



BlackEconomics.org

“Why \$20K for 20 Years is an Untenable Solution”

We admire the simplicity of Dedrick Assante-Muhammad’s July 12, 2020 submission to [The Guardian](#) entitled “The Simplest Way to Close the Racial Wealth Gap? Direct Cash Payments.” However, we find that what may appear to be simple on an *a priori* basis, may not be so simple after all.

In this case, we believe that a direct transmission of sizeable “reparations” cash flows to Black Americans—even if transmitted over a 20-year period—will have inflationary effects for a US economy operating at or near full employment. We have historical evidence of this in a near natural experiment, which we would be happy to share. Such flows would be inflationary because they may be accompanied by little increased production. Hence, the reason for “demand pull” inflation. This inflation means that in real terms, Black Americans will receive less in real value for the dollars that are spent. To the extent that the flows elicit additional production of, say, nonfinancial assets, then the producers of those assets are likely to be White; therefore, the initial flow will end up in the hands of unintended ones—making them wealthier.

The same principle applies to financial assets: A constrained supply of these assets confronted by increased demand is highly likely to result in higher prices. Moreover, Blacks, who will be the initial recipients of the reparation flows, will likely purchase financial assets from Whites. Given that Whites are generally more informed financial asset traders than Blacks means that the former will manipulate markets so that they become the ultimate beneficiaries of the trading of financial assets. (This is consistent with the old but valid arguments concerning “informed” versus “noise” traders.) Also, note that, if Blacks leverage the very expensive services of financial advisers to attempt to avoid the pitfalls just outlined, most such financial advisers are White. Again, money goes back into the hands of the unintended.

But strategic thinking goes further. If inflation arises and monetary policymakers tap the brakes and generate a recession (especially without a soft landing), the assets that Blacks would have purchased with our reparation flows will decline in value. Whites, who would have received cash from all of the aforementioned transactions, will be able to divert their liquid assets to less inflationary and recessionary environments and will benefit the more.

Therefore, by the time we reach the third or fourth round of transactions, it could very well be the case that Blacks may hold more assets, but the value of those assets may be such that, when compared with the holdings of assets by Whites, the wealth gap could, in fact, have increased.

An additional consideration is that, if Black Americans opt to receive reparations payments and remain in the US, then we will also bear the very heavy burden associated with repaying the debt required to generate the reparations flows—or at least to service that debt.

As certain economists say, when the government promises to do you a favor, run away as fast as you can. Similarly, when the wealthy, who are in power in the US, agree to do us a favor by transmitting dollars to us, then we should scrutinize the proposition very carefully.

There is one other important and nontrivial matter to consider. Even if the nearly 50 million Black Americans were extended a \$400K (the equivalent of \$20K for 20 years) payment today it would amount to about \$20 trillion. If we are to be made equal (wealth equality) with Whites, “on average,” then one would figure that Whites should have about \$400K in wealth. The reality is that if we take \$400K times the about 200 million non-Hispanic Whites in the US, we arrive at about \$80 trillion. However, according to the Federal Reserve Board’s *Financial Accounts of the United States*, American Households had \$110 trillion in net worth (wealth) at the end of 2019, which must be largely owned by White households. So there still would be an insignificant difference of about \$30 trillion that should be accounted for. That is, \$400K for Black Americans would not close the racial wealth gap entirely.

As you may know, we at **BlackEconomics.org** favor reparations in the form of land and materiel with which to undertake nation formation. The assets (nonfinancial and financial) that Black Americans can build in our own nation (in part of what is now the US) can be better protected within our own economy. Not so the case if similarly valued assets are held in the US. In this regard, we invite you to consider a Book Review that we prepared in response to a recent (2020) and important volume on reparations by Darity and Mullen entitled [*From Here to Equality: Reparations for Black Americans in the 21st Century*](#).

All of this is for Mr. Muhammad’s consideration. If he has thought through all of this and has counter arguments, then we hope that he will place them in the public domain.

B.B. Robinson
August 8, 2020
--