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Race and Money

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Prompt for Discussion

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In several historic moments of banking or monetary reform, issues of race were inextricably tied to issues of money. The legacy of institutional segregation continues today. More crucially, the history of money, credit, and banking is implicated in ongoing exclusion and exploitation of vulnerable communities.

Scholars in several fields have explored how the institution of enslavement has shaped American capitalism, monetary debates, credit markets, and banking. Enslavement and its long shadow caused stark and ongoing wealth distortion. The Constitution marked slaves as "articles of commerce" and financial ledgers tracked "property in man" as assets, credit, debt, and monetary value. Between 1820 and the Civil War, banks across the south issued notes with images of slaves printed on the money. The Union won the bloody ground battle thanks to war generals Grant and Sherman, but it also, and

perhaps more importantly won the currency war thanks to President Lincoln, Treasury Secretary Salmon P. Chase, and the Supreme Court of the United States. Lincoln's "greenbacks," backed by the full faith and credit of the US Treasury (but not backed by gold) enabled the Union victory. In turn, the success of the Union army fortified the new currency. The success of the new fiat currency and the Union soldiers were inextricably linked.

The war over slavery was also a war over the future of the economy, the nature of property rights, and the essentiality of value. By issuing fiat currency, Lincoln opened up a debate about how elastic the money supply might be. Fiat money transparently based money's worth on the federal government's determination to take it for value. As Keynes said of legal tender—"the state claimed the right not only to enforce the dictionary but to write it!" Scholars in this roundtable will discuss how those crucial debates affected modern theories about money and value.

The scholars in this roundtable will also discuss the ongoing effects of slavery, Jim Crow, housing segregation, and employment discrimination on the modern economy. In America, each rung on the ladder toward prosperity consisted of bank credit—even more so in the 20th century when homeownership became synonymous with both mortgage credit and prosperity. For Blacks and others, the path toward wealth was closed. It was closed by segregation, government policies, and by realities of finance. In this roundtable, we have invited pre-eminent scholars whose work illuminates core issues at the intersection of money and race. We have asked them to respond to a few questions: How did slavery shape the US monetary, credit, and banking system? How did the economic system and monetary forms shape racial dynamics? What aspects of the

modern economic system are influenced by America’s racial history? How has America’s racial history affected theories of capital, money, or debt? What do you think current debates about the history of capitalism reveal about the future of the field?

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K-Sue Park, How Did Redlining Make Money?

September 25, 2020

***K-Sue Park, Georgetown Law*[1]**

One of the principal insights and analytical charges presented by scholars of racial capitalism is that racism makes money. That is, beyond the question of distribution or the way differently racialized groups receive uneven access to or shares of pre-existent common social resources, this tradition of thought underscores how the capitalist economy has grown by "produc[ing] and exploit[ing] group-differentiated vulnerability to premature death."[2] This follows Cedric Robinson's demonstration that this mode of profit-seeking has for centuries been a central organizing principle through which capitalism developed;[3] it is still in the process of exploring how many strategies of modern markets were innovated and honed through institutions to further conquest and expand the slave trade in North America. This analytical frame poses a crucial challenge to us: we must try to understand the myriad ways *how* the reproduction of racism creates new financial value because these dynamics remain key to market processes and the social violence they feed upon today.

In this post, I look briefly at the infamous case of redlining to ask, how did it *make* money? It is a common habit to characterize the problem with redlining as a matter of inequitable *distribution*: after all, during a national housing crisis, the Federal Housing Administration (FHA) used redlined maps to decide where it would insure mortgages; and, as a result, ensured that banks would extend affordable mortgages only to white families, and not to Black or other non-white and immigrant groups. Analyzing redlining in terms of distribution, however, is misleading; it does not capture the crucial role of the practice in engineering the mass-production of a new form of property whose value derived precisely from the segregated landscape it produced – the suburban single-family home. Redlining indeed institutionalized segregation's monetary value, transforming the landscapes of housing and racial relations in America. Below, to explore this question, I situate redlining within a longer history of leveraging racial value to produce financial value in land; then, I draw on monetary theory to spell out how the FHA's redlining program created new monetary value.

Translating Racial Value into Financial Value

During the era of Jim Crow, the FHA responded to the housing crisis of the Great Depression with a plan to spur the private sector to mass produce housing. This housing would then divide America into white suburbs and disinvested, mostly non-white urban centers. Before the FHA, the Home-Owners' Loan Corporation (HOLC) had also tried to address the national housing crisis with mortgage loans, and it created the redlined maps, which coded neighborhoods based on the presence of racial minorities, in order to assess risk in a uniform way across the country. But where the HOLC had directly issued new mortgages itself – to replace mortgages facing imminent foreclosure – the FHA instead insured private banks that made mortgage loans; further, the FHA redeployed the maps to place

conditions on that insurance. The HOLC had extended mortgages to both whites and non-whites, or across different levels of “risk” it perceived; however, the FHA used the maps to deny insurance to banks for mortgages where non-whites were present, thereby ensuring that mortgages would go only to neighborhoods characterized by white racial homogeneity.[4]

The FHA did not only oversee the development of commodities whose desirability issued from the promise of living in new all-white spaces. It also confined non-whites to urban centers, where it discouraged lenders from providing financial support for rehabilitating or renovating the older and multi-family structures.[5] It therefore starved non-whites in urban centers of resources, forcing them to live in deteriorating and frequently unsafe housing and incentivizing the flight not only of white families but also the businesses that catered to them from cities. As Beryl Satter has shown, the rabid predation that descended upon Black urban neighborhoods to offer “services” in their stead ensured their decline. While whites acquired new access to property as a means of building intergenerational wealth in the suburbs, the FHA’s redlining program fostered white wealth accumulation in cities as well, and innovative ways of seeking out “the *riches* that could be drawn from the seemingly poor vein of aged and decrepit housing and hard-pressed but hardworking and ambitious African Americans.”[6]

This combination of innovative predation and property-making introduced a new formal turn in a centuries-long approach to property in America. That is, the FHA drew upon very old, widespread hunger for property and practices of translating investment in racial exclusion into financial or monetary value. In colonial America, land did not become a commodity – nor part of Anglo jurisdictions – except through the removal of the Native peoples who lived on it.[7] The monetary value of *all* property in America therefore derives historically from the value of white presence and the absence of non-whites, as

well as from innovative predatory practices. To outline this long history in the broadest of strokes, Anglo-Americans grew the slave trade to support their conquest of Native Nations' lands and rapid territorial expansion; by the dawn of the founding, this land and enslaved Black people constituted over 75% of wealth held by white colonists. After abolition, longstanding white resistance to Black landownership, in particular, intensified in scale, energy and organization. This resistance became a major factor shaping land policy and the regulation of land ownership in the late 19th and early 20th centuries.[8]

The FHA's redlining program followed upon decades of white citizens' organizing for racial exclusion through racially restrictive covenants and zoning laws and must be understood within this long history. While the interest in segregation had frequently translated into monetary terms before, the FHA took advantage of the HOLC's racist equation of non-white presence to coolly up the ante and make "risk" the basis of a national, standardized appraisal system.[9] It used its famous Underwriting Manual to capitalize upon the white interest in segregation and uniformly assign monetary value to it. The FHA therefore transformed HOLC's model by establishing a set way of assessing the financial value of racially segregated housing to create a massive market for it. As David Freund observes, its program fundamentally transformed whites' ideas about race and the relationship between race and property, to naturalize this commitment to segregation as a common-sense investment of "homeowners" in maintaining property values that still pervades the real estate market today.[10]

Making Credit Makes Money

We can be quite precise about how redlining *made money,* or constituted a program of public-private money *creation,* thanks to legal theorists, heterodox economists and more recently,

Modern Monetary Theory, who have helped us see, practically, historically, and theoretically, that money is made through the extension of credit, both to the government and to private individuals. On one level, as Christine Desan has shown, governments create national stocks of money that stand for the governments’ liabilities – the public debt or other government investment assets – that are purchased by the central bank.[11] Commercial banks, as Robert Hockett and Saule Omarova have explained, also play a critical role in adding to the money in circulation through the credit they extend to individuals and businesses. Banks extend such credit not based on assessments of deposits they already hold in individual accounts, but rather, on assessments about profitable investment opportunities made by these institutions, which are authorized by the government to credit and open borrower accounts with contents spendable as money.[12] These private institutions therefore expand the money in circulation as franchisees of the government, not as intermediaries that merely move preexisting money around.[13]

Money is credit, whether it is created by governments or by banks. The FHA used its resources to incentivize banks to lend, and therefore intervened as a public agency to spur private money creation. By guaranteeing banks’ loans, it subsidized them to catalyze their production; at the same time, it ensured the profitability of construction enterprises that followed what amounted to its mandate to build segregated housing. The FHA therefore neither unevenly distributed *existing* resources or *new* resources—some putatively neutral “access to credit.” Rather, it created new property and new money out of the raw material of the high value that racial exclusion held for white citizens. It created mortgages *for* segregated housing, producing a new landscape of segregation by *commodifying* it and monetizing its value to people.

Redlining made money, increasing the nation’s financial wealth during a time of economic crisis. The FHA’s program

illustrates how profoundly the production of money is shaped by values of the social order – the specific locus of wealth within it, the history of patterns and modes of wealth accumulation that explain it – as well as how it produces values within it.[14] Just as those people with the standing and resources to invest in the government are those who have historically accumulated wealth,[15] redlining shows how banks decide to extend credit to people. In America, whether banks or the government think the borrowers are "worthy" or likely to use the loans "productively" has long been code for a commitment to segregation. Through the FHA, the government coordinated with banks (its private franchisees) to construct all-white communities in a program that we should recognize as an act of making money – and one that was "allocatively partial."[16] This act also produced *value* in a qualitative sense, both monetary and social, in relationships between people and to land.

The impact of the FHA's use of redlining to create a large-scale residential purchase-money mortgage market in America – where none had existed before – on the landscape of housing and the American economy cannot be overstated. At a time when we are again in the midst of rapidly ripening national crises of intensifying racial violence and homelessness, redlining offers crucial lessons for us about how the government remade the economy to usher in an era of profoundly racist and violent prosperity. We should attend closely to its plans now with the understanding that there are many ways of making money and many ways that racism makes money in America – and that the power of racism to generate financial value perpetually incentivizes the production of novel forms of racism as well.

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[1] Many thanks to Raúl Carillo, David Freund, and David Stein for their thoughtful comments on a draft version of this piece.

[2] Ruth Wilson Gilmore, *Golden Gulag: Prisons, Surplus, Crisis, and Opposition in Globalizing California* (2007), 28.

[3] *See generally* Cedric Robinson, *Black Marxism: The Making of the Black Radical Tradition* (1983).

[4] Kenneth Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (1985).

[5] *Id.* at 206.

[6] Beryl Satter, *Family Properties: Race, Real Estate and the Exploitation of Black Urban America* (2009), 6.

[7] *See* K-Sue Park, "Conquest and Slavery as the Foundation of the Property Law Course" (working draft 2020).

[8] *Id.* at 2, 20-22.

[9] Neither the FHA nor the HOLC, of course, invented correlations between non-white presence, risk, and the price of real estate; this essay is concerned with the ways they formalized, institutionalized, and nationalized this common-sense grammar of the market. *See* Jackson, Crabgrass Frontier, 198; *see also* Margaret Garb, *City of American Dreams: A History of Home Ownership and Housing Reform in Chicago, 1871-1919* (2005); David Freund, *Colored Property: State Policy and White Racial Policy in Suburban America* (2007).

[10] Freund, *Colored Property*, 6.

[11] Christine Desan, "The Key to Value: The Debate Over Commensurability in Neoclassical and Credit Approaches to Money," 83 Law and Contemporary Problems 1, 13, 18 (2020). See also Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (2014).

[12] *See generally* Robert C. Hockett and Saule T. Omarova, The Finance Franchise, 102 Cornell Law Review 1143, 1154-55 (2017); *see also* David Freund's contribution to this series.

[13] Hockett and Omarova, “The Finance Franchise,” 1154-55. See also their contribution to Justmoney.org’s Roundtable on Banking & Money Creation.

[14] *See generally* Desan, “The Key to Value.”

[15] *Id.*, 19-20.

[16] *Id.*, 15.

P. J. Hudson, Currency, Colonialism, and Monetary History from Below

July 28, 2020

Peter James Hudson, University of California, Los Angeles

When discussions arose concerning the potential redesign of the US twenty-dollar bill, with the visage of Andrew Jackson replaced by an image of abolitionist Harriet Tubman, I was reminded of the scandalously neglected writing on race, money, and representation by the Kenyan feminist and political theorist Wambui Mwangi. Mwangi’s work on money includes an excellent unpublished University of Pennsylvania dissertation titled *The Order of Money: Colonialism and the East African Currency Board*, alongside articles in the academic journals

*Geopolitic*s and *Comparative Studies in Society and Histor*y.[1] Throughout, she explores many of the questions and themes of race and money animating the interventions hosted by *Just Money*. She also offers an important critical extension of these debates. Mwangi considers the political economy of colonialism that necessarily undergirds these conversations in the African context, but are also applicable, I would argue, to the United States – and to the debates over representation, race, and the design of twenty-dollar bill.

Mwangi's *The Order of Money* is an important and innovative history of colonial currency policy that should be read alongside J. Lawrence Broz' studies of the international origins of the US Federal Reserve system and Eric Helleiner's discussion of the emergence of national currencies.[2] Yet where these studies, and many others beside them, utilize a top down approach to money, finance, and the logistics and infrastructure of circulation, Mwangi's research has taken a radically different approach. While she is well attuned to the institutional politics and the organizational architecture of finance in the colonial context, Mwangi also provides us with a pioneering example of what we might call monetary history from below. That is, she also writes of how Black subjects have used, or, more properly, *abused*, colonial currency. Through defacement and defilement, Mwangi shows us how everyday holders of currency engaged in small acts of autonomy, critique, and resistance that challenged the prevailing political and economic orders represented by colonial currency and from which colonial currency draws its political, economic, and symbolic legitimacy and authority. Racism – that is, white supremacy – is a constitutive part of these orders and, through the use of money, those normative colonial racial orders are challenged.

Mwangi's *Geoforum* essay, titled "The Lion, the Native and the Coffee Plant: Political Imagery and the Ambiguous Art of Currency Design in Colonial Kenya," (based on a chapter of *The*

Order of Money) is a case in point. She begins the essay with an elegant and canny observation on money's visuality. She writes that money is meant to be *seen* but not *looked at*. She draws a distinction between the basic registers of visibility required for the everyday practices of circulation and exchange, and those more critical optics of scrutiny and interpretation that are embedded in currency design and are central to the functioning of money as a symbolic representation of power. Drawing on Walter Benjamin, Mwangi's distinction between seeing and looking anticipates a discussion of the tactile, febrile, and perhaps even *affective* registers through which money is experienced and understood on the ground, as it were. This distinction also gives us a theoretical and conceptual pathway for further research into the history of money. Mwangi's work does not so much invoke that age-old investigative adage to follow the money, with the end goal of understanding money's sources of power and authority. Instead, her research prompts us to *look at* money, through a kind of counter-hegemonic exegesis of currency design by which the signs of power, often hidden in plain sight, can be read, interpreted, and, ultimately, destabilized.

In "The Lion, the Native and the Coffee Plant," Mwangi provides detailed readings of not only the currency issues of the East African Currency Board (EACB), whose territory included Kenya, Uganda, Tanganyika, Zanzibar, Somalia, and Aden, but she also offers close comparative readings of the moneys of the various European colonialisms operating across the African continent. Quite brilliantly, she shows how forms of colonial administration were represented in currency iconography and design. Of the issues of the EACB, Mwangi notes how the face of the currency included a portrait of the reigning British monarch with text in English, Gujarati, and Arabic. Their reverse contained stylized images of a lion superimposed on Mount Kenya. Pointedly, the EACB currency, unlike that of other European colonial territories, was devoid

of representations of African people. The currency’s iconography inscribed the foundational mythologies and imaginaries of white settler colonialism in the East African territories: that of the African landscape as empty and uninhabited.

Mwangi notes that from the 1920s to the 1950s, EACB currency and coinage design remained relatively stable and unchanging. Even though advances in printing technology encouraged potential forgery and counterfeiting, colonial authorities believed that design changes could potentially undermine trust in the currency. It was a belief based on a vision of Black illiteracy and incapacity. They believed that African people would be disturbed by changes to the currency, and that change would undo the pedagogical work colonial administers had done to teach them to accept and value European currencies in the first place.

However, by the mid-1950s, there was a sudden willingness among EACB officials to consider redesign of the currency. As Mwangi observes, the primary reason for this shift in attitudes was the onset of the armed insurrection against British colonial rule by the Kenya Land and Freedom Army (KLFA), pejoratively known as the “Mau Mau.” The revolt had an impact on all aspects of life in Kenya, including monetary exchange and circulation. Through a wonderful archival discovery, Mwangi demonstrates how the KLFA, or its supporters, used colonial currency as a means to both transmit ideas about the insurrection and, just as importantly, to undermine both the authority of the British and the divine status of whiteness in the colonies. In the files of the Kenya National Archives, Mwangi found a secret memorandum dating from 18 February 1955, written by the Office of the Director of Intelligence and Security and sent to the Secretary of the Treasury. Accompanying the memorandum was a defaced note, “a perfectly legitimate five-shilling note of the old King George VI issue, then still in fairly wide circulation.” Mwangi

writes:

> *On the face of this note, however, over the inscription "The East Africa Currency Board," and the signatures of the members of the EACB, had been scrawled the words "Mau Mau Very Good." The portrait of George VI had been quite deliberately defaced and scribbled over.[3]*

The British were highly attuned to the significance of the defacement of the iconography of the Crown, and the effective rewriting of the text endorsing the currency with the phrase "Mau Mau Very Good." Fearing that the distribution and exchange of such defaced notes would encourage insurrection and undermine colonial authority, the colonial offices withdrew it from circulation. Certainly, one can imagine the revelatory and revolutionary significance of the defaced currency for any African suffering under British rule who received, held, and then *looked at* such notes before passing them on to another colonial subject. The anecdote suggests a sly, subtly subversive intervention into the everyday practices of circulation, and of circulation's role in colonial rule.

Mwangi's reading of money in the East African context offers an important addition to our understanding of money's uses and functions beyond its traditional, somewhat hoary, definitions as a store of value, a medium of exchange, and a unit of account. Instead, for Mwangi, money is also both a symbol of colonial power and a technology of what David Scott has called "colonial governmentality"[4] through which power is exercised at some of the most quotidian, everyday levels. More importantly, for Mwangi, money also takes on a paramonetary function as a bearer of the signs (and scribbles) of anti-colonialism. This paramonetary capacity creates a parallel circuit of circulation and exchange whose velocity is tied to insurrection, and whose worth might be thought of in terms of the production, circulation, and exchange of anti-colonial

values.

The questions Mwangi raises concerning race, money, colonialism, and anti-colonialism bring us back, in a slightly circuitous way, to the United States context, to the meanings behind the Harriet Tubman twenty-dollar bill, and to the question of US racial capitalism, to use that suddenly ubiquitous phrase, that are by necessity embedded in any discussion of race and money. [5] Certainly, we can understand the desire, in some circles, to not only have Tubman represented on US currency, but to have Andrew Jackson removed. It is both a conciliatory gesture towards African American incorporation into the national polity and an acknowledgement of a history of dispossessive violence and the lingering-on of a disgraced social and economic order. Yet, while the Tubman bill represents a desire for incorporation, and for recognition and redemption, it is a desire that does not question the fundamentally exploitative and racist political economy of the United States. The Tubman twenty represents representation without reparation. Or perhaps, it is a gesture guided by an idea that through the mere fact of representation, reparation is supposed to occur. In either case, such gestures presume that the "racial" in racial capitalism is merely a symbolic appendage to, not a structural foundation of, the political economy of US capitalism.[6]

It could be argued that depicting Harriet Tubman on the twenty-dollar bill actually promotes a misrepresentation and encourages a mode of misrecognition that resists Mwangi's call to look at money. It asks us to reverse Mwangi's optical progression. Instead of moving from seeing to looking, we are asked to revert from looking critically to merely seeing. Through this reversal, we are obscuring, or indeed, erasing the African American presence in the political economic history of the United States. We are encouraged to look away not only from the United States' history of slavery and settler colonialism but also, if we follow the analysis of

both Kwame Ture and Charles V. Hamilton in *Black Power,* and of Robert L. Allen in *Black Awakening in Capitalist America*, from the *actual* colonial conditions under which Black people in the United States are living.[7] This is to say nothing of the United States' external colonies, of its long history of overseas military intervention and imperial venturing, and of the dollarization of the world as the engine of US neocolonialism.[8] Until such colonial relations have ended, perhaps the most faithful representation of the US economy remains Andrew Jackson, with his grim, stentorian countenance a constant reminder of the glorification of white supremacy and of the pure extractive violence of primitive accumulation that is the history of the United States.[9]

Mwangi observed how one of the colonial reactions to the Mau Mau insurrection was to begin a process of currency redesign. For the first time, Africans were depicted in East African currency. It was not an act of decolonization. Far from it. As with the demand for Black representation on US currency, it was meant as a conciliatory gesture, in this case one that would reconfigure, preserve, and extend British colonialism. Mwangi's research suggests that we should be wary of such conciliatory gestures, that we should resist those invitations to see without looking. We would do well to deploy Mwangi's analysis of currency in the British colonial territories in East Africa to think through the monetary history of the African American colony within the United States. Her work has the potential to provoke an audacious and radical research agenda on race and money in the US context. It asks us to search for those defaced, defiled, and discarded currencies in the US colonial archive, and to properly look at the history of money and currency design as it is reinscribed and rewritten from below.

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[1] Wambui Mwangi, *The Order of Money: Colonialism and the East African Currency Board* (Philadelphia, PA: University of

Pennsylvania, 2003); Wambui Mwangi, “The Lion, the Native and the Coffee Plant: Political Imagery and the Ambiguous Art of Currency Design in Colonial Kenya,” *Geopolitics* 7, no. 1, (2002), 31-62; Wambui Mwangi, “Of Coins and Conquest: The East African Currency Board, the Rupee Crisis, and the Problem of Colonialism in the East African Protectorate,” *Comparative Studies in Society and History* 43, no. 4 (2001): 763-87.

[2]J. Lawrence Broz, *The International Origins of the Federal Reserve System* (Ithaca: Cornell University Press, 1997); Eric Helleiner, *The Making of National Money: Territorial Currencies in Historical Perspective* (Ithaca: Cornell University Press, 2003).

[3]Mwangi, “The Lion, the Native and the Coffee Plant,” 48-49.

[4] David Scott, *Refashioning Futures: Criticism after Postcoloniality* (Princeton, NJ: Princeton University Press, 1999), 23-52. For a discussion of savings and thrift as a mode of colonial governmentality in the US-Caribbean context, see Peter James Hudson, *Bankers and Empire: How Wall Street Colonized the Caribbean* (Chicago: University of Chicago Press, 2017), 177-221

[5] On the origins and history of “racial capitalism” see Peter James Hudson, “Racial Capitalism and the Dark Proletariat,” in “Forum I: Race, Capitalism, Justice,” special issue, *Boston Review* (Winter 2017), 59-65.

[6] The questions of representation, especially as they converge around questions of race and class, are discussed in Frantz Fanon, *The Wretched of the Earth*, trans. Constance Farrington (New York: Grove, 1963), 35-106; and Walter Rodney, “Aspects of the International Class Struggle in Africa, the Caribbean, and America,” in Horace Campbell, ed., *Pan-Africanism: Struggle against Neo-colonialism and Imperialism; Documents of the Sixth Pan-African Congress* (Toronto: Afro-Carib, 1975), 18–41.

[7] See Kwame Ture and Charles V. Hamilton, *Black Power: The Politics of Liberation in America* (New York: Verso, 1992); Robert L. Allen, *Black Awakening in Capitalist America: An Analytic History* (Trenton, NJ: Africa World Press, 1990). For an astute reassessment of Allen's work, see N.D.B. Connolly, "Black and Woke in Capitalist America: Revisiting Robert Allen's Black Awakening… for New Times' Sake," *Reading Racial Conflict* (March 7, 2017).

[8] Sam Gindin and Leo Panitch, *The Making of Global Capitalism: The Political Economy of American Empire* (London: Verso, 2013), and *Michael Hudson, Super Imperialism: The Origin and Fundamentals of U.S. World Dominance* (London: Pluto, 2014) offer provocative and important assessments of the global history of US finance capital. Neither book, however, addresses questions of race, racism, and white supremacy. The classic study of neocolonialism remains Kwame Nkrumah, *Neocolonialism: The Highest Stage of Imperialism* (London: Thomas Nelson & Sons, 1965). For important revisions, see Stewart Smith, *U.S. Neocolonialism in Africa* (New York: International Publishers, 1974); and Butch Lee and Red Rover, *Night-vision: Illuminating War and Class on the Neo-Colonial Terrain* (New York: Vagabond, 1993).

[9] On the longer history of the US economy, see Gerald Horne, *The Dawning of the Apocalypse: The Roots of Slavery, White Supremacy, Settler Colonialism, and Capitalism in the Long Sixteenth Century* (New York: Monthly Review Press, 2020); Gerald Horne, *The Apocalypse of Settler Colonialism: The Roots of Slavery, White Supremacy, and Capitalism in 17th Century North American and the Caribbean* (New York: Monthly Review Press, 2018).

M. Ralph, Finance and Violence

July 17, 2020

Michael Ralph, New York University

> *I got lynched by some crooked cops.*
> *And to this day, them same motherfuckers getting' major pay.*
> *But when I get my check, they takin' tax out.*
> *So we payin' for these pigs to knock the blacks out.*
>
> *Tupac, "Point tha Finga" (1993)*

In the past few months, longstanding critiques about mass incarceration and police abuse have pushed a plea familiar to abolitionists into commercial journalism and casual conversation.

"Defund the Police."

It is a fascinating and captivating demand because it distills the two essential features of policing: finance and violence (or, it *would be* "violence" except that concept refers to the excessive or illegitimate use of force). Prosecutors and judges indifferent to police killings of unarmed African Americans frame the use of force by police as always, inherently, legitimate. Oppressed people call it "state violence"; the privileged, "law and order." This is America.

While corporations churn out press releases declaring their support for #BlackLivesMatter and affluent allies and

academics debate the texts they prefer to include on anti-racism reading lists, low income and working class African Americans (women, in particular) have spent even more time during the past few months doing what they have been doing for the past decade—and increasingly for the past few years, that is, throughout the Trump era—sharing strategies for building wealth and acquiring expertise in firearms. In other words, "defund the police" hooks into the priorities of rank and file African Americans about how to defend the value of their lives in terms of what life means as a precious resource. This is what makes life "matter" *and* what matters in how we discuss policing.

In other words, low-income and working class black people realize the conversation about why black lives matter is a debate about the value of black lives in practical terms. They also realize that the value of life is tied to the forms of policing and militarism used to defend lives—or to take lives. This means the value of life is central to the history of policing in the same way that it is central to the history of insurance: together, the history of finance and violence.

It is perhaps no surprise that police departments and law enforcement officials sometimes contract insurance policies worth millions of dollars they can use to pay settlements when they are sued for having used extralegal force to injure or kill someone. Chicago may be battling a deficit of more than $838 million but it has spent over half a billion dollars on settlements for police abuse this decade (including more than $113 million in 2018). Minneapolis—where police officer Derek Chauvin killed the unarmed African American man, George Floyd, on May 25th sparking global cries for police reform—spent $20 million on a single settlement in 2017.

Police precincts sometimes use bonds—what some call "police brutality bonds"—to make settlement payments: claiming that million-dollar settlements drain their budgets, law enforcement officials take capital from investors in exchange

for a projected profit. But since we are taxed to pay for law enforcement, *we are* ultimately the ones who pay for police misconduct. These financial partnerships let police evade accountability and help insurance companies generate record profits.

This relationship between finance and violence has been with us since the dawn of the republic. From the eighteenth century forward, US economic growth was fueled by marine insurance (through which merchants secured cargo—including enslaved people—shipped to these shores); fire insurance (to secure homes); and life insurance (to secure lives, as well as those of the enslaved people merchants grew their wealth by renting out after the slave trade was outawed in 1808). The same era that witnessed the birth of insurance to secure cherished assets also witnessed the birth of policing to safeguard commerce and to protect property—including slave patrols made up initially of white slaveholders who banded together as armed militias to recover stolen property in the form of African people who escaped slavery to secure their freedom.

Just as law enforcement originated in antebellum slave patrols, the US armed forces derived from efforts to contain adversaries conceived as threats to national security.

The US Army was born from explicit efforts to dispossess and exterminate indigenous people. After the Revolutionary War, public concern about the limits of state power forced the Continental Army to disband. Yet, the state pursued a persistent interest in displacing the prior inhabitants of what is now the United States by passing the Militia Act of 1792 (and then 1795). The Continental Army was succeeded by the Regular Army, succeeded by the Legion of the United States until in 1796 it became known thereafter as the US Army.

With the Naval Act of 1794, the US Navy consolidated a state project to subdue African pirates who interrupted US commerce. Alongside these events, insurance was used to secure the value

of property and other assets and to grow capital, while police, militia, military—as security forces—subdued perceived threats to law and order, protecting assets while eliminating obstacles to capital growth.

Capital is not a thing—it is a relationship. It entails an agreement by financial institutions that a person or corporate entity has exclusive access to an asset and that the state—i.e., the police or military—will punish unauthorized access to it. The state does the most to protect the people with the largest capital investments, leaving people with the least capital invested to fend for themselves. Thus, the counterpart to insurance is mutual aid: the community funds and projects people used before the birth of the formal insurance industry (and still use when they are denied access to it).

“Defund the police” is an explicit effort to mobilize medical experts, therapists, teachers, activists, scholars, and social workers rather than outsourcing the complicated task of running society to law enforcement officials who believe they can solve social problems without bothering to study them.

“Defund the police” is a call to revisit the capital relations that have created what economists call “moral hazard”: police *paid to* brutalize—for Tupac, “beat”—African Americans, gender non-conforming people, and members of other despised groups. The fact that we are forced to subsidize our own subjugation adds insult to injury and financial liability.

“Defund the police” is part of a broader recognition that “reforms” make it too easy for police departments and insurance companies to make a killing.

D. Jenkins, Debt and the Underdevelopment of Black America

June 15, 2020

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In his 1983 classic, *How Capitalism Underdeveloped Black America*, Manning Marable asked, "What is development, and what is its structural relationship to underdevelopment?" Marable rejected liberal replies as well as the ontological approach to seeing development as a condition of the West, and underdevelopment as that of the non-West. For Marable, underdevelopment was "not the absence of development; it is the inevitable product of an oppressed population's integration" into what we might call racial capitalism.[1]

But what was it about capitalism that, in actual terms, underdeveloped Black America? Marable identified four vectors. For starters, the "repressive and bestial force" of slaveholders, judges, juries, prison wardens and police preserved and reproduced "fraud and force," the essential dynamics of American capitalism. Second, capitalism was the culprit because it generated structural exclusion and discrimination, at one level, and the select integration of the "Black petty bourgeoisie" into the system, at another level. Third, and relatedly, capitalism was to blame because of its ideological tentacles. Black elites theorized that the problem of underdevelopment was not capitalism per se, but that white capitalists hoarded all the wealth. Finally, Marable argued that the very foundations of capitalism—patriarchy and racism—led to the under-compensation

of black women in ways that generated “higher profits for white capitalists.”[2]

I want to add to Marable’s thesis. But rather than focus on violence, intra-racial class relations, the theory of black capitalism, or capitalism’s patriarchal and racist foundations as the agentic force, I want to emphasize the role of municipal debt in the underdevelopment of Black America. Marable is surprisingly quiet on the matter of finance in general, and credit-debt in particular. He did not think beyond *consumer debt* and interpersonal lending arrangements.[3] Because Marable did not consider credit-debt as central to capitalism, it had no bearing on his tragic story of underdevelopment.

Across distinct traditions, it is well established that credit and debt, as much as investment capital and profitability over time, are key dynamics of capitalism. Influenced by Joseph Schumpeter, German historian Jürgen Kocka has recently commented that, “the entrepreneur carrying out innovations requires capital in advance, which he contracts as debt in order to pay it back with interest later if the project is successful.”[4] Whereas Schumpeter emphasized the relationship between credit and innovation, Karl Marx considered how lending to state governments allowed a “class of state creditors” to rechannel their claims on future public revenues into other profitable investments.[5] Clearly, then, credit-debt is key to capitalism’s dynamism. And, from the seventeenth century onward, this crucial dyad has been articulated through race.[6]

Scholars have not yet focused on the relationship between race and municipal debt, one of the principal means through which US state and local governments finance public infrastructure. And because they have rarely directed their sights to the municipal bond market—a politically constructed network linking government borrowers, individual and institutional investors, and sellers of financial information—much less on

the role that race plays in structuring assessments of creditworthiness, they have missed how bond ratings and the private bond market more generally furthered illicit white racial advantages.

The organizers of this roundtable have asked us to consider how monetary forms shape racial dynamics. To that end, and in keeping with Manning Marable's insistence that development and underdevelopment are mutually constitutive processes, I want to spend what space I have left sketching out how municipal debt contributed to the development of white America and underdevelopment of Black America during the mid-twentieth century.

Housing and labor market advantages for white Americans were structured through New Deal policy and throughout the New Deal Era. The story of federal efforts to revive the US housing market during the Great Depression, and how those efforts were circumscribed by racism, has been adequately told. Federal mortgage guarantees drew white Americans to the suburbs and triggered the divestment of mortgage capital from cities around the country.[7] Yet, federal officials advertised postwar suburbanization as a product of the free market, erasing the government guarantees that made the investments possible.[8]

The transformation of the Cotton Belt into the Sunbelt occurred through the defeat of left Keynesianism (and its program of full employment through federal spending on social welfare) and the domestic implementation of military Keynesianism. Federal support proved crucial to the emergence of the military industrial complex, which meant, in turn, high salaries for white, white-collar suburbanites in places like Orange County, California.[9] And despite the successful efforts of industrial unions to organize across racial and ethnic boundaries, there were far too many instances of local craft unions working to exclude black Americans. White working-class advantages came in the form of union benefits

and high wages that might also allow for the suburban dream.

The postwar baby boom and metropolitan development fueled greater demands for debt-financed infrastructure in the suburbs. In 1955, one-third of state and local government expenditures were financed out of current tax receipts. “The remainder is financed by borrowing,” in the words of one student of municipal debt.[10] The municipal bond market had seen 3,300 new bond issues totaling $1.2 billion in 1946. Almost twenty years later state and local governments nearly doubled the number of bond issues, raising $11.1 billion.[11]

Municipal credit was transformed into segregated infrastructure. The carbon copy, assembly-line production of identical homes was often the subject of discussion, but the racially segregated Levittowns across the country depended on debt-financed sewage treatment and water systems to make upscale homes worth the price. To reach fast food chains along and just off the interstates cutting across America required new and improved side streets. Indeed, what good was a Buick Super State Wagon, large enough to fit a family of six, golf bags, and fishing equipment, if the roads were full of potholes and parks and playgrounds left dilapidated?

What’s more, racially structured housing and labor market advantages were foundational to the strong borrowing reputations of suburban communities. There were many variables to which credit rating analysts looked to determine a municipal bond rating. But per capita income was high on the list. “The growth of debt has been almost matched by the growth in income and so sustenance of a high rating for state and local government obligations is reasonable—if income continues to be high.”[12]

To be clear, these were *illicit racial advantages* that furthered the development of white America. The ‘illicit’ is

often used to characterize the behaviors and income generating practices of those excluded from, and locked out of, formal labor and housing opportunities. But political philosopher Charles W. Mills inspires for me a very different usage of the term.[13] Indeed, illicit advantages can be produced through formal markets just the same. In this case, the illicit is that which people lay claim principally because of their whiteness; through no work of their own but because of the particular 'work' that whiteness does.

The advantages perpetuated by the 'doubling' mechanism of both the US housing- and municipal bond markets were plenty. Not only did white flight benefit homeowners through increased equity, but it also created a more lucrative bond market that could fund their public resources. White middle-class Americans benefited from community resources provided by the bond market, while white upper-class bondholders collected tax-exempt interest income on their investments. Investment in public schools for white children could and did unlock a world of possibilities. Incurring debt to invest in racially segregated suburban schools not only meant increased opportunities for social mobility and improved collective life chances. It also meant, in effect, "expanding the real freedoms that (white) people enjoy," to quote a notable economist.[14]

It is not true that postwar cities were completely divested. The flight of white Americans who still worked or shopped in the downtowns of urban America mandated not only new highways, but also parking facilities and metropolitan transportation systems. Towering above the anonymous crowds moving through downtown America were garish signs selling some product and experience, and fashionable cast-iron street lamps. Bond financiers profited from white flight and the desperate pursuit of cities to attract white middle-class Americans as workers and consumers. And it was too often the case that black people living in Chicago, San Francisco, among other

cities, serviced municipal debt without getting much in return.

Nearly twenty-five years ago historian Thomas J. Sugrue underscored "two of the most important, interrelated, and unresolved problems in American history: that capitalism generates economic inequality and that African Americans have disproportionately borne the impact of that inequality."[15] What's more, how is it that, during a moment of relatively low interest rates (roughly between 1946 and 1965), when demand for municipal bonds was relatively strong among institutional investors, and when borrowers issued a plethora of new debt, black children across the nation still continued to attend dilapidated schools? How is it that they either had poor access to parks or played inside poorly maintained spaces?

I do not have the space to answer these admittedly large questions. And doing so requires more localized research. But I take the following as my starting point for addressing this story of underdevelopment: Lenders did not extend credit to municipal borrowers, and borrowers did not transform credit into public infrastructure without already-existing relations of racial inequality. This implies that to separate yields, interest rates, and credit ratings from shifting racial regimes is not only ahistorical. It is also to buttress the ideological fiction that the market is insulated from race and responsible principally to price signals, supply and demand. My starting point also implies that during the golden age of American capitalism and low interest rates, investment was less about costs than about who or what was rendered worthy of debt, determinations mediated by racial logics.

Across a wide swath of domains, the attempt to code some activities as 'economic,' and thus more central than practices coded as 'cultural,' has proven remarkably successful. For their part, bond rating analysts participated by insisting that their ratings were reflections of objective economic conditions. Whatever inequality generated through municipal

debt or the municipal bond market was the upshot of depoliticized and deracialized processes, they claimed. To illustrate the slippage between their explicit avowals and what ratings actually represented, I want to draw from a Congressional hearing held in the midst of the credit crunch and broader concerns over the urban fiscal crisis of the late 1960s.[16]

Take Moody's Investors Service, Inc. and Standard and Poor's (S&P) for example. Founded in 1909 to assess the creditworthiness of corporations, ten years later Moody's broadened its scope to rate municipal bonds.[17] By the late '60s the firm published annual data on some 15,000 political subdivisions and rated bonds issued in amounts $600,000 and above.[18] Letter grades standardized the variety among the thousands of issuers of municipal debt, which enabled bankers to purchase bonds and resell these securities to investors who never set foot in the issuing community. Standard Statistics Company, Inc. and Poor's Publishing Company merged in 1941 to form Standard & Poor's. In 1949, the newly consolidated firm began publishing *Bond Outlook*, a weekly listing of municipal bond ratings. S&P relied on subscriptions and charged municipal borrowers a fee to have its bonds rated.[19]

S&P's Brenton Harries and Moody's Robert C. Riehle described a similar ratings process. With federal securities as "the benchmark from which our ratings stem," S&P attempted to "measure the relative investment quality of one municipal obligation to another."[20] Harries remarked that the procedure began with "a history of the immediate prior years." The firm looked to key indicators such as net debt to assessed valuation ratio, overlapping debt, and "economic" and "socioeconomic" factors such as population, industry, tax base, and welfare costs. After analyzing the past and present, S&P analysts postulated on what might happen in the future: how did borrowers plan to sustain economic growth? What if growth stalled?[21] After analyzing similar audited

information and a discussion of “impressions and recommendations” with the Moody’s Rating Committee, analysts voted in support or against the rating. Ratings were then “disseminated to the issuer” and published in various trade publications.[22] In the end, Robert C. Riehle explained that despite the usage of different methods by the various rating agencies, ratings depended “upon our individual philosophies at various points.”[23]

Historian Robert Self has persuasively shown how real estate developers, city planners, municipal officials, among others, often saw blight as an “economic problem” rather than “a symptom of inequality.”[24] Bond rating analysts went further to effectively elevate suburbs over cities. According to Riehle, “few, if any, of the nation’s older and larger cities have been without problems.” Cities were marked by “blight” and the suburbanization of the “young, vibrant middle-income group” had become a fact of urban America. At the same time, older cities could not escape “the influx of others, who through no fault of their own possess modest skills and limited earning capacity.”[25] It was one thing for cities to struggle with higher debt service charges as real estate tax revenue slackened. Perhaps most disconcerting, Riehle noted, was that suburbanization implied “the potential loss of an electorate with a desire for efficient, conservative, sophisticated government” to be filled, presumably, by voters who proposed the opposite: inefficient, fiscally liberal, and primitive government.[26] American cities were being made to pay for a postwar political economy in which they were structurally disadvantaged.

Just as African Americans were beginning to realize the early gains of the civil rights revolution, rating analysts offered recommendations that would only deepen the underdevelopment of Black America. Robert Riehle argued that while the problem of suburbanization was intractable, city officials were not without options. They could charge tuition to attend City

College. They could increase water, sewer, and transit fees and fares.[27] One of the major demands of the black freedom struggle was greater access to a more expansive public—access to the public sector, public institutions, and public spaces. After all, racially segregated public institutions had been essential to the upward mobility of white middle-class Americans after the Second World War. But in the late 1960s—*before* the economic and fiscal crises of the 1970s—bond rating agencies were basically outlining a program of privatization. As the public sector became a crucial mechanism for black mobility, black Americans had the rug pulled out from under.

I want to conclude by returning to Manning Marable. Staring defiantly at the sharp teeth of Reaganism and Thatcherism, Marable declared, "The immediate task before the Black movement in this country is to chart a realistic program to abolish racist/capitalist underdevelopment."[28] In the face of racial revanchism and the looting of public funds by corporate elites, the task remains just as urgent. And just as violence, black capitalism, and the nexus of patriarchy and white supremacy remain foundational to underdevelopment of Black America, so too are matters of credit-debt. Along with theorization, then, the task is to identify the pressure points, and to press hard.

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[1] Manning Marable, *How Capitalism Underdeveloped Black America: Problems in Race, Political Economy and Society* (Boston, MA: South End Press, 1983), 2,7.

[2] Ibid., 2, 9-10, 19, 105-114, 134.

[3] Ibid., 151, 162.

[4] Jürgen Kocka, *Capitalism: A Short History* (Princeton University Press, 2016), 15.

[5] Karl Marx, *Capital: A Critique of Political Economy, Volume III* (Penguin Classics Reissue, 1993), 607.

[6] See, for instance, K-Sue Park, “Money, Mortgages, and the Conquest of America,” *Law & Social Inquiry*, 41.4 (Fall 2016):1006-1035; Edward Baptist, “Toxic Debt, Liar Loans, Collateralized and Securitized Human Beings, and the Panic of 1837,” in *Capitalism Takes Command: The Social Transformation of Nineteenth-Century America,* ed. Michael Zakim and Gary J. Kornblith (University of Chicago Press, 2011); David M.P. Freund, *Colored Property: State Policy and White Racial Politics in Suburban America* (University of Chicago Press, 2007).

[7] Robert O. Self, *American Babylon: Race and the Struggle for Postwar Oakland* (Princeton University Press, 2003), 19-20.

[8] David M.P. Freund, “Marketing the Free Market: State Intervention and the Politics of Prosperity in Metropolitan America,” in *The New Suburban History*, ed. Kevin M. Kruse and Thomas J. Sugrue (University of Chicago Press, 2006).

[9] Bruce J. Schulman, *From Cotton Belt to Sunbelt: Federal Policy, Economic Development, and the Transformation of the South, 1938-1980* (Duke University Press, [1991] 1994); Fred Block, “Empire and Domestic Reform” *Radical History Review*, 45 (1989):98-123; Lisa McGirr, *Suburban Warriors: The Origins of the New American Right* (Princeton University Press, 2001), 26-7.

[10] Roland I. Robinson, *Postwar Market for State and Local Government Securities* (Princeton University Press, 1960), 5-6, 40.

[11] Joint Economic Committee, Subcommittee on Economic Progress, “State and Local Public Facility Needs and Financing: Volume II,” 89th Cong., 2nd sess., December 1966, 8, 105-106.

[12] Robinson, *Postwar Market for State and Local Government Securities*, 65.

[13] Charles W. Mills, *Black Rights/White Wrongs: The Critique of Racial Liberalism* (Oxford University Press, 2017), xv, 125, 131.

[14] Amartya Sen, *Development as Freedom* (Penguin, Random House, 1999), 3-4.

[15] Thomas J. Sugrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton University Press, [1996] 2005), 5.

[16] For the credit crunch, see Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011), 60-8; Louis Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton University Press, 2011), 224; Monica Prasad, *The Land of Too Much: American Abundance and the Paradox of Poverty* (Cambridge, MA: Harvard University Press, 2012).

[17] Richard Sylla, “A Historical Primer on the Business of Credit Ratings,” in *Ratings, Rating Agencies and the Global Financial System*, ed. R.M. Levich, et.al. (Boston: Kluwer, 2002), 19.

[18] Statement of Robert C. Riehle in “Financial Municipal Facilities: Volume II,” Joint Economic Committee, Subcommittee on Economic Progress, 90th Cong., 2nd sess., July 9-11, 1968, 211-212.

[19] Statement of Brenton Harries in “Financial Municipal Facilities: Volume II,” 195; Testimony of Harries, “Financial Municipal Facilities: Volume II,” 272.

[20] Statement of Harries, Ibid., 195, 202.

[21] Testimony of Harries, Ibid., 192.

[22] Statement of Riehle, 214; Moody's Investors Service, Inc., "Appendix B," Ibid., 228-9.

[23] Testimony of Riehle, Ibid., 277.

[24] Self, *American Babylon*, 139-142.

[25] Statement of Riehle, "Financial Municipal Facilities: Volume II," 240.

[26] Riehle, Ibid., 238, 246.

[27] Riehle, Ibid., 237-9.

[28] Marable, *How Capitalism Underdeveloped Black America*, 10.

D. Freund, Money is productive, and racist institutions create money

June 8, 2020

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No doubt many readers here will be familiar with the role of the financial sector in shaping America's peculiar history of racial inequality. Unequal access to money and credit has systematically disadvantaged people of color (an ever-shifting category) and created extraordinary privileges for people deemed to be "white." Meanwhile, the institutions that produce

and circulate wealth in the form of financial instruments have relied consistently upon racial exploitation to fuel economic growth, often blurring beyond recognition the line between public and private power. Money and debt have always been influential drivers of American development and we know that their allocation and uses have never been wholly colorblind.[1]

But what kind of economic work, exactly, do modern financial instruments perform? What, practically speaking, do sovereign currencies, bank-issued deposits, and an array of credit forms make happen? And what does this question reveal about the history of race in America?

I ask because most scholarly accounts of American finance rely upon a story about money—a characterization of its history and functions—that cannot be documented. Writing on finance regularly trades in powerful fictions that erase money's dependence upon federal authority and its essential, productive role in economic growth. Thus, while scholars have long demonstrated that the state has been an agent of racism, most have failed to fully reckon with money as an instrument of the state. And most downplay or ignore the fact that monetary issue by states and banks contracts for production: that the creation of money literally makes wealth-creation possible. Reckoning with these truths forces us to rethink the relationship between race, finance, and state power, for it shows that financial instruments and institutions do not simply reflect and reproduce existing racial hierarchies. Rather, the world of finance is essential to *creating* racial categories and racial difference.

A formidable obstacle to uncovering that history is the conventional wisdom about money: a neo-classical ("orthodox") model that is factually incorrect, but nonetheless foundational to mainstream economics scholarship. It begins with an origin story still rehearsed in introductory economics textbooks: that money was invented by ancient civilizations to

simplify barter-like networks of exchange, essentially the trading of things for other things. Orthodoxy then imagines all money forms as updates of those original, commodity-like tokens; money, even today, still “stands in” for things of value and so performs essential market functions, including the completion of payments.[2] Finally, this narrative insists that credit forms appeared subsequent to money’s invention and only out of necessity, when people and then firms sought the convenience and efficiency of making temporal arrangements for completing purchases (so that they could “buy now,” with borrowed money, and “pay later.”) Banks could not begin *lending* money, the story goes, until others had first *saved* it. In the orthodox imagination, money and credit developed organically from market relationships and they have evolved, ever since, to meet the market’s changing needs.[3]

This story is foundational, then, to maintaining orthodoxy’s sharp divide between the “real” and “financial” economies. The former is cast as a generative, wealth-creating sector in which people make and trade things, while the latter is a realm where money circulates to facilitate all of that production and exchange. In orthodoxy’s real sector, strategic use of the “factors of production”—land, capital goods, and labor—creates valuable material and intellectual products, like food, machines, software, and expertise. Then the financial sector includes the institutions and instruments with which people measure, store, and manage the value of their ownable, “real” assets. Finance greases the real sector’s wheels and so helps to unleash its wealth-generating potential. Critically, this means that financial instruments are not intrinsically wealth-creating, or “productive.” Standard macro holds that money is *not essential* to the growth process or, as A. C. Pigou famously wrote, that money is a “veil” over an economy that ultimately operates on barter principles. Unlike “real” assets such as arable land or factories, so-called “paper” assets are not factors of production.[4]

And it is here that orthodoxy's significance for our topic comes into view. For this understanding of finance limits, by definition, the public sector's power to shape economic life. Specifically, it defines insurmountable constraints on a government's ability to *create* wealth. Thus, it enforces an already powerful myth that public policy has played a minimal role in determining winners and losers in the American economy. Of course, the discriminatory impacts of government policy have been documented exhaustively, beginning with conquest and slavery and continuing to present-day mortgage banking, pay-day lending, and incarceration. But, insofar as finance is concerned, most of this work treats state actions—violence, taxing and spending, regulation and chartering, even public ownership of productive capacity—as interventions into a "private" economy and a world of "private" capital that can be separated, at least for purposes of economic analysis, from the public sphere. Accordingly, this work insists that the public purse can only be filled by drawing upon revenues (wealth) generated by the real economy. In the neo-classical imagination, governments can nudge the real sector towards certain productive ends but, short of owning and operating the means of production, they cannot generate new capital.

One final point warrants special emphasis: most scholars argue that the U.S. government faces these constraints as well, *despite its monopoly power to issue the domestic money of account*. Economic orthodoxy depicts all forms of public spending—including that by the U.S. Department of the Treasury—as a strategic reallocation of private capital. And it casts federal monetary policy as an effort to adjust the "quantity" of currency in circulation so as to meet and, if necessary, manage the market's financial requirements. Supplying money does not by itself spur growth, in this telling, but instead ensures the smooth functioning of the "real" sector variables that drive the wealth-creation process. In the orthodox narrative, money is not productive

and the federal state's power is limited to managing its supply or, alternatively, redirecting private profits.

This monetary orthodoxy, while hegemonic, is not true. The documentary record makes that clear and guides the heterodox scholarship in economics, sociology, history, law, and anthropology that has long explored finance's real-world history. The earliest money forms appeared not as commodity tokens that "stood in" for wealth but rather as credit forms or IOUs—as promises to pay—and the things considered "money," today, are likewise monetized debt instruments ("credit-money"). The creation and circulation of such instruments does not merely reflect and serve the "real" economy. Instead, monetary issue establishes contractual relationships between creditors and debtors that organize—socially and legally—the production and exchange of goods. In other words, heterodoxy demonstrates that the creation of financial instruments is not cognate but *essential* to growth. Money is, in fact, economically "productive." Finally, this work traces how the creation and circulation of money forms has always depended on sanction by the elites or sovereign authorities who issue them. Money's *value*, at the point of issue, has been grounded not in specific "things" per se (like cattle or gold), but rather in a central authority's willingness to accept it for the payment of obligations. Then the state's sanction, in turn, enables these currencies to perform a wide range of market functions. What counts as money is an historical question of politics and states, not an incidental side effect of market exchange.[5]

The documentary record tells a story that is heretical to the economics mainstream: namely, that sovereign power is essential to creating financial value and that issuing monetary instruments is integral to the wealth-making process. And for this reason, monetary heterodoxy has a lot to tell us about the federal role in producing racial categories and racial difference.

Consider, first, the seemingly mundane act of monetary issue—technically speaking, the creation of dollar-denominated currency—and the reach of federal monetary policy.[6] Together the Fed and the U.S. Department of Treasury allocate and oversee the circulation of the so-called "monetary base," or what economists call "high-powered money." This is the total value of Federal Reserve Notes (FRNs) and corresponding Fed credits held as settlement balances by the system's chartered banks. Meanwhile Congress and the Fed shape decisively banks' ability to create "deposit" currency, which takes the form of electronic ledger entries in customers' checking accounts and which makes up the lion's share of the circulating money supply. The remainder of that supply is mostly "cash"—FRNs—held by the public rather than the banks. All told, federal authorities have considerable influence over the dollar-denominated currency created by the central bank and private banking institutions. In its role as a monetary sovereign, the U.S. government issues new money and empowers banks to issue even more.[7]

A casual observer might conclude that this gives the state considerable leverage over macroeconomic outcomes, including the racial wealth gap. But remember that standard macro does not view monetary issue—the creation of financial assets—as essential to growth. And so it reads federal power and discretion in the monetary realm through a very different lens. Orthodoxy tasks the Fed with insulating financial markets against crises by ensuring that the banking system remains sufficiently liquid, providing a backstop for individual banks so that they, in turn, can intermediate between "savers" and "investors." This intermediation—the story continues—then permits market actors to make the choices that unleash the economy's productive capacity. Where does racial discrimination factor in to such a calculus? Note that money and credit alike, in this telling, are neutral instruments that simply measure, hold, and transfer existing wealth. Of course, people create wealth by engaging in racist

practices (slavery, dispossession, Jim Crow, redlining) and this includes, meanwhile, the *use* of monetary instruments to do harm. But orthodoxy insists that money itself cannot discriminate. It argues, instead, that racist money-holders can and unfortunately do discriminate, using their financial assets as a weapon to unfairly wield their power.

The result is the erasure of federal culpability for a broad range of discriminatory market outcomes. As heterodox scholarship reveals, money creation by the state and by banks creates wealth by contracting for production. Financial transactions such as replenishing a bank's reserve account or extending individual loans are engines of growth. And so the federal state shares responsibility for the results, be they equitable or destructive. Heterodoxy shows that money is created not simply to reward or compensate those who have earned wealth; that is, to "ascertain. . . who has claims on resources."[8] Rather, the creation of money is an institutional means of structuring property relationships—of sanctioning rights to production, ownership, and transfer. The state's authority to issue money is not simply a regulatory but also a constitutive power. The institutions that create money—both federal authorities and the private entities granted this privilege—help to constitute racialized (as well as sexist, ageist, and ableist) economic and political orders and allocate real wealth accordingly.

Next, consider the narrower but no less influential arena of direct federal spending and fiscal policy. Orthodoxy describes U.S. Treasury spending as a reallocation of private and finite real resources that are first collected through taxation, fees, borrowing, and the like. Federal spending is imagined as interchangeable, from an accounting perspective, with spending by state, county, and municipal authorities. Yet money's real-world history shows that spending by monetary sovereigns is *sui generis*: that they create *new* financial assets whose value is anchored in state power. When the U.S. Treasury spends, it

is not redistributing private wealth but rather introducing new—and again productive—financial instruments into circulation. Indeed, a federal deficit is by definition a private sector surplus.[9] And this insight demands that we revisit the legacies of federal spending, both domestically and abroad: on the military, infrastructure, housing, welfare and entitlement programs, employment, foreign aid, policing and incarceration, and other arenas. Spending by a money-issuing authority produces wealth. This means that the abuse of power perpetrated by discriminatory federal spending is not simply a state-sanctioned mal-distribution of existing, "real sector" resources. Instead, it represents the federal state's active creation of economic opportunities and tangible wealth for some but not for others.

Finally, consider the federal role in creating what are commonly called credit forms, as distinct from fully liquid "monetary" instruments like cash or checking deposits. The U.S. government has long subsidized markets for consumer debt by insuring specific categories of loans issued by qualifying private banking institutions. Most famous, perhaps, are the programs created by the "GI Bill of Rights." First passed in 1944 as the Serviceman's Readjustment Act, iterations of the GI Bill have funded for decades generous insurance programs for small business, educational, and home-mortgage loans.[10] Yet the opacity of these programs has obscured the depth of the federal contribution. Federal insurance (often called a "guarantee") gives banks not simply the confidence but also the capacity to lend. It allows them to spend from their stock of settlement balances (FRNs) in return for a quick and profitable re-sale of a loan on the secondary market or, alternatively, a promise of repayment with interest from the borrower. At that point, whoever holds the debt then receives payments over the life of the loan, made with bank-issued deposit currency (the banking system's IOUs). Those payments are in turn "cleared" between banks by the exchange of Fed settlement balances.

Both the material production and financial returns generated by these insured loans depend upon multiple levels of sovereign authority. The banking system that allocates credit-money—here the loan itself—is a creature of state authority, as discussed above. Meanwhile the federal guarantee commits the Treasury to protecting lenders against default. Such an offer is difficult to refuse, for if a lender's gamble on a borrower doesn't pay off they can still expect compensation, ultimately thanks to the U.S. government's power and willingness to create financial assets. In the process, finally, the federal backstop supports robust "private" lending nationwide for real estate, consumer durables, construction, education, and the list goes on.

These lucrative markets would not take their current forms if not for decades of federal regulatory and financial support. Meanwhile lenders in these markets have regularly discriminated against racial minorities and other targeted populations, often with the blessing of federal authorities. The vast market for suburban development and homeownership after World War II, to cite a prominent example, would not exist without heavy lifting by the federal state. Beginning in the 1930s, U.S. officials invented and subsidized the use of a new mortgage instrument, created (and invested heavily in) the "secondary" mortgage market to keep their new experiment afloat, and even found it necessary to aggressively promote lending and borrowing, both to businesses and consumers. For decades, meanwhile, federal agencies condoned and often required racial exclusion in these markets.[11] The segregation of American property markets—residential and commercial alike—by both race and wealth provides vivid proof that federal credit programs have not merely "reinforced" popular racism, but rather actively produced race-based material disparities.[12]

The larger point is this: credit- and constitutional-theories of money tell us that financial instruments are factors of

production and that their value is anchored in public power. Here is yet more evidence that the U.S. government and the financial institutions dependent upon its authority do not simply oversee or regulate markets but instead actively create them and by doing so create wealth. Racial disparities in the U.S.—in housing, employment, education, health, and wealth—are inseparable from the federal government’s power to marshal productive resources and give markets their form. As a monetary sovereign, the federal state literally structures the productive economy and so contributes directly to the creation of both opportunity and disadvantage.

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[1] For an introduction to these subjects, sample the work of the roundtable participants and notable recent contributions to the scholarship, including: Keeanga-Yamahtta Taylor, *Race for Profit: How Banks and the Real Estate Industry Undermined Black Homeownership* (Chapel Hill, 2019); Jennifer Troustine, *Segregation By Design: Local Politics and Inequality in American Cities* (Cambridge, UK, 2018); Walter Johnson, *The Broken Heart of America: St. Louis and the Violent History of the United States* (New York, 2020); William A. Darrity, Jr. and A. Kristen Mullen, *From Here to Equality: Reparations for Black Americans in the Twenty-First Century* (Chapel Hill, 2020); and Rebecca Marchiel, *After Redlining: The Urban Reinvestment Movement in the Era of Financial Deregulation* (Chicago, 2020). Links to a number of influential writings on metropolitan segregation and inequality can be found in David M. P. Freund, “We Can’t Forget How Racist Institutions Shaped Homeownership in America,” *Washington Post* (April 28, 2016).

[2] “Money as a medium of exchange first came into human history in the form of commodities,” explains one standard text, and “anything that serves” this exchange function, today, performs the work of money. Paul A. Samuelson and

William D. Nordhaus, Economics, 19th ed. (New York, 2010), 458-9.

[3] See, for example, Samuelson and Nordhaus, *Economics*, 453-465; Angela Redish, “Money and Coinage,” in *The Oxford Encylopedia of Economic History*, ed. by Joel Mokyr (online version, 2005); Don Patinkin, “Neutrality of Money,” in The New Palgrave Dictionary of Economics, ed. Steven N. Durlauf and Lawrence E. Blume, 2nd ed. (Basingstoke, UK, 2008); and David Laidler, Taking Money Seriously and Other Essays (New York, 1990), 1–23. To sample the longer intellectual arc of this tradition, see the works excerpted in David Laidler, ed., The Foundations of Monetary Economics (Cheltenham, UK, 2000). On the barter-origins myth, see L. Randall Wray, “Money and Inflation,” in *A New Guide to Post Keynesian Economics*, ed. Richard P. F Holt and Steven Pressman (London, 2001), 79–91 and note 5, below.

[4] A. C. Pigou, *The Veil of Money* (London, 1949). “If we strip exchange down to its barest essentials and peel off the obscuring layer of money,” wrote Paul Samuelson in an earlier edition of his foundational textbook, “we find that trade between individuals or nations largely boils down to barter.” Paul A. Samuelson, *Economics* (McGraw Hill, 9th edition, 1973), 55. Today, the revised (19th) edition describes the financial system as “the vital circulatory system that channels resources from savers to investors.” (Samuelson and Nordhaus, *Economics*, 453). And most economists agree with Joseph Stiglitz and Bruce Greenwald that money is “hardly essential,” but rather “a convenient way of keeping score” and “of ascertaining who has claims on resources.” Joseph Stiglitz and Bruce Greenwald, *Towards a New Paradigm in Monetary Economics* (Cambridge, 2003), 293-4. As Geoffrey Ingham writes, orthodoxy

imagines money as “the unintended consequence of individual economic rationality.” Ingham, The Nature of Money (Cambridge, UK, 2004), 19.

[5] For introductions to the multi-disciplinary heterodox scholarship on these topics, see L. Randall Wray, Money and Credit in Capitalist Economies: The Endogenous Money Approach (Aldershot, UK, 1991); John Smithin, ed., *What is Money?* (London, 2000); Ingham, The Nature of Money, supra note 4; David Graeber, *Debt: The First 5,000 Years* (Brookyln, NY, 2011); Felix Martin, *Money: The Unauthorized Biography—From Coinage to Cryptocurrencies* (New York, 2013); the *Law and Political Economy* symposium on “Piercing the Monetary Veil”; and the contributions to “Banking: Intermediation or Money Creation” on this website.

[6] For simplicity’s sake, I’ll restrict this discussion to the era of the Federal Reserve, although the pre-Fed story is equally revealing.

[7] On banks and money creation, see the contributions to “Banking: Intermediation or Money Creation” and Robert C. Hockett and Saule T. Omarova, The Finance Franchise, 102 Cornell L. Rev. 1143 (2017).

[8] See note 4, above.

[9] See L. Randall Wray, *Modern Money Theory: A Primer on Macroeconomics for Sovereign Monetary Systems* (New York, 2nd. Ed, 2015), esp. chp.3; and Stephanie Kelton, *The Deficit Myth:*

Modern Monetary Theory and The Birth of the People’s Economy (New York, 2020).

[10] Introductions include Kathleen J. Frydl, *The GI Bill* (Cambridge, 2009); Ira Katznelson, *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America* (New York, 2005); and Suzanne Mettler, *Soldiers to Citizens: The G.I. Bill and the Making of the Greatest Generation* (New York, 2007). On GI Bill housing programs and their origins in federal selective credit policy, see David M. P. Freund, *Colored Property: State Policy and White Racial Politics in Suburban America* (Chicago, 2007).

[11] Freund, *Colored Property, ibid*.; and David M. P. Freund, “Money Matters”.

[12] For an introduction to the extensive literature on urban and suburban development, see Taylor, *Race for Profit, supra* note 1; Nathan Connolly, *A World More Concrete: Real Estate and the Remaking of Jim Crow South Florida* (Chicago, 2016); George Lipsitz, *How Racism Takes Place* (Philadelphia, 2011); Beryl Satter, *Family Properties: How the Struggle Over Race and Real Estate Transformed Chicago and Urban America* (New York, 2010); and David M. P. Freund, *Colored Property*, especially chps. 3-5. On the history and reach of federal credit programs, see Sarah L. Quinn, *American Bonds: How Credit Markets Shaped a Nation* (Princeton, 2019) and Commission on Money and Credit, *Money and Credit: Their Influence on Jobs, Prices, and Growth.* (A Report of the Commission on Money and Credit, Englewood Cliffs, NJ, 1961).

M. O’Malley, Money and the Limits to Self Making

May 28, 2020

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American debates about money have always reflected our

fundamental ambivalence about capitalism itself. The very same people most enthusiastic about the "free market" are often the people most likely to imagine a standard of value outside the market, something impervious to negotiability. For most of American history, into the present, "specie," gold or silver, has served that purpose. Prices and value might fluctuate, but gold's allegedly "intrinsic" value would never change. We love the idea of self transformation: the "American dream" holds that no one should be confined by the circumstances of their birth. But that same negotiability undermines the differences between people, and so Americans have long wanted to imagine forms of identity that can never be negotiated. For much of American history we have insisted that white people can renegotiate their social, and economic place at will, but no extent of market commerce makes a black person white. The idea of race stands outside of the market: it's the "gold standard" that makes other forms of negotiation possible. We can see this clearly in the history of money in the US, particularly in the Civil War and Reconstruction.

For most of our history politics was divided into "hard" and "soft" money positions. Hard money advocates wanted a limited money supply, ideally tied to a specie standard. They often argued for gold, because gold had a supposedly natural value beyond the reach of politics. Hard money theorists typically spoke for the holders of capital: "hard money" generally meant higher interest rates and greater profits for lenders. "Soft money" partisans wanted a loose, expansionist money supply because it fostered economic growth and drove interest rates down. If hard money partisans imagined a "natural" economy operating with no government intervention, the soft money camp wanted a managed economy, which could expand or contract the money supply as needed. The most extreme soft money position argued for greenbacks, a purely paper money economy with no ties to gold, as we have today.

But the hard money camp had always regarded paper money as an

abomination, a lie, a cheat and a fraud. “Let the public believe that a smutted rag is money, it is money,” scoffed a critic in 1858: “a sort of financial biology, which made, at night, the thing conjured for, the thing that was seen.”[1] Those who favored “hard money” saw greenbacks as a violation of natural law, artificial: “paper-money banking,” wrote Andrew Jackson’s advisor William Gouge, created “an artificial inequality of wealth,” as men of dubious character puffed themselves up on paper money. The inequalities of wealth produced by a gold economy Gouge saw as “natural” and just: paper money, “miserable, ragged, and loathsome trash,” destabilized the social order. “Everything of fixed value will lose [its] value” if “vagabond” paper money circulates, insisted one Ohio Congressman. The *New York Herald* compared those who argued for paper money to real estate brokers who, “with a few strokes of the pen convert a rickety old farm house…into an elegant villa surrounded by a spacious lawn,” or theatrical managers, whose “genius renders a beggarly account of empty boxes into a crowded and fashionable house.”[2] These objections reflect anxiety not just about economic values but about social values, status hierarchies, the differences between things and people. Paper money created “artificial” social distinctions, as opposed to social distinctions imagined as natural. It elevated the wrong kind of person.

Out of necessity, the Union financed the Civil War by issuing legal-tender greenbacks, a pure “fiat currency” not backed by gold or silver. The greenbacks proved extremely successful; the North won, and the war stimulated economic growth while inflation remained moderate. As the War went on the Union also increasingly embraced the abolition of slavery, and eventually, by 1862, the enlistment of African Americans in the Union Army. Frederick Douglass thought military service would bring about racial equality. He wrote “Once let the black man get upon his person the brass letters U.S., let him get an eagle on his button, and a musket on his shoulder, and

bullets in his pocket, and there is no power on the earth or under the earth that can deny that he has earned the right to citizenship."[3]

But critics argued that black men in uniform represented an artificial inflation. "Great things are expected from this new principle of military amalgamation," commented the *New York Herald*: "Whether it will change the Ethiop's skin to white or convert the white man's skin to black remains to be tested." The *Herald* wondered just how much the uniform—the representation of citizenship—might change its wearer's basic character. Would African American soldiers become the things they "imitated?" African American soldiers were like the greenbacks themselves: a counterfeit. "For finance, issue Greenbacks; for war, Blackbacks," one critic of the administration argued. Lincoln's critics saw paper money and African American soldiers as analogous.[4]

"How Are You Greenbacks," a song written in 1863 for the minstrel show, began by describing greenbacks as agents of the Union in war:

> *We're coming father A-bram, one hundred thousand more*
>
> *Five hundred presses printing us from morn till night is o'er*
>
> *Like magic you will see us start and scatter thro' the land*
>
> *To pay the soldiers or release the border contraband*

And it ended by comparing greenback dollars to African American soldiers led by editor Horace Greeley:

> *We're coming, Father A-bram, Nine hundred thousand strong*
>
> *With nine hundred thousand darkies, sure the traitors can't last long*
>
> *With Corporal Cuff, and Sergeant Pomp, to lead us in the*

melee

And at their head, without a red, Our Brigadier General Greeley.[5]

Arguments comparing "negro soldiers" to greenbacks appeared in the Presidential campaign of 1864. "Jokes, Niggers, Greenbacks—all play'd out," mocked the chorus of one song: "Who will care for Old Abe now?" McClellan stood for the return of gold, the song continued. "When 'Little Mac' is in the White House, Greenbacks will vanish—Gold come down!

"We're fighting for the nigger now," went another:

I calculate of niggers we soon shall have our fill,

With Abe's proclamation and the nigger army bill.

Who would not be a soldier for the Union to fight?

For, Abe's made the nigger the equal of the white.

This song also claimed that the soldier "must be loyal, and his officers obey, Though he lives on mouldy biscuit, and fights without his pay…Though he waits six months for Green-Backs, worth forty-five per cent." The song treats greenbacks, elevated to a position of equality with gold they can't sustain, as part of the same mentality that has elevated African Americans to a counterfeit equality. It concluded "when old Jeff Davis is captured, paid up you may be: If you do not mind the money, don't you set the nigger free."

In the decade after the war two debates preoccupied American politics: what to do with the ex-slaves, and what to do about money. "Greenbackers" insisted money was nothing more than what we all agreed to use. Greenback paper dollars derived their value from the nation's common purpose, and more specifically from the courage and sacrifice of those who

fought to support the union cause. “As surely as our flag represents…the unity of these States,” declared a Michigan greenbacker, “just so surely, sir, do the United States Treasury notes represent the cost of life and blood and treasure, the priceless value of that unity of States.”[6] What was gold compared to that?

An 1878 campaign poem claimed:

O, Greenback, veteran of the years!

Thou crippled soldier of the war!

Baptized with blood and wet with tears.

To-day thou art without a scar.

Thou stood upon the picket line

Wherever hissing bullets flew…

Thou stormed the forts; thou sped the ships;

Thou dealt the gunboat’s timely blow;

Thou forged the cannon angry lips

That screamed a welcome to the foe.

Thanks, Greenback! Veteran of the years![7]

Greenbacks, wrote New York Congressman Clinton Merriam, had made citizens of the ex-slaves. “The greenback was the first thing they ever earned that they could call their own, the first thing, save our flag, that stood before them, a symbol of their freedom.” Greenbacks symbolized government’s power to overturn the natural law arguments that justified slavery. “With it they soon learned a power to gather together long-broken families into a common home,” Merriam continued. “To the colored men the greenback rose above the dignity of

language; to them it almost bore the dignity of religion.”[8] Greenbacks made it possible for slaves to own property and establish families, the two bulwarks of republican citizenship. They also taught the religion of saving and self advancement.

After slavery, black Americans could act as free agents: they could negotiate for themselves instead of being negotiated over. They could renegotiate the meanings of their very persons, and for a time, Reconstruction attempted that renegotiation on a grand scale. The response was both to intensify and harden the notion of race, and to insist with equal ferocity on the gold standard and the idea of a natural, Darwinian law of value. Gold money supposedly enabled a “natural law” economy, in which men’s true merit revealed itself, and most gold bugs” had no doubt that in that hierarchy, African Americans would remain on the bottom. Reconstruction failed because it presented Americans with the negotiability of meanings—with the radical implications of market exchange. When white Americans looked hard at the possibility of renegotiating what “race” meant, they doubled their bet on gold. By 1873, the US was on course to a money supply based on gold.

We can see in this period how debates about money and race were enmeshed. Gold stood for allegedly natural values and “real” social hierarchies: greenbacks stood for the idea that social hierarchy was constructed, and that value was nothing more than social convention. Americans regularly fight and die for the freedom to remake ourselves in the marketplace. Yet the US has never managed to rid itself of the problem of racism. Deeply embedded in debates about money, we see our own fundamental ambivalence about the implications of the American dream.

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[1] Baldwin, Joseph G., *The flush times of Alabama and*

Mississippi: a series of sketches (NY 1858) p. 82.

[2] “Monopoly and Paper Money,” *The United States Democratic Review* 35, no. 6 (June 1855), 440; George Pendleton quoted in Alexander Harris, *A Review of the Political Conflict in America, from the Commencement of the Anti-slavery Agitation to the Close of Southern Reconstruction* (NY 1876) p. 250; *New York Herald*, (18 October 1862).

[3] Frederic May Holland, *Frederick Douglass: The Colored Orator* (Funk & Wagnalls, 1891) p. 301.

[4] *New York Herald*, (22 May 1863); Albany, New York Atlas and Argus, Jan. 19 1863, quoted in Forrest G. Wood, *The Black Scare: the Racist Response to Emancipation Reconstruction and Reconstruction*, (Berkeley, CA 1970) p. 44.

[5] E.B Bowers and Chas. Glover, *How Are you Greenbacks* (Wm. A. Pond & Co., New York, 1863).

[6] *Congressional Record,* 43rd Congress, 1st Session, (Ap. 9 1874) 2967.

[7] Bourbon ballads. Written for the New York Tribune by W.A. Croffut. Extra No. 52. Monographic. Online Text. https://www.loc.gov/item/amss.as101480/.

[8] *Congressional Record*, 43rd Congress, 1st Session, (Mar. 27 1874) 2546.

M. Baradaran, How the Right Used Free Market Capitalism against the Civil Rights Movement

May 19, 2020

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In order to achieve racial justice in America, we must confront and then thoroughly reject simplistic and ahistorical myths about markets and capitalism. We have mistaken notions that (1) colorblind economic policies can fix vast inequalities created by centuries of explicitly race-based policies and (2) that free markets are an antidote to heavy-handed state policies of economic exploitation and exclusion. More narrowly, the reason that the United States has never significantly contemplated a meaningful program of racial justice is because demands for economic justice have been crushed by myths of self-reliance and neoliberal free market fundamentalism. The most recent and least understood of these political decoys was the Nixon era "black capitalism" program that was used to block meaningful reforms by offering capitalist dogma. These programs linked the Civil Rights coalition's demands for justice with threats of communism in order to hide the history of heavy state intervention that created vast racial inequalities in wealth and income.

The 1968 Kerner Commission Report, which was the closest the US ever got to an official acknowledgement of its history of

racial injustice, spoke to the phenomenon of protests and unrest in America’s segregated cities. The final report determined that the riots stemmed from poverty, racism, inequality and other social ills, but that the underlying cause was segregation. “Segregation and poverty have created in the racial ghetto a destructive environment totally unknown to most white Americans,” the report said. “What white Americans have never fully understood—but what the Negro can never forget—is that white society is deeply implicated in the ghetto. White institutions created it, white institutions maintain it, and white society condones it.” The report was an unapologetic excoriation of white society, which the commission deemed guilty not just of racism, but of apathy toward black poverty. The only way to address these injustices, according to the report, was through a robust federal response. Nixon won the 1968 election by promising that he would do no such thing. But first, his campaign had to get the messaging right. Alan Greenspan, who served as Nixon’s economic advisor, addressed claims by black activists for reparations in a private campaign memo to candidate Nixon in 1967 called “The Urban Riots of the 1960’s.” He wrote that capitalism itself was under attack by demands made by black militants and that “ghetto riots have become a rallying cry for an attack upon America’s system of free enterprise and individual rights.” Greenspan outlined his reasoning:

> *The critical question is, of course, whether the Negroes are correct in claiming that they have been exploited and that their violent reaction is the rational response. There can be little doubt that discrimination has been rampant. However, the charge of exploitation in the sense of value being extracted from the Negroes without their consent for the profit of the whites is clearly false . . . . This distinction between discrimination and exploitation is all the difference in the world.*[1]

In other words, because whites had not profited directly from black misery, reparations should be rejected. Moreover, he underscored in the memo that any capitulation to demands for federal spending in the ghetto was a threat to free enterprise.

Greenspan believed that the cries of exploitation were misguided because black activists had misunderstood capitalism and the natural market of the ghetto, and had erroneously and unfairly blamed whites for exploitation. He was correct when he said that “profit rates in slum areas are doubtless distressingly low considering the risks,” but he erred when he concluded based on that observation that the white community was not gaining any “advantage and profit” and that therefore cries of “injustice” were “erroneous.” He could not see that the same system that discriminated against blacks had brought benefits to whites. Nor did he acknowledge that for blacks who were being crushed by the ghetto debt trap, it could still feel like an “injustice” even though the lenders were not making direct profits. He rejected the liberal notion that “the Negro ghetto must be elevated to the level of affluence of middle-class America” because “this can only be done by massive governmental expenditures.” Instead, he advised Nixon to pursue programs to “help Negroes help themselves.”

In line with the Greenspan-Nixon approach, Milton Freedman used theories and models of free market capitalism (as opposed to the actual economic history) to fight basic anti-discrimination laws in his foundational 1962 book, “Capitalism and Freedom.” The intellectual father of neoliberalism opposed such laws as a violation of free market capitalism. He decried discrimination as a matter of bad taste, but said that Civil Rights laws were an “interference with the freedom of individuals to enter into voluntary contracts with one

another."[2] He compared laws *prohibiting* discrimination to laws *requiring* discrimination—it was all unjustified government intervention. Friedman believed that markets would themselves root out discrimination because it was costly and inefficient. Friedman claimed that anyone who opposed buying goods from black businessmen or employing black employees was expressing an inefficient preference and would therefore pay a higher price for that preference. Theoretically, this was true, but historically it was not. Because the ghetto had cordoned off a segment of risky borrowers, whites actually paid significantly less for goods, credit, and housing. Racial discrimination had not cost whites, but had actually brought many advantages through all-white suburbs, lower competition for lucrative jobs, and, for a time, even labor protections that benefited whites at the expense of blacks.

Friedman, Greenspan and other market capitalists grounded their arguments in economic theory. They were chasing a libertarian vision of the economy, but what they were describing was a hypothetical future—it had no relationship to the actual lived experience of American history. The historical American reality was that blacks had never fully participated in free market capitalism and that whites had benefited from heavy government interventions that had worked to the direct disadvantage of blacks. The arteries of trade and commerce had not flowed freely through the ghetto, at least not in the realm of credit and banking. Credit markets laid atop a federal government apparatus including guarantees, secondary markets, deposit insurance, and federal reserve support. The only places where those forces were not working were inside the ghettos. The ghetto itself had been an unnatural creation of anti-market impositions of racist policies. Indeed, discrimination was incredibly costly, but only to blacks.

The neoliberal faith in capitalism and market efficiency was rooted in an ideal much like the egalitarian principles of the founding documents. They were aspirational faiths, but they were not accurate descriptions of the real world. In theory, it was costly to refuse to buy products from blacks if they were offering the same or lower prices. In reality, whites often refused to associate with blacks at any cost. Besides, even if discrimination did suddenly disappear, the broken markets of the ghetto would not. Discrimination had created macro market forces that were now operating on their own. Yet neoliberal dogma and market fundamentalism demanded adhesion to market theory, which meant an aversion to any and all "government intervention" aimed at black poverty.

The neoliberal right demanded smaller government involvement and spending in all spheres. Without spewing the racial animus of the George Wallace wing of his party, Goldwater, Nixon, Reagan and the rightwing judiciary and Congress opposed Civil Rights laws, integration, and any affirmative racial remedies—all in the name of free market capitalism. Since any redress for past economic exclusion required heavy federal government action, an immediate libertarian backlash began to delegitimize all government action. Conservatives began to demand a bill of rights that guaranteed the right to free use of property, including the right to segregated neighborhoods. The movement could hardly be seen as anything but a direct response to the economic demands of the black movement and the government anti-poverty program. Nixon was not a libertarian—he expanded the federal bureaucracy and created more government agencies than any modern president—but he still opposed government interference of any kind when it came to integration or anti-poverty measures. Republican strategist Lee Atwater gave away the playbook in a 1981 interview: "You start out in 1954 saying nig***, nig***, nig***. By 1968, you can't say nig*** — that hurts you, backfires. So you say stuff like, uh, forced busing, states' rights, and all that stuff,

and you're getting so abstract. Now, you're talking about cutting taxes, and all these things you're talking about are totally economic things and a byproduct of them is, blacks get hurt more than whites…"

The theory of economic dogma which James Kwak has called "Economism" began to be adhered to like a religious dogma and used to fight each and every government intervention to remedy past sins. Economism even provided a new justification for stark wealth inequality and exploitation. Inequality along racial lines has been a constant on the American scene, but different eras have justified it with different myths. Christianity was corrupted to hold that white men had a divine right—even duty—to subjugate and enslave blacks. When religious theory fell out of favor, social Darwinism and skull measurements held that blacks were an inferior species who had lost the evolutionary race and thus their subjugation was nature's will. Now, economic theory held that "the free market" decreed that blacks hold the bottom rung because, for example, it was the laws of supply and demand that caused blacks to pay more for credit, the market that determined how much their labor was worth, and that integration was anti-market. Any effort to change these markets were delegitimized and labeled as harmful government interference with what President Regan called "the magic of the marketplace." And just as "God's will" was difficult to challenge in the 1800s, so too was free market economic theory in the 1960s, lest one be labeled a heretic or a communist. For the ascendant libertarians that were taking hold of American politics, the only acceptable remedy for a history of exclusion was black capitalism. But what these white policymakers surely meant by black capitalism was capitalism only for blacks. Government intervention in markets had been the norm, as were government-imposed Jim Crow laws. Capitalism had not created the ghetto and black poverty—racist laws and state intervention in the markets had created both. There had never been free market

capitalism for blacks. After years of exclusion, Jim Crow, segregation, and the deviant markets these state interventions had created, the Nixon administration was actually proposing that maintaining that segregated market was the remedy. That somehow by attaching the word "black" to "capitalism" would remedy past wrongs. In order to achieve racial justice, we must offer economic remedies that adequately address a long history of exclusion. And in order to do that, we must confront and reject simplistic and ahistorical models of Capitalism.

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[1] *See* Letter from Alan Greenspan, Chairman, Townsend-Greenspan & Co., to Richard Nixon, Republican Presidential Candidate, on the Urban Riots of the 1960s (Sept. 26, 1967) (on file with the Richard Nixon Presidential Library).

[2] *See* Milton Friedman, Capitalism and Freedom 109-15 (Chicago University Press, 1962).