

Race, Inequality, and the Market

by Thomas E. Woods Jr.

Not long ago I found myself in a debate with colleagues about the economic status of black Americans vis-à-vis whites. Naturally, their presumption was against the free market. The logic, such as it was, ran as follows: (1) we live under a market system (more or less); (2) in a variety of areas blacks have not performed as well as whites; and therefore, (3) the free market is the source of black underachievement.

Let us consider, first, the corollary assumptions that only political action could have made black economic advancement possible, and that such political action has constituted the unambiguous source of black prosperity. It is routinely asserted as established fact that the Civil Rights Act of 1964 represented a major turning point in the fortunes of black employment seekers. Today's so-called civil-rights spokesmen have a vested interest in perpetuating the idea that political solutions are always the most desirable and effective. But as Thomas Sowell points out, black employment was improving before 1964: "In the period from 1954 to 1964, for example, the number of blacks in professional, technical, and similar high-level positions more than doubled. In other kinds of occupations, the advance of blacks was even

greater during the 1940s—when there was little or no civil rights policy—than during the 1950s when the civil rights revolution was in its heyday." He also notes that the increase in the number of blacks in professional and technical occupations in the two years following passage of the 1964 Act was actually less than in the year from 1961 to 1962.¹

Similar trends are evident in employment among Hispanics and Asians. "The income of Mexican Americans," Sowell explains, "rose relative to that of non-Hispanic whites between 1959 and 1969 (after the Civil Rights Act), but no more so than from 1949 to 1959 (before the Act)." The Japanese in America were discriminated against so badly that 120,000 of them were interned in relocation camps during World War II; yet by 1959, Japanese-American households had equaled those of whites in income, and by 1969 they were earning one-third more. Chinese Americans overtook whites in income five years before the 1964 Act.²

Thus nonwhites were well on their way to prosperity even before the landmark 1964 Act. There is still the question of the poor and chronically unemployed within the black community, which has attracted considerable attention over the years. William Julius Wilson and others have attempted to argue that the reason for the increasingly poor performance among lower-class blacks is a dearth of jobs in urban areas. Thus the free market is yet again made the villain, and

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the state the putative savior.

But this explanation is practically impossible to reconcile with the data. As I have pointed out before, many of the jobs that have been going unfilled are hardly “skilled” jobs whose vocational requirements would eliminate unskilled blacks from the running.³

No serious observer can attribute an inability to secure these kinds of jobs to having been educated in an “underfunded” school system.

Dependency and Entitlement

The perverse incentives of the welfare state have all too frequently enticed the poor, blacks included, away from finding remunerative work and toward a mentality of dependency and entitlement. In 1995 the Cato Institute examined the welfare packages (which, recall, are tax free) in all 50 states and the District of Columbia. In 40 states, the study found, welfare paid more than an \$8 per hour job; in 17 it paid more than a \$10 per hour job; and in six states and the District of Columbia it paid more than a \$12 per hour job. According to researcher Michael Tanner, “In 9 states welfare pays more than the average first-year salary for a teacher. In 29 states welfare pays more than the average starting salary for a secretary. In 47 states welfare pays more than a janitor makes.” In the six most generous states, welfare benefits even constitute more than the entry-level salary for a computer programmer. Such incentives only reinforced certain perverse cultural trends, discussed below.⁴

It is revealing that when the Bureau of the Census asked the unemployed poor in 1990 why they were not working, only 4.1 percent gave as the reason an inability to find work.⁵ Likewise, when Harvard economist Richard Freeman surveyed unemployed inner-city black youths in 1980, 70 percent told him they could easily find a job. By the end of the enormously prosperous 1980s, the figure had risen to 75 percent. They simply refused to take the relatively low-paying jobs open to them, even though the interpersonal and

other skills one learns at such jobs have traditionally been the first step toward prosperity for a great many Americans, particularly immigrants eager to succeed.⁶

There are always those who, despite the overwhelmingly destructive effects of the Great Society welfare state, will nevertheless come up with nothing more creative than more of the same.⁷ Perhaps the solution, they argue, is a still greater welfare state, or still more government intervention. Such observers like to point to Sweden, supposedly an example of a prosperous country that nevertheless provides a systematic package of “benefits” from the cradle to the grave.

In fact, though, a major study released in May by the Swedish Institute of Trade (HUI) decisively punctured the myth of welfare-state “prosperity” in Sweden: by the end of the 1990s, Sweden’s median income was \$26,800, compared to \$39,400 in the United States. More to the point, the HUI economists specifically pointed out: “Black people, who have the lowest income in the United States, now have a higher standard of living than an ordinary Swedish household.”⁸

Further solidifying the moral and practical superiority of free markets and less government, and nicely complementing the HUI study, is the work of Robert Lawson. Professor Lawson recently demonstrated that even if we accept John Rawls’s premise that the just society is the one in which the condition of the least well-off is maximized, we still have to favor the free market, since the condition of the poorest is consistently far higher in market societies than in heavily interventionist ones.⁹ In still further support of this position, Walter Williams wrote an entire book showing how government regulations have (at times deliberately) had disproportionately adverse effects on blacks.¹⁰

Beneath the statistics that economists and social scientists collect is a cultural dimension that cannot be neglected. Last year, Professor John McWhorter, in his controversial *Losing the Race: Self-Sabotage in Black America*, said what many blacks had been saying privately (and, in Spike Lee’s case,

even publicly) for years: a cult of victimology and anti-intellectualism has become widespread throughout black culture in America. "Black America," he wrote, "is caught in certain ideological holding patterns that are today much more serious barriers to black well-being than white racism, and constitute nothing less than a continuous, self-sustaining act of self-sabotage. . . . It has become a keystone of cultural blackness to treat victimhood not as a problem to be solved but as an identity to be nurtured. . . . [B]lack Americans too often teach one another to conceive of racism not as a scourge on the wane but as an eternal pathology changing only in form and visibility, and always on the verge of getting not better but worse."¹¹

Encouraging Victimization

The self-appointed black leadership has positively encouraged this sense of victimization. It is simply impossible to imagine Booker T. Washington or even W.E.B. DuBois doing what Jesse Jackson did in 1999: rushing to the defense of young black men who had initiated a riot following a football game in Decatur, Illinois. Washington would undoubtedly have condemned the violence and demanded of these men the virtue and excellence that would force the white world to respect them. And we can only imagine his shocked outrage at a black leadership that says nary a word about rap "music" that glorifies violence and crime, and teaches young black men to treat women like disposable objects.

Shelby Steele, a professor at San Jose State University, agrees that the traditional explanations for black underperformance trotted out by "liberal" sociologists need to be transcended, and are only making the problem worse. "Of the eighteen black students (in a student body of one thousand) who were on campus in my freshman year," Steele recalls, "all graduated, though a number of us were not from the middle class." And the situation now? "At the university where I currently teach, the dropout rate for blacks is 72 percent, despite the presence of several

academic support programs, a counseling center with black counselors, an Afro-American studies department, black faculty, administrators, and staff, a general education curriculum that emphasizes 'cultural pluralism,' an Educational Opportunities Program, a mentor program, a black faculty and staff association, and an administration and faculty that often announce the need to do more for black students."¹²

We are dealing here with a matter of the utmost seriousness and complexity, and it is therefore entirely unhelpful to attribute lingering problems in the black community to Ronald Reagan, George Bush, or "capitalism." It should be obvious that none of these things is relevant to the points raised here. Educational and income disparities between blacks and whites involve a variety of factors, only a few of which can be treated here, but they certainly cannot be reduced to a simplistic condemnation of the free market.

Although government power was brought to bear during the civil rights movement, given the radically changing state of public opinion on race in America (even before *Brown*), the growth of the black middle class was certainly inevitable.¹³ Meanwhile, an obsessive emphasis on political agitation, left over from the civil rights movement, has served to reinforce the destructive view that blacks can never prosper in an atmosphere of free and voluntary exchange and contract, and that only the power of the state can rectify the injustices that their leaders insist are blacks' inevitable lot in American society.

The black poverty rate in 1960 was 55 percent; today, fewer than one in four blacks are in poverty. If such progress is to continue, it will have to occur by means of the only method known to man to increase the overall stock of wealth: increased capital accumulation and the private-property order, which has brought such spectacular prosperity, even to the poorest, wherever it has been tried. □

1. Thomas Sowell, *Civil Rights: Rhetoric or Reality?* (New York: William Morrow, 1985), p. 49.

2. *Ibid.*, p. 50.

3. Thomas E. Woods Jr., "The Economics of Infantism," *Ideas on Liberty* (June 2002), pp. 23–24.

4. Michael Tanner, *The End of Welfare: Fighting Poverty*

in the Civil Society (Washington, D.C.: Cato, 1996), pp. 67–68.

5. Ibid., p. 21.

6. Cited in Myron Magnet, *The Dream and the Nightmare: The Sixties' Legacy to the Underclass* (San Francisco: Encounter Books, 2000 [1993]), p. 47.

7. The destruction wrought by the welfare state is famously described in Charles Murray, *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984). Less well known but also excellent is James L. Payne, *Overcoming Welfare* (New York: Basic Books, 1998).

8. "Study Discovers Swedes Are Less Well-Off than the Poorest Americans," Reuters, May 5, 2002.

9. Robert A. Lawson, "We're All Rawlsians Now!" *Ideas on Liberty*, June 2002, pp. 49–50.

10. Walter E. Williams, *The State Against Blacks* (New York: McGraw-Hill, 1982).

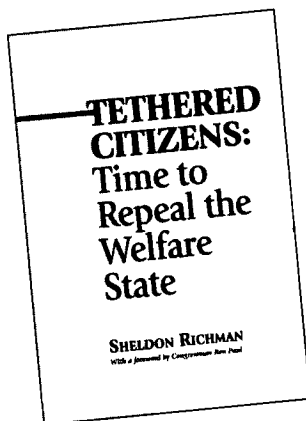
11. John McWhorter, *Losing the Race: Self-Sabotage in*

Black America (New York: Harper Perennial, 2001).

12. Shelby Steele, *The Content of Our Character: A New Vision of Race in America* (New York: HarperCollins, 1990), pp. 138–39. When the University of California system moved away from affirmative action several years ago, the usual suspects cried that this was yet another act of hostility by malicious whites. Hardly ever mentioned was that at many of California's schools it was not unusual for the black dropout rate to be 70 percent or higher (as Steele testified in his own case). This is why John McWhorter strongly favored the move. Happily, there is already evidence that since the scaling back of affirmative action in California, the black dropout rate has begun to decline, as black students find themselves better able to compete in academic environments for which they are more adequately prepared. This is clearly a boon for all concerned.

13. See Paul Craig Roberts and Lawrence M. Stratton, Jr., *The New Color Line* (Washington, D.C.: Regnery, 1995).

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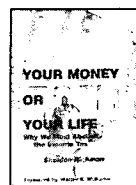


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Ironic Triangle

"No man's life, liberty or property are safe while the legislature is in session."

—Unidentified New York Surrogate Court judge, 1866

"President Bush has strongly hinted that he will sign any bill that emerges from Congress."

—*New York Times*, July 17, 2002

Did you hear the one about the congressional committee that grilled the businessman about fraudulent accounting and lies to stockholders?

Whatever other reasons there are for the fall in the markets, one is crystal clear. Who could be enthusiastic about investing while Congress is running amuck? Politicians pontificating sanctimoniously about corporate fraud and greed, pandering to an economically ignorant electorate, parading CEOs before congressional tribunals, and promising new regulatory edicts are hardly confidence-building measures.

Are we really so immune to irony? This is the same gang that can't account for trillions of dollars, that wrote the book on creative budgeting, that reduced budget projecting to propaganda, that took the "owners'" retirement money and squandered it, and that has devalued the dollar for decades.

Now these same sterling stewards of the people's wealth sit in judgment of a few crooked businessmen, smearing the rest by association and decreeing new rules that will

do nothing to prevent fraud in the future and may actually create new opportunities for it.

The last thing we need is new technical rules. The business world is awash in rules. After decades of government regulation, you'd think that the recent scandals might prompt some rethinking of that approach. You'd think that until you remember the vested interests involved.

The fact is that regulation makes big business scandals more likely. The regulatory state anesthetizes people's natural wariness. "The watchdogs are on the job, so I don't need to be so alert" sums up the attitude engendered by the regime. Agencies such as the Securities and Exchange Commission require the frequent disclosure of so much information, much of which would never be demanded by investors, that an overload occurs. It has to dull the senses.

Also, in its zeal to regulate, government has short-circuited one of the most effective checks on management misconduct: the hostile takeover.

Beginning with Adam Smith, there has been concern that the corporation separates ownership from management. This is known as the agency problem. Stockholders own a

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