

Using Finance to Create Racial Equity: A Call for Change

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- Atlanta Fed president Raphael Bostic speaks on the need for the fields of economics and finance to confront the ways our systems perpetuate racial inequalities.
- Official policy such as redlining that racialized access to mortgage financing and thus decent, affordable housing after World War II is perhaps the most important, but not the sole, source of a racial wealth disparity, explains Bostic.
- Bostic emphasizes that systemic structures that made it extremely difficult for Black Americans to accrue savings and wealth have extended far beyond housing. For example, the Social Security Act of 1935 excluded 65 percent of African Americans nationally from the public pension program and unemployment insurance.
- Bostic is optimistic because conversations like the ones at the conference tell him there is an appetite for change and a willingness to work to effect it.
- Bostic concludes that progress will help ensure that we move ever closer to achieving a more perfect union that in fact, and not just in words, allows for unburdened life, liberty, and the pursuit of happiness for all its citizens.

Thank you for the kind introduction and for inviting me to speak at this important conference. I'm really happy to be here and excited to be partnering with Princeton and the Bendheim Center for Finance.

But the impetus for this conference emerged from events that were not so happy. Professor Brunnermeier sent me an email soon after George Floyd's death and the start of a period of intense social unrest. It was a particularly tough time. I had just written my essay on the moral and economic imperative of ending racism, which he had read, and he said he liked the message. He told me he felt that "thoughtful actions are needed to remove racial injustice in our society" and wanted the Bendheim Center to more actively contribute to a better society. I was pleased that he was persuaded from my essay that the Atlanta Fed represented a good opportunity for partnership in advancing that goal, and enthusiastically accepted his invitation for us to work together and to give a keynote address for the conference.

As an aside, staying on the theme of persuasion, during the early planning for this, I also tried to sell him on the benefits of RV vacationing. I don't think he's moved very much on that, which tells me that my writing may be a more effective vehicle than my spoken word.

Before I get too deep into things, please keep in mind that these thoughts I'm about to express are mine and do not necessarily reflect the views of my colleagues on the Federal Open Market Committee or at the Atlanta Fed.

In preparing my remarks for today, a particular passage in my essay hung in my consciousness. I wrote that a commitment to an inclusive society also means a commitment to an inclusive economy, and then followed with this:

Such an economy would represent a rebuke of systemic racism and other exclusionary structures. It would represent a true embrace of the principles that all are created equal and should enjoy unburdened life, liberty, and the pursuit of happiness.

In that passage, one word stands out to me: unburdened. Unfortunately, today we will be hearing a lot about burdens, specifically about the ways that policies and practices in finance and economic markets create outcomes that put burdens on minorities. These are important to document and understand. I am hopeful that with understanding will come efforts to develop an alternative set of policies and practices that eliminates such race-based disparities.

In my remarks today, I'd like to push this thinking a bit further, in a way that has implications for what we research and how we do this research. I would offer that it is critical to not only recognize the role of individual practices and policies in creating racial inequity but also confront the ways in which *institutions* and *systems* perpetuate and entrench racial inequalities in the economy and in our broader society. In our country, we too often assume institutions are benign. But people shape institutions, which can, unintentionally and otherwise, contribute to outcomes that are far from harmless.

Evidence of structural financial inequity

Professor Jenkins's presentation on the municipal bond market in the preceding session makes this point very clearly. This bond market is hardly on the frontier of innovation, and few would characterize it as one where active predatory activity resides. However, it is an institution that has exercised enormous influence in shaping access to opportunity. As Professor Jenkins illustrates, perceptions of race and conventions of how to consider race have long been embedded in its rules and guidelines, with implications for the allocation of access to housing, employment, schools, and other services. While it seems incongruous that a \$4 trillion market could do anything subtly, Professor Jenkins's work introduces this possibility and the negative consequences for Black families and communities.

I'd like to continue this line of exploration, focusing on one of the most important vehicles for building wealth and economic security: housing.

Official policy that racialized access to mortgage financing and thus decent, affordable housing in the post-World War II years is perhaps the most important—though hardly the sole—source of a racial wealth disparity that has not appreciably narrowed over the past half century.

[Richard Rothstein](#) and others have exhaustively detailed explicit federal, state, and local public policies that effectively segregated cities and suburbs. In a groundbreaking book published in the mid-1990s, sociologists Melvin Oliver and Thomas Shapiro [detailed the systematic methods](#) by which African Americans were, in the authors' words, "locked out of the greatest mass-based opportunity for wealth accumulation in American history." This deliberate exclusion occurred largely through official redlining instituted by federal agencies established as part of the New Deal: the Home Owners' Loan Corporation and the Federal Housing Administration.

Redlining was the explicit practice of drawing maps identifying largely Black neighborhoods as unfit places to make federally backed home mortgage loans. A 1938 Federal Housing Authority (FHA) Underwriting Manual clearly states the overarching philosophy of redlining: "If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values."

This was official policy, not the machinations of a few rogue actors. Public policy of the day reflected conventional thinking in the residential real estate community. As Keeanga-Yamahtta Taylor, an assistant professor of African American studies here at Princeton pointed out in her 2019 book, [Race for Profit: How Banks and the Real Estate Industry Undermined Black Homeownership](#), the National Association of Real Estate Boards in the 1920s threatened punishment and revocation of membership to any broker who disrupted racial patterns on a given block or in a particular neighborhood. Similar language appeared in the organization's code of ethics until the 1950s. Appraisers from the very start, Taylor wrote, established as a given that racial diversity hurt property values.

Redlining was not officially outlawed until the 1968 Fair Housing Act. By then, the damage was done. A [Chicago Fed working paper](#) (written in 2017 and revised in 2019) noted that redlining curtailed access to credit, allowed higher borrowing costs, and led to "disinvestment in poor urban American neighborhoods with long-run repercussions."

Harmful as it was, redlining was not the sole culprit in denying Black Americans fair access to home ownership. Mortgage lenders, realtors, and investors used various methods that drained credit and wealth from urban neighborhoods.

Take contract-for-deed purchases. Contract-for-deed purchases can be attractive to someone who doesn't have a high, or any, credit score and may not be able to afford the larger down payment that usually comes with a traditional mortgage. But in a contract-for-deed purchase, the buyer accrues no interest in the property until the final payment has been made. Essentially, these home purchasers accumulate no equity as they pay off their notes and face

repossession for missing a single payment—even years into the life of a contract. Contract sales force buyers to pay more and get less for their money.

A [new paper](#) by Duke University’s Samuel DuBois Cook Center on Social Equity paints a grim picture of how contract-for-deed sales exploited thousands of Black Chicagoans seeking to purchase homes in the 1950s and ’60s—this practice was “a systematic, legally sanctioned plunder of black wealth,” the authors wrote. The Duke researchers combed through 50,000 land titles, deeds, and court records. The resulting work convincingly demonstrates how public policy and accepted practices in the residential real estate and mortgage finance industries encouraged the plunder of the mostly Black inner city and the development of nearly all-white suburbs.

The research found that more than three-fourths of homes purchased by African American Chicagoans in the 1950s and ’60s were sold on contract. According to the researchers, contract selling was backed by the same banks that denied loans to Black home buyers as well as by investment syndicates of white business leaders and city government officials. All those players profited by exploiting what the authors call “a separate and unequal housing market” to the disadvantage of Black families.

African Americans purchasing on contract paid an average \$587 more a month (in 2019 dollars) than they would have had they paid the fair price for their home through a conventional or FHA-backed mortgage, the Duke researchers calculated. All told, this research estimated that over those two decades, during the postwar home ownership boom that fueled sufficient wealth to lay the foundation for the nation’s vaunted middle class, contract-for-deed sales expropriated \$3.2 to \$4 billion from Chicago’s Black community. And that is a conservative estimate, the authors noted, because of large gaps in the surviving data.

Lest you think this is a relic of a bygone era, the Atlanta Fed’s own Ann Carpenter, who is an assistant vice president on our community and economic development team, recently coauthored [a study](#) looking at contract-for-deed sales in the Midwest between 2004 and 2017. That research finds similar patterns to the DuBois Cook Center work, and makes a compelling case that we need stronger regulations and enforcement at the local and state levels to prevent the further destabilization of communities that were hit hardest by the foreclosure crisis prompted by the financial crisis and Great Recession.

One aspect that emerges repeatedly in much of this work is that racism and racial injustice were individually profitable. Investors in bond markets received higher returns for financing infrastructure in Black neighborhoods. White investors in Chicago’s contract-for-deed schemes received higher returns than they could have through other investments. Importantly, in these cases, investors may not have had any taste for discrimination; they just accepted the prevailing rules as established and participated. The bias was embedded in the institutions. Without active scrutiny of the rules and a concern for equity, the costs of these biases were able to continue unchecked.

Bias extends beyond housing

Though I have focused the bulk of my remarks in this regard on housing and home ownership, it is important to emphasize that systemic structures that made it extremely difficult for Black Americans to accrue savings and wealth have extended far beyond housing. Professor Jenkins's work offers one example of this. But there are others. Writers such as Rothstein and others have pointed out that many New Deal programs—which have long been credited with rescuing the nation from the Great Depression and laying the groundwork for future prosperity— withheld important benefits from most Black Americans.

For example, the Social Security Act of 1935 excluded farmworkers and domestic workers from the public pension program and unemployment insurance. Those were occupations disproportionately held by Blacks. As a result of the design of these programs, according to the writer Ta-Nehisi Coates, when President Franklin Roosevelt signed Social Security into law, 65 percent of African Americans nationally and between 70 and 80 percent in the South were ineligible. Thus, for many years, Blacks were effectively prevented from tapping into the primary program designed to preserve savings and wealth in one's later years. This clearly adversely affected the economic resilience of Black families. Moreover, and particularly important, given the importance that many scholars have attached to intergenerational transfers of wealth for entrepreneurship and economic mobility, this has also contributed to lower rates of small business creation and a weaker financial standing for Black businesses.

What can you do?

Let me close by saying a bit about today and a path forward. Today's program is pretty much what I expected when we put out the call for papers. The fields of finance and economics have been documenting racial disparities for decades, and the excellent papers today continue in that tradition. They are good contributions that are helping to illuminate maladies that include intergenerational poverty, restricted access to capital, residential segregation, and the persistent racial wealth gap.

Yet progress has been incremental. The median white household in America today holds 10 times the assets of the typical Black household. This ratio is not much improved from what it was more than 100 years ago.

This argues that something more fundamental must happen. The fields of economics and finance must acknowledge that the influence of race is multidimensional and persists over time. We must look "under the hood" at our institutions to see and truly understand their design and its implications. With such an understanding, we can then find more creative and accurate ways to incorporate race into our models, estimation approaches, and narratives. This, I hope, will yield better insights and result in a set of policy prescriptions that can truly create meaningful and lasting change.

I could stop there, but being that I was a professor for many years and am talking in an academic setting, I can't resist the impulse of closing by offering something that may sound like homework. I've already put forth one "assignment":

In your research, think about how you ask questions, particularly how you incorporate historical and institutional realities into your research designs. Examine the role played by institutions and structures, and explore how the burdens they impart have contributed to inequities that are still with us.

But there are other things you might have on your "to-do" list. I will mention two:

- First, deeply consider how you teach finance. If we are to construct a more equitable economy and financial system, the people who construct it need to know and appreciate the history of our system, some of which we've discussed today. Too many people, both generally and in finance, are unaware of the role the financial institutions and structures have played in calcifying inequities.
- Second, examine how you engage with practitioners and the professional space more broadly. How should we think about internships, for example? What steps are being taken to help ensure that opportunities are more equitably distributed among students?

We all have a vital role to play if we are to confront historical and institutional inequities in the financial systems that are supposed to serve our economy and all of our citizens.

The most egregious of the programs that spawned and even codified segregation and exclusion into our institutions are long gone, yet their effects are pernicious and persistent. In addition, work by varied scholars—some of them here with us today—makes a compelling case that there are institutions and programs still operating today that have similarly troubling effects.

All that notwithstanding, I am here before you optimistic for the future. Why? Because we are having these conversations, which I wouldn't have imagined was possible several months ago. This tells me there is an appetite for change and a willingness to work to effect it. Progress, and ultimately success, in this work will help ensure that we move ever closer to achieving a more perfect union that in fact, and not just in words, allows for unburdened life, liberty and the pursuit of happiness for all its citizens.