Roundtable 3: Race and Money
D. Jenkins, Debt and the Underdevelopment of Black America

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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.