

ABSTRACT

The paper seeks to accomplish two objectives. One objective is to make the case for instructors weaving race throughout their macroeconomics courses. The point is to use race as a means of illustrating points in macroeconomic theory, not relegating race to "special topics" which one might or might not get to. The other objective is to provide a number, indeed twenty-one, concrete suggestions for how race can be intertwined into a macroeconomics course.

TEACHING MACROECONOMICS AS IF RACE MATTERED

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As economics instructors we want our students "to think critically about the great and small issues of mankind (sic)". (Hansen 1986, p.150) Clearly one can think like an economist and exclude analyses of gender, class and race. However if we ignore questions about gender, class and race then what we model for our students is that these issues do not matter. When they later confront questions that involve gender, class or race they may not possess the analytical grounding required to think and analyze creatively. Furthermore the theories we teach create the paradigms or frameworks that become the basis for students' understanding "what is" and that in turn influence students' attitudes toward what "ought to be." Case in point: how have we prepared students to think about, say a living wage ordinance when we and our textbook have presented employment, wages and other labor outcomes as the consequences of impartial market mechanisms.

Part of our task is to help students understand and analyze when practice or applied behavior fail to square with models and market outcomes.ⁱ Granting primacy to "natural" market forces outcomes makes it difficult to analyze problems of class, gender and race. Furthermore the perennial issues of economic policy involve opposing sets of deeply held values. It is not enough to encourage students examine their own values but we must model being willing to question the institutional factors that underlie our social and economic system. As macroeconomists we also care about the efficient use of resources. Building race into the teaching of macroeconomics allows us to offer alternative paradigms, to give students new opportunities to think critically and to discuss the efficient use of resources in ways that go beyond the standard textbook.

Making race **one** of our focal points for presenting applications of macroeconomic theory throughout the course is neither "business as usual" nor "PC" in how we teach macroeconomics, but rather is a vehicle for strengthening our instruction. Time spent on race is not time keeping students

from the material they "need to know" but rather makes what they "need to know" more real world and relevant. And besides, "to teach economics as if economic discrimination does not exist undermines the objectives of economics education, namely to observe, explain, and improve economic behavior and performance as ways of maximizing social benefits and minimizing social costs." (Tuma 1995 p.353)

This paper will not take up the very important questions of pedagogy. (For discussions of how we need to rethink pedagogy as we discuss gender and race see, for example, Shackelford 1992, Bartlett 1997, Kasper 1997 and Aerni, Bartlett, Lewis, McGoldrick & Shackelford 1999.) Suffice it to say that how we interact with our students is conditioned by race- and gender-related stereotypes that bring forth preconceived notions about students' abilities and talents. And as we explicitly bring race into our presentations and student discussions we need to be aware of creating a classroom environment in which students feel safe talking about race.

I would argue that teaching macroeconomics as if race mattered is important regardless of the racial composition of our classes. Bringing more African-Americans into the economics profession is a highly worth goal, but I would argue is a secondary one. I would assert that educating white students about the economics of race is done in the hope that they will be more likely to consider race as they assess economic situations and that some of them come to see undoing racism as a worthy economic as well as social project. So even if your students are all of European descent, race matters and can enrich their macroeconomics course.

The paper will offer specific examples of how we, as macroeconomics instructors, can use race as a focal point in our applications. Before turning to those examples it is worth reviewing how principles textbooks have evolved in their coverage of gender and race. Principles textbooks have, on average, increased their coverage of issues of gender and race. The top 21 texts from the period 1974-1984 averaged 1.28% of pages devoted to gender and/or race issues while a dozen more a recent texts averaged 3.6% of pages.ⁱⁱ (Feiner & Morgan 1987, Feiner 1993 and Robson 2001) Robson's review of recent textbooks, unlike the previous two, broke the page count down by race alone, gender alone and both. The mean percentages of pages devoted to race, gender and both were 16.0%, 49.4% and 34.5% respectively. In none of

the 12 texts reviewed by Robson was the percentage for race greater than the percentage for gender, and typically higher race percentages diminished the "both" percentages rather than the gender percentages. The thought provoking distributions suggest that authors find it easier to write about gender than they do race. Probably most white instructors share that view. However, the undergraduate economics faculty are 89% Caucasian, so faculty of European descent cannot just leave the inclusion of race to the African-American colleagues. (Becker & Watts 1996) We all need to weigh in.

Before considering specific places in a macroeconomics course where you can illustrate a theory or an analytical tool using race, think for a moment about international trade. Yes, there is a chapter or two on international trade. Before you get to those chapters, however, you have already talked about trade at a number of points in the course. Trade was part of your discussion of GDP just as it was part of your presentation of the circular flow. It comes up in the exposition of leakages and injections and the determination of the equilibrium level of income. Trade was part of your discussion of the income multiplier. The exchange rate changes played a role in deriving the aggregate demand curve. And so forth. You get the point. Trade is integrated into your course well before-- and even if you don't get to-- the chapter on trade. Think of race in a similar light. The discussion of race is not limited to the special topics chapter, the one that you may or may not cover.

Let us now turn to a list of specific ideas of how race can be employed as a vehicle to illustrate macroeconomic theory. The areas I will cover are supply and demand, production possibility curves, labor, inflation and its history in the US, lending and monetary policy, distribution of income and wealth, income multiplier, fiscal policy and international trade.

SUPPLY & DEMAND APPLICATIONS

I start with supply and demand on the assumption that most macroeconomics courses begin with the introductory chapters that introduce basic economic concepts.

Real estate markets and changes in the racial composition of a neighborhood

Housing buyers' and sellers' responses to a change in the racial make up of a neighborhood offer an exercise in shifting supply and demand curves and assessing the consequences. Assume all lots have been built on and so the supply of housing in an all-white neighborhood reflects the normal turnover. Now suppose that a family of color buys a home in this neighborhood. Suppose further that some white families

flee the neighborhood and that at this point potential buyers think the neighborhood is still all white. Get students to work out why demand will not shift and why supply will shift to the right. (See Figure 1.) Have students see what the "white flight" has done to the equilibrium price of housing and next to assess who has been hurt financially by the supply response. (One can have a discussion of who is responsible for the financial losses.) The next step is to suppose that with the passage of time primarily families of color buy into this neighborhood and now more blacks wish to buy in the neighborhood than was initially true of whites. At this point the "white flight" has ended and normal turnover is restored. Illustrate these two reactions in the initial graph by getting students to work out why demand will shift to the right and why supply will shift back to its original position. Finally have students analyze what the end of "white flight" and the neighborhood's rise in popularity among African-Americans has done to the equilibrium housing price and to assess who has been hurt financially by the supply response. (One can have a quite different kind of discussion of who "caused" the financial 'harm'.)

Analysis of wages in primary and secondary labor markets

Supply and demand analysis provides a powerful tool for illustrating the consequences of some workers of color being denied employment in the primary labor market. The analysis offers another application of shifting curves and also helps students understand why some workers earn more while others earn less. The supply and demand exercise is also fruitful in allowing students to see that discrimination in employment does not lead to wage gains for all whites or to wage losses for all blacks. The analysis follows Bergman's analysis of wages in the face of discrimination. (Bergman 1974)

The analysis begins by describing the notion of primary and secondary jobs and their attributes. Draw a labor supply and demand graph for the primary job market and another graph for the secondary job market. Preferably put them side by side to facilitate comparing the equilibrium wages. Numbers along the axes are not important, but the primary labor market would have the higher equilibrium wage. The initial supply and demand curves illustrate the two labor markets without any discrimination in hiring. Next assume that employers in the primary labor market discriminate against African-Americans. Some of the African-American job seekers in the primary job market will give up looking for work for which they are qualified and will look for employment in the secondary job market. (See Figure 2.) Students can work out the supply shifts in the two job markets. These new supply curves are the supply curves with discrimination in hiring in the primary labor market. Students should see the resulting rise in the equilibrium wage

in the primary labor market and the resulting fall in the equilibrium wage in the secondary market.

A next step in the analysis is to ask whose wages fall due to the discrimination in employment and whose wages rise. Students' first response typically is African-Americans' wages suffer and whites' wages benefit. A closer analysis reveals this to be incorrect. **All** workers-- African-American and white-- in the secondary job market receive wages that are lower than would have been the case if the secondary labor market were not "over crowded" by those African-American workers who were pushed out of the primary labor market. Clearly the African-Americans who were qualified for but denied employment in the primary job market experience the largest wage cut. **All** workers-- white and African-American-- in the primary job market receive wages that are higher than would have been the case had some of their peers not been denied employment in that market.

PRODUCTION POSSIBILITY CURVE

The production possibility curve is a useful heuristic that lets students think about the opportunity costs associated with the less than full utilization of factors of production. To help students see the hypothetical nature of the production possibility curve we generally get students to enumerate factors such as unemployment, empty houses, store locations, offices and factories that keep the US economy from being on its production possibility curve.

The discussion of the full and efficient use of workers we can extend the discussion to the under-employment of workers and to the ways in which the educational system has resulted in potential workers' skills or human capital not being fully developed. Table 1 presents Brimmer's (1997) estimates of the potential gains to GDP from eliminating the under-employment of African-Americans and from African-Americans having an educational distribution that equaled that of whites. A three or four percent gain in GDP may not seem particularly great to students. To give the figure a context it is useful to remind students that African-Americans make up about 12% of the labor force and so the 3 to 4% represents a quarter to a third of the potential that African-Americans have to offer to the economy. Put differently, the loss diminishes potential African-Americans household income by a quarter to a third of its potential.ⁱⁱⁱ

A discussion of discrimination's impact on production can be expanded to a broader examination of the role of institutions in our economic lives and the fact that production is not a mechanical process in which output is a determinate amount once we know the quantities of labor, capital and the state of technology. Work is social process that is influenced by institutional factors including racism on the job. Put differently, the discussion helps establish the point that

economics is about human interactions conditioned by the institutional arrangements within which they take place.^{iv}

LABOR

Disaggregate labor force participation rates by race and gender

Disaggregating labor force participation rates by race and gender since the 1960s exposes students to several important trends and offer opportunities for discussion of the factors that have given rise to them:

- Since the end of World War II African-American adult women's labor force participation rates have consistently exceeded those of white women.
- The rise in women's labor force participation rates from the mid 1970s to mid 1980s was a more pronounced phenomenon among white women than among African-American women who were already more heavily involved in the labor force.
- The labor force participation rates of white and African-American adult males have been (a) higher than those of their female counterparts and (b) have been gradually falling unlike those of their female counterparts.
- The labor force participation rates of African-American adult males have fallen more rapidly than have those of white adult males.

Students can, of course, be assigned to find these labor force participation rates, reporting them in, say, 5-year intervals and being challenged to detect the trends and to tender explanations for them. The labor force participation rates may readily be obtained at http://www.access.gpo.gov/su_docs/multidb.html.^v

Discuss structural unemployment among inner-city workers

Textbooks usually overlook the chance to apply the notion of structural unemployment to the residents of inner-cities. In the 1950s and 1960s two major changes impacted the manufacturing in major cities. Those changes were the redesign of flow patterns in the manufacturing process and the advent of the interstate highway system. The first made obsolete the multi-floor plants that had been built in inner-cities where land was relatively expensive and the second put a premium on ready access to the new highways. Both factors conspired to induce manufacturers to move to the peripheries of cities where large single-floor plants were feasible because of lower land costs and simultaneously there was greater highway access. These moves substantially disadvantaged those residing in the cities who had previously worked in manufacturing. Public transportation did not provide inner-city residents ready access to the new locations and residential segregation tended to preclude their moving

to follow their former jobs. These structural changes contributed to the rise in the unemployment rate among African-Americans, most notably males, the increase in the number of discouraged workers and the fall in the labor force participation rate of African-American males.

This example of structural unemployment also offers an opportunity to discuss residential segregation and the roles of lending institutions and of government policy.

Disaggregate unemployment rates by race and construct two Phillips curves

Students are likely to know that African-Americans have higher unemployment rates than do whites. It can be instructive however for them to disaggregate the unemployment rates by race and to calculate the ratio of the African-American rate to the white rate. The fact that the ratio averages 2.05 for 1950 to 2001 opens space for two kinds of discussions. One discussion would involve attempts to explain why the African-American rate is, on average, twice the white rate. This can lead into discussions of differences in opportunities to create human capital as well as discrimination in the labor markets. The discussion can be tied into the Brimmer data regarding the loss in GDP due to those two forms of discrimination. Another discussion can center on the greater stake African-Americans have in the economy's avoiding recessions. Put differently, examining the current recession we find that some 2.5 million more workers are unemployed now than in 2000. That's a lot of unemployed persons and the mean period of unemployment has been rising. When we examine unemployment by race we find that the rate for African-Americans has risen about 60 percent faster than for all workers. This translates into approximately 400,000 more African-American are now out of work than were out of work in 2000, a two-year rise of 30 percent.

The unemployment rates by race may readily be obtained from http://www.access.gpo.gov/su_docs/multidb.html--the relevant table is B-43 for the 2002 Economic Report-- and more current rates are available at <ftp://ftp.bls.gov/pub/special.requests/lf/aat24.txt>.

Once unemployment rates have been disaggregated by race, those instructors who discuss the Phillips curve can readily extend the analysis by plotting two race-specific Phillips curves, preferably drawn on the same graph. (See Bartlett 1996, p. 145) The difference in the position of the two curves-- and their shifts, should you trace out more than one Phillips curve per group-- can be related to the white/black unemployment ratio. The class can then discuss the racially disparate consequences for unemployment rates of targeting a given rate of inflation. The trade-off rate between inflation and unemployment can also be calculated for whites and for blacks.

Offer an alternative paradigm to the neoclassical view that wages reflect marginal product

How individuals think about topics such as minimum wage, living wage, and progressive income tax is affected by the story they believe about what determines wages and salaries. The neoclassical explanation of wages corresponding to marginal product creates a sense that workers are paid what they are worth, whether that is \$6 an hour or \$60 million a year. A growing number of economists is coming to admit that wages are not the outcome of the forces of supply and demand in supposed labor markets. Supply and demand analysis works well when assessing shifts in supply and/or demand and we seek to predict wage movements, but supply and demand, according to many economists, do not provide a convincing explanation for the level of the "equilibrium" wage. Wages are set by a complex process of relevant comparisons, within and across occupations and industries, as well as the characteristics and qualifications of the worker. The incomes we earn are also the results of institutions, customs, privilege, social relations, history, law and above all power, with an admixture of ingenuity and luck. Providing another perspective on how wages are determined lets students think differently as they assess programs such as comparable worth and a living wage.

INFLATION AND ITS HISTORY IN THE US

Disaggregate household expenditures by race and have students compute race-based CPIs

Household expenditures by race can be obtained at <http://www.bls.gov/cex/#tables>.^{vi} The BLS web site <http://www.bls.gov/news.release/cpi.t01.htm> provides the consumer price index for all urban consumers. The sites provide considerably more detail than is productive and so instructors might want to limit the analysis to a handful of major categories. (See Powell and Rossetti 1997) It is instructive for students to realize that inflation does not impact everyone the same way. Race-based CPIs let students see how a policy decision by, say the Fed, for a given level of inflation it will tolerate has race differential inflationary consequences much as the target inflation rate has race differential unemployment rate consequences. (For other suggestions for using inflation rates see Kasper 1997.)

A discussion of the history of inflation

Placing the discussion of inflation in a broad historical context lets students see, among other things, the role of wars prior to World War II in setting off inflation; the deflation that typically followed wars; the Great Deflation; and the fact that prior to World War II recessions were typically associated with deflation. The impact of wars on inflation lets one put

the "guns and butter" production possibility curve discussion in a different light. It is instructive for students to see that while inflation has always been a reality in their lifetimes, that the economy has not always experienced inflation.

A discussion of the Great Deflation of the late 1800s is not complete without talking about the Populist Movement. Examining the Populist Movement lets one make the point that an understanding of monetary theory and policy has not always been the preserve of professional economists. During the Great Deflation itinerant circuit riders gathered farmers together and explained how tying the money supply to precious metals resulted in the rising value of money and the deflation. The farmers, despite their limited formal education, understood what was causing the deflation and, in turn, what was making their economic lives so miserable as they tried to pay off bank loans in the face of steadily falling commodity prices.

The Populist Movement was also about race in several ways. Black and white farmers came together to struggle against a common foe. The white leaders of the movement worked at persuading white farmers not to give in to the prevalent racist views.^{vii} In the end the leadership did not have the political skills to master the deep-rooted racism and to overcome the race hatred fostered by the political and economic elite. The November 10, 1898, Wilmington riots deserve mention in connection with the demise of the Populist Movement's efforts to forge an alliance between poor whites and blacks. On Nov. 10 whites overthrew the duly elected biracial civil government of Wilmington, NC. There was no response from Raleigh, the state capital, nor from Washington. The end of the Populist Movement ushered in the Jim Crow era.^{viii}

LENDING AND MONETARY POLICY

The Community Reinvestment Act

Regardless of how one judges the success of the Community Reinvestment Act at limiting the export of funds from under-resourced communities, Kempey (1997) offers an interesting suggestion that lets students think differently about reserve requirements and their role in banking. Kempey proposes that the Fed impose differential reserve requirements on deposits. A lower rate would be set on deposits that went to loans in the community and a higher rate set on deposits that went to loans outside the community. Students can work out the consequences for the money multiplier of shifts in the allocation of loanable funds as well as what such shift would mean for local economic development.

Lending, homeownership and impact of tight monetary policy

Redlining, discriminatory lending practices and restrictive covenants have impacted Blacks ownership of homes and the value of their home equity. These gave rise to a lower percentage of African-American than Caucasian households owning homes. The disparate home ownership rates not only persist but the median value of African-American owned homes is about two-thirds that of Caucasian households. Because Black median household assets are 69% of white median household assets (among households with positive net assets), a higher percentage of African-American household assets are in home equity than is true of Caucasian households. (Oliver and Shapiro 1995)

Building on the history of homeownership by race, the discussion can move to the fact that home equity is often the primary collateral for small business loans and that small black-owned businesses tend to be under capitalized. Tight monetary policy results in banks rationalizing the allocation of loanable funds (rather than letting the interest rate adjust to a level that would balance the supply of and demand for loanable funds.) Loan rationing results in smaller customers being less likely to be approved for loans. Black-owned businesses are disproportionately represented among small businesses and even if banks do not discriminate—a premise not sustained by research—black-owned businesses will be disproportionately represented among those denied loans. Small businesses often face cash-flow problems and borrow to tide themselves over and the lack of access to loans at such critical junctures can result in business failure. Tight monetary policy has racially disparate effects on small businesses.

Broaden the discussion of the interest sensitive of spending

In using open market operations the Fed interferes as little as possible in the financial markets and lets them allocate funds. The standard discussion of how changes in interest rates impact consumer and investor borrowing presumes equal access to financial markets and equal information, knowledge and expertise in dealing with financial markets. There are important differences across gender, class and race that result in differential responses to changes in interest rates. Individuals do not start with equal information about the banking system, do not make equal use of banking services and are not equally sensitive to interest rate changes. Changes in interest rates have racially disparate impacts borrowing and spending.^{ix}

DISTRIBUTION OF INCOME AND WEALTH

Disaggregate the distribution of income by race

Census data on quintile mean incomes and aggregate shares by race open opportunities for a fuller discussion of income inequality across and within racial categories. The Bureau of

the Census web site <http://www.census.gov/hhes/income/histinc/incfamdet.html> provides quintile (and top 5%) mean incomes, aggregate shares and income class limits by race. Students can be assigned to obtain the income data and to assess income levels and distributions by race.

Besides having students investigate the income levels and distributions by race, a next question to pose is what accounts for the differences across race. Textbooks tend to favor factors such as human capital, occupational choice, skill differentials and luck over factors such as discrimination, segregation or inequality of opportunity and will fail to discuss why women and people of color continue to primarily acquire only "traditional skills." Textbooks usually present discrimination as a deviation, a market imperfection in the otherwise automatic and desirable equilibrium, rather than a historically intrinsic part of the economic system.^x

Disaggregate the distribution of wealth by race

Wealth data are not as regularly available as are income data for the Fed conducts its Survey of Consumer Finances but once every three years. The Fed wealth data are available at <http://www.federalreserve.gov/pubs/oss/oss2/scfindex.html>. Oliver & Shapiro (1995) and Wolff (2001) are two other important sources on wealth data by race. The differences in wealth by race vastly exceed the differences in income. Indeed the differences in net wealth are substantial even when income is held constant.^{xi}

Wealth, much more so than income, requires a historical context. Such a historical discussion can include factors such as access to home ownership and that when Social Security was started in 1935 because farm workers and domestics were excluded from the program 22% of whites were not covered. For African-Americans the exclusion rate was 42%. (Oliver & Shapiro 1995) The advent of Social Security changed families' attitudes toward not only how much to save, but what savings could be used for. Family wealth is an important determinant in the across-generational amassing of wealth, starting a business and so forth. Home ownership is importantly related to the creation of business wealth for homes often serve as collateral when entrepreneurs start a business. Wealth also has telling effects on educational outcomes. (Conley 1999)

Assess the efficiency/equity trade-off

The alleged trade-off between equity and efficiency is usually presented as a positive statement of fact by textbooks. There is, however, a whole literature on the ways in which inequality diminishes productivity, economic growth and social outcomes. (See, for example, Glyn & Miliband 1994) Without delving into this literature, however, students can be reminded of the economics costs of discrimination discussed

in the context of the production possibility curves. We can discuss with students the fact that the enduring issues of economic policy involve deeply held values, one of which is one's acceptance or non-acceptance of market outcomes. Taking on questions of equity not only means denying primacy to the "natural" market forces outcomes but makes it easier to analyze problems of class, gender and race.

INCOME MULTIPLIER

Black community income multiplier

First I would make the case for presenting the formula for the simple income multiplier as $1/[1 - (MPC - MPM)]$, that is, to explicitly include the marginal propensity to import, MPM. The growing role of international trade makes this formulation more realistic. It also allows us extend the discussion of the income multiplier to a state, regional or local economy and invites an analysis of what constitutes an "import" for a state or local economy and, in turn, why the income multipliers become smaller as the economic unit diminishes in size.

The income multiplier can then be applied to the black community. The role of "imports" into the black community and their affect on to community income multiplier give a deeper understanding of the dual strategy of "buying-black" and the need for more black-owned businesses to produce the goods and services that allow the community to lower its marginal propensity to import.^{xii} When there are more black-owned businesses, then not only can the black community be less dependent on "imports" from the non-black community, but there are increased possibilities for "exports" of goods and services rather than just the "export" of labor when African-Americans work outside the black community.

MPC, the income multiplier and recessions

The earlier disaggregation of household spending can lead to a discussion of household MPCs and the aggregate MPC as a weighted mean of the various income class specific MPCs. The analysis can then be extended to how a change in the distribution of income across races impacts the income class weightings and, in turn, the aggregate MPC. A change in the aggregate MPC directly affects the income multiplier.

This discussion can be tied to the earlier analysis of the race-specific unemployment rates and the fact that during a recession the unemployment rate for blacks rises about twice as fast as the unemployment rate for whites. Recessions tend therefore to distribute income away from African-American households. The redistribution of income has the resulting effect of lowering the aggregate MPC, lowering the income multiplier and diminishing the effectiveness of counter-recessionary fiscal policies.

FISCAL POLICY

The racially disparate effect of the FICA income cap

The 2003 income cap for FICA is \$89,000. That means that no FICA is collected on earned income above \$89,000. From the income shares and class limits available at <http://www.census.gov/hhes/income/histinc/incfamdet.html> students can get a good approximate sense of the racially differential impact of the cap on the FICA tax. It is thought provoking for students to calculate the FICA paid by someone making \$89,000 and by someone receiving \$89,000,000. The point is more dramatic when the FICA is then computed as a percent of income.

Effectiveness of fiscal policies

The earlier discussion of the aggregate MPC offers an opportunity to assess the size of the income multiplier for fiscal policy in light of the specifics of the spending or tax changes. For example, instituting a progressive inheritance tax or a progressive intangibles tax that is accompanied by a revenue-neutral increase in the per person tax deduction on the federal income tax will move after-tax income disproportionately toward lower income households in general, and African-American households in particular given their lower wealth. The rise in the aggregate MPC will boost the income multiplier and the effectiveness of fiscal policies.

INTERNATIONAL TRADE

The racially disparate unemployment effects of globalization

While economists continue to argue over the net employment consequences of NAFTA, there is no disagreement that international trade and the globalization of production have contributed greatly to the falling employment in the US manufacturing sector. Because blacks are disproportionately represented in manufacturing employment the layoffs in manufacturing have been disproportionately borne by African-American workers.

Racially disparate consequences of trade policy and trade history

Textbook discussions of international trade focus on a country's exports, imports, capital movements and so forth. Yet trade and other international links are heavily influenced by corporate elites who lobby the federal government. Textbooks do not examine the power relationships that have contributed to the growth of international inequalities. They

are usually particularly silent about the history of colonialism and issues of imperialism, past and present. Pointing to Third World nations' apparent comparative advantage in agricultural products ignores the history of land distribution patterns that were heavily influenced by foreign capital and which now result in heavy dependence on exports of a few crops and yet some of those same nations find themselves to be net importers of basic foodstuffs. There is also a history of imperial power that explains why in many Third World nations' natural resources are extracted while often the refining and production using those natural resources takes place in another country. These histories have a substantial racial overlay to them.

CONCLUDING REMARKS

Race or more correctly racism clearly impacts the national economy even if we look at its consequences in strictly economic terms. We lose almost four percent of GDP because of racism as it has played itself out in the under-investment in African-American human capital and the under-utilization of African-American workers. In a \$10.5 trillion economy the cost of discrimination is some \$400 billion in foregone output, output that the approximately 88% of the non-African-American population is denied because it is not allowed to come to fruit. African-Americans are denied about one-third of their potential income. These are not trivial numbers. From a strictly efficiency point of view we should not teach macroeconomics as if race did not matter. We shortchange our students when we do so.

Another way to think about why it is important to include racism in a macroeconomics course is to consider incomes. What are the differences between an individual's earning a low income because of his/her race and African-Americans as a whole earning less, on average, than do whites? Is the lower African-American mean income the simple consequence of aggregating typically lower individual incomes or are there institutional arrangements at work that systematically produce the aggregate result?

Teaching macroeconomics as if race matters besides being about the rational allocation of resources, is also about giving our students some of the analytical tools they will need to understand racism and to undo it. All students need to understand the economic consequences of racial practices carried out by whites that have differential and adverse impact on members of subordinated groups. As faculty we need to help students see that the racial myths are part of the unquestioned constructs that shape what we see and do not see.

We have a responsibility to society and to our students to give them some of the analytical tools they will need to undo racism.

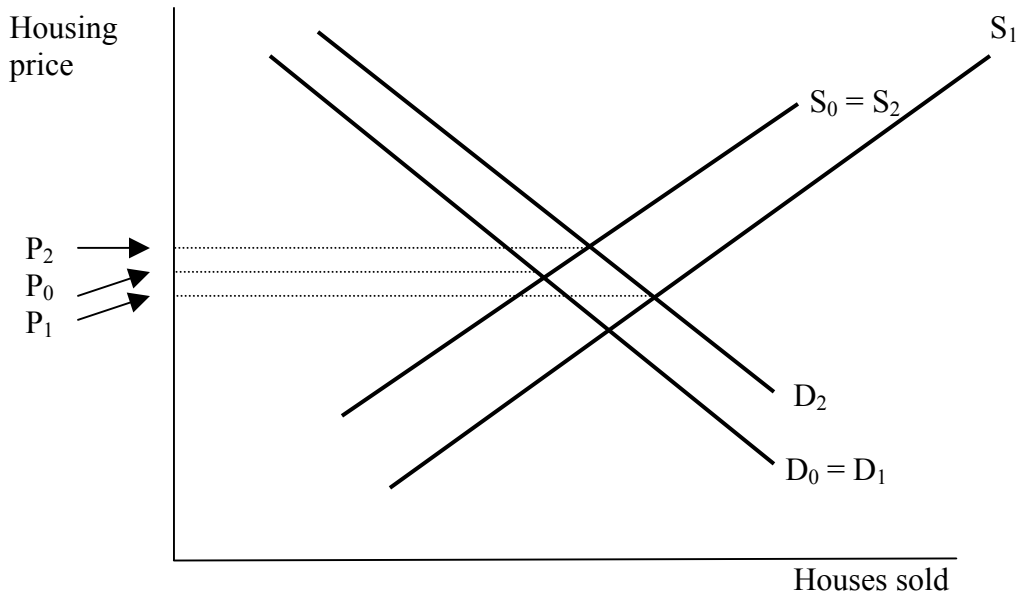


Figure 1. Supply & Demand Analysis of a Change in the Racial Composition of a Neighborhood.

D_0 is the initial demand curve, D_1 is demand during “white flight” and D_3 is demand when the neighborhood initially becomes predominantly black. S_0 is the initial supply curve, S_1 is supply during “white flight” and S_2 is supply after the neighborhood becomes predominantly black.

Primary Labor Market

Secondary Labor Market

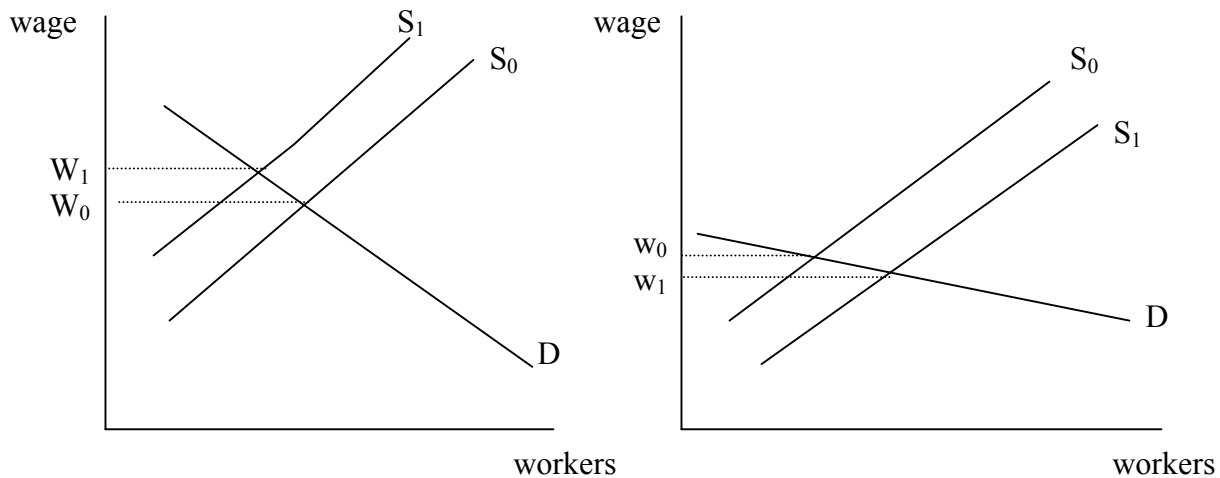


Figure 2. Supply & Demand Analysis of the Wage Consequences of Discrimination in employment in the Primary Job Market. S_0 is supply *without* discrimination and S_1 is Supply **with** discrimination.

Table 1 Economic cost of discrimination against blacks, 1967–93 (estimated loss of Gross Domestic Product) (\$ billion)

Year	Gross Domestic Product	Gain from full use of present education		Gain from full use of improved education		Total gain from full use of present and improved education	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
1967	814.30	12.10	1.49	11.10	1.36	23.20	2.85
1973	1,349.80	22.90	1.70	19.40	1.43	42.30	3.13
1979	2,488.60	45.80	1.84	38.20	1.53	84.00	3.38
1993	6,374.00	137.00	2.15	103.90	1.63	240.90	3.79

Source: Brimmer (1997)

ENDNOTES

ⁱ Textbooks often have two aims in common: present economic methods in order to understand and explore economic reality and to present basic economic theory as a prelude for advanced studies in economics. Rider (1984) contends that there may be a third subtext that is often there between the lines: present ideology as a device for co-opting students into accepting existing reality as being, at least potentially, the social optimum.

ⁱⁱ The authors all point out that their counts are generous for a page was counted whether a paragraph or the whole page was devoted to race or gender.

ⁱⁱⁱ The estimates provided by Brimmer tell, of course, only part of the story of the economy's being below its production possibility curve. One can open the discussion to speculation regarding the same concepts of under-utilization and under-education to the case of women, who make up close to half the labor force.

^{iv} The Brimmer estimates simply looked at the years of schooling distribution of whites and African-Americans. For a more advanced principles class instructors might wish to extend the discussion of what factors account for individuals and African-Americans, in particular, not achieving their educational potentials. There are at least two fruitful avenues of discussion. One involves the quality of public education across different schools within the same school system or across different school systems. Such a discussion can introduce issues of public funding and differences in school systems' property tax bases. Another discussion focuses on the resources students bring to the educational process. We are familiar with the literature relating income and other socio-economic factors, such as educational level of the head

of the household, to educational achievement. Such discussions almost invariably overlook family wealth. Conley's (1999) econometric work goes well beyond what we can expect to bring into a class discussion, nonetheless his book offers interesting insights into the role of wealth in educational outcomes.

^v At the site one scrolls down to the current Economic Report of the President, and then does a search for "labor force participation rates." The relevant table is B-40 for the 2002 Economic Report.

^{vi} Scroll down to the second box which provides CURRENT EXPENDITURE SHARES TABLES and within that box select "Housing tenure, type of area, race of reference person, and Hispanic origin of reference person — (TXT) (PDF 19K)" to obtain the text or PDF version. (The text version is at <ftp://ftp.bls.gov/pub/special.requests/ce/share/2001/tenracar.txt>.)

^{vii} Tom Watson, a major Populist leader, in a speech said: "You are made to hate each other because on that hatred is rested the keystone of the arch of financial despotism which enslaves you both. You are deceived and blinded that you may not see how this race antagonism perpetuates a monetary system that beggars you both."

^{viii} The attendant disenfranchisement of millions of poor whites confirmed the Populist Movement leaders' assertions that the whites should have stayed in coalition with blacks.

^{ix} Of the approximately 12 million Americans who have no relationship with traditional financial institutions-- as opposed to check cashing "services"-- one third are African-American (and another 29% are Hispanic.) (Gore & Gore 2002 p. 150)

^x The fundamentals of the legal framework within which businesses operate and other critical institutional arrangements were established at a time in our nation's history when only white men were at the table and had the right to vote.

^{xi} While income class matters in explaining black-white wealth differences, it is worth remembering that in our society the class structure itself is a function of racial subordination.

^{xii} I usually have a final exam question that asks students what they learned that they thought was most important and why it was important. The hands-down winner, year after year, is the income multiplier applied to the black community.

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