Thursday, May 4, 2021

Testimony of Dr. Darrick Hamilton
U.S. Senate Banking Committee

Chairman Brown and esteemed Senators,

Thank you for having me here today. I am Darrick Hamilton, Henry Cohen Professor of Economics and Urban Policy and University Professor at The New School and Director of the Institute on Race and Political Economy.

Racism, sexism and other -isms are not simply irrational prejudices but long-leveraged strategic mechanisms for exploitation and extraction that have benefited some at the expense of others.

In a just world, race, gender, ethnicity, and nativity would have no transactional value in relation to material, psychological or security outcomes.

This global pandemic actively produces inequality, and the heaviest toll, (well beyond class), falls on vulnerable racial and gender identity-groups.

The immoral devaluation of Black lives has been ingrained in America's political economy and is long overdue for a reckoning. It has long been true that Black families have been denied universal and quality health care, housing, schooling, financial services, capital, and free mobility. Instead, they have faced of expropriation, theft, detention and bodily harm at the hands of state, simply because their social identities are linked to a vulnerable and stigmatized group.

Many Americans, and Black and Brown families in particular, have low wealth, inadequate health care, and work in precarious but *"essential" jo*bs that have fewer workplace protections, lower wages, and benefits.

The biggest pre-existing condition of this pandemic is wealth.

Wealthier families are better positioned to finance elite educations, access capital to start a business, *finance expensive medical procedures*, reside in higher amenity neighborhoods, exert political influence; purchase better counsel if confronted by the legal system, leave a bequest, and withstand financial hardship resulting from any emergency, including a global pandemic!

It is critical to note is that it was never the case that a White asset-based middle class simply emerged. Rather, it was government policy, and to a large extent, *literal government giveaways*, that provided Whites with the finance, education, land, and infrastructure to accumulate and pass down wealth.

Our unjust racial wealth gap is itself an implicit measure of our racist past that is rooted in a history in which Whites have been the beneficiaries of government-facilitated political and economic interventions that have afforded them access to resources and intergenerational accumulation.

This is in contrast to a history in which for Blacks (and Indigenous people), personhood and whatever capital and resources they may have obtained, have always been vulnerable to government-complicit exploitation, confiscation, destruction, terror, fraud, theft and other acts of violence.

The history of disenfranchisement of Black Americans from full economic participation is well documented. Policies like redlining, highway construction, predatory contract-to-own house leasing, and exclusionary zoning have all worked in tandem with restrictive covenants and regulatory controls to marginalize Black Americans and constrain their economic participation and political power.

We use words like "choice" and "freedom" to describe the benefits of the "market," but choice is an illusion for individuals who lack basic needs like a job, adequate income, shelter, food, or health care.

It is literally wealth that gives us choice, freedom and optionality.

E*conomic freedom* and *authentic agency* in rooted in resources. We are not atomistic agents floating in unfettered markets guided by our "free will," into a "fair" and "efficient" allocation.

Today, wrongly, discussions of racial wealth gap are often focused on the so-called poor financial choices and decision-making on the part of largely Black, Latinx and poor borrowers. This framing is tied to the "a culture of poverty thesis" in which Blacks are presumed to have undervalue education and to choose to acquire less education than Whites.

This framing is wrong – *the directional emphasis is wrong* – it is more likely that meager economic circumstance – not poor decision making or deficient knowledge – *constrains choice itself* and leaves poor borrowers with little to no financial options, but to attain and use predatory and abusive financial services.

We need a profound change towards a more sustainable and moral economy with government interventions to facilitate assets ownership, economic security, civic engagement, human dignity, and social mobility for all our people regardless of their race, class, gender, sexual identity or immigrant status.

Incrementalism and changes on the margin won't cut it.

We need an industrial, banking and trade policy that centers workers (both domestically and abroad), coupled with an explicitly anti-racist and anti-sexist economic rights frame, to promote a moral economy grounded in our shared prosperity.

There is nothing new or radical about this concept of economic rights. President Franklin Delano Roosevelt called for "physical security…economic security, social security, and moral security."

He knew that full citizenship demanded more than the political rights: it required economic rights.

The concept of economic rights also has deep roots in our civil rights history.

Reverend Dr. King, a leader of the Poor People's Campaign focused on five tenants of economic rights:

The right to:

- A meaningful job at a living wage
- A secure and adequate income for all
- Access to land
- Access to capital
- And to be able to play a truly significant role in our government (or civic engagement)

Let's discuss financial services.

In their 2015 book, *Phishing for Phools* (2015), Nobel Laureate economists George Akerlof and Robert Shiller critique the "greater good" presumption by describing how the profit motive creates incentives, *especially in the financial services industry*, for sellers to *manipulate* consumers to purchase products whether or not they are useful to the consumer.

To address this moral hazard, which in a downturn of a business-cycle puts our economy at risk of financial collapse, Akerlof and Schiller recommend enhanced consumer knowledge and greater regulation.

We should go further: the public sector should be a direct provider of basic banking accounts and financial services more broadly.

The sad irony is that those that can least afford finance end up paying the most for finance.

Households with few assets and low incomes are compelled to turn to high-cost, unconventional alternative financial products. They generally are aware that these products are predatory, but they have *no alternative*s.

These "last resort," debt traps render recipients "indentured borrowers," having to pay higher and higher interest and fees until, ultimately, they default on the original principle.

Congress needs to provide "public options" that directly compete with and crowd-out inferior "private options."

We need to reject the empirically unsubstantiated rhetoric that ignorance, so-called grit, and personal responsibility are the sources of inequality. And we need to reject the accompanying "neoliberal paternalism" in which government attempts to coerce or incentivizes insinuated "defective people" to behave accordingly and make better decision.

Let's change the paradigm, be bold, and advocate for programs and initiatives that truly empower people with economic security, dignity, and "authentic" agency to define and achieve their goals.

Inequality is not rooted in deficient people, but rather deficient resource allocation.

Thank you for your time today.