Racism and Sexism in Finance

Lecture

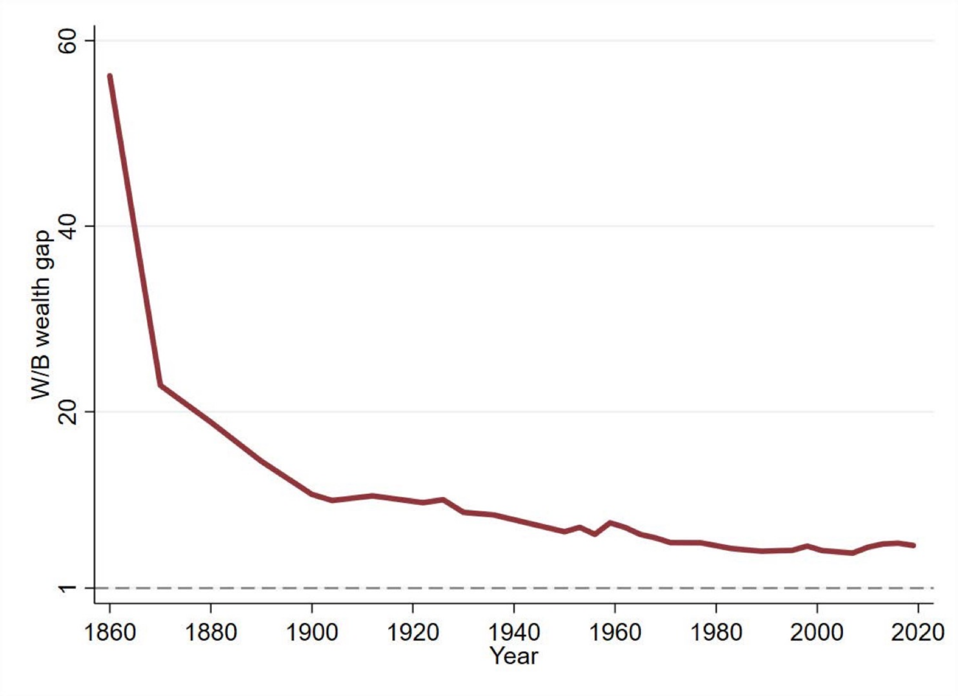
Readings: The Color of Money, Lions Chasing Zebras

Racism and Sexism in Finance

- We've mostly talked about finance as a matter of math: if it's a good decision, the numbers will reflect it.
- However, finance has not historically operated this way.
- This lecture is designed to:
  1) Present the facts about these inequalities in-so-far as we know them
  2) Choose your own adventure: discuss some of the solutions people have proposed to ameliorate the inequalities

White-Black per capita wealth ratio: 1860-2020

Figure 1: White-Black per capita wealth ratio: 1860-2020



Notes: White-to-Black per capita wealth ratio from 1860 to 2020. Details on the construction of this series are available in Section 3. Data sources: Various, described in Section 3 and Appendix A.

- From WEALTH OF TWO NATIONS: THE U.S. RACIAL WEALTH GAP, 1860-2020
- The gap is currently 6:1, i.e. for every dollar of wealth Blacks own, whites own $6.

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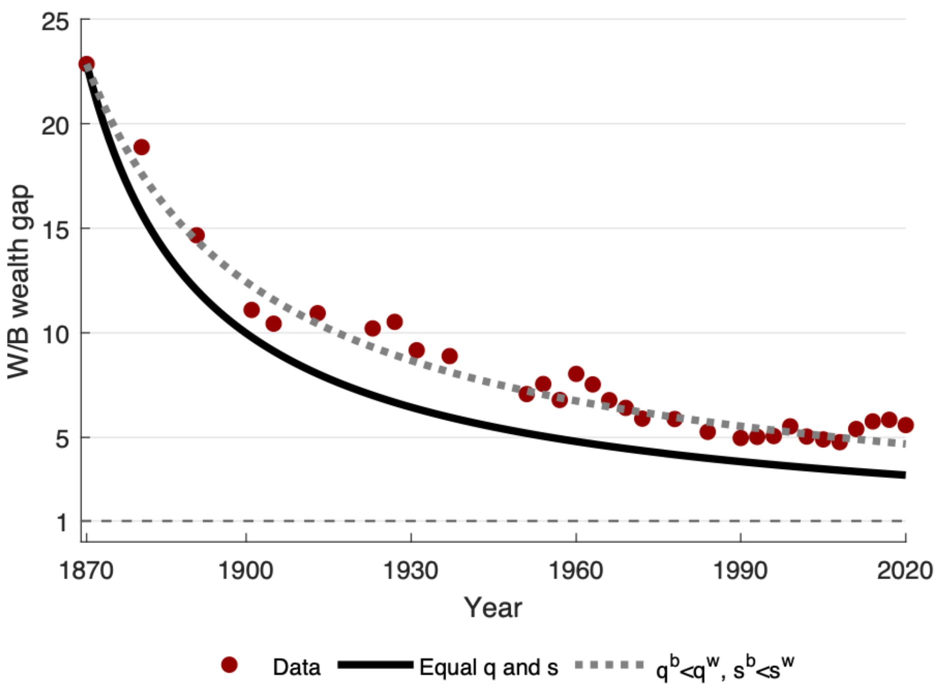
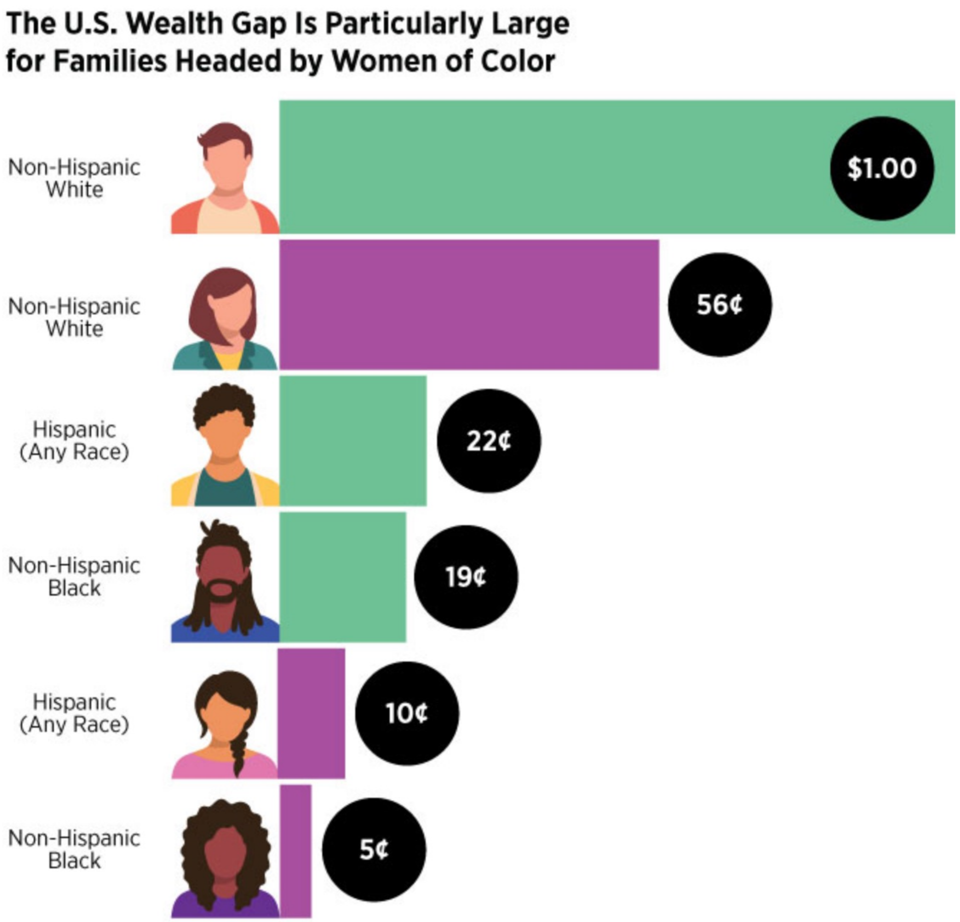
Simulation of the racial wealth gap: 1870-2020

Figure 2: Simulation of the racial wealth gap: 1870-2020



- If Blacks and whites could accumulate capital at the same rates, the racial wealth gap would close 100 years from now
- If they could accumulate capital at the same rates, the gap should be 3:1 now. The gap would be purely based on the wealth inequality from the Civil War
- The difference in rates of accumulation has been growing in the 1980s due to capital gains and income inequality

Gender Wealth Gap



Racism and Sexism in Finance

1. History
2. What did we do about this legacy?
3. Did it work?
4. Present
5. Going Forward

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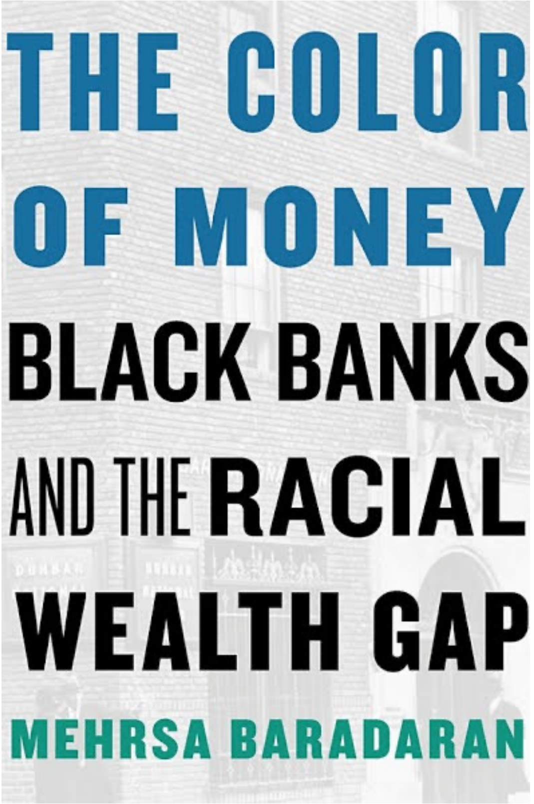
History

The Color of Money



Reconstruction

- After the civil war, slavery was abolished.
- However, the southern economy strongly relied on free labour.
- Labour contracts were constructed between freed black men and their previous owners.
- Forty acres were supposed to be given to free black men, but because of threat of violence when land grants were granted, a bank was given instead as a placeholder.

The Freedman's Bank

Washington D.C. branch

- Officially known as The Freedman's Savings and Trust Company.
- Established by Congress in 1865 and backed by the Federal Government.
- The idea was that former slaves could save to purchase their own land by depositing money into the bank and earning a conservative but steady return on Government bonds.
- The bank did not make loans.

The Freedman's Bank

- Over 10 years took in more than $75 million ($1.5 billion today) of deposits from 75,000 individuals.
- 1/3 of deposits could be invested anywhere according to its charter.

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- 1/3 of deposits could be invested anywhere according to its charter.
  - This was abused by the finance chairman Henry Cooke.
  - He invested in railroad stock, a very risky security at the time.
- Bank managers then started taking out loans from the bank.
- After the Panic of 1873, the bank was in big financial trouble.
- June 20, 1874 the bank ceased operations. More than half the accumulated black wealth disappeared.

Black Banks and Black Business

- It was thought that black banks and black businesses could work together to increase the capital of African-Americans.
- Because of segregation, the idea was that there would be a natural market for deposits and products, where before blacks had to purchase products from white sellers.

Black Banks and Black Business

- It was thought that black banks and black businesses could work together to increase the capital of African-Americans.
- Because of segregation, the idea was that there would be a natural market for deposits and products, where before blacks had to purchase products from white sellers.
- However, customers usually ended up buying an inferior product at higher prices because of structural inequalities in the economy.
- Black banks often failed because their deposit base generally had a more volatile income base and were poorer than other banks.
- Additionally, larger banks that operated in black neighbourhoods often expatriated the funds to lend in white communities and did not lend in the neighbourhood they were based in.

Obstacles to Black Wealth Accumulation

"Smoke billowing over Tulsa, Oklahoma during 1921 race riots," now commonly referred to as a massacre Library of Congress

- Tulsa race massacre/Black Wall Street destruction

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Black Empowerment and White Mobilization

Table 5. Hate crimes

Dep. variable:	Hate Crimes			
Perpetrator:	Any			White
Victim:	Black	Other Minority	White	Black
	(1)	(2)	(3)	(4)
Black share, 1960 X VRA	0.273*	0.373	-0.017	0.216**
	(0.150)	(0.243)	(0.010)	(0.083)
Black share, 1960	-0.491***	-0.214	0.015*	-0.306***
	(0.103)	(0.178)	(0.008)	(0.064)
Summary statistics:				
Dep. variable	3.509	11.356	0.417	1.794
	(12.871)	(35.043)	(0.965)	(7.374)
Black share, 1960	27.659	27.659	27.659	27.659
	(14.803)	(14.803)	(14.803)	(14.803)
Adj. R-Square	0.22	0.16	0.40	0.19
N	641	641	641	641

Notes: The table estimates county-level regressions for the average hate crime rates between 2000 and 2018 against: state dummies, the 1960 Black population share, its interaction with the coverage (VRA) dummy, the vector of county controls, and their interaction with the coverage (VRA) dummy. Controls are: Low-skilled (%), 1960; Unemployment rate (%), 1960; Families below poverty line (%), 1960; Rural farms (%), 1960; Land devoted to harvested cotton (%), 1959; Pro-Black protest, 1960-64; Anti-Black protest, 1960-64; Green Book establishments, 1955. Regressions are weighed by 1960 population, and robust standard errors in parenthesis are adjusted for clustering by judicial divisions. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

- Bernini et al. 2023

- After the Voting Rights Act was introduced, black voter registration increased under covered counties
- White voter registration in response also increased ("counter mobilization")
- The surge in racial animosity from the Voting Rights in these areas persists in hate crimes occurring between 2000-2018

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The "New" Deal

- In order to pass the New Deal, FDR needed the backing of southern Democrats.
- The southern Democrats wanted their racial and economic hierarchy preserved.
- As a result, many worker protections ended up protecting whites and not blacks.
- New Deal: regulated work hours, established unions, established Social Security.
- Most Blacks could not participate because they were agricultural workers and domestic workers that were not covered by these provisions.
- The Public Works Administration also used labour to build many single-family houses and not to rehabilitate inner city ghettos.

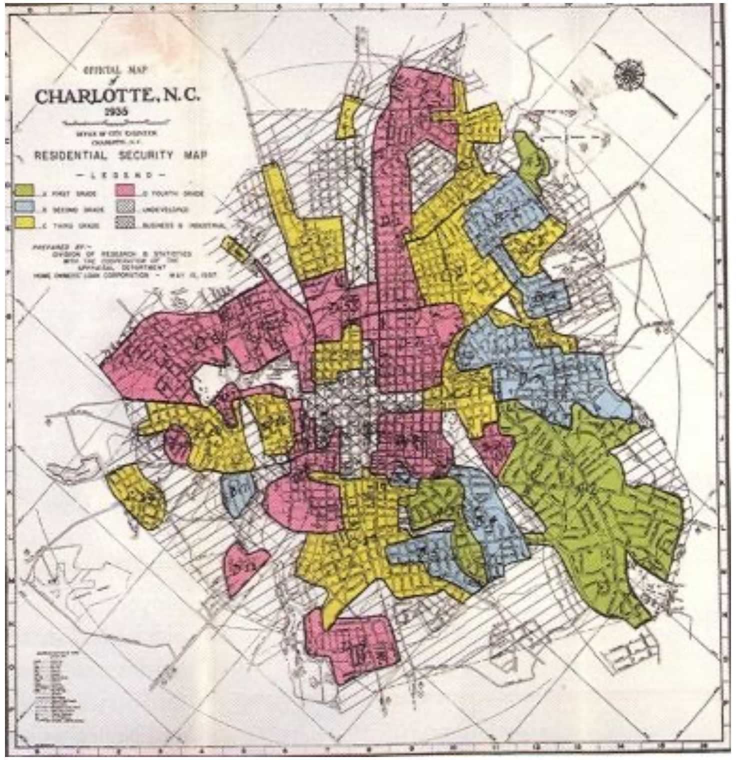
The New Deal and Mortgage Credit

"You wanna know what's more important than throwin' away money at a strip club? Credit." - *Jay-Z The Story of O.J.*

- Housing wealth is the largest source of wealth for the average American. Mortgage credit allows access to this "savings vehicle"
- The New Deal made that possible through:
  - Established the Federal Housing Administration
  - Established the Veterans Administration
  - FHA (and later GI Bill through VA) created an insurance fund that would guarantee lenders if their homeowner could not pay their mortgage.
  - Banks followed the guidelines of the Home Owners Loan Corporation when they made their loan decisions.

The "New" Deal and Mortgage Credit

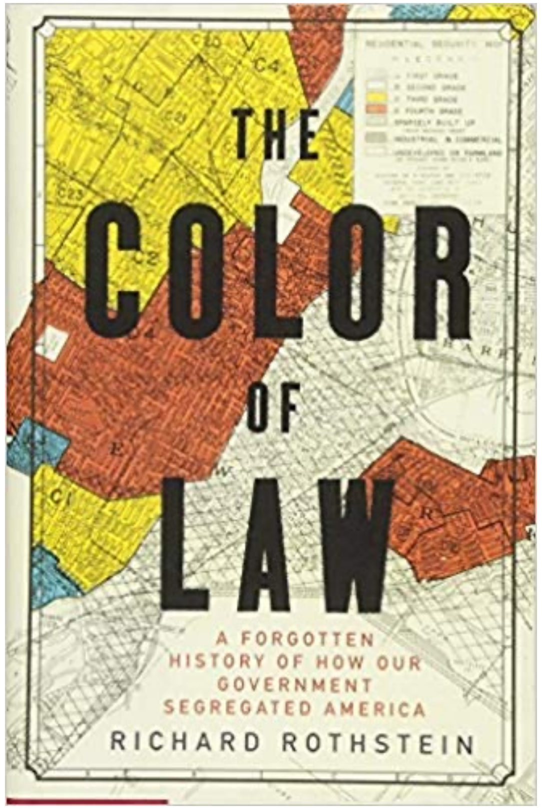
- Home Owners Loan Corporation created standardized mortgage appraisals.
- They mapped areas to predict the likelihood of property appreciation.



Redlining

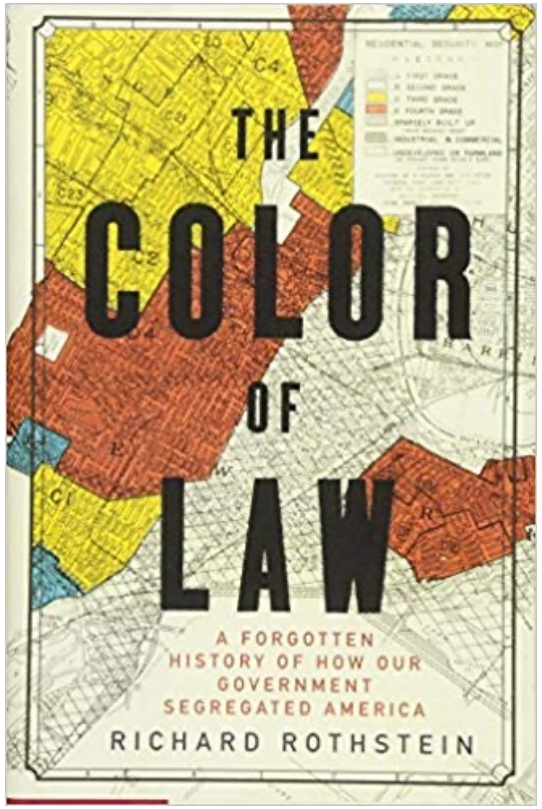
- Redlining refers to a discriminatory pattern of disinvestment and obstructive lending practices that act as an impediment to home ownership among African Americans and other people of color.
- Red areas were areas that would not experience price appreciation according to these HOLC maps and so banks did not make mortgage loans for houses in those areas.
- In the Home Owners Loan Corporation determinations, race was a larger factor in determining a red area than age of house, proximity to downtown, creditworthiness of residents, public parks, etc.

The Color of Law



Suppose you were black and wanted to move to one of the green areas:

The Color of Law



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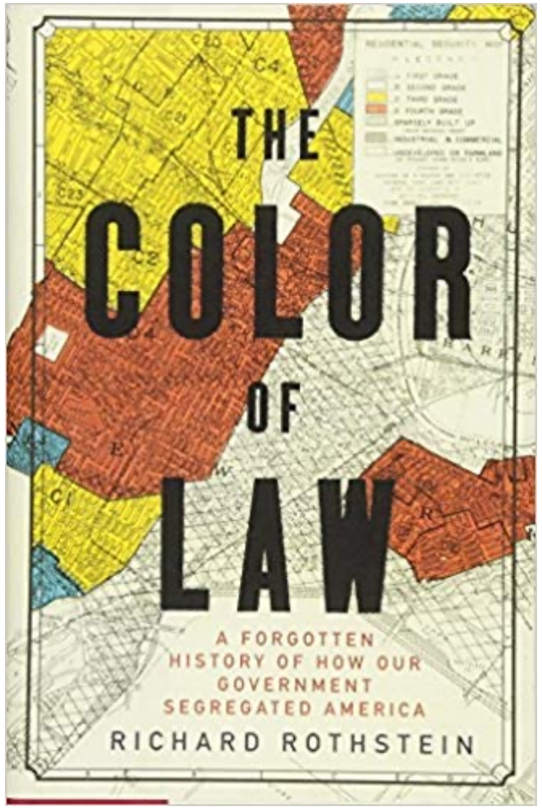
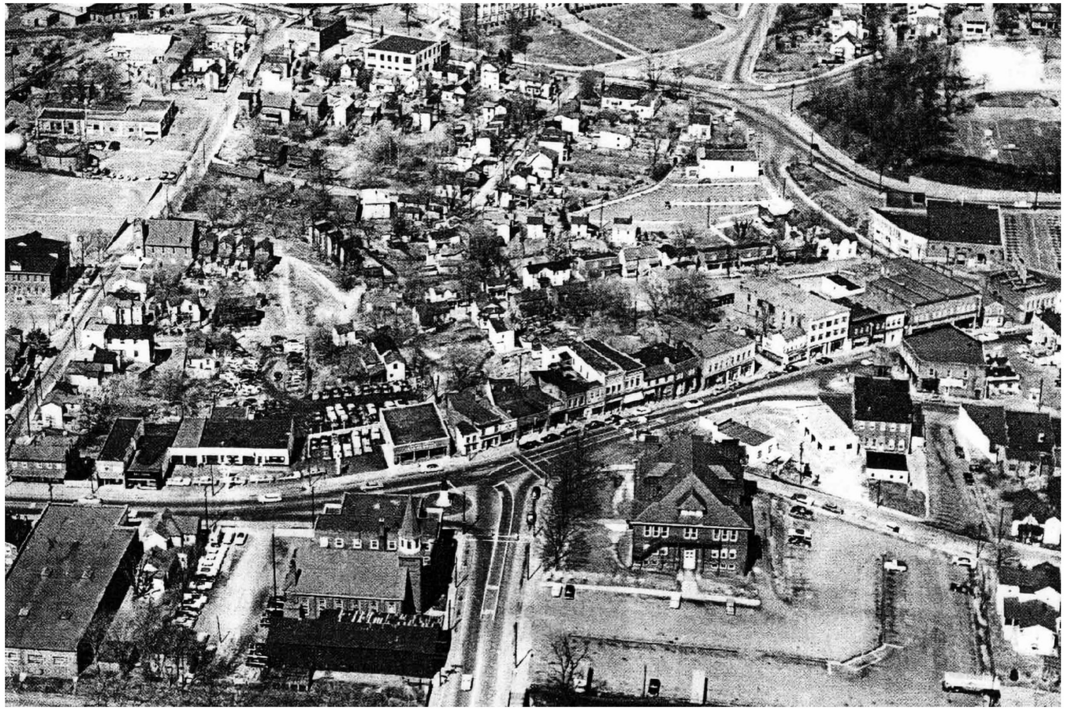


"In 1985, Robert and Martha Marshall bought a home in Sylvania…Their house was firebombed on the night they moved in. A month later, a second arson attack destroyed the house, a few hours before a Ku Klux Klan meeting at which a speaker boasted that no African Americans would be permitted to live in Sylvania. The Marshall family then sued a county policy officer who had been identified as a member of the Klan. The officer testified that about half of the forty clan members known to him were also in the police department and that his superiors condoned officers' Klan membership, as long as the information did not become public."

-*The Color of Law* p. 150

Urban "Renewal"



In 1965, Charlottesville utilized eminent domain to acquire and raze the Vinegar Hill neighborhood and business district, and attempted to redevelop it for a new thoroughfare and commercial project. The project displaced more than 600 Black families and resulted in the closing of more than 30 Black-owned businesses. (Photo courtesy Charlottesville Redevelopment and Housing Authority)

The Washington Post
Democracy Dies in Darkness

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REAL ESTATE Rentals Agent Directory **New Homes Guide**

More cities seek to redress widespread 20th-century destruction of Black neighborhoods

Descendants offered compensation for properties taken by eminent domain for freeways and other public projects

By Troy McMullen
February 10, 2022 at 8:00 a.m. EST

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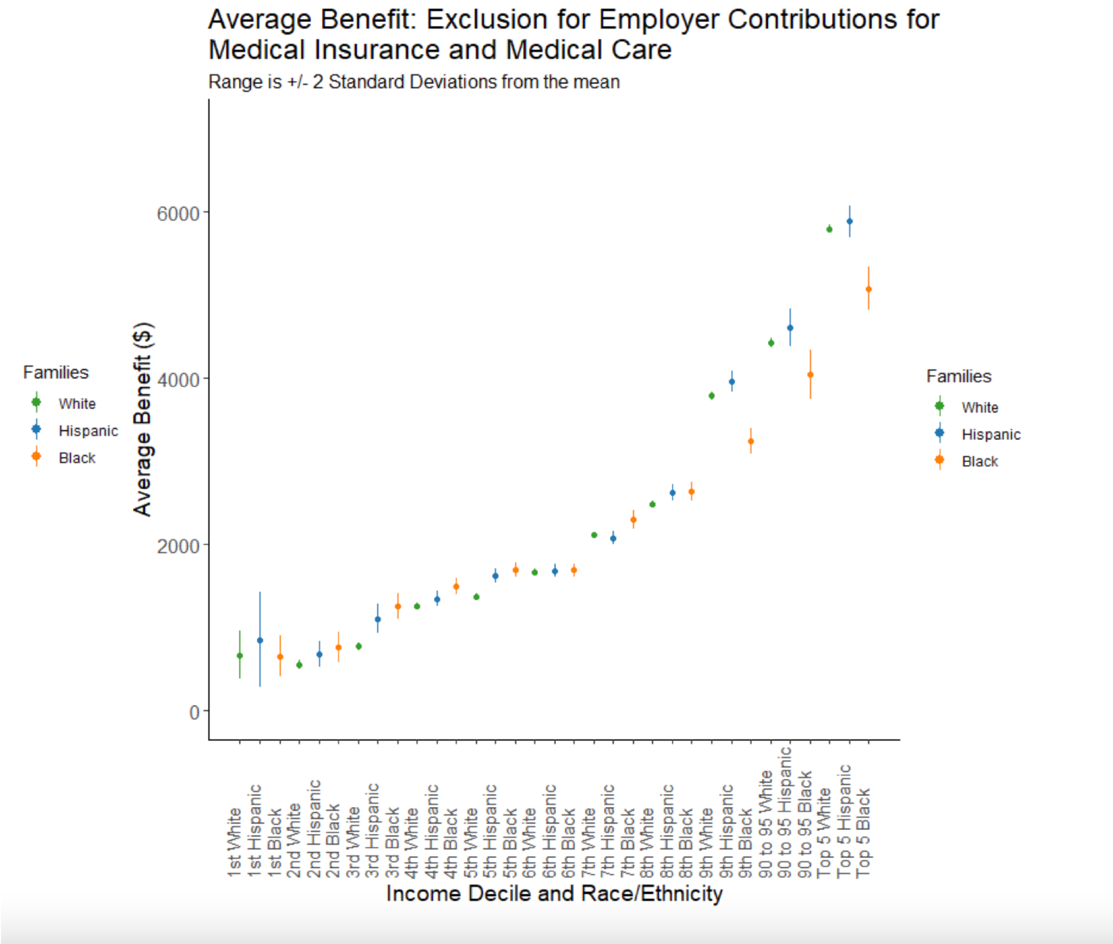
Government aid: Reality and Perception



“ The story was that after decades of New Deal-era federal subsidies had created a white middle class, reinforced a segregated black underclass, and created a cycle of poverty that made it difficult for many to find shelter and food without government aid, it was black people who were being unjustly enriched by the overly generous hand of the state.”

-The Color of Money p.216

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Sexism

- Women could not sign for a loan on their own - they needed a male co-signer to do so.
- When a divorced or single woman applied for credit she was immediately asked questions about her life choices, sexual habits, and various other personal information that was both irrelevant to the credit decision and not asked of men.
- Some banks discounted the wages of women by as much as 50 percent when calculating their credit card limit.
- When members of minority groups attempted to get a loan applications, they were either told that the bank was not making consumer loans, or that the area that the person lived was outside of the lending area of the bank.

Sexism

- "Women could be required to sign an affidavit that they were taking birth control and would not have any more children in order to get a mortgage. Lenders could even ask for a written confirmation of this from a medical practitioner, known as a 'baby letter'. Many creditors applied stricter standards for applications if the wife, instead of the husband, was the main wage earner"

-Bartscher (2023)

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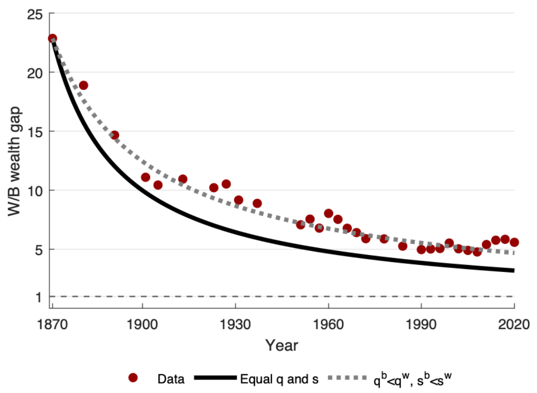
Figure 2: Simulation of the racial wealth gap: 1870-2020



What we know

- The financial system has been historically racist and sexist.
  - This means that the "free market" on its own does not solve racist or sexist provision of credit in the banking system.
  - The free market also does not solve state-sponsored or extrajudicial violence and restrictions that enforce racism.

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1. History
2. **What did we do about this legacy?**
3. Did it work?
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Fair Housing Act, 1968

- The Fair Housing Act prohibits discrimination in housing because of:
  - Race
  - Color
  - National Origin
  - Religion
  - Sex
  - Familial Status
  - Disability
- You can't refuse to rent, negotiate, provide different terms or facilities, falsely deny housing is available for rent or inspection, etc. (HUD)

Equal Credit Opportunity Act, 1974

- It is illegal for creditors to:
  - Discriminate based on race, sex, age, national origin, or marital status, or because one receives public assistance.
  - Ask about marital status if a candidate is applying for separate, unsecured credit.*
  - Ask the candidate if they plan to have children or additional children.
  - Disallow regular sources of income, such as reliable veteran's benefits, welfare payments, Social Security payments, alimony, child support, etc. Nor may they refuse to consider or discount any income earned from a part-time job, pension, annuity, or retirement benefits program.

*with some exceptions. (Wikipedia)

Supporters of ECOA

Community Reinvestment Act, 1977

- Designed to encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.
- Ideal was to reduce discriminatory credit practices against low-income neighborhoods (redlining).
- The Act mandates that all banking institutions that receive Federal Deposit Insurance Corporation (FDIC) insurance be evaluated by Federal banking agencies to determine if the bank offers credit in all communities in which they are chartered to do business. The law does not list specific criteria for evaluating the performance of financial institutions. This examination culminates in a rating and a written report that becomes part of the supervisory record for that bank.

Women's Business Ownership Act of 1988

- Women who wanted a business loan in many U.S. states were required to provide a signature from a male relative. This law allowed women to get loans without co-signors.
- The Women's Business Ownership Act provided seed funding for women's business centers through an annual grant process by the Small Business Administration. They were intended to provide technical assistance to women in order to form businesses, particularly those who were socially or economically disadvantaged.
- Created by the Women's Business Ownership Act, the National Women's Business Council is a non-partisan federal advisory board created to present policy advice about women's small business issues to the President and Congress.
- A small sub-coalition was created, which consisted of the Organization of Pan Asian American Women, the Black Women's Agenda, and the Coalition of Minority Women in Business.

(Wikipedia)

New Market Tax Credit, 2000

- Goal was to invest in low-income communities.
- Firms that invested in low-income communities would get a tax break equal to 39% of their investments over time.
- Used geography to determine these communities.

What we know

- The financial system has been historically racist and sexist.
  - This means that the “free market” unchecked does not solve racist or sexist provision of credit in the banking system.
- From the 1960s to the 1980s, there was a slate of legislation that aimed to reduce sexism and racism in the financial system.
  - This means that we determined that not only was the system discriminatory, but that intervention was required to achieve a more desirable outcome.

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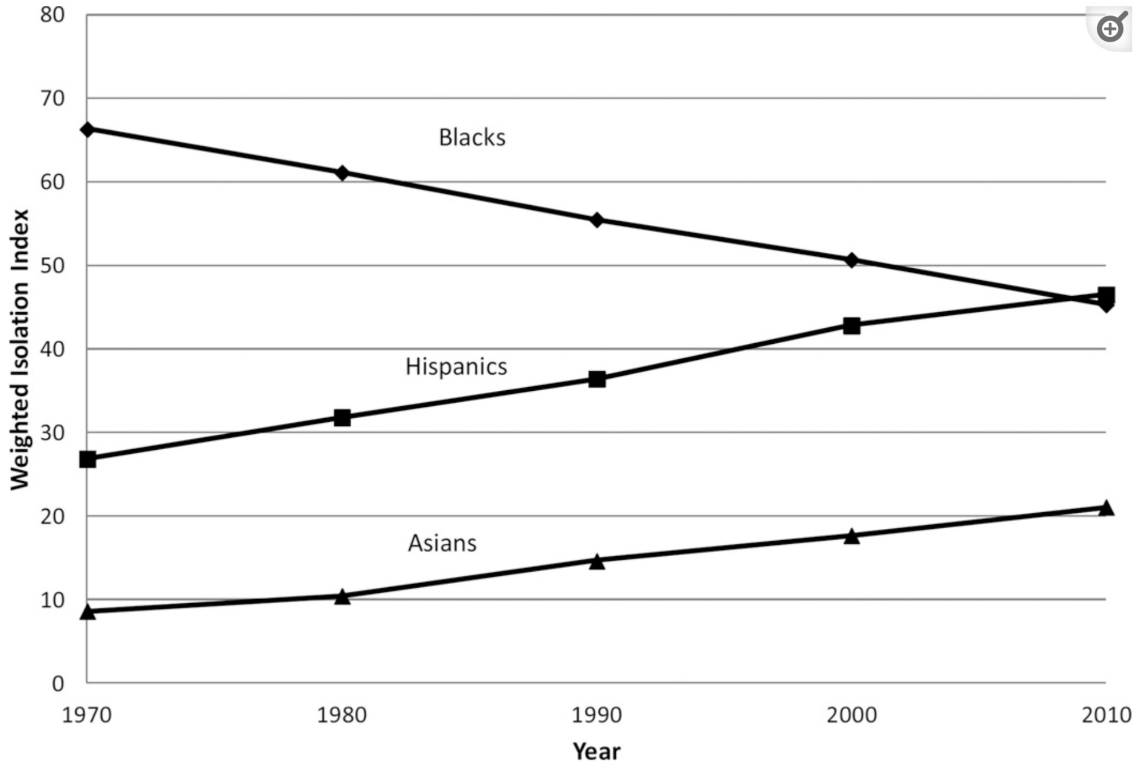
Fair Housing Act, 1968

Figure 2



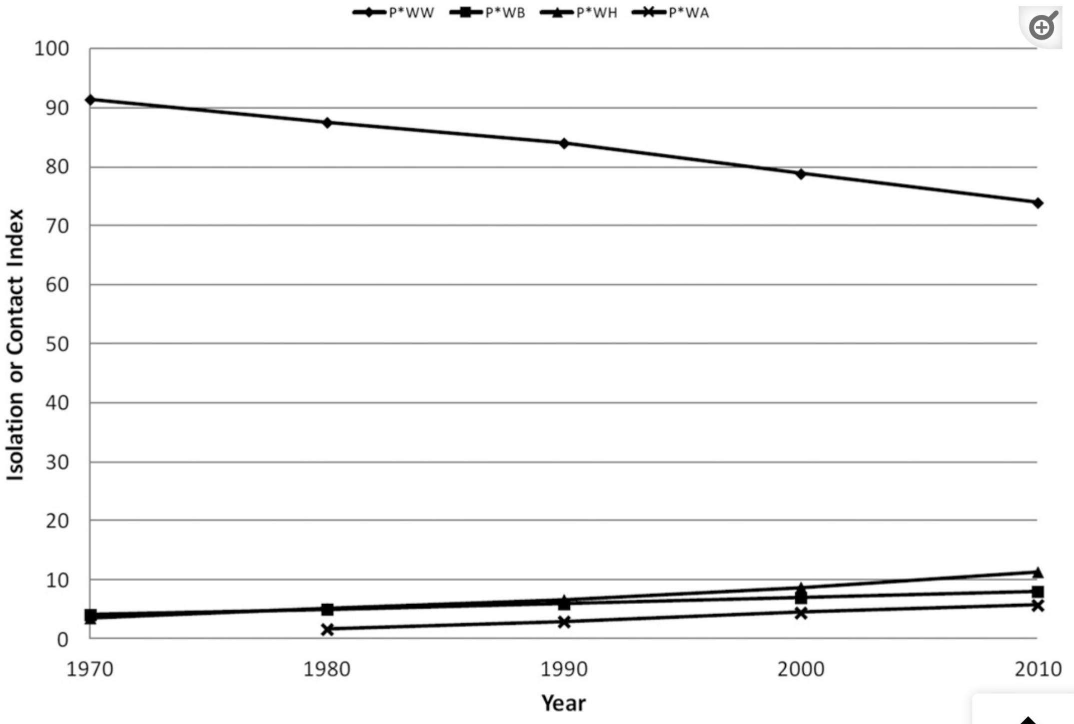
Trends in neighborhood-level isolation indices 1970–2010

“Whereas in 1970 the average Hispanic lived in a census tract that was just 27% Hispanic, by 2010 the figure stood at 47%. In contrast, black isolation dropped by an average of around 5% per decade, going from 66% in 1970 to 45% in 2010”

Massey (2015): The Legacy of the 1968 Fair Housing Act

Fair Housing Act, 1968

Figure 3



Trends in white isolation and contact indices

From 1970 to 2001 the white isolation index dropped from 92 to 72, but the latter figure is still quite compared the values of 47, 45, and 21 for Hispanics, blacks, and Asians, respectively; and the likelihood that a white person shared residential space with a minority person was still quite small in 2010. The likelihood of spatial interaction with was only 8%, compared with 6% for Asians, and 11% for Hispanics.

- So there has been more racial integration, but whites are still very isolated.

Massey (2015): The Legacy of the 1968 Fair Housing Act

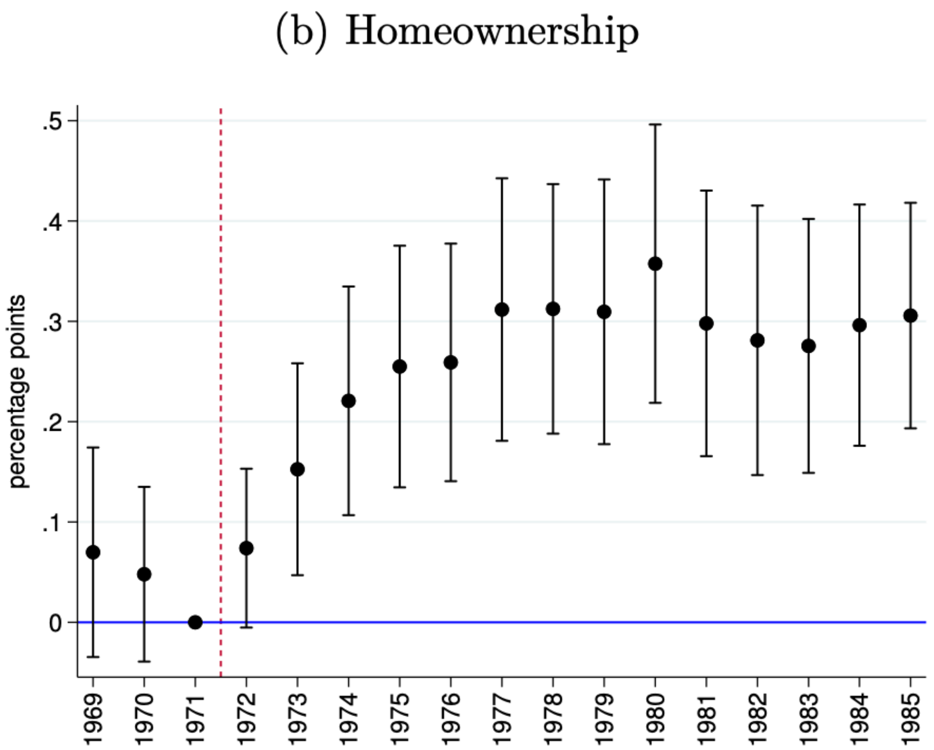
Equal Credit Opportunity Act, 1974

Theory and Evidence of the Impact of Equal Credit Opportunity: An Agnostic Review of the Literature

GREGORY E. ELLIEIIAUSEN
THOMAS A. DURKIN
Board of Governors
Federal Reserve System
Washington, D.C 20551

- Meta-review of papers that found that there was no need for the Equal Credit Opportunity Act because people were "well-served"
- These papers were mostly small samples that showed that credit characteristics between men and women granted loans were the same

Equal Credit Opportunity Act, 1974



- ECOA enabled 1.4 million couples to move into their own home
- Incentivized married women to join the labour force by 2 percentage points

Bartscher (2023): It Takes Two to Borrow

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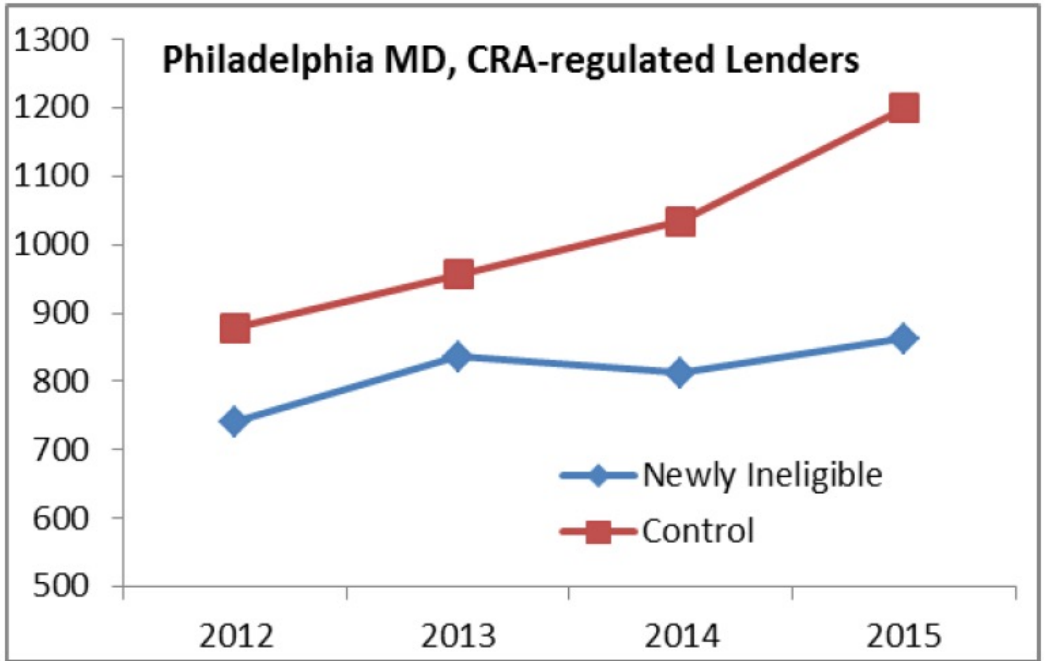
Community Reinvestment Act, 1977



- When a low-income neighbourhood loses its CRA coverage, it leads to a 10% or more decrease in purchase originations by CRA-regulated lenders. Lending institutions not subject to CRA can substitute approximately half, but not all, of the decreased lending by CRA lenders. (Lei Ding, and Leonard Nakamura)

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Community Reinvestment Act, 1977

- When a low-income neighbourhood loses its CRA coverage, leads to a 10% reduction in purchase originations. Other lending institutions step in and replace half the loss, but the do so through riskier FHA lending. (Lei Ding, and Leonard Nakamura)
  - If a neighbourhood gains CRA coverage, there is not an increase in lending.
- Other Unintended Consequences:
  - Black banks penalized because CRA evaluated on quantity of loans and since black banks are smaller, would frequently give fewer loans.

    (Wikipedia)
  - Potentially exacerbates gentrification (Politico)

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Possible Design Flaws in Implementation

Together, the data on the sale of originations and purchases suggest that lenders divert sales away from the GSEs because of the CRA. A back-of-the-envelope calculation suggests that these loan diversions are large enough to account for the CRA-induced loan purchases by banks within their assessment areas. For example, applying the estimated increase in purchases at the high tract threshold for banks within their assessment areas from the adjusted model to the number of originations and purchases in tracts with relative incomes no more than $1,000 below the high tract threshold, yields an estimate of 2,816 addition purchases in this narrow income range because of the CRA. Using the same methodology, there are 3,446 diverted GSE sales at the high tract threshold, of which 53 percent are diverted direct-to-GSE loan sales. Aggregating across the four LMI thresholds 1,843 are would-have-been direct GSE sales and 1,603 are would-have-been indirect GSE sales. The threshold effects in loan sales to the GSEs, based on this back-of-the-envelope calculation, are large enough to account for all of the increase in loan purchases by banks within their assessment areas.

- The CRA allows banks to purchase loans to satisfy their CRA requirements.
- "Instead, banks purchase loans that are temporarily diverted from the Government Sponsored Enterprises, which provides little benefit to the communities the CRA is meant to help."

Brevoort (2022)

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What the CRA did NOT do – Promote Risky Lending

Since its enactment in 1977, the Community Reinvestment Act (CRA) has been the subject of extensive debate, which has intensified in the wake of the subprime crisis. One of the pernicious myths surrounding CRA is that it encouraged banks to make risky loans to low- and moderate-income borrowers. This argument has been made primarily by conservative think tanks, like American Enterprise Institute, who find it convenient to include CRA in their general position against governmental intervention in the private market. But efforts to blame CRA for the most recent crisis reflect a deep misunderstanding of the scope and scale of CRA and its implementation. Indeed, the "blame the CRA" story has been refuted by industry leaders and researchers time and time again.[1] Unfortunately, this narrative refuses to go away.

UNC Center for Community Capital

Women’s Business Ownership Act of 1988

- Chrisman, Carsrud, DeCastro, Herron (1990):
  - “females suffer no significant entrepreneurial disadvantages as compared to males”.
  - “[the] proportion of female clients was statistically equal to the proportion of net new businesses operated by women refutes the notion that general-assistance programs such as the SBDC are not equally accessible to both genders”

I could find no studies on the causal impact of HR 5050

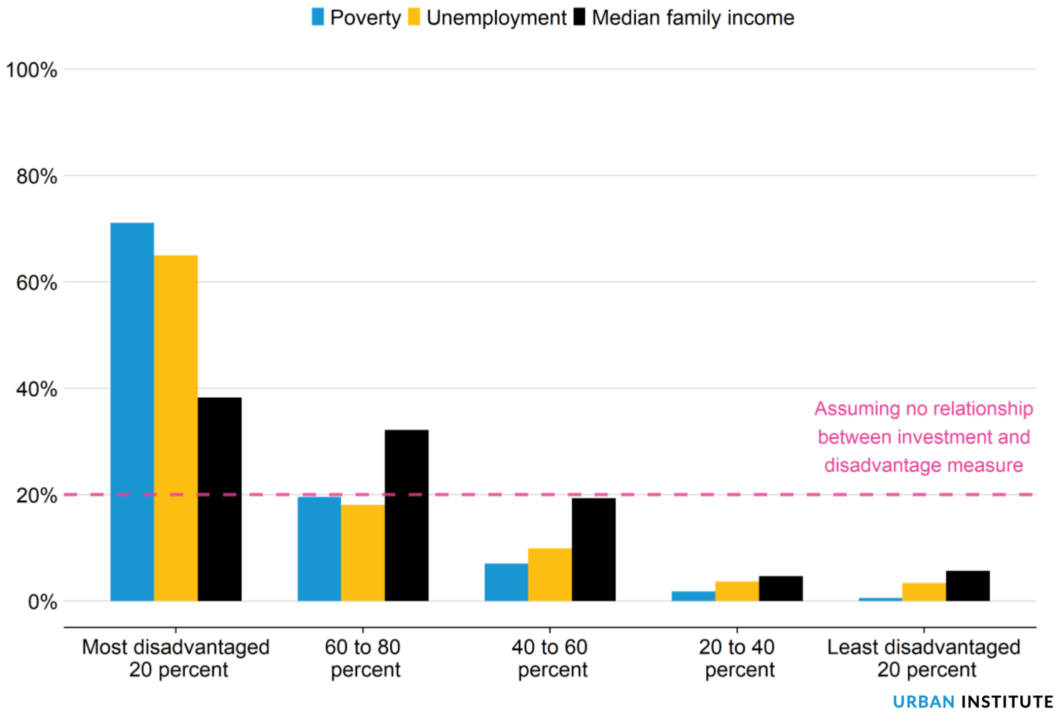
Who does the Research?

New Market Tax Credit, 2000

FIGURE 3

Percent of NMTC Total Project Cost in Quintile of Economic Distress Measure

Program years 2001 to 2017



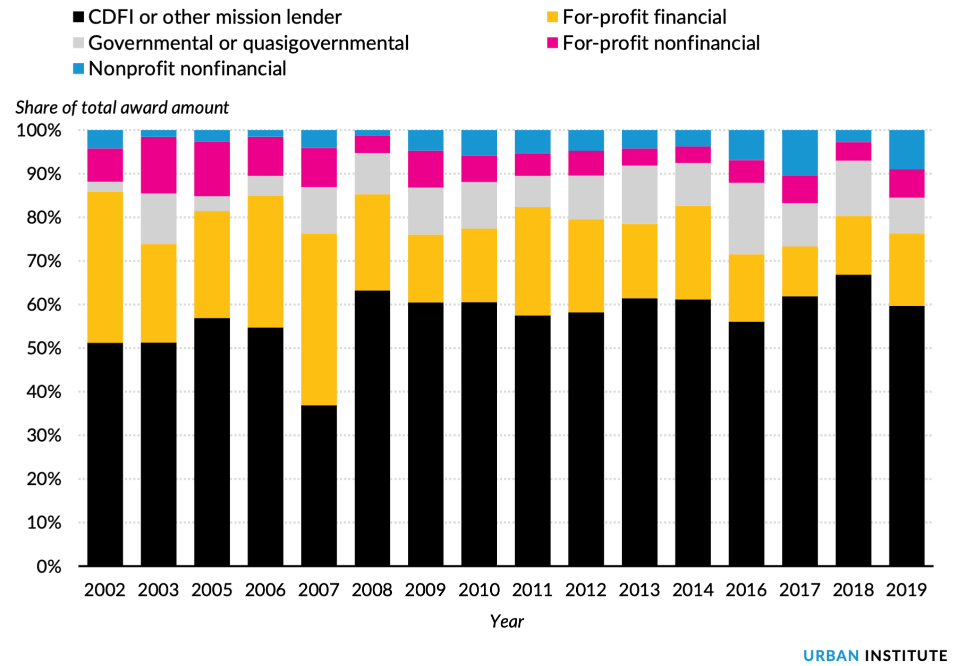
Sources: 2000 Decennial Census and NMTC program data

Notes: Tract boundaries are approximated at the 2010 level. All amounts are adjusted for inflation to 2019 dollars.

- Funding largely went to low-income communities
- Much of it to mission lenders, but lots to for-profits

FIGURE 1

NMTC Allocation Dollar Amounts by CDE Type Over Time, 2002 to 2019



Source: CDFI Fund

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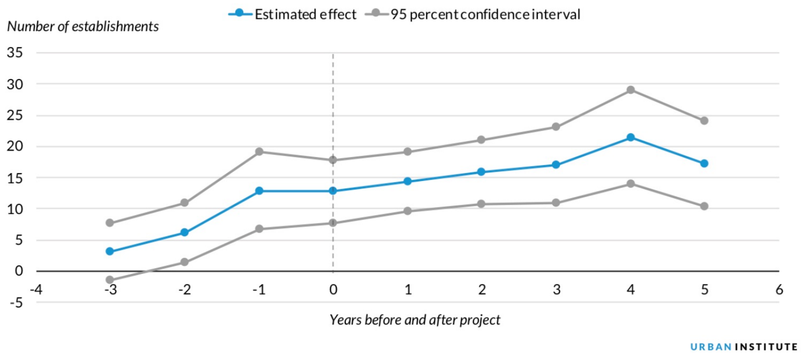
New Market Tax Credit, 2000

Businesses Were Growing before NMTC Investment and Continued Growing after Investment

Estimated increase in number of establishments with more than one employee per census tract



Source: Urban Institute analysis of NMTC program and Longitudinal Employer-Household Dynamics data.
Notes: NMTC = "New MarketsTax Credit." Figure displays estimated changes in the number of residents with jobs per census tract. The estimation model includes year and tract fixed effects and controls for projects with no expected impact. Coefficients are estimated in a single regression. The model includes treatment variables for each year from -3 to +4 relative to the NMTC project start date and a cumulative treatment variable for 5 or more years after an NMTC project. Solid gray lines represent 95 percent confidence intervals based on standard errors that are heteroskedastic robust and clustered at the tract level. Regression includes eligible census tracts.

- Unintended consequences:
  - Geography too large (Wall Street was initially classified).
  - The fund was focused on being profitable so it offered the credits to large real estate developers rather than minority banks or organizations.
  - Tended to prioritize development in neighbourhoods that were already experiencing an upward trend

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What we know

- The financial system has been historically racist and sexist.
  - This means that the "free market" unchecked does not solve racist or sexist provision of credit in the banking system.
- From the 1960s to the 1980s, there was a slate of legislation that aimed to reduce sexism and racism in the financial system.
  - This means that we determined that not only was the system discriminatory, but that intervention was required to achieve a more desirable outcome.
- This legislation on the whole improved the sexist and racist legacies, but with some gaps. Where do we stand today?

Racism and Sexism in Finance

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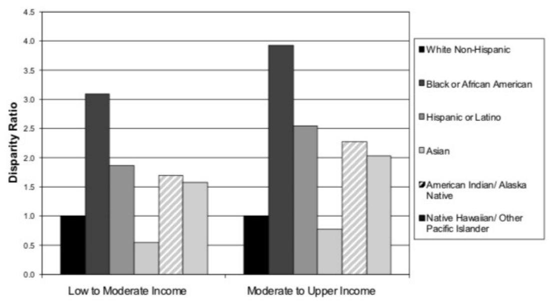
Subprime Loans

The Department of Housing and Urban Development also found that after controlling for housing and income level characteristics of the census tract, subprime lending increases as the percentage of minority residents of the tract increases.[10] Even the Research Institute for Housing America, an offshoot of the Mortgage Bankers Association, found that **minorities were more likely to receive loans from subprime institutions, even after controlling for the creditworthiness of the borrowers**.[11]

Figure 1. Disparity Ratio, Subprime Home Purchase Loans, by Race, Ethnicity, and Income



- "Further, assume that each family pays $50,000 more over the life of the loan than it should. In total, the 300 families in the minority census tract have paid lenders $15 million more than they would have if they had received prime loans for which they could have qualified."
- -The Opportunity Agenda

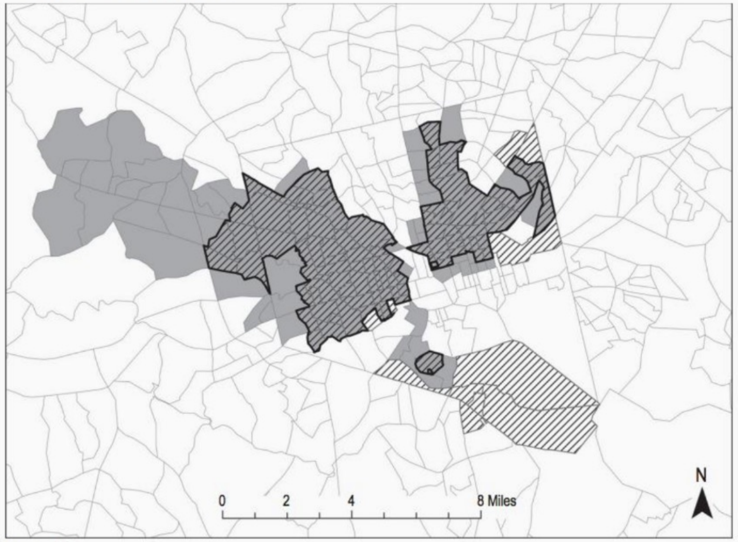
Subprime Loans

MAPPED

Racial segregation made minority neighborhoods even stronger magnets for pre-crisis subprime loans

By Melvin Backman • April 16, 2015

Figure 1. Map of Overlapping Subprime Lending and Minority Clusters for Baltimore, MD, Metropolitan Area (TI = 0.89)



Legend:
Gray-filled tracts: Clustered minority tracts
Stripe-filled tracts: Clustered subprime lending
Bolded-outlined tracts: Overlapping clusters

Still Racist

- "Wells Fargo discriminated against black and Latino homebuyers in Sacramento, California, by pushing them into more expensive mortgages than white borrowers, according to a federal lawsuit that cites former employees."

Still Racist

Modern-day redlining: How banks block people of color from homeownership

- "Black applicants were turned away at significantly higher rates than whites in 48 cities, Latinos in 25, Asians in nine and Native Americans in three."

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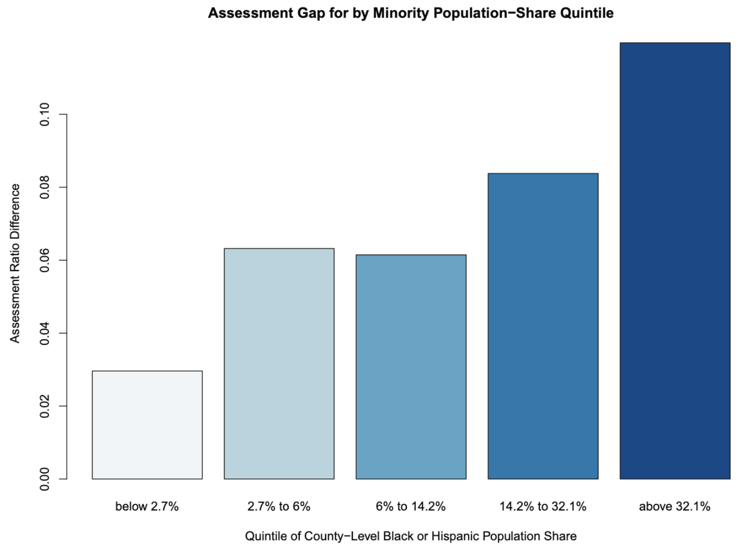
Racial Inequalities in Property Taxation



- Black and Hispanic residence face a 10-13% higher tax burden for the same bundle of public services.
  - ➢ This is because their properties are assessed at higher rates than their comparable amenities suggest through market prices.
  - ➢ This is a difference of $300-$390 annually.
  - ➢ Black and Hispanic residents are less likely to appeal property assessments.
  - ➢ Linking assessment growth to zip-code-level indexes would reduce racial inequality by 55-70%.

(Troup Howard and Carlos Avenancio-Léon)

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Still Sexist

Women far less likely to be approved for mortgage in Chicago area

A study to be released Wednesday by the Woodstock Institute looked at 2011 to 2013 data and found that women in the Chicago area were less likely to get mortgages than men. (JamieB, Getty Images)

- A woman whose name headed a joint application was 28.3 percent less likely than a man to receive a loan.
- Mortgage applications from low-income women were more likely to be approved than from men of similar income.
- Bank of America had the greatest gender disparity in its raw data, with 65.7 percent of Chicago-area women who applied for home purchase loans receiving them compared with 71.2 percent for men

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Still Sexist

RESEARCH REPORT

Women Are Better than Men at Paying Their Mortgages

Laurie Goodman *Jun Zhu* *Bing Bai*

September 2016

- While women had a 4.9% priced loan, men's loans were 4.6% on average. This is despite the fact that, for women, the loan size was only $171,240 versus $204,890 for men.
- Then this must mean that men are being able to save up and put more money down on their loan to get it at a lower cost, right?

Still Sexist

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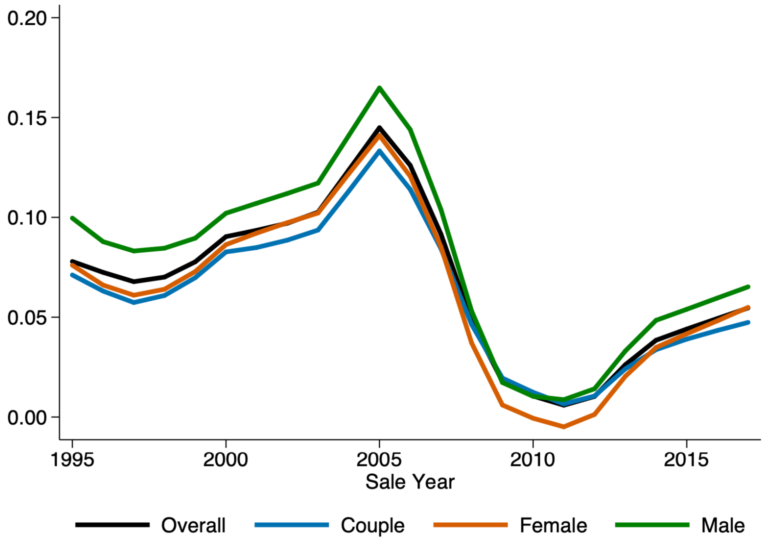
- Then this must mean that men are being able to save up and put more money down on their loan to get it at a lower cost, right?
- Women borrowers have a loan-to-value of 75.07% versus 77.63% for male borrowers.
- Female-only borrowers have, on average, slightly weaker credit characteristics than male-only borrowers but default less.

The Gender Gap in Housing Returns

Figure 5: Average unlevered returns over time by gender group



Note: This figure plots the average unlevered annualized return for couples, single women, and single men by sale year. As our sample begins in 1991, we begin this figure in 1995 to allow for sufficient data to avoid truncation.

- Single men earn 1.5 percentage points higher returns per year on housing relative to single women.

  55% of the gap can be explained by a 2% gender gap in execution prices at purchase and sale, arising from differences in the choice of initial list prices and negotiated discounts.

  The gender gap in housing explains 30% of the gender gap in wealth accumulation at retirement for the median household.

(Paul Goldsmith-Pinkham and Kelly Shue)

Still Sexist

- A report from 2012 found that women still pay more for credit cards. According to a study by the Financial Industry Regulatory Authority, women pay a half a point higher interest rate than men.

30 APR 2014 RESEARCH & IDEAS

Venture Investors Prefer Funding Handsome Men

by Carmen Nobel

Studies by Alison Wood Brooks and colleagues reveal that investors prefer pitches from male entrepreneurs over those from female entrepreneurs, even when the content of the pitches is identical. And handsome men fare best of all.

Hu, Ma (2023): “[W]omen are more heavily judged on delivery in single-gender teams, but they are neglected when co-pitching in mixed-gender teams”.

Brooks et al. (2014): investors prefer male entrepreneurs even when the content of the pitch is the same

Racial and Gender Gaps in Entrepreneurial Finance

Table 1: Representation statistics in entrepreneurial finance

The table reports statistics on the participation of women and minorities across multiple stages of the startup lifecycle. "% women" is the percent of firms with at least one female founder (unless otherwise showed). "% Black" is the percent of firms with at least one black founder. Sometimes, this column is the percent of non-white or minority founders. The "Notes/Source" column provides a short summary of the variable and references.

	% Women	% Black	Notes/Source
Panel A: New firms (before capital)			
Incorporated firms (NLSY)	28%	10% (non-white)	Share of self-employed individuals in incorporated firms from NLSY79 1982-2012. Levine and Rubinstein (2017, Table 1 Panel B)
CA/MA newly incorporated firms	22%		Newly incorporated firms in California and Massachusetts, 1995-2005. Guzman and Kacperczyk (2019)
Entrepreneurial entry rate (relative)	64% (lower rate)	78% (lower rate)	The relative rate of the adult, non-business owner population that starts a business (both incorporated and unincorporated, employers or non-employers) each month, averaged 1996 to 2020. Fairlie and Desai (2021, Table 2 and Table 3)
Small business owners	29.9%		Women-owned firms as a percentage of all in 2012. Survey Small business owners. Robb et al. (2014, Appendix 3)
Team size / employment at start (relative to men)	7% smaller / 20% fewer employees		Ewens and Townsend (2020, Table 2 "Team size") [7%]. Hebert (2020, Table 2, Panel E) [20%]
High-growth startups (subset of new firms)			
Incorporated firms CA/MA	17%		Share of female-led startups in top 10 percent high-growth startups in California and Massachusetts, 1995–2005. Guzman and Kacperczyk (2019, Table 2)

https://foundinggaps.com by Michael Ewens

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Ageism in Finance

'Lions Hunting Zebras': Ex-Wells Fargo Bankers Describe Abuses

Kevin Pham at a Wells Fargo branch in Daly City, Calif. Mr. Pham said he saw fellow Wells Fargo employees targeting customers for sham accounts at the San Jose, Calif., branch where he used to work. "They would look for the weakest, the ones that would put up the least resistance," he said. Noah Berger for The New York Times

What we know

- The financial system has been historically racist and sexist.
  - This means that the "free market" unchecked does not solve racist or sexist provision of credit in the banking system.
- From the 1960s to the 1980s, there was a slate of legislation that aimed to reduce sexism and racism in the financial system.
  - This means that we determined that not only was the system discriminatory, but that intervention was required to achieve a more desirable outcome.

Racism and Sexism in Finance

1. History
2. What did we do about this legacy?
3. Did it work?
4. Present
5. **Going Forward**

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Three ways to think about the question

1. Reject the premise that the financial system has been and is historically discriminatory.
   - I hope at the very least I have changed your mind about this.
2. Accept the premise, but do nothing.
   - The free market will see an opening and address the gaps (i.e. lend more to women).
   - Wait for innovation and/or cultural change.
3. Accept the premise, enact targeted financial reform.
   - Either new regulations or adapt enforcement of old ones.
   - If so, what would that look like?
4. Accept the premise, enact major structural reforms.
   - Look at fundamentally changing our economic system.
     - E.g. Piketty suggestion of worker representation on company boards.

What do you think we should do?

My take:

Accept the premise, enact targeted financial reform.

- Either new regulations or adapt enforcement of old ones.
  - Ensure that we have detailed enough data to assess the impact of the regulation and potentially track unintended effects.

Political Future

- The best thing you can do is be financially educated yourself.
- Political Future
  - Booker: Baby Bonds (government contributes to savings accounts for children under 18 that they can then use for college or buying a house).
  - Sanders: Postal service banking (retail banking services performed cheaply at post offices).
  - Warren: Down payment grants for minorities when purchasing homes.
  - Piketty: Worker representation on corporate boards (including banks)

Discussion

Guidelines for Today's Discussion

1) Prioritize impact over intentions
2) Share space, take space
3) Work towards collective learning
4) Disclosure needs consent

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Common Suggestions

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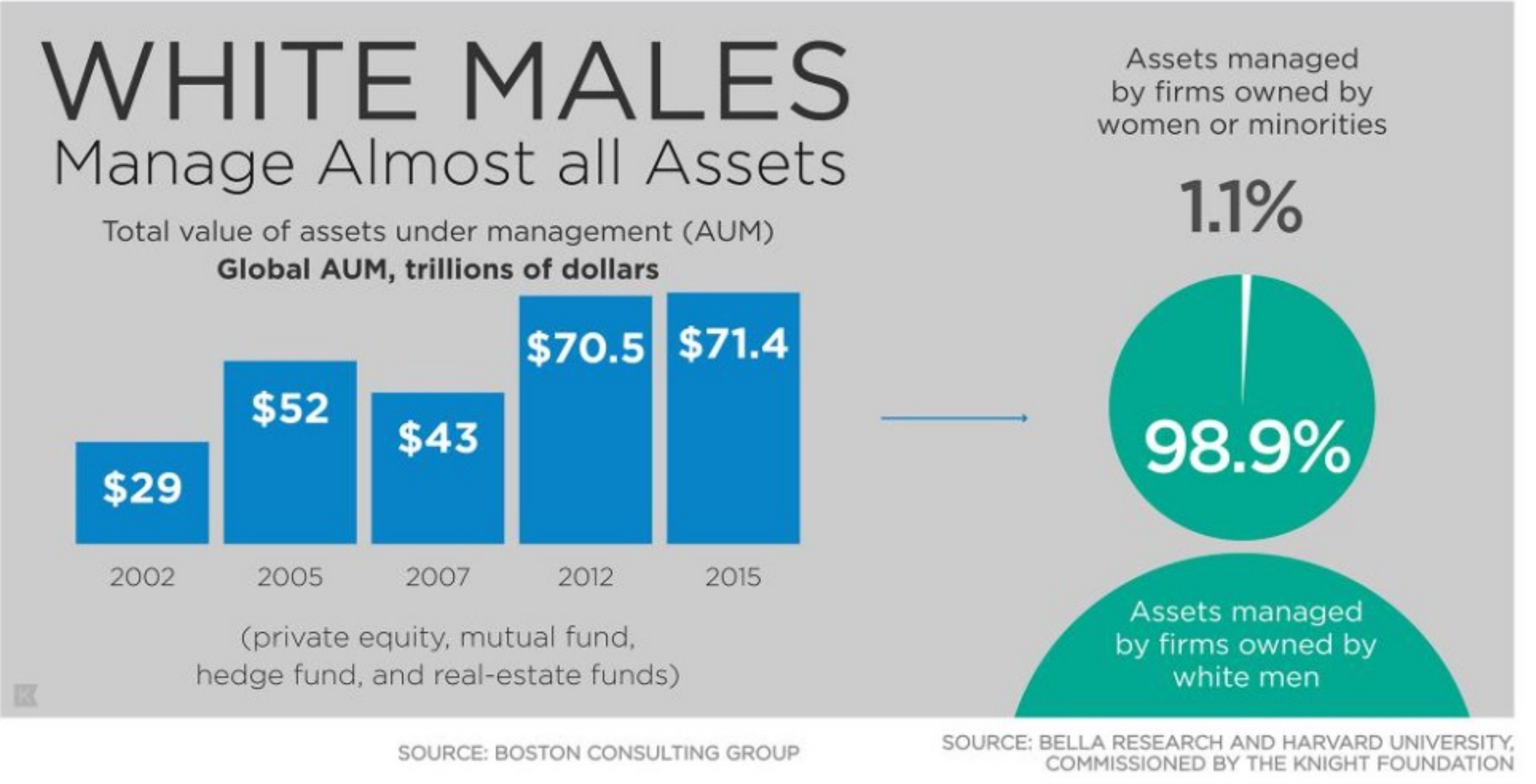
Hire Diversity?

Hire diversity?



https://www.wealthmanagement.com/careers/six-charts-illustrate-financial-advice-industrys-lack-diversity/gallery?slide=2

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Where are the candidates?

GENDER (STILL) MATTERS IN BUSINESS SCHOOL[1]

Aradhna Krishna and A. Yeşim Orhun

Ross School of Business

University of Michigan

Abstract

This research documents systematic gender performance differences (GPD) at a top business school using a unique administrative dataset and survey of students. The findings show that women's grades are 11% of a standard deviation lower in quantitative courses than those of men with similar academic aptitude and demographics, and men's grades are 23% of a standard deviation lower in nonquantitative courses than those of comparable women. The authors discuss and test for different reasons for this finding. They show that a female instructor significantly cuts down GPD for quantitative courses by raising the grades of women. In addition, female instructors increase women's interest and performance expectations in these courses and are perceived as role models by their female students. These results provide support for a gender stereotype process for GPD and show that faculty can serve as powerful exemplars to challenge gender stereotypes and increase student achievement. The authors discuss several important implications of these findings for business schools and for society.

Yesim Orhun @yesimorhun · Oct 26

Academic achievement gaps not only create inequity in education, but also may have far-reaching consequences, because they may shape occupational choices.

1 1 21

Yesim Orhun @yesimorhun · Oct 26

We find that female students who have a mid to high aptitude for quantitative subjects are the most disadvantaged by gender stereotypes and benefit the most from having female instructors as role models.

1 5 42

Retaining Candidates

When Black Women Go From Office Pet to Office Threat

First your boss loves you, then they dislike you. Here's how Black women can manage the icy transition.

Erika Stallings Jan 16 · 9 min read ★

Illustration: Ojima Abalaka

When I started my first job as an attorney eight years ago, I was full of excitement. I had managed to secure the position despite a significant reduction in entry level positions due to the 2009 financial crisis. The summer before landing my role, I was an intern at the firm, where I researched case law and was showered with lush perks like tickets to the Tony awards and front row seats to the NBA draft. Those perks

Where are the minority professors?

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Take Humans Out of It?

Algorithmic Bias

- **Algorithmic bias** describes systematic and repeatable errors in a computer system that create unfair outcomes, such as privileging one arbitrary group of users over others. (Wikipedia)

Another example of how training data can produce sexism in an algorithm occurred a few years ago, when Amazon tried to use AI to build a résumé-screening tool. According to Reuters, the company's hope was that technology could make the process of sorting through job applications more efficient. It built a screening algorithm using résumés the company had collected for a decade, but those résumés tended to come from men. That meant the system, in the end, learned to discriminate against women. It also ended up factoring in proxies for gender, like whether an applicant went to a women's college. (Amazon says the tool was never used and that it was nonfunctional for several reasons.)

- Your training dataset can reflect human biases.
- Just because your algorithm prevents bias in your sample doesn't mean it'll do well with new data (forecasting error)
- Do you know exactly how bias manifests and operates?

- https://www.vox.com/recode/2020/2/18/21121286/algorithms-bias-discrimination-facial-recognition-transparency

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What about FinTech?

Consumer-Lending Discrimination in the FinTech Era*

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February 2019

- Find that face-to-face and FinTech lenders charge Latinx/African-American borrowers 7.9/3.6 basis points higher interest rates for purchasing mortgages.
- In aggregate, Latinx/African-American pay $765M per year in extra mortgage interest.
- FinTech algorithms have not removed discrimination but discriminate 40% less and discrimination is declining overall.
- Tech lenders extract monopoly rents or profile based on low-shopping behaviour.
- FinTechs do not discriminate in loan approval.

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Directly Address Bias?

Types of Economic Discrimination

- Statistical discrimination: if economic agents have imperfect information about the individuals they interact with, they will impute information about the individual's group membership when evaluating the individual. E.g. If a minority group is less productive(due to explicit discrimination) initially then each individual is assumed to have lower productivity. (Wikipedia)

- Taste-based discrimination: prejudice or dislike due to racism or sexism. (Wikipedia)

The type of discrimination matters in terms of what policy measures we implement to address discrimination in outcomes.

Can’t we just tell people about their biases?

Bad Taste: Gender Discrimination in Consumer Credit Markets *

Ana María Montoya
University of Chile

Eric Parrado
IADB and ESE Business School

Alex Solís
Uppsala University

Raimundo Undurraga
University of Chile

Select an area to comment on

May 11, 2020

- Loan requests submitted by women in Chile were 18.3% less likely to be approved.
  - ➢Most of the gender effects come from male gender-biased officers.
- Randomly inform some officers about official statistics that women have higher repayment rates than men.

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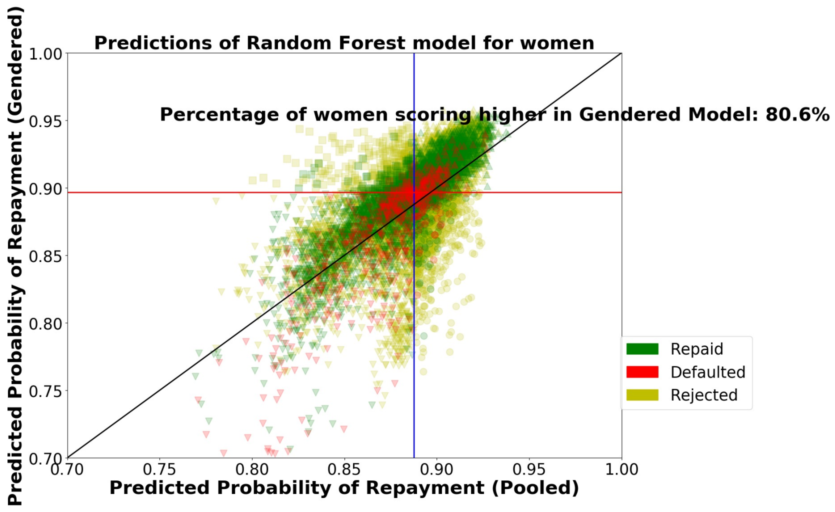
  - ➢Most of the gender effects come from male gender-biased officers.
- Randomly inform some officers about official statistics that women have higher repayment rates than men.
  - ➢Gender-biased officers in the treatment-group discriminated MORE against women.

Can we just consider race/gender in decisions?



- Higgins et al.

- In a 2018 study, computer scientists and economists found that the best way to mitigate algorithmic gender bias is to include race and gender back into models.
- If you interact gender with various credit indicators, you can get a better assessment of credit risk when making loan decisions.
- The problem is that explicitly considering gender in loan algorithms violates the Equal Credit Opportunity Act, even if the algorithms implicitly factor gender in through other proxy variables.

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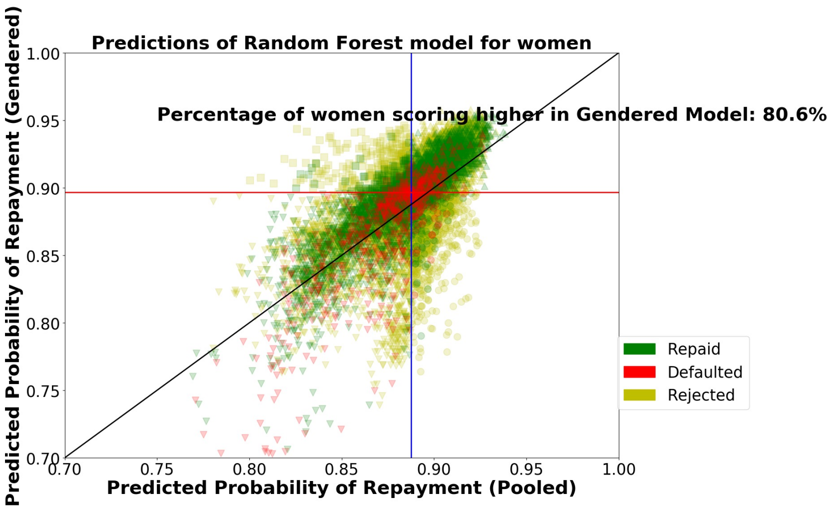
Can we just consider race/gender in decisions?



- If you interact gender with various credit indicators, you can get a better assessment of credit risk when making loan decisions.
  - What happens when you give women credit that they otherwise wouldn't have gotten if you didn't consider their gender (in progress).

- Higgins et al.

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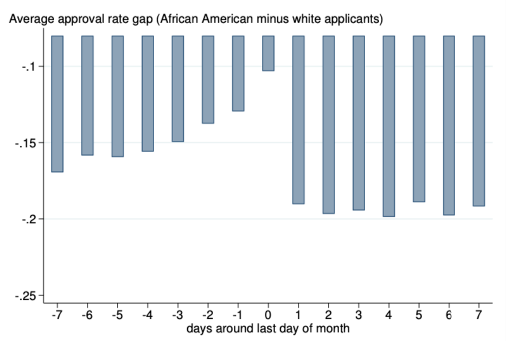
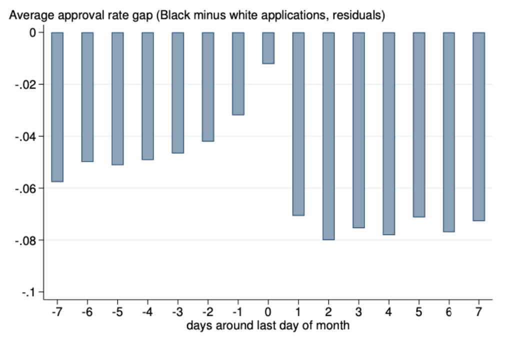
Lending Quotas?



(a) Approval Gap



(b) Residual Approval Gap

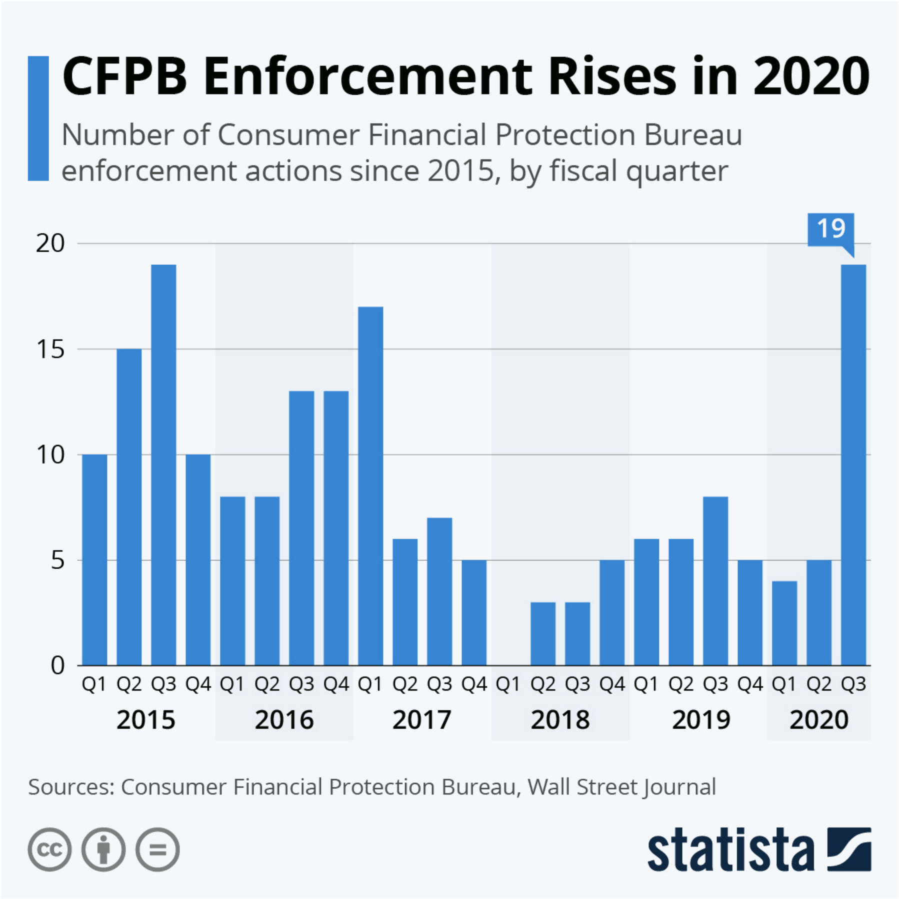
Figure 1: The figure uses data from HMDA on U.S. mortgage applications between January 1994 and December 2018. Panel (a) reports the average approval gap, calculated for each day in the last and first week of the month as the difference between the approval rate for black and white applicants. Approval rates are calculated as $approval\ rate_t = \frac{new\ originations_t}{new\ originations_t + denials_t}$, where t is a given day of the month. Panel (b) reports residual approval rates from a fully saturated regression with loan-level controls.

- [L]oan officers have volume quotas that cause increased approval rates at month-end.
- [E]stimate that these quotas at least halve the unexplained 7 ppt Black approval gap.
- Loan officers more likely to miss their quotas have larger increases in Black approvals.

Giacoletti, Heimer, Yu (2023)

Empower the Watchdog

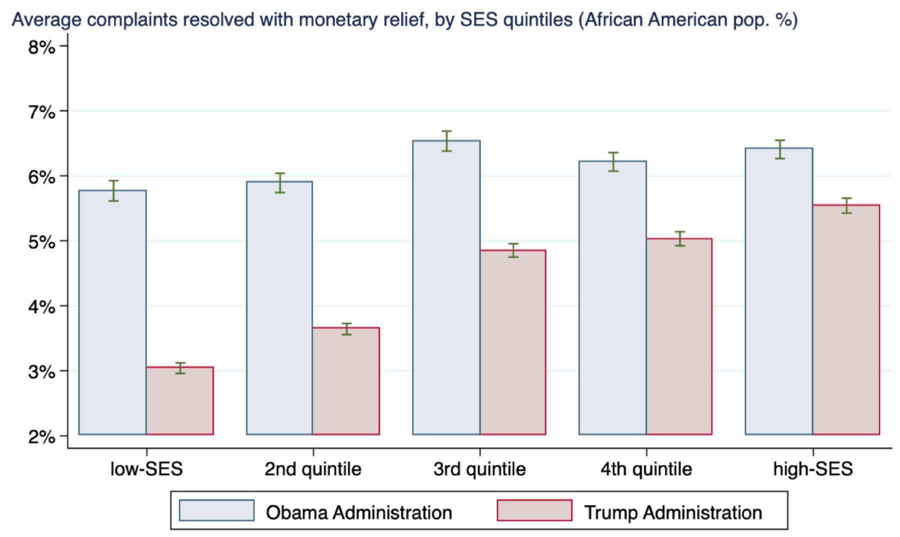
Empower the watchdog?



- The CFPB can bring enforcement actions against companies.
  - However, there aren't that many.
  - Sensitive to politics, funding is appropriated by Congress.

Empower the Watchdog?

Panel B: Financial Restitution Across Consumer Races

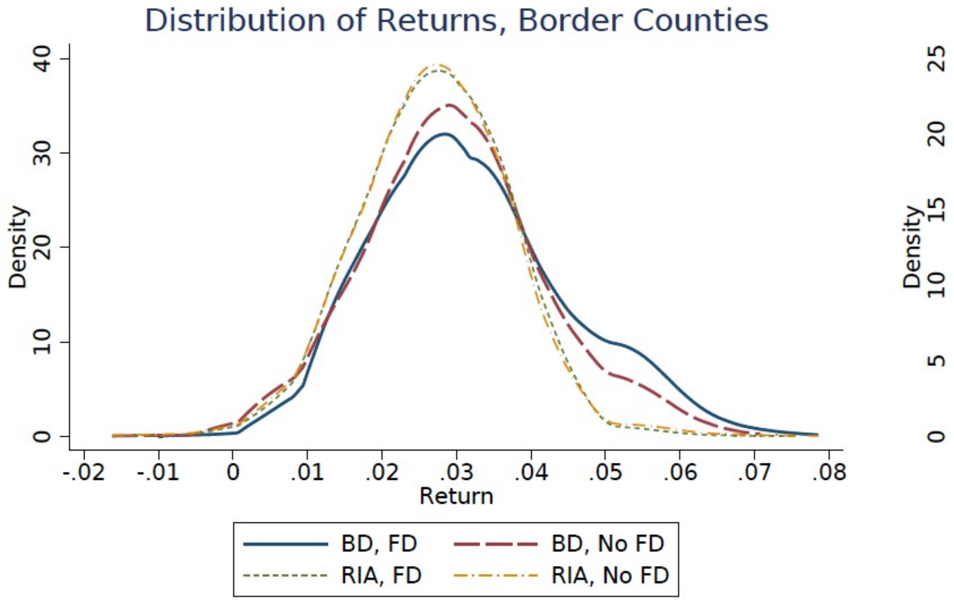


- [F]ilings from low-socioeconomic (i.e., low-income and African American) zip codes were 30% less likely to be resolved with the consumer receiving financial restitution.
- The socioeconomic gap in financial restitution was scarcely present under the Obama administration, but grew substantially under the Trump administration.

Hændler and Heimer (2021)

What About Fiduciary Duty?

(a) Risk-adjusted returns



Bhattacharya, Illanes, Padi (2020)

- Fiduciary duty is the obligation to act in the best interests of another party.
- Fiduciary duty with respect to deferred annuities raises risk-adjusted returns by 25 basis points.
- This is likely because financial advisors are giving better advice, and that more stringent fiduciary policies would continue to improve advice.

Appendix

Signatories of "Statement of Economists" in Support of ECOA

James E. Annable, The Massachusetts Institute o
Kenneth J. Arrow, Harvard University
Maurice D. Atkin, Robert Nathan Associates

Frank de Leeuw, The Urban In
C. L. DePass, American Univer
Robert F. Dernberger, Universi
Peter A. Diamond, The Massach
Anthony Downs, Real Estate Re
John E. Due, University of Illin

Robert C. Merton, The Massachusetts Institute of Technology
Franco Modigliani, The Massachusetts Institute of Technology

Robert M. Solow, The Massachusetts Institute of Technology

James Tobin, former member of Council of Economic Advisers, Yale University

Richard Rosenberg, Pennsylvania State Universit
Stephen Ross, University of Pennsylvania
Jerome Rothenberg, The Massachusetts Institute

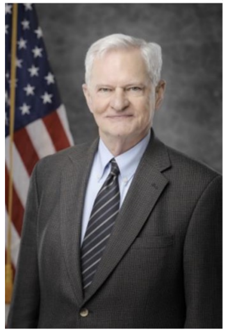
Charles Sackrey, Smith College
Paul A. Samuelson, Nobel Prize in Economics, The Massachusetts Institute of Technology

Myron S. Scholes, The Massachusetts Institute of Technology

Who Does the Research?

ECOA/HR 5050 Unnecessary

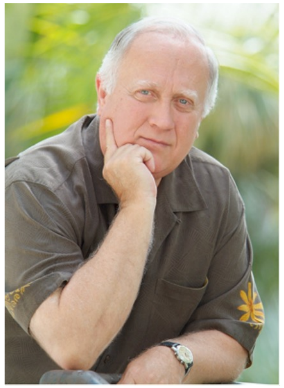
Gregory E Elliehausen



Thomas A Durkin

Julio de Castro

JJ Chrisman



Alan L Carsrud

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ECOA had effects/Sexism in Entrepreneurial Credit

Song Ma

Alina Kristin Bartscher

Allen Hu

Mary Eschelbach Hansen

Michelle M. Miller

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Why is it Hard to Retain Minority Economists?

FORTUNE

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FINANCE · ECONOMICS

Harvard, Stanford, other elite schools linked to racist, sexist messages posted for years on Economics Job Market Rumors website

BY CHRISTOPHER RUGABER AND THE ASSOCIATED PRESS

July 20, 2023 at 4:44 PM EDT

GENDER BIAS IN RUMORS AMONG PROFESSIONALS: AN IDENTITY-BASED INTERPRETATION

Alice H. Wu*

Abstract—This paper measures gender bias in discussions about women versus men in an online professional forum. I study the content of posts that refer to each gender and the transitions in the topics between consecutive posts once attention turns to one gender or the other. Discussions about women tend to emphasize their personal characteristics instead of professional accomplishments. Posts about women are also more likely to lead to deviations from professional topics than are posts about men. I interpret these findings through a model that highlights posters' incentives to boost their own identities relative to the underrepresented out-group in a profession.

I. Introduction

likely to reveal their true gender attitudes. Economics is one of the largest academic disciplines where men still substantially outnumber women at both student and faculty levels (Lundberg, 2018). The persistently low share of women has attracted substantial interest and concern (see Bayer & Rouse, 2016, for a summary), and recent research on publications, a key performance metric for economists, suggests that women face a higher bar than men in the peer review process and are given less credit when collaborating with men (Card et al., 2019; Hengel, 2019; Sarsons et al., forthcoming). A new professional climate survey conducted by the American Eco-

Sexism, racism, prejudice, and bias: a literature review and synthesis of research surrounding student evaluations of courses and teaching

Troy Heffernan

La Trobe University, Melbourne, Australia

ABSTRACT

This paper analyses the current research regarding student evaluations of courses and teaching. The article argues that student evaluations are influenced by racist, sexist and homophobic prejudices, and are biased against discipline and subject area. This paper's findings are relevant to policymakers and academics as student evaluations are undertaken in over 16,000 higher education institutions at the end of each teaching period. The article's purpose is to demonstrate to the higher education sector that the data informing student surveys is flawed and prejudiced against those being assessed. Evaluations have been shown to be heavily influenced by student demographics, the teaching academic's culture and identity, and other aspects not associated with course quality or teaching effectiveness. Evaluations also include increasingly abusive comments which are mostly directed towards women and those from marginalised groups, and subsequently make student surveys a growing cause of stress and anxiety for these academics. Yet, student evaluations are used as a measure of performance and play a role in hiring, firing and promotional decisions. Student evaluations are openly prejudiced against the sector's most underrepresented academics and they contribute to further marginalising the same groups universities declare to protect, value and are aiming to increase in their workforces.

KEYWORDS

Student evaluations; academic equity; wellbeing; prejudice; abuse; higher education

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Reparations

Reparations

1. **Estimated Economic Effect – Do they work?**
2. Reparations in Practice
3. Costs

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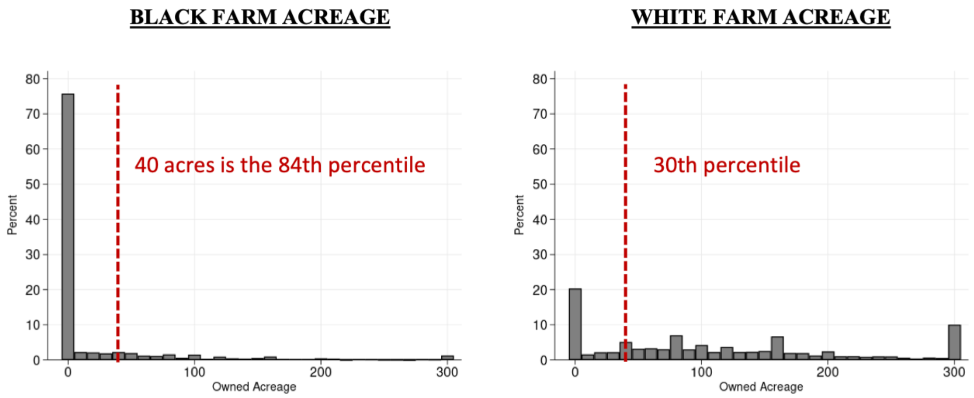
Significance of 40 acres

FIGURE 1 – 1880 DISTRIBUTION OF FARM ACREAGE AND FARM VALUE AMONG BLACK AND WHITE FARMERS, ALL U.S. STATES



[Collins, Holtkamp, Wanamaker (2022)]

- "It is immediately clear that allocating up to 40 acres of farmland to Black households—as proposed during and after the Civil War but not implemented (Cox 1958, Oubre 1978, Foner 1988)—would have greatly increased Black Americans' landholdings and wealth relative to what they had actually attained by 1880 and relative to White farmers. "
- "Sons of landowning farmers were also 11 percentage points more likely to be literate in 1900 than the sons of laborers, and approximately 13 percentage points more likely to be literate than the sons of farmers who rented."

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Access to Land and Investment in Other Forms of Capital

TABLE 1—ESTIMATES OF THE RACIAL WEALTH GAP

	Acreage (1)	Acreage (2)	Livestock (1880 $) (3)	Livestock (1880 $) (4)
Panel A. 1880				
Black × CN	18.00***	15.92***	41.61***	45.54***
	[2.04]	[1.32]	[10.17]	[10.64]
Observations	12,123	12,015	12,123	12,015
R^2	0.0902	0.0984	0.07	0.11
	Home ownership = 1	Home ownership = 1	Farmer = 1	Farmer = 1
Panel B. 1900				
Black × CN	−0.35***	−0.34***	−0.14***	−0.21***
	[0.02]	[0.07]	[0.02]	[0.06]
Observations	33,703	33,664	33,703	33,664
R^2	0.1	0.19	0.01	0.08

Notes: Standard errors are reported in brackets. For panel A, the sample includes male heads of household in the Cherokee Nation and agricultural census sample. Controls in columns 2 and 4 include farmer's literacy, age, age^2, and controls for the soil type. Results for median regression are reported. For panel B, the sample includes heads of household in the Cherokee Nation and rural South. Controls in columns 2 and 4 include literacy, gender, age, and age^2 of the household head, and number of people in the household. Marginal effects of probit regression are reported.

***Significant at the 1 percent level.

Source: Author calculations.

- Miller (2011): Land and Racial Wealth Inequality &
- Miller (2020): "The Righteous and Reasonable Ambition to Become a Landholder"

- "According to the laws of the [Cherokee] Nation, all citizens, including the freed slaves, were guaranteed the right to claim and improve any unused land in the Nation's public domain"
- Racial wealth inequality was much lower in the Cherokee Nation than in the South in 1880
- Access to free land was associated with increased levels of investment in both physical and human capital.
- In 1880, Cherokee freedmen were more likely to plant fruit trees, an important form of immobile capital, than blacks in the South.
- Black Cherokee children had higher levels of school attendance and literacy in 1900 that were facilitated by higher parental income.

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Reparations

1. Estimated Economic Effect – Do they work?
2. Reparations in Practice
3. Costs

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Examples of Reparations Programs

Forbes

BREAKING

Tulsa Race Massacre Survivors Could See Reparations After Judge's Ruling—Joining These Similar Cases

Mary Whitfill Roeloffs Forbes Staff

I am a Boston-based reporter covering breaking news.

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TOPLINE Survivors of the 1921 Tulsa Race Massacre and their families may receive the reparations they were previously denied as the Oklahoma Supreme Court agreed to review the appeal of several still-living

The New York Times

America Has Tried Reparations Before. Here Is How It Went.

With a renewed focus on reparations for slavery, what lessons can be drawn from payments to victims of other historical injustices in America?

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Slavery reparations seem impossible. In many places, they're already happening.

Reparations for Victims: Lessons from Colombia

Arlen Guarin

Juliana Londoño-Vélez

Christian Posso

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Article Information

Abstract

Reparations recognize and address the harm that victims suffered during war, conflict, or authoritarianism, and some experts argue that the compensation can also help victims to rebuild life projects. Using linked administrative microdata, we study the world's largest reparations program, currently being implemented in Colombia. First, we provide descriptive evidence on Colombia's conflict victims. Then, we shed light on how reparations' various aims have shaped the program's design and implementation features and on who has received compensation. Last, we discuss the practical challenges and tensions in balancing the various goals of reparations programs under tight fiscal constraints and limited state capacity.

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Reparations

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Cost Estimates

Journal of Economic Perspectives—Volume 36, Number 2—Spring 2022—Pages 99–122

The Cumulative Costs of Racism and the Bill for Black Reparations

William Darity Jr., A. Kirsten Mullen, and Marvin Slaughter

102 *Journal of Economic Perspectives*

Table 1
Comparison of the Measures of the Cost of Slavery

Measure	*3 percent interest compounded to the present (2021 dollars)*	*6 percent interest compounded to the present (2021 dollars)*
Missing wages 12-hour estimate	$8.46 trillion	$860.2 trillion
Missing wages 24-hour estimate	$14.2 trillion	$7 quadrillion
Asset value of the enslaved	$466.5 billion	$47.5 trillion
Expense of self-purchase (price of freedom)	$559 billion	$56.9 trillion
Contribution to American economic development (1839)	$33.4 billion	$6.2 trillion
Contribution to American economic development (1859)	$72.9 billion	$105 trillion

Source: Various studies discussed in the text.

- For context, US GDP in 2021 was 23.32 trillion