THE BROOKINGS INSTITUTION
BROOKINGS CAFETERIA PODCAST

WHEN IS A PUBLIC POLICY RACIST?

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DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews.

How do you know if a public policy is racist? Jim Crow laws that prevented Black citizens from voting are clearly racist, as are redlining practices that excluded Black homebuyers from white neighborhoods. But what about laws and regulations that don't rely on disparate treatment based on race? Can such policies still be racist? My guest today explores these questions in his new research, including in a paper titled "Public Finance and Racism." Bill Gale is the Arjay and Frances Fearing Miller Chair in Federal Economic Policy, a senior fellow in Economic Studies, and co-director of the Urban-Brookings Tax Policy Center.

Also on this episode, Senior Fellow David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy, addresses President Biden's renomination of Jay Powell to be chair of the Federal Reserve, his nomination of Lael Brainard to be vice chair, and the big question confronting the Fed: inflation.

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JOHN MCARTHUR: Hi, I'm John McArthur with the Center for Sustainable Development at Brookings.

ZIA KHAN: And I'm Zia Khan with The Rockefeller Foundation. We're the co-hosts of "17 Rooms," a podcast about actions, insights, and community for the Sustainable Development Goals and the people driving them.

MCARTHUR: 17 Rooms is a new way of getting people together to take action on the 17 Sustainable Development Goals. In this podcast, you'll hear our conversations with dynamic leaders shaping actions towards the Goals.

KHAN: “17 Rooms” is produced by The Brookings Podcast Network. You can download and listen to it on Apple, Spotify, or wherever you like to get your podcasts.

DEWS: You can find “17 Rooms” and ways to subscribe to it on our website, brookings.edu/17RoomsPodcast. And now, here’s my interview with Bill Gale about racism in public policy.

Bill, welcome back to the Brookings Cafeteria podcast.

GALE: Thank you very much. It’s always a pleasure to be here.

DEWS: I’m reflecting on the fact that this is the second episode this fall that I’ve interviewed a former professor of mine. I took one of your classes in graduate school at Georgetown many years ago, which I still remember fondly.

GALE: Well, I remember that class fondly, too, that was one of my favorite classes.

DEWS: Let’s start with the papers that are on the Brookings website that you authored. And can we start with sharing how you came to start writing about the connection between race and tax issues?

GALE: Sure. After the George Floyd murder in 2020, I got interested in thinking about race issues in terms of public policy. And, of course, being a tax person, I focus on the relation with tax. So, that summer, I just read a whole lot of papers, everything I could find. And then in November, I had an opportunity to give a speech to the National Tax Association, and I decided to use that speech as an opportunity to put together my thoughts on the topic of public finance and racism, or taxes and race. The reading originally led me in a variety of unexpected directions and then the speech itself continued that. So, now I’m fairly deep into this issue with several related initiatives looking at taxes and race.

DEWS: And you say in your review that literature that three results were quote, as you put it, “abundantly clear.” What were those results?

GALE: These are very high-level findings. Not so much on race and taxes per se, but on the role of race in the economy and society. The three results are, first, that there’s simply widespread, longstanding, continual racial discrimination in the U.S., and that’s had enormous lasting economic consequences. That is, it’s not just current things that are going on, it’s the whole legacy of racism, starting with slavery and moving from there. The second revelation, or abundantly clear point, was that public policy is not an innocent bystander in this. Taxes and spending policies and regulations have contributed incredibly much to racism and to the disparities we see across race. And the third point is just that given that policies have made it worse, it’s conceptually possible at least to design policies to help society address racism. And given my focus on policy analysis generally, that encouraged me to continue working in this area.

DEWS: You have a section in that paper, and again, it’s titled “Public Finance and Racism,” in which you discuss what is the definition of a racist policy, what makes a policy racist. Some policies, as you describe, like poll taxes and redlining, are motivated by racial animus, and they rely on disparate treatment of Black people, so they’re clearly racist. But I want you to comment on this quote from your piece: “Just as racial animus is not necessary for a policy to be racist, the absence of racial animus does not guarantee that a policy is not racist.”

GALE: Yeah, I think it’s really important to think through this issue of what makes a policy racist. And the answer is not just the policy itself, a racially motivated policy, obviously it’s racist. But policies that look neutral but are inserted into a situation that has been created by racism can be racist in themselves.

And let me just give you a really simple example, which I talked through in the paper. Suppose there's a policy that says that every kid with a library card gets a free book. All right? That sounds very innocuous, harmless. It's got nothing to do with race on the surface. But suppose there's an existing policy that says only white kids can get library cards. Then the first policy, the free book policy, is obviously racist because it's already limited to white kids. So that's a situation where a preexisting policy can make a new policy that sounds innocuous or harmless can make it racist.

Probably places don't have laws that say only white kids can get library cards. So, let's take a little more subtle example. Suppose the policy is that the city council only builds libraries in neighborhoods that are predominantly white. Or let's say that Black households are less likely to own cars or less likely to have internet access because they have lower income, and maybe they live in library deserts, so it's harder for them to get to libraries. And let's say that some of those discrepancies, some of those disparities between the races, were caused by past acts of racism. Then this new policy that every kid with a library card gets a free book has elements of racism, and it's amplifying the effects of prior racist activities. So, we need to be on guard for underlying conditions and situations that make policies that at first glance look harmless, that make those policies have racist dimensions to them or the policies that unfairly discriminate even if they don't intend to.

DEWS: I thought that portion of your paper was just fascinating, and you wrote, "given the existence of previous or current conditions and policies, policies that are race neutral in treatment are must never race neutral in outcomes." You also refer in that section to how Ibram X. Kendi, the professor at Boston University, also an anti-racism activist, how he has defined racist policy. Can you explain that?

GALE: Sure. His view is, as stated in his book, is that any policy that's racially inequitable is racist. I don't have the exact quote here, but it uses the term "inequitable," and so it has a little bit of a you know it when you see it characteristic. But you could also interpret what he’s saying as you need to not just enact the policy that everyone with a library card gets a free book. You also need to address the conditions that make the application of that policy inequitable between rich and poor or Black and white households. So, I view it as sort of a more expansive definition or a call for a more expansive definition of what it means to provide that free book. Like maybe, maybe you take book mobiles and you go to Black neighborhoods, maybe you do other things to increase access among Black households.

DEWS: Bill, Kendi also describes the concept of anti-racism as opposed to being race neutral or even racist. Can you quickly describe what that is and how it applies in your paper?

GALE: Yeah, it’s been presented to the world as a very kind of controversial, divisive topic, but I really don’t think it is once you read about it. The idea is if you have a racist structure in place and you simply impose race neutral policies after that, then you’re cementing that racist structure in place. And anti-racism says that implementing race neutral policies in that situation is not enough. And you need to implement policies that address the earlier injustices and remove racism. And then you can talk about race neutral policy if we can ever get to that point.

But the idea is that racism is not going to go away by itself, and any policy that doesn’t reduce it is basically leaving it in place, and hence in some sense, justifying or ignoring or cementing the wrongs of the past.

DEWS: I'll be back in a moment with Bill, but now here’s David Wessel with a look at the proposed new Federal Reserve leadership and their big challenge: inflation.

WESSEL: I'm David Wessel, and this is my economic update.

President Biden has, finally, decided to nominate Jay Powell for a second four-year term as Federal Reserve Chair, and his fellow Fed governor, Lael Brainard, to serve as vice chair of the Federal Reserve Board. With that uncertainty resolved, let’s think about what it would be like to be in Powell and Brainard’s shoes. First, of course they need to win Senate confirmation. Powell won't have much trouble—a handful of Democrats will oppose him, but enough Republicans will vote for him to give him a comfortable majority. Brainard will get more Democrats and fewer Republicans. Several Republicans, including Senators Collins, Murkowski, and Crapo, voted to confirm her to the Fed board in 2014. But she'll likely be confirmed as well.

Then there's the really big question confronting the Fed. Given the inflation outlook, do they need to take their foot off the monetary gas pedals sooner than they had planned? Consumer prices have climbed 6.2% over the past 12 months, and even excluding volatile food and energy prices, they're up 4.2%. The alternative inflation gauge that the Fed targets—the Personal Consumption Expenditures Index—was up 4.4% over the past year, 3.6% excluding food and energy. No matter how you slice the numbers, inflation is well above the Fed’s 2% target.

Now, ordinarily this would be an easy call for the Fed: inflation surges, so the Fed raises interest rates to slow the economy and relieve price pressures. But these are not ordinary times. So, the Fed needs to figure out how to read the inflation numbers. There are a couple of possibilities. One, the surge in prices is largely the result of a very welcome strong recovery from the COVID recession, thanks in part to generous government fiscal policy like those $1,400 checks or unemployment compensation payments. American households have money to spend and have been unable to or unwilling to spend it on services like the movies or travel, so they're spending it on stuff and that demand for stuff is pushing up the price of goods—couches, cars, and so—on because producers or importers can’t increase the supply quickly. As the economy returns to some new normal as people get vaccinated and begin to go to restaurants and movie theaters and buy less stuff, the pressure on goods prices should abate. So, in this view it would be a mistake for the Fed to rush to raise interest rates now only to have them affect the economy after the usual lags when the inflation scare is passed.

But the other possibility is that the inflation virus has already spread beyond the COVID-related bottlenecks, and is beginning to infect business, consumer, and investor expectations that inflation will be higher. After all, this bout of high inflation already has proven to be more persistent than had been generally predicted. In this view, the Fed has been too slow to react and needs to more quickly scale back its massive bond buying, which is a prerequisite to raising interest rates from zero, perhaps raising them early in 2022. Otherwise it'll risk losing the hard-won battle to keep inflation low enough so it's not a big worry for household, businesses, or investors—so low that it had largely disappeared from the front pages until very recently.

So far, Powell and Brainard have signaled that they will be patient. They promise vigilance on the inflation front, but they are waiting to see if their expectation that price pressures will abate proves to be the right one. They emphasize the importance of both parts of the Fed's mandate—maximum sustainable employment as well as price stability. In their view, the Fed in the past has been too quick to choke off growth because of inflation worries that turned out to be unjustified.

Still, the case for the Fed continuing to buy tens of billions of bonds every month and to keep short term interest rates at zero for another year is weakening as the number of unfilled jobs rises and the inflation rate remains high.

DEWS: Visit the Hutchins Center on brookings.edu to find more research and analysis about the Federal Reserve as well as fiscal and monetary policy. And now, back to my interview with Bill Gale.

So, what are some real-world examples of public policies where race neutral treatment does not imply race neutral outcomes?

GALE: It would be easier probably to tell you examples where that doesn't apply. I have found when you look around in almost every case, you can see examples where preexisting conditions and preexisting policies affect the implementation or the use of current policies.

Let me just give you one example—the mortgage interest deduction. Again, on the surface, it sounds totally innocuous and harmless from a racial perspective—if your interest payments are bigger than a certain amount you take the deduction. The problem is that historically Black households were redlined into particular neighborhoods, which reduced their house values and hence limited the mortgage they took and hence limited the deduction they could take. And as a result, not many Black households take the mortgage interest deduction that people can say, well, redlining was eliminated in the 1960s. And that's true in a legal sense. But the real effects of redlining are still with us today. There's substantial evidence to that effect. And so, when you think of the mortgage interest deduction, I think you want to think of it in the context of systemic policies that held down Black homeownership and held down the value of homes owned by Black households.

DEWS: So, Bill, you're an economist, you're an expert on tax policy and public finance, and as you write in the paper, traditional public finance analysis emphasizes efficiency, and such an emphasis, as you say, can draw different conclusions than an analysis of racism. Can you explain what you mean by that?

GALE: Sure. In economics, there's a standard concept called Pareto optimality, which is a policy is Pareto optimal if it makes at least some people better off and it makes no one worse off. All right. In analysis of race, consider a policy that gives Jeff Bezos and Elon Musk another $100 billion and doesn't take anything away from anybody else. The standard Pareto optimality result would be that that is a good policy. It helps some people, it doesn't hurt others. If you're looking at racial disparities, though, you would say that's helping these white guys and is doing nothing for Black households. And so, it's making racial disparities worse in the country. So, it provides a different way of looking at a given set of policies.

More generally, this notion that you want to start from the status quo in your analysis of policies and decide how things are relative to the status quo may give undue weight to the way things currently are right now. For example, if the current outcome, the current situation, the current economy, the current equilibrium, if all of that is due, at least in part, to racist behavior in the past, then maybe we don't want to afford it the special consideration of being the starting point. Maybe we want to say we want to first address the effects of that racist behavior, change things around, and then use that as the starting point.

DEWS: I'm pretty sure that I learned about Pareto optimality in your class in graduate school about twenty-five years ago, and it's probably the one concept of all of them that I continue to think about to this day. So, thank you for that.

GALE: You're welcome.

DEWS: So how does this critical race theory fit in here, Bill? We hear a lot about critical race theory over the past few months, especially in the K through 12 curriculum context. But it fits into this discussion as well.

GALE: Yeah, I'm glad you raised that, because I meant to mention that earlier. This idea that preexisting conditions and preexisting policies should affect how we think about the implementation of new policies is not new to me. It's one of the many things that critical race theory talks about. So, there is a big awareness of these issues in the literature that analyzes racism, there is less awareness bordering in some cases on no awareness in the economics literature.

DEWS: And here's another quote that I want you to unpack for our listeners, because it really struck me, and I'll be thinking about this for a long time. You write, "once the effects of racism are everywhere, they may be harder to see at first glance."

GALE: The idea here is racism is not just Nazi marches and Klan rallies, it can be baked into everyday interactions, everyday expectations. It's sort of like looking at an Escher drawing where you can look at it for a bit and you don't see anything wrong with it, you can't figure out why people think it's so amazing. And then all of a sudden you get it, and you see the contradiction, and then you can't unsee it once you've seen it. And there's analysis of racism, I think, is like that, too. If it's everywhere, there's a sense that, oh, well, this is just normal. And then when you realize it's not normal in one area, then you start noticing that it's not normal in other areas. And policing and criminal justice was the thing that got me to realize that the way society behaves is not normal or beneficial. And once you see it there, you can start seeing it in other areas too.

DEWS: And you also say that anti-racism is an application of corrective policy, and you say corrective policy is not a new concept to economists, but you don't mean that anti-racism is a corrective policy not new to economists. Just that corrective policy, generally speaking, is not new to economists.

GALE: That's right. Economists have spent a lot of time thinking about how to deal with economies where there are already preexisting distortions, whether it's people polluting and not paying for it, whether it's firms exhibiting market power, even when it's people not being rational decision-makers. So, there are policies that can offset each of those situations, and those are called "second best" policies, not because the policies are second best, but because the underlying situation starts with an imperfection in it. So, I maintain the paper that you can think of anti-racism as a second best policy, which again, the policy is not second best. The situation, the existence of racism, is what causes the initial equilibrium to be less than fully optimal, which in shorthand is called second best.

DEWS: You also published, in addition to this paper, on our website on the blog called How We Rise, a piece titled "It's long overdue for public finance scholars to study racism in the tax code." So, kind of following up on the last point, what, if anything, are you asking economists to do here?

GALE: If you want to make an argument to an economist, you need, first of all, to demonstrate why it is in their self-interest to do it. And it clearly is. If you're looking for an issue that is both important for society and amenable to research questions, the analysis of racism is way high on both of those criteria.

What I hope economists will do is start thinking about race systematically the way the profession has, you know, incorporated other issues over the years, whether it's asymmetric information—which started with work by George Akerlof, who won the Nobel for it a few years ago and was visiting at the Brookings Institution, by the way. Or another example is the incorporation of psychological issues into economics via what's called behavioral economics. Economists are very creative and thoughtful, and if they would focus their attention on the pervasive role of race in the economy, I think that would be good for economists. It would be good for everyone in the economy as well.

DEWS: Well, Bill, is there a next step for you in this line of research? You've done racism in public finance, racism in tax policy, will you be continuing in this?

GALE: I'm currently working on several projects that look at the relation between race and taxes, race and life insurance. And I expect that this will be a fruitful area, both in terms of interesting research findings and important research findings in the next several years.

DEWS: And I'm sure listeners can find all of that on the Brookings website when it gets published, but I want to thank you for sharing your time and expertise today on what you've done so far.

GALE: Thank you very much. It's always fun to be on this.

DEWS: You can find the research by Bill Gale on the Brookings website, including public finance and racism, at brookings.edu.

A team of amazing colleagues makes the Brookings Cafeteria possible. My thanks go out to audio engineer Gaston Reboredo; our audio intern this semester, Nicolette Kelly; Bill Finan, director of the Brookings Institution Press, who does the book interviews; my communications colleagues Marie Wilkin, Adrianna Pita, and Chris McKenna for their collaboration. And finally, to Ian McAllister, Soren Messner-Zidell and Andrea Risotto for their guidance and support.

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Until next time, I'm Fred Dews.