardless of race, not correction for historical damages. Swinton believes that labor force participation, employment, and training programs best meet the need for an improved African American capital stock. However, he finds the roughly $90 billion spent on those programs through 1983 to be an inadequate total (Swinton 1990, 158–60).

While the literature does not point to a single best method for paying reparations, there is a consensus that investing in Black capital stock is the most impactful solution. For this reason, Darity’s portfolio may make the most sense. The racial wealth gap is substantial, and the goal of reparations is to close it, so some of the reparations fund should be designated for cash payments. Funding for job training and higher education subsidies will steer investment toward improving Black human capital. Darity’s recommendation for a trust fund against which African Americans can borrow is also promising. The fund could make home ownership or business development easier, allowing African American consumers to undertake wealth-building activities.

The literature is saturated with proposed methods to design reparations programs. However, uncertainties remain regarding how to ensure that reparations programs are both efficacious and equitable.

POLICY IMPLICATIONS

Effectiveness, efficiency, and equity are central goals for policymakers. Like many policy questions, a reparations program must balance these goals in its design. While reparations may be fair to African Americans adversely affected by slavery and discrimination, legitimate concerns exist about the equity of potential solutions. Darity and economist Dania V. Frank worry that unscrupulous people could fraudulently claim African American identity to receive this benefit to which they are not entitled. They propose two criteria for recipients. First, recipients must prove they had at least one ancestor held in slavery. Second, they must prove they previously identified as Black or African American in a legal document at least ten years prior to the enactment of the reparations, to avoid non-Black people from suddenly claiming to identify as African American to receive payment (Darity and Frank 2003, 327).
Another equity concern is the transfer problem. In international theory, the transfer problem is defined as, “Does a unilateral transfer from one country to another impose a secondary burden or blessing on the paying country through an adjustment in the terms of trade?” (Darity Jr. et al. 2010, 249). While not specific to reparations or to the United States, the transfer problem is applicable to reparations for African Americans. The reparations payment is a unilateral transfer of wealth from the non-Black community to the Black community, which would act as the two ‘countries’ in this model.

Reparations and the transfer problem first appeared in the literature regarding reparations paid by the German Empire to the Allied powers after World War I. Economist Bertil Ohlin examines the work of John Maynard Keynes in evaluating the burden. Keynes approaches the transfer problem by posing a scenario: If one person gives another person £1 and the person receiving the money increases his or her consumption by the same amount that the other person had to reduce consumption, then there is no transfer problem. Keynes argued this was not realistic. The German people reduced their consumption in order to pay reparations, but the citizens of the receiving countries did not increase consumption to match what German consumers sacrificed. Ohlin further argues that the transfer caused a net negative impact because Germany had to borrow twice the reparations amount to make the payments. Excessive borrowing increased German purchasing power, leading to an increase in German imports of foreign goods, and a decrease of German exports to foreign nations (Ohlin 1929, 172-8).

While written ninety years ago and focusing on international war reparations, Ohlin’s analysis highlights the challenges of designing a reparations program that will have its intended effect. He correctly identifies that not only did reparations fail to solve the initial transfer imbalance, but excess borrowing created an import/export disparity that hurt Germany more than was warranted. American policymakers need to consider this implication. Financing reparations is a massive undertaking. Doing so by borrowing risks hurting American consumers, including African Americans, which could further perpetuate the inequities that reparations intend to target.

Darity also addresses the German transfer problem in the context of reparations for African Americans. He agrees that a lump sum transfer between two markets should uniformly increase consumption in the receiving market and decrease consumption in the giving market. However, there are confounding factors to consider. The most important confounding factor is the small number of Black-owned industries in the United States. The U.S. Census Bureau estimated in 2019 that approximately 1.1 million, or 18.7 percent, of employer businesses were minority-owned, of which only 134,567 were Black-owned (United States Census Bureau 2021). Money spent is income earned for the business owner, so if a Black person spends money from reparations on a good or service from a White-owned business, that would essentially transfer the money from the Black to the White community. The lack of Black industry means there will be some type of re-transfer because there is relatively less Black productive capacity (Darity Jr. 2008, “African American Reparations,” 202-3).

Even if the Black and White economies were equal, that would not solve the entire transfer problem. Darity argues the marginal propensity to consume a “domestic” versus “foreign” good would determine the outcome. Recipients of the transfer would determine how to allocate that spending among Black-produced (domestic) or non-Black-produced goods (foreign). He envisions
a scenario where certain White people benefit from reparations to African Americans because it increases the income of consumers that purchase their goods and services. He posits that the source of White opposition is from White laborers because this scenario would benefit White owners of capital (Darity Jr. 2008, “African American Reparations,” 201-2). Darity’s analysis tells the same cautionary tale—reparations can inadvertently make recipients worse off. Without a significant productive capacity in place, reparations could lower income for African Americans (Darity and Frank 2003, 328).

Darity et al. use a mathematical analysis to illustrate these concerns. They examine several hypothetical scenarios:

1. **White Americans finance reparations by spending.** The impact in this scenario depends on how Black Americans spend their additional income. Black aggregate income can decrease if Black Americans buy more goods from White-owned businesses than they do from Black-owned ones.

2. **White Americans finance reparations through borrowing.** The authors assume Black Americans can only dispose of their reparations in savings. This scenario causes no change to current demand because reparations are paid from and invested in savings.

3. **Black Americans can only buy goods produced by White-owned businesses with their reparations payments.** Black income is still projected to increase in this scenario if demand for goods produced by Black-owned businesses does not decrease.

4. **Black-owned businesses produce no goods.** The change in Black income is zero because all income gained from reparations must be paid back in goods and services purchased.

These four scenarios may not be realistic, but the authors use them to demonstrate the challenges in designing a reparations program that definitively increases Black income. In these scenarios, lump-sum transfers from White Americans to Black Americans did not automatically result in higher aggregate income for Black Americans or lower income for White Americans (Darity Jr. et al. 2010, 250-5).

Darity et al. also analyze supply-side reparations. Rather than a lump sum or monthly transfer of cash to African Americans, the authors envision reparations that affect the supply of African American labor, such as an investment in education in Black communities. They assume that the non-Black population has a greater endowment of skilled labor than the Black population. Reparations to increase the aggregate supply of skilled Black labor would be financed by a
reduction in expenditures toward the supply of skilled non-Black labor. The authors predict that if Black people optimize their export of skilled labor, then the value of the marginal product of labor will be higher for Black people. Therefore, skilled labor is reallocated, which results in higher aggregate income. This scenario improves outcomes for both parties (Darity Jr. et al. 2010, 255-8).

A counterargument to reparations is they may make certain groups of people worse off. However, Darity and Frank dispel the notion that non-recipients will invariably bear the full burden. Reparations that mandate or provide incentives for African Americans to spend money on goods or services produced by non-Black companies will raise the relative income of non-Black people. These findings suggest that reparations are a worthwhile investment in consumer spending, which can benefit all Americans if carefully designed to address burden.

Another concern regards a perceived notion of ‘fairness.’ No White Americans alive today owned slaves. They certainly benefitted from discriminatory policies, but their involvement is challenging to quantify. Is it fair to force people who are not the primary cause of the problem to pay from their income to solve it? As a counter to that argument, Americans pay taxes daily to fund programs they do not like or use directly. For example, people pay taxes to maintain roads on which they never drive, or fund Medicaid despite not receiving it. It may seem unfair for today’s taxpayers to ‘pay’ for slavery, but this approach is consistent with past and current government project funding.

Darity and Frank also raise concerns about financing the program. They argue African Americans should not bear the burden of paying for their own reparations. Black communities paid state, local, and federal taxes for decades while being disenfranchised and discriminated against in most states. However, it may not be possible to craft a tax that only falls on non-Black Americans. Income or wealth taxes would have to apply equally to pass legal and constitutional muster. A tax on specific goods or behaviors would require finding a good or behavior that African Americans do not consume or partake, which does not seem feasible. Property taxes would place more burden on non-Black people but would not guarantee that Black Americans would bear no burden. Perhaps recognizing the infeasibility of this argument, the authors argue that if taxes must be raised universally, then the reparations must be designed so that the net of payments and taxation is substantial (Darity and Frank 2003, 328).

In light of these considerations, Darity and Mullen propose a variety of strategies to fund reparations. Staging payments over a decade would improve feasibility and allow money to be raised by conventional methods, such as borrowing or taxes. An interesting proposal is the creation of a “reparations superfund” to which the government and organizations that benefitted from slavery and Jim Crow would contribute. The federal government could administer and disburse from the fund. Darity and Mullen like the idea of a public-private partnership but believe public responsibility is paramount because government policies actively perpetuated racial inequities. A second proposal is for Congress to direct the Federal Reserve to disburse the money at regular intervals. This would certainly be feasible but opens the door to increased inflation problems (Darity and Mullen 2020, 265-6). Darity and Mullen’s proposal mirrors the successful German model of reparations for the Holocaust. Germany paid from a joint industry and government fund
that allowed the country to make its reparations payments without bankrupting its economic recovery (Brookings Institution 2020).

An additional concern is political feasibility. While academics may agree that government policies created the racial wealth gap, a majority of the public may not. The United States population is approximately 60 percent White, non-Hispanic, or Latino, so a substantial portion of White Americans must buy in (United States Census Bureau, “Quick Facts”). Congress is unlikely to act unless pressured by constituents, therefore reparations require a swing in public opinion. A series of Gallup, Associated Press, and Reuters polls in 2019 showed fewer than 30 percent of Americans supported using taxpayer money to finance reparations (Newport 2020). When factoring in the inherent biases of gerrymandered districts and equal state representation in the Senate, well over a majority of the population must demand reparations before Congress acts. According to a recent poll by the University of Massachusetts Amherst, 90 percent of Republican voters oppose reparations. This means reparations require Democratic majorities in Congress and control of the White House even for consideration. Yet there is still far from unanimity among Democratic voters, where 36 percent oppose the idea (University of Massachusetts Amherst 2021).

Given the current political climate, reparations do not appear imminent. The biggest hurdle may not be economic or theoretical, but purely partisan.

Implementing a reparations program remains fraught with economic and political challenges. The transfer problem requires policymakers to carefully craft the program to invest in Black productive capacity. Without such investment, there is no guarantee the program will increase aggregate Black income. Concerns about fairness and political feasibility are far from resolved. Financing the program only increases those concerns. While excessive optimism is unwarranted, so is a defeatist attitude. When Germany began its Holocaust reparations program, only 11 percent of Germans favored the program. That number is well below American attitudes on reparations, and the German program was successful (Brookings Institution 2020). Both the literature and history demonstrate the potential for a well-designed reparations program that can make all consumers better off.

CONCLUSION

The economic literature makes a compelling case for paying reparations to African Americans but cautions that the program must be designed correctly to increase wealth for specified recipients. Using the racial wealth gap as an estimate of the cost of slavery and discrimination, multiple economists recommend the U.S. government pay reparations to close that gap. Methods of reparations include lump sum or monthly cash payments, health care subsidies, favorable home loans, college scholarships, investments in the African American working class, and a trust fund for asset-building loans. Reparations should target investment in the productive capacity of the African American population or else recipients will “pay back” the reparations when purchasing goods and services from the non-Black population. A proper investment makes it possible to increase income for the recipient Black community and the paying community. Policymakers should proceed with caution, but remain optimistic that a reparations program is in the nation’s moral and economic best interests.
REFERENCES


