

Transcript:

Conversations on Economic Inclusion

The State of Racial Inequality in the US: Where Are We? How Did We Get Here?

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Dionissi Aliprantis:

Welcome to the Cleveland Fed Conversations on Economic Inclusion. Today is part two of a four-part series on the state of racial inequality in the US where we ask, where are we? And how did we get here?

Dionissi Aliprantis:

Now, today's guest is Dan O'Flaherty. And Dan, I'll let you introduce yourself.

Dan O'Flaherty:

Hi, I'm Dan O'Flaherty. I am an economist at Columbia and New Jersey guy. And I've written some books about race and I'm here to talk to my friend Dionissi about them.

Dionissi Aliprantis:

All right, great. So Dan, in preparing for this conversation, it really felt to me like there's just too much good stuff. You've done so much work in so many interesting areas. The Program on Economic Inclusion at the Cleveland Fed we're interested in a lot of these issues. So I'm just going to say a few of your books and I might actually miss a few. You actually wrote a textbook on urban economics called *City Economics* in 2005. With Ingrid Gould Ellen in 2010, you edited a book called *How to House the Homeless*. In 2015, you published a book called *The Economics of Race in the United States*. And most recently, you've published a book with Rajiv Sethi in 2019 called *Shadows of Doubt: Stereotypes, Crime, and the Pursuit of Justice*. So those are actually just the books you've written.

Dionissi Aliprantis:

Turns out, you've also done a bunch of research. You have articles on topics like "Homicide in Black and White", "The Racial Geography of Street Vice", "Crime and Segregation", "Can Homelessness be Prevented?", "Rental Housing Assistance for the 21st Century", "Why Are There Democracies", and "A Game Theoretical Rendering of Threats and Promises". Now, you've also been very involved in local government in Newark, New Jersey. So for 10 years, from 1971 to 1981, you assisted the city with its employment and training programs. From 1983 to 1985, you consulted the police department for scheduling their tours of duty. From 1985 to 1986, you served several roles as an aid to the mayor,

including essentially being the zoning officer. You've worked on the Board of Directors for Emergency Service for Families in Newark from 2000 to 2016. You have run for state Senate, you've also run ultra marathons.

Dionissi Aliprantis:

So Dan, you've done a lot. And I guess, that's just in some sense, a quick introduction to you and your work, but I'm wondering if you could tell us a little bit about your background and kind of what shaped you personally and professionally to get you to where you are today?

Dan O'Flaherty:

Well, clearly the secret of doing a lot is to be really old.

Dionissi Aliprantis:

It helps.

Dan O'Flaherty:

It helps. It helps. So I'm a Newark guy. I grew up in Newark and that has shaped a lot of what I do because I'm interested. I became interested in racial issues. I was going to high school at the time of the riots. I was in college and part of the Gibson campaign in 1970. It was what was happening and what people talk about in Newark. And so it's natural that these sort of Newark relevant interest questions come up for me. And I generally try to have a lot of things going at the same time, because if I've got a lot, then there's a good chance that at least something will be working. And I've just been very, very lucky to be able to follow what I have been interested in.

Dionissi Aliprantis:

I'd really like to discuss your book published in 2015, *The Economics of Race in the United States*. So a first question is what motivated you to write the book?

Dan O'Flaherty:

I was teaching the class. It was just a class. And I was teaching the class because once I got tenure, I said, what do I really want to do? Even if it makes no sense. And I did what I really wanted to do.

Dionissi Aliprantis:

Okay. So that's teach a class on economics and race.

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

Okay.

Dan O'Flaherty:

And that required learning it, which was the hard part. But once I learned it, I might as well write it.

Dionissi Aliprantis:

Yeah. Well, I guess so when you think about how you approach teaching, I think as a writer and a teacher, in the book very early on, you say you want readers to be emotionally comfortable and intellectually uncomfortable. And when we think about these, a lot of these tough issues around race, and I'm thinking about our society where we're trying to foster conversations where we can maybe see the best in each other and assume good intentions, but also actually addressing these issues. How do you think about doing that or fostering that kind of environment?

Dan O'Flaherty:

Assuming good intentions.

Dionissi Aliprantis:

But do you think, let me push back on that-

Dan O'Flaherty:

I think you got to, okay. Now there's sometimes you don't assume good intentions. Okay. And that's a different part of the world. Okay. As Ecclesiastes says, there's a time to assume good intentions and there's a time to come out swinging.

Dionissi Aliprantis:

Okay. Okay. But I guess, yeah, I guess that's the question is how do you maybe discern that? And, I would hope that we could broaden that space of interactions and conversations where we are assuming best intentions, or good intentions, I guess, I think there's reason that people might be hesitant to do that, and I guess, how do you, I mean, that feels like a stumbling block to me. And I'm just curious if you have any thoughts on that?

Dan O'Flaherty:

I don't try to assume intentions, really. In how I approach this, generally my approach is questions of self control and not being emotional about it and going to data. And again, Ecclesiastes is you don't always do that, but we also know about comparative advantage. And most of the time, I think I have comparative advantages at that because I'm not that big and I'm not that tough. And I can be pretty good at saying mean stuff, but I'm better at starting conversations. As an economist, I'm really, really good at being boring. And that's at times very necessary in these conversations and boring is good. There's a place for boring and look at, and sometimes I'm impressed by how medical people talk about all sorts of stuff like sex and death, and they do it very calmly, peacefully and boringly. Yeah. And they actually make progress on these things.

Dionissi Aliprantis:

Yeah. And they do that while at the same time, caring very deeply about those issues. Right. I mean, they've devoted their lives, for example, to being a doctor, to doing research, to improve those situations. But I guess, yeah, I'm thinking about that. And that's one where probably being able to make progress, maybe there's a lesson there that in some sense, being able to make progress in some senses

requires that. And I guess that calmness, but I also think that in some sense, there needs to be an urgency. Right. I mean, I think the urgency is how we push to make sure that things get done.

Dan O'Flaherty:

Yeah. But I mean, we shouldn't, or we shouldn't some of the time, somebody some of the time has to talk in big words and be boring. And I guess the other advantage we have as economists is that there really is in almost all the economics that's taught in this country at this point, no way of thinking about blame. It's not that we're angels or wonderful people. We just don't have a vocabulary. We don't have, it's not-

Dionissi Aliprantis:

It's kind of outside of our models.

Dan O'Flaherty:

It's outside of our models and you have this vast amount of talk radio and conversation that's about who's to blame. And as an economist, everybody's a schmuck and blame, I don't know. I mean, you have a PhD in economics, I have a PhD in economics. We have never, I mean, I have never heard the word blame in an economics classroom.

Dionissi Aliprantis:

Yeah. But I guess this gets to an issue of when you think about kind of historical wrongs and acknowledging those, I guess, how would you think about an economic framework then, or an economic approach to thinking about, I don't know, I'm thinking of a phrase like facing history or acknowledging, because I don't think what you're saying is that the current state of affairs or the current state of racial inequality just kind of fell from the sky. Right?

Dan O'Flaherty:

No.

Dionissi Aliprantis:

And so then how do you think of adequately kind of addressing history or having it in your mind and being conscious of it?

Dan O'Flaherty:

I don't... It did not fall from the sky, but most of my tools don't equip me to say where it came from.

Dionissi Aliprantis:

I guess kind of moving on to thinking about the tools and kind of ideas from economics. So I'm thinking about things like equilibrium, optimization, dynamics and their interaction with beliefs, equity efficiency trade off, when you think about this, especially when we're thinking about individual level choices or coordination problems, can you describe some of the ways that some of those tools or ideas are helpful when thinking about racial inequality?

Dan O'Flaherty:

There's nothing else to think about. I am marinated in that. I don't think any other ways, except sort of these things about crime differently. If you're going to make a positive statement about the world, these are the tools that you use.

Dionissi Aliprantis:

Because they describe human behavior in many contexts.

Dionissi Aliprantis:

Early in your book, you discuss just kind of the idea of race. So, if we're going to have a conversation about racial inequality, we have to understand what we mean by race. And you write in the book that races are labels that come from history. I'm wondering if you could elaborate on that and with a particular look maybe towards species and essences.

Dan O'Flaherty:

Okay. I've changed my views on that slightly after reading the philosophers on this.

Dionissi Aliprantis:

Okay.

Dan O'Flaherty:

So I guess the first thing, and this will justify this conversation to your bosses. Are races real? The answer is, if you think money is real, races are real and you ought to think in those terms, races are like money. We can go around talking about "it's a piece of paper", all your wonderful Cleveland Federal Reserve notes with the pictures on them are pieces of paper. And I can say, "Oh, I don't see, I just see pieces of paper." And if I want to buy a car, "I'll give you a bill with a piece of paper on it, with a number on it. And I don't care what that number is. You shouldn't care what number is, just give me the car." So in that sense, money is real. Friday is real. You cannot say, if we planned this at noon on Friday, and then I said, "Well, I don't recognize Friday. I mean, I don't worship Friga."

Dionissi Aliprantis:

Who's Friga?

Dan O'Flaherty:

Friga is the Norse god after whom Friday is named.

Dionissi Aliprantis:

Okay. So if you say, I don't believe in... It's a he or a she or?

Dan O'Flaherty:

god, so say they.

Dionissi Aliprantis:

It's a they. Okay.

Dan O'Flaherty:

It's a they. They're. And I can say to me, I mean, it looks just like any other day. It's no different from yesterday. And I've decided this is Elvis day, because Elvis for me is much more relevant than Friga. And I didn't know what you meant by when you said Friday, so I'm not here. I just don't follow that. So you can't go through life believing, if you walk around saying I have my own days and I have my own money and I don't pay attention to what other people do, then you're out of your mind.

Dionissi Aliprantis:

Well, I mean, I guess the point is, what I'm hearing you saying is that when we think about race in a lot of ways, it's a coordination device.

PART 1 OF 4 ENDS [00:32:04]

Dionissi Aliprantis:

So we've talked a little bit about race just to kind of set the table about what are we even talking about. And at this point we've only talked about two of the first three chapters of your book. So now we're going to turn a little bit more to kind of traditional economics issues. So you have a chapter where you talk about these kind of classic texts where brilliant people from the past have been thinking about racial inequality. People like Booker T. Washington, W.E.B Du Bois, Martin Luther King. Jr. You also talk about the Kerner Commission. So I think there's two texts there that I was going to ask you to maybe elaborate on a little bit. So the first one is actually this 1944 book by Swedish Nobel laureate in economics. I actually don't know how to say his name perfectly, Gunnar.

Dan O'Flaherty:

Gunnar Myrdal.

Dionissi Aliprantis:

Gunnar Myrdal. So he was traveling around the South, he was commissioned to try to understand the race issue in the US. And he ended up kind of quoting people like James Weldon Johnson as saying "The race question involves the saving of Black America's body and white America's soul." And one of the reasons why I think it's useful to highlight Myrdal is because he had this view of the interconnectedness of various spheres of life. He had this view that it was kind of difficult to make progress in only one kind of sphere. I'm wondering, could you describe that debate a little bit about the kind of interconnectedness of various aspects of life and maybe the current incarnation?

Dan O'Flaherty:

Okay. So let me do a little bit of economics intellectual history.

Dionissi Aliprantis:

Okay.

Dan O'Flaherty:

Myrdal was part of the Swedish school of macroeconomics which anticipated Keynes. In fact, Mike Woodford my colleague, one of the leading monetary economists of the United States at this point tells me he links that Myrdal got it right first before Keynes but nobody in Cambridge reads Swedish. So if you

think about Keynes, Myrdal's world is very much of a Keynesian world. His interplays are multipliers all over the place. So we don't see much of that today, we don't see this. I think today there are a number of panaceas that are out there and a lot of discussions get to be battles among panaceas. Lately, I guess in the last five or six years it's been the wealth panaceas because using standard methods, the disparities in wealth are quite big. Although I'm not sure how you measure disparity, what's-

Dionissi Aliprantis:

A lot of issues there yeah.

Dan O'Flaherty:

The Kerner Commission I would say was housing panaceas and the housing panacea is still with us. I think we'll have later discussions about that. Education panacea, that dates to Booker T. Washington and that's clearly with us. So I think what, and I guess the other thing that Myrdal was pushing back against because Ralph Bunche was working with him. Was the labor panacea that what is necessary is for Black workers and white workers to get together and everything will work out from there. So I guess maybe for the late 60s to around 2000, the labor panaceas was dominant in economics. I mean when I first started this course people told me, oh, you're going to require labor as a prerequisite aren't you?

Dan O'Flaherty:

And crime probably gets more attention to any of these but I really haven't seen anyone proposing a crime panacea. I think in my mind you can't deal with one without the other. That a lot of the housing issues are really crime issues or beliefs about crime issues. Housing contributes to crime. There's a paper I saw over the weekend that was murder is greater in more segregated cities. And that was in one of our papers too. Education and housing are linked closely together. And crime is linked to them too. And I guess the other panacea that I left out was voting.

Dan O'Flaherty:

For early Du Bois and Niagara Movement, everything is about voting. That has been diminished but there are also a couple papers that I'm reading that restrictions of voting rights reduce house prices of Black people, willingness to buy houses. And I think that that is absolutely true in that I don't think you can think about wealth without power because wealth comes from power. Wealth without power is not wealth. Why is Jeff Bezos rich? Does he have the largest collection of shiny objects guarded by the meanest dogs? No, he's got a bunch of pieces of paper. Actually he probably doesn't even have the pieces of paper. He's got bunches of entries on some computers.

Dionissi Aliprantis:

Somewhere

PART 2 OF 4 ENDS [01:04:04]

Dionissi Aliprantis:

So, I wanted to ask you, turn the attention to now, we should really focus on some bread-and-butter economics. Thinking about economics literature on employment and earnings and how that interacts with race, I'm wondering if you could maybe give some summary of some of the major findings in the literature on discrimination in the labor market. I guess the place I would start, maybe we should start

the conversation is detecting discrimination is pretty hard to do. One of the ways that we've done that in economics is to look at audit studies. I'm wondering if you could describe audit studies generally, some of the big results recently. I'm thinking of Bertrand and Mullainathan (2004), but also since your book was published, Kline, Rose, and Walters (2021). Yeah.

Dan O'Flaherty:

What audit studies do is that audit studies can tell us about process. They cannot tell us about outcomes. What audit studies started out being was sending pairs of people who were trained to act in the same way to employers, one was Black, one was white. They apply. They see what happens. The results there have generally been almost always, the employers treat both the same in that they don't get the job.

Dionissi Aliprantis:

So usually the outcome.

Dan O'Flaherty:

Usually the outcome, or get a callback. To the extent that we see them getting callbacks, generally, the white auditors get called back more. This was criticized by Jim Heckman with one very good objection, which I'll come back to, and one serious objection, which was met, which was that the auditors know what's going on. They're going to play. You can't trust them.

Dan O'Flaherty:

Bertrand and Mullainathan had this wonderful idea of sending out resumes with Black sounding names and white sounding names and looking at what the response was about calling back. Once again, they found that nobody got called back, very few people get called back. To the extent that there are callbacks, white sounding names do better than Black sounding names. Now, this moved in meeting one of Heckman's objections, in that there are no auditors, so they can't play.

Dan O'Flaherty:

It moved further from Heckman's other objection, which I would say is more definitional in that you can't imagine anyone being worse off about this because there's no one to be worse off.

Dionissi Aliprantis:

The way I've thought about that objection as I understand it is just how harmful is that lack of response? Is that the sense that you're talking about?

Dan O'Flaherty:

No. I'm talking about the differential response.

Dionissi Aliprantis:

Yes.

Dan O'Flaherty:

Yeah. We don't know because we don't know what people actually do. If I had a pizza store, I would never hire a Kardashian, and I mean, it's probably wrong of me, but there are no consequences of that in the world. In legal terms, I think what the auditors do are looking for disparate treatment. They're looking for bad motive.

Dionissi Aliprantis:

And you're more interested in disparate impact, or this Heckman critique is.

Dan O'Flaherty:

The disparate treatment is interesting. If you're interested in disparate impact, you want to know a mechanism for disparate impact and disparate treatment might be the mechanism, so it's interesting how it works there. I think also, the other thing about the audit studies is they find that some employers, that there are asymmetries in both directions.

Dan O'Flaherty:

They don't find that no employers ever call back Blacks and not whites. There are some who call back Blacks and not whites and some in other direction. What they find is the preponderance goes in the direction of helping whites.

Dionissi Aliprantis:

But that matters a lot for the Heckman critique, right? Because I guess the question is if there's one firm and they're jerks, I can just go to a firm that's-

Dan O'Flaherty:

That's not jerks.

Dionissi Aliprantis:

Yeah. They're not jerks. But the question is, how-

Dan O'Flaherty:

That's what the Kardashians have managed to do pretty well for themselves, without ever getting a job as a research assistant for me.

Dionissi Aliprantis:

They've been okay. They found someone else. They didn't need you, but-

Dan O'Flaherty:

They didn't need me.

Dionissi Aliprantis:

But I guess the question is-

Dan O'Flaherty:

That's why I think it's important. I think a lot of the discussion of discrimination has gotten hijacked on the minutiae, where it is the preponderance of it is what matters. So I believe very firmly that you treat your kids better than you treat me. That if one of your kids and I were having birthday parties the same day, and I invited you and they invited you, you would show up at their birthday party.

Dionissi Aliprantis:

Yeah. I'm sorry to confirm, that's probably what would happen.

Dan O'Flaherty:

Yep. And I am no more deserving than your kids or your kids are no more deserving than I am. And one, I don't take it personally, but you show an unreasonable preference for your kids, and I hope you do. What I would say is that we have this kind of discrimination going on all the time. And there are barbershops that will not cut my hair. I've managed to go do pretty well in life without. I have never gotten an offer of employment from North Korea, although I'm probably a better economist than anybody that they have.

Dionissi Aliprantis:

But don't you think this whole question though gets back to the issue of power, but also just I think of how resources are already distributed throughout the economy. I mean, you could think about it in terms of a job ladder, but you could think about it in lots of ways where it could be the case that not being able to get that job means you don't get that opportunity. And there's more of a consequence than for example, me not showing up at your birthday party.

Dionissi Aliprantis:

Because of the way, if it were the case that for example, let's say the best birthday present that you were going to get was coming from me and then I choose to go to my daughter's, that could be more of an issue. That could be different. That's maybe where the... I don't know, initial conditions or the-

Dan O'Flaherty:

I'm not saying that discrimination isn't an issue. I'm saying that there is lots of discrimination going on that really doesn't matter. There is some that does matter.

Dionissi Aliprantis:

And it's hard for us to know.

Dan O'Flaherty:

Well, what we know is that when it's pervasive, if nobody comes to my birthday party, then I'm in trouble.

Dionissi Aliprantis:

Yeah. Then you're going to have a bad day. Eating the cake alone.

Dan O'Flaherty:

Yeah. But that I think, the evil or the harm comes from pervasive discrimination. 55% of white people think that they are discriminated against. That may be true. I mean, you're not going to come to my birthday party, but as you say, it's not a problem.

Dionissi Aliprantis:

Yeah. Well, so I guess-

Dan O'Flaherty:

Where we come in the other kind of studies, the disparate impact studies, the wage regressions, they show that, okay, the preponderance matters. That in fact, all sorts of bad things happen to white people. All sorts of bad things happen to Black people, but on net, it is worse off for Black people. And of course it does. I mean, the fact that white people are good to their kids and very few white people have Black kids, so you have large disproportions of the resources that go to white kids. So that your care for your kids, which I don't want to say you shouldn't do ends up being your discrimination against me, but your discrimination against me is not a big problem.

Dionissi Aliprantis:

You've come to terms with it.

Dan O'Flaherty:

I can live with that. Your discrimination against Black kids is part of a problem. Because if a random Black kid... You don't go to random Black kids' birthday parties.

Dionissi Aliprantis:

Well, I mean, and I guess that's where to me, the issue of residential segregation comes into it because I think it makes it much more likely that I would discriminate against the Black kid and not go to their birthday party. I mean, I guess, so one question I would have for you then is when you think about this issue of preponderance, so this Klein, Rose, and Walter's paper, recent working paper, they do an audit study, a very massive one.

Dan O'Flaherty:

Yeah. Massive. Yeah.

Dionissi Aliprantis:

Absolutely massive national, looking at large employers. And as you said, they find this distribution in terms of what they're able to detect in terms of discrimination, at least at that part of the process, as you've said. And they found maybe... I think it was like a quarter of firms in their sample, maybe more like 20% were discriminating on the basis of race.

Dionissi Aliprantis:

And I guess, how do you think about that when you say that really, the issue is the preponderance, and I guess probably matters more at the [crosstalk] local labor market level, but-

Dan O'Flaherty:

Yeah. On a local labor market, on what you look for, on match. We don't have to speculate on whether that results in something, we know it results in something from the wage regressions.

Dionissi Aliprantis:

Yeah. Yeah. So, okay. But I guess the question is, but the wage regressions are-

Dan O'Flaherty:

It would be nice to do a model, which I'm sure somebody is doing, that works from that to the wage regression results.

Dionissi Aliprantis:

That's the issue. I mean, there's some work right now doing something similar in terms of housing and discrimination in the rental market, but I guess, yeah, because there's a lot of other things that are in that wage regression, other than discrimination.

Dan O'Flaherty:

Yeah. Yeah.

Dionissi Aliprantis:

Well, and I guess that would maybe point to the other topic I wanted to talk about with you. I mean, there's a bunch more topics I'd like to speak about with you, but thinking about this issue of the role of education in the labor market and racial disparities, I'm thinking both in terms of attainment and achievement, I'm wondering if even before we talk about racial disparities, some of the work that for example, and maybe it would just be estimated entirely on a sample of say, white males, like I'm thinking about, for example, Keane and Wolpin (1997), but where they're finding things like a large share of lifetime labor market outcomes can be explained by more or less what's happened to you by age 16 or 18. How do you think about that and the connection with education?

Dan O'Flaherty:

You better get educated. Yeah, a large part. But one of the things that has been coming out since the book has been... or at least coming to my attention since the book, the importance of the social and behavioral parts of that, what used to be called non-cognitive, which was a...

Dionissi Aliprantis:

But it actually is cognitive, so we've moved away from that. It actually is cognitive.

Dan O'Flaherty:

A large part of what goes on probably is determined in the social and behavioral, as well as what used to be called cognitive parts, as well as-

Dionissi Aliprantis:

Test scores or something like that, your math and your reading.

Dan O'Flaherty:

Yeah. And the sleeper effects there, where we have all these interventions that happen earlier in life, they do nothing to test scores until... but then you find out at age 20, they make all the difference in outcomes in your life that really matter.

Dionissi Aliprantis:

Well, I mean, I guess that's the thing. And I guess this question about test scores, I think when they're informative, whether they're informative, what they actually are measuring, could you talk a little bit about some of the research on using the National Longitudinal Surveys of Youth 1979 wave, and the AFQT variable in there. Can you speak a little bit about that?

Dan O'Flaherty:

Sure. So there's this important paper by Neal and Johnson in 1996, which the framework is interesting. They look at a two-stage process. They imagine life as a two-stage process, in which you're a kid and that after ceasing to be a kid, you're a worker. And there can be discrimination in both stages.

Dan O'Flaherty:

Their question is, is there second stage discrimination? And what they propose is that if you look at test scores around age 18, then, Armed Forces Qualifying Test scores (AFQT), qualifying test scores, these particular cognitive tests, this test score summarizes everything relevant that you have learned up until age 18, and it is what you bring to the labor market. Now, the interesting thing to me, since I've been thinking about this recently in a police homicide context, is that the overlap between Black AFQT scores and white AFQT scores is very small.

Dionissi Aliprantis:

That's right.

Dan O'Flaherty:

And they give themselves degrees of freedom, and they find that for everyone except Black men, for Hispanics, and Black women, the AFQT difference explains the difference in earnings in the late 20s. And instead of a 20% difference for Black men, it becomes a seven point difference. This has inspired a wonderful amount of research and a wonderful amount of thought, and I don't know if they believe it anymore.

Dionissi Aliprantis:

So, yeah. I guess in my mind, when I think of maybe two of the most important papers, I don't know, in response or connected to that paper, I would think of Rodgers and Spriggs (1996), and then I would think about more recently, Eric Nielsen's work trying to anchor items in the actual test. So I'm curious, when you say you don't know if you believe it anymore-

Dan O'Flaherty:

I don't know if they believe it anymore.

Dionissi Aliprantis:

You don't know if they believe it. So I guess, how do you think about it? And I guess the question is... yeah. How do you think about I guess the contribution of these... Let's call them cognitive skills to labor

market outcomes? Because I think one of the ways I would interpret it and I guess, okay, I'll spill the beans. I'll explain my own views on it. And then I'll maybe hear yours and we can go back and forth.

Dionissi Aliprantis:

My own views are that even if it's not as large as they find, and even if Eric Nielsen's work isn't perfect, I think what it's saying to me is that education does matter, and as you said, it's not the panacea. It's not going to solve all the other forms of discrimination in the labor market. It's not going to necessarily solve residential issues, and I actually want to turn next to issues about labor market networks and how that connects with residential segregation.

Dionissi Aliprantis:

But I guess the way I see it is, okay, what this is saying is that these kind of cognitive skills or whatever it is that's measured in these tests, it does matter for the labor market. And the thing that I... I don't know, it makes me happy about that, or I find encouraging is that that is something we can work on. That's something that I think we can change. That to me feels like solving the problem.

Dan O'Flaherty:

I definitely agree with that. I mean, I think what I've realized recently is that there is a very active literature in policing which is the exact same problem. So you have one stage in which a police officer arrests somebody and a second stage in which a district attorney makes a charging decision. Or there's a judge, many, many stages, actually.

Dan O'Flaherty:

The question that was a very active debate two summers ago was what can you say about the second stage? Given that you have in this case, you have a really hard time observing the first stage, because you cannot observe the people whom the officer did not arrest.

Dionissi Aliprantis:

Yes.

Dan O'Flaherty:

How do you think about the second stage? Nobody in this said that it is not important whom they arrest.

Dionissi Aliprantis:

Yeah, clearly that is.

Dan O'Flaherty:

And I think the people that I find most telling on this have argued you look at the information set of the people at the second stage and you have a well-formulated question about whether they acted in a discriminatory manner or not, with their discriminatory. I mean, this is the opposite of we have good data on kids, we don't have good data on employers, where here you have good data on prosecutors and you don't have good data on... I think the idea is a correct one, that to use the word blame, you don't blame the district attorneys.

Dan O'Flaherty:

However, there are some... two caveats. I guess let's talk about another two cases where it is very obvious. So I'm a police department, judge, jury, everything like that, and I send people to prison. You work in the prison, you are in charge of distributing prison uniforms to the prisoners. You don't have information on their race, you have information on their number and you have various anthropometric measures.

Dan O'Flaherty:

Are you discriminating? And I think you would probably do a very good job on that. That you would just pay attention and no one would say you were acting improperly, even though you might recognize, you might believe that a disproportionate number of the Black prisoners were in there unjustly. You would still do your job in a colorblind manner.

Dionissi Aliprantis:

Yes.

Dan O'Flaherty:

District attorneys... So you can in some sense think of district attorneys, but it goes a little bit further and the district attorneys have a little bit more power than you do, and that they can ask for more information.

Dan O'Flaherty:

And so I think a good practice that many district attorneys and prosecutors have is that they learn that certain cops they will not put on the stand. So in that sense, they have looked into the first stage. Whereas you were handing out the uniforms were not in position to, they have a fiduciary responsibility of what a good district attorney would do, is that they would-

Dionissi Aliprantis:

Go upstream.

Dan O'Flaherty:

... investigate the credibility of the cops based on things like that, and have a list of whom they believe or not. This is an obligation to the accused.

Dionissi Aliprantis:

Yes, that's right.

Dan O'Flaherty:

And I would say that the rights of the citizens of a particular jurisdiction would be violated if the district attorney did not exercise this due diligence.

Dan O'Flaherty:

Here, let's go to the employment case. I think employers, under law, employers do have an obligation, certain fiduciary obligations to applicants. In some cases, if I'm a little guy, I'm hiring people for my pizza store-

Dionissi Aliprantis:

No big deal.

Dan O'Flaherty:

Once I've turned the Kardashians away, I don't have to go further. And I can see somebody's resume. I can see they went to a school, which I never heard of. I'm not going to hire them, because I really want smart pizza delivery people. But if I'm a large employer, then I ought to question how good the information is that I'm getting from the first stage.

Dionissi Aliprantis:

So, you're drawing an analogy with the district attorney receiving people that have been arrested and saying, "You need to investigate that process a little bit." And now you're saying, "Okay, let's think about large employers, that they should be investigating a little bit the process by which someone's presenting to them with whatever credentials, or..."

Dan O'Flaherty:

And if you look at how affirmative action works in large employers, the stories that we have and actually some data on this is what does it do? Coming under affirmative action requirements forces employers to go back and look in the first stage in the sense that they find sources of referral. They find schools, they learn about them. They improve their ability to judge the first stage.

Dionissi Aliprantis:

Potential.

Dan O'Flaherty:

And then we've got Conrad Miller's result, that they keep using it once they've made the investment.

Dionissi Aliprantis:

That's actually the paper that I wanted to go to next. But I guess my question is, and I don't know if I would call this... I don't know if I would call this a pushback, but I guess where I see a tension is the following.

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Dionissi Aliprantis:

And I guess if I'm a large employer, the question is, what if it is the case that the test scores are telling me something about the education the person's received to that point? Not about their potential, but about the education received to that point. And it might mean that I as a large employer, I might need to invest more in that, whatever those skills are that are measured by math or reading test scores. Where does the responsibility on the large firm fall then?

Dionissi Aliprantis:

Because I think the issue of having a better sense of people's potential in a job, in terms of a match or in terms of their skills or what they might develop into, I think that's something that clearly to me, it's hard to argue. But I think there is this issue of I'm running a business and I need people that can perform now. And I guess the question is, how much investment is required over the long term? And where do you draw that line? And where are the obligations?

Dan O'Flaherty:

I'm not sure. We saw in Conrad's paper that it seems to be profit maximizing, once you've set it up. I think there are obligations, getting back to your point about integration, is that if integration is a public good. And I think-

Dionissi Aliprantis:

And when you say public good, can you explain for a non economist? What do you mean by that? What do you mean by integration as a public good? And then we should turn to Conrad Miller's paper.

Dan O'Flaherty:

Yeah. Okay. So integration in the sense that large numbers of people were not directly involved gain. So integration of India and Pakistan would be a public good in that all kinds of people would be able to make better trades, would be able to find out more about their lives, would be able to sell things better, would be able to find better partners.

Dan O'Flaherty:

The same is true with integration in the United States. It would remove many, many problems. It would allow our politics to be much more intelligent and civil. It would mean that we would have more people to do everything we want to do things with. What we've learned in the pandemic is that we are desperate to do things with other people.

Dionissi Aliprantis:

We need each other. We really need each other.

Dan O'Flaherty:

And the more people we have, just to hang out with ...

Dionissi Aliprantis:

That we enjoy, that we enjoy hanging out with.

Dan O'Flaherty:

That we enjoy and hang out with, the better. Okay. Another part is trust, that if we trust each other more, we can do many more things. If police [crosstalk].

Dionissi Aliprantis:

That's a very big point. I think that's a very big point.

Dan O'Flaherty:

Today, you trust police. And the trust, if I act to you in a trustworthy fashion, as a result of that, you trust Jerseyans more.

Dionissi Aliprantis:

I don't know about that.

Dan O'Flaherty:

But it's a benefit to all Jerseyans. And it's also a benefit to you, because the next time you meet a Jerseyan, you'll understand that they can do wonderful things for you. This bridge that they are trying to sell you is probably real.

Dionissi Aliprantis:

And you get to this issue of trust. In some sense, it's also I think a backbone of just capitalism, that we can trust each other and that we have these norms. And that we have these expectations. But okay, I do want to take it back to the labor market a little bit.

Dan O'Flaherty:

Yeah. So this is Elizabeth Anderson's work, and this is another philosopher, but on The Imperative of Integration, that workplace is an excellent place for integration, for steps toward integration to occur, because it's controlled, because people are working toward a common goal.

Dan O'Flaherty:

And I think that if workplaces are among the most integrative, the places where you're most likely to find interracial friendships and cultivate them. So that it's a good place for the production of this public good.

Dionissi Aliprantis:

Well, so I want to ask how we can produce more of that public good. But first, I do want to actually turn to that paper by Conrad Miller and Ian Schmutte. I think you're talking about the co-authored recent paper where, so they look at data from Brazil. That includes the race of the entrepreneur who started a business.

Dan O'Flaherty:

No. No. No. No. This is an earlier bit.

Dionissi Aliprantis:

You're talking about a different one? Okay.

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

Well, I want to talk about this one from Brazil.

Dan O'Flaherty:

Let's go. Let's go. Miller's good. We can always talk about Conrad.

Dionissi Aliprantis:

Okay.

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

So this paper, with this co-authored paper, they find that businesses that are started by white founders end up hiring Black employees at the same rate as businesses started by Black founders. But that it takes time. And so they're able to interpret this in terms of a story about job referral networks. And essentially, they're saying you can see that a job referral network might be segregated because social networks are segregated.

Dionissi Aliprantis:

And social networks maybe are segregated because of residential segregation and how important, I guess, job referral networks are in the hiring process. They're tremendously important. And the evidence that we have is that it's stronger for lower income people. So I'm curious if you could, I don't know, interpret that or speak about that and how that connects with just the issue of residential segregation.

Dionissi Aliprantis:

And just the thinking we probably shouldn't get going on neighborhood effects because I could talk all day about that, but some of your views on labor market networks and job referral networks and how these forms of residential segregation end up impacting labor market outcomes.

Dan O'Flaherty:

Okay. Yeah. I think job referral networks are important. The first Conrad Miller paper also was about job referral networks, in the sense that one of the reasons for the continued hiring of Black employees was that the job referral networks were set up. And that's again, what I would think about as due diligence.

Dan O'Flaherty:

Like the district attorney checking on what goes on in the first stage, if I'm not getting any referrals from this neighborhood or this group of people, maybe I ought to find out why and take steps to get referrals. And so I think it also works well. Job referral, again, things work in both directions. People buy houses based on where their colleagues work.

Dionissi Aliprantis:

Yeah. Yeah. Yeah. It's probably some of the first people you ask, if you move to a new city.

Dan O'Flaherty:

Work life [crosstalk].

Dionissi Aliprantis:

Your job, where do you guys live?

Dan O'Flaherty:

Yeah. Yeah. And I got new neighbors across the street a couple years ago and I said, "Oh, your neighbors over here are these people." "Yeah, I know. My sister works with them."

Dionissi Aliprantis:

Yeah, these things are connected. These things are all connected. Well, okay. So in some sense, I do think it's a little bit dangerous that we start talking too much about neighborhood effects. So I actually am going to ask you, because we've been speaking for a long time and we might go over a little bit. I think that's okay if it's okay for you.

Dionissi Aliprantis:

So I guess you mentioned earlier that you see this focus on wealth as a panacea. And I'll say in my own research, looking at how wealth and the racial wealth gap evolves over time, and then also thinking about the racial wealth gap and access to opportunity neighborhoods, the more I've been thinking about it, the more I think wealth is maybe a very good scorecard or indicator of broader economic outcomes and broader economic success.

Dionissi Aliprantis:

But there's also this recent paper by Bulman et al. (2021). I don't know if you've seen it, about lottery winnings and college attendance. And it actually has been very influential in my own thinking. And just thinking about the nature of wealth, that personally I've come to view it much more as an end result, rather than ... Look, obviously money always helps. All else equal, having more money helps.

Dionissi Aliprantis:

So I can think of a lot of reasons that wealth would help, but it seems that as I've started looking a little bit more closely in the particular ways that you think that wealth would really influence trajectories or labor market outcomes, it's not clear to me that wealth is the driving factor in several of these mechanisms.

Dionissi Aliprantis:

So I guess I'm curious to hear your thoughts on, whether it's the racial wealth gap, or just wealth in general in our economy, and how it influences labor market outcomes.

Dan O'Flaherty:

I'm not sure. I'm not sure that one, wealth is the correct thing. It may be wealth as we measure it, as you measure it.

Dionissi Aliprantis:

As my colleagues, as my colleagues measure it.

Dan O'Flaherty:

Including my friend, Sarena Goodman, measure it, is not the wealth that you see in the standard labor market models. Wealth, as it is in the optimization problem, is the discounted value of all your earnings, plus what you inherited. It's total inflows.

Dionissi Aliprantis:

[crosstalk] It's potential wealth. It's potential wealth in some sense.

Dan O'Flaherty:

Potential wealth. Yeah. And actual wealth for most people, is a tiny fraction of potential wealth. And I would probably go further in that, in this model, potential wealth is ... So if we're in an Arrow-Debreu world, then potential wealth is what you worry about.

Dionissi Aliprantis:

A standard, which is the baseline model with no frictions.

Dan O'Flaherty:

Yeah. Yeah.

Dionissi Aliprantis:

We've assumed away a lot of reality, but the basics of how the economy works are there.

Dan O'Flaherty:

What sort of frictions do we want to add? The first friction I want to add is race, for some reason. And how does that say it? That says one, a large part of your potential earnings is what people think of you and their beliefs in your capacities and character.

Dionissi Aliprantis:

And how they react to-

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

It could be glasses if I really ... It could be all kinds of things, right?

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

But we've coordinated on race.

Dan O'Flaherty:

Yeah. So that potential wealth should be added to that social component. Another part of it is the probability that someone will come along and steal what you have from you, or burn it down as in Tulsa, or defraud you of it as in throughout the US South. And so what you get is that the potential wealth has to be corrected by things that are really hard to measure, but that do differ systematically with race, and the concentration on the single number there.

Dan O'Flaherty:

Then the other direction is that wealth is useful because of capital market failures. That I need money tomorrow and I cannot borrow against my Social Security for that. Or I need money to buy a house with a really good school district, but I'm five years old. So it's hard for me to borrow against my potential.

Dionissi Aliprantis:

Glenn Loury's classic paper.

Dan O'Flaherty:

So that direction says that version of wealth is wealth minus consumption.

Dionissi Aliprantis:

That's right.

Dan O'Flaherty:

Which is what's measured in the Survey of Consumer[s]. Now, again, so I think wealth minus consumption is really important because of this. And that was going to be very, very apparent at the beginning of the pandemic. And I think with Omicron and the fact that nothing will go through Congress is that it is likely to become-

Dionissi Aliprantis:

More so.

Dan O'Flaherty:

... more so. But there are many things that are important. I'm not sure that it is that much first order important on these things.

Dionissi Aliprantis:

I guess when you think about the issues-

Dan O'Flaherty:

Because realize that being able to buy a house in a good school district, you borrow that.

Dionissi Aliprantis:

Well, I guess that's the thing that ... Okay. I guess I have two big reactions to what you just said. One is our recent work looking at the neighborhood SES, neighborhood socioeconomic status of Black and white households by their income and wealth, where when we started the project, I was very sure there's this well-known result that Black and white households with the same incomes live in very

different neighborhoods in terms of things like unemployment rates, educational attainment, poverty rates.

Dionissi Aliprantis:

And I was very sure when we started the project, that that was because of wealth. Because that at the same levels of income, those households tend to have very different levels of wealth. And that that was the friction or the barrier to those families moving to those neighborhoods. And what we found is the exact opposite. And I tried my best to make sure that we found it was wealth. It definitely is not, or at least not primarily. It's a much smaller contributor.

Dionissi Aliprantis:

To me, that points to this issue of avoiding racial hostility. But I guess the other question I was going to ask though, is when you think about, I guess, race in a model of wealth accumulation, the factors or the kinds of ... We can think about the Great Recession and how that differentially impacted Black households and their wealth. And you were saying that a lot of those things are hard to measure, so that's definitely the case.

Dionissi Aliprantis:

Although some people have done things like tried to measure the amount of wealth, essentially stolen through things like contract sales, where you miss one payment and now because you couldn't get into the formal banking sector, you miss one payment with me, and now I'm going to take everything that you've put into this, all the principal you've accumulated.

Dan O'Flaherty:

Yeah. It's harder to measure what you do, because you fear that.

Dionissi Aliprantis:

And I guess that's maybe my question, or I guess where my own thinking is at the moment is that I think the actual forms of that in my mind, I think they must have gone down a lot. I could be incorrect about that, but my own thinking is that those have probably declined substantially in recent decades, Great Recession notwithstanding.

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

But then I guess the question is, how do you try to preempt that, I think is what you're saying is really the big issue. Is that how you think about it?

Dan O'Flaherty:

Yeah. Yeah. And what I would say is yeah, let's work on that, but don't expect it to be a panacea. It has to be worked on with labor markets. It has to be worked on with other parts of trust. It has to be worked on with other little steps to integration.

Dan O'Flaherty:

Just as when you reform the Soviet Union, you don't start off by privatizing everything right away. In China, you move the township and village enterprises first, and you can do things there.

Dionissi Aliprantis:

I'm thinking of the work of the computer or scientist, Kenneth Stanley. And he talks about this issue of open-endedness, and the idea that the ultimate solution to a problem might end up looking very different than where in the search space you are at a given moment. And so I don't know. Maybe is integration something that could happen in big ways very quickly, do you think? Or is it something that we ... I'm not saying we shouldn't work for those small steps forward. I'm just curious what you see as potential.

Dan O'Flaherty:

It could be. I don't have any theorem that it isn't. But that doesn't do me any good, unless I know what that big step is.

Dionissi Aliprantis:

Well, yeah. For me, I guess it's recognizing common humanity. And certain interactions might give people information or insights into realizing the situation or the problem. And then you might be able to get quick progress. Maybe not. I'm not sure of my own views on it.

Dionissi Aliprantis:

Think about the European Union. Just think of France and Germany. Think of France and the UK. Think of the number of wars. Or within the UK, the wars within the UK, all of that history. And it's only been for so many decades, but there haven't been any major wars. I think that's a big deal.

Dan O'Flaherty:

Yeah. Yeah. I'm not sure we want to have a World War to accomplish that, though.

Dionissi Aliprantis:

Agreed.

Dan O'Flaherty:

But I think there has been lots of peaceful progress on things. And I look at higher education in the United States.

Dionissi Aliprantis:

Yeah.

Dan O'Flaherty:

I'm not saying everything is perfect in higher education in the United States. But as a native American, I am a distinct minority in the Columbia Economics Department. We were sitting around with a bunch of guys and women at lunch, and we were talking about immigration. I look around and I'm the only one that's not an immigrant. So we have done remarkable things in that direction.

Dan O'Flaherty:

The most remarkable and I think the most interesting thing in this dimension has been the growth of Asian America. That is in my mind, clearly a result of the Civil Rights Revolution. One, the immigration reform of 1965 passed with the exact same coalition, for the exact same international reasons. And I don't think the really brilliant Asians that have come to the United States, would've come if they had to sit at the back of the bus.

Dionissi Aliprantis:

Yeah. Yeah, I think that's ...

Dan O'Flaherty:

So that's what Martin Luther King did.

Dionissi Aliprantis:

Among other things.

Dan O'Flaherty:

Among other things. And the other thing that Martin Luther, that the Civil Rights and Black Power did, is that it's okay not to be white. And Asian Americans and Hispanic Americans are the first large groups who have come to the United States in a world where you don't have to be white.

Dionissi Aliprantis:

All right. Well Dan, with that, I think we've been a little bit over. I'll ask you one last question, if that's all right.

Dan O'Flaherty:

Okay.

Dionissi Aliprantis:

And that is, what question did I not ask you that I should have? Or what should we have spoken about more than we did?

Dan O'Flaherty:

What does racial inequality have to do with income inequality? Since if you equalized minority distribution of income to white distribution of income, you would have 3% decrease in the Gini coefficient, or something of that order of magnitude. And I have an answer.

Dan O'Flaherty:

But it's going to take us a while. My answer is, hell with the Gini coefficient, essentially.

Dan O'Flaherty:

No, it's not what we care about. My concern about income inequality is a concern about other inequalities.

Dan O'Flaherty:

Such as equality before the law, equality of respect, equal opportunity for kids.

Dionissi Aliprantis:

Making sure everyone's a first-class citizen.

Dan O'Flaherty:

Making sure everyone's a first-class citizen. Making sure everyone can walk the streets at night and drive the streets in the day, equally. Those are the kinds of equality that I care about income equality for. And that no one is starving, that everyone has basic kinds of dignity.

Dan O'Flaherty:

And if you could do all these things and Jeff Bezos has a billion trillion dollars, fine. I'm not sure you can. But if you look at the instrumental reasons why we should care about income inequality or about wealth inequality, they are directly about racial inequality and gender equality. And so again, if you look at the major movements about inequality in this country, they're not about Gini coefficients.

Dionissi Aliprantis:

Well, maybe more recently. Maybe more recently.

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

But even then, maybe it's not about the Gini coefficient.

Dan O'Flaherty:

Yeah. How many people- what Black Lives Matter is?

Dionissi Aliprantis:

I'm thinking about the conversations about the 1%. The 99-

Dan O'Flaherty:

The conversations about the 1%, how many people are on the street?

Dionissi Aliprantis:

Good question. Yeah.

Dan O'Flaherty:

Yeah.

Dionissi Aliprantis:

Maybe not as much as some of the others.

Dan O'Flaherty:

No. People on the street are about gay marriage. People on the street are about abortion. People on the street are about Black Lives Matter. And those are what I think we should be concerned about inequality for. But the direct concerns, the Gini coefficient tells us something about that.

Dionissi Aliprantis:

It's not totally irrelevant.

Dan O'Flaherty:

Not totally irrelevant, especially the type of world we live in, but it is secondary to the concerns of racial and gender inequality. The Bayer and Charles paper, if we lived in a world where everybody was paid the same, then we wouldn't need to have a discussion about labor market discrimination.

Dan O'Flaherty:

But as a matter of what we do care directly about, why we care about the labor market, it's about dignity. It's about opportunity. It's about not starving. And those are the things that the discussions of racial inequality are about. So that in my mind, the discussions of racial inequality are prior to the discussions of income inequality.

Dionissi Aliprantis:

Okay. Thank you, Dan. On that note, I think that's a good way to end it.

Dan O'Flaherty:

Okay. Thank you. It was fun.

Dionissi Aliprantis:

I hope you enjoyed this conversation about the state of racial inequality in the United States. If you would like to learn more about the Cleveland Fed's Program on Economic Inclusion, please visit our website at clefed.org/PEI.

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