

The Economic Costs of Discrimination

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April 26, 2019

Andrew Felton Brimmer was a writer, economist, and an advocate for affirmative action. But Mr. Brimmer is best known for being the first African American to hold a governorship on the United States Federal Reserve Board.

As an economist, Brimmer promoted a monetary policy that sought to alleviate unemployment and reduce the national deficit. He also argued that racial discrimination hurts the U.S. economy by marginalizing potentially productive workers.

This research can be found in his prominent study entitled “The Cost of Economic Discrimination.” In this study (that was also featured in a 1993 Black Enterprise article) Brimmer concluded that disparate treatment of African Americans had cost the U.S. economy approximately \$215 billion in 1991 (roughly 3.8 percent of the gross domestic product (GDP)).

Even though Brimmer conceded that part of the loss could be attributed to the lag in educational achievement in the African American community, he nonetheless maintains that the bulk of the shortfall “appears to be related to continued discrimination which limits African American access to higher-paying jobs.”

Brimmer’s specific key findings from his work are summarized below:

1. Income deficits among Blacks could be translated into losses in the gross domestic product, and that (at the time the report was written) these losses represented 3% to 4% of GDP dating back to the mid-1960s.
2. In 1965, Brimmer was the Assistant Secretary of Commerce. During this time, he asked the Census Bureau to estimate the cost of discrimination against nonwhites from 1949 to 1963. According to Brimmer, the bureau based its estimates on inefficiencies in the use of the labor force, arising from failure to use fully the existing education, skills and experience of the population, and a failure to develop potential in education, skills, and experience.
3. Based on this information, Brimmer estimated that discrimination against nonwhites cost about \$20.1 billion in lost GDP in 1963.
4. In 1993, Brimmer applied the Census Bureau's technique they used in 1965 to update estimates of the economic cost of discrimination against the African American community. The data also revealed that between 1965 and 1991, the American economy lost between 1.5% and 2.2% of GDP because racism doesn’t allow for full Black educational achievement. In 1967, this loss amounted to \$12.1 billion, or 1.5% of GDP. Another \$11.1 billion, or 1.4% of GDP, was lost because of the failure to improve and fully use the educational level of African Americans. In total, the lost GDP amounted to \$23.2 billion, or 2.9% of the \$814.3 billion total. By 1991, the GDP shortfall was \$122.5

billion. Failure to improve the black education level cost \$92.5 billion, or 1.6% of GDP, amounting to 3.8% of GDP, or \$215 billion. These figures suggested that, while no dramatic shifts occurred since 1967, modern discrimination had increased.

Brimmer attributed this GDP loss to a number of factor factors, but most specifically to racial bias. And today, despite equal opportunity laws, many African Americans are still concentrated in positions that do not make full use of their talents. According to Brimmer, if racial bias were eliminated, African Americans could migrate freely from low- to high-productivity occupations, resulting in an increase in the total output of goods and services.

Phillip Gounev, *Cost of Discrimination and Government Spending on Minorities*, (2004), available at <http://www.policy.hu/gounev/draftpaper.pdf> (last accessed January 19, 2019).

Brimmer's work has been the foundation of many economists' work, citing diversity as a means to improving the economy. Several articles that support his work have been summarized below.

- A. U.S. News Article: Women: The Key to Economic Growth?:** "Today, in 2018, we have a strong body of evidence that shows that women's participation in the economy is critical because when women are able to fulfill their economic potential, GDP goes up and poverty goes down," says Rachel Vogelstein, senior fellow at the Council on Foreign Relations in Washington, in referring to gross domestic product.

Lindsay Huth, *Women: The Catalyst for Economic Growth?*, (March 8, 2018), available at <https://www.usnews.com/news/best-countries/articles/2018-03-08/lower-participation-in-workforce-by-women-limits-economic-growth-experts-say> (last accessed January 19, 2019).

- B. Forbes article summarizing McKinsey & Company and Peterson Institute for International Economics reports:**

"A company with more diverse representation in senior management will likely achieve greater profits is not breaking news. Those realities came to light in a 2015 report from McKinsey & Company, and in another, a year later, from the Peterson Institute for International Economics."

Karsten Straus, *More Evidence That Company Diversity Leads To Better Profits*, (Jan 25, 2018, 3:59pm), available at <https://www.forbes.com/sites/karstenstrauss/2018/01/25/more-evidence-that-company-diversity-leads-to-better-profits/#3d1c52261bc7> (last accessed April 25, 2019).

- C. McKinsey & Company, Delivering Through Diversity Report:**

The report "shows that gender diversity in management positions actually increases profitability more than previously thought. In the firm's previous analysis, companies in the top 25th percentile for gender diversity on their executive teams were 15% more likely to experience above-average profits. The latest data shows that likelihood has grown to 21%.

McKinsey & Company, *Delivering Through Diversity*, (2015), available at <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity> (last accessed January 19, 2019).

- D. Peterson Institute for International Economics:** The results of this working paper "suggest that the presence of women in corporate leadership positions may improve firm

performance. This correlation could reflect either the payoff to nondiscrimination or the fact that women increase a firm's skill diversity."

Marcus Noland, Tyler Moran, & Barbara Kotschar, *Is Gender Diversity Profitable? Evidence from a Global Survey*, (Feb. 2019), available at <https://piie.com/publications/working-papers/gender-diversity-profitable-evidence-global-survey> (last accessed April 20, 2019).

- E. Economist** article summarizing and discussing and discusses diversity issues among the top corporations.

Terri Williams, *Racial Diversity: There's More Work to be Done in the Workplace*, available at <https://execed.economist.com/blog/industry-trends/racial-diversity-theres-more-work-be-done-workplace> (last accessed January 19, 2019).

- F.** "Top universities turn out black and Hispanic computer science engineering graduates at twice the rate that leading technology companies hire them . . . Technology companies blame the pool of job applicants for the severe shortage of blacks and Hispanics in Silicon Valley. But these claims do not hold water. . . ."

Elizabeth Weise and Jessica Guynn, *Tech Jobs: Minorities Have Degrees, But Don't Get Hired*, (Oct. 14, 2014), available at <https://www.usatoday.com/story/tech/2014/10/12/silicon-valley-diversity-tech-hiring-computer-science-graduates-african-american-hispanic/14684211/> (last accessed January 19, 2019).

- G. Leading Authority, Inc.**: Diane Swonk, Founder and CEO of DS Economics, talks about the impacts of a diverse workforce- higher productivity and lower turnover. In this video, Swonk also talks about how to integrate a diverse workforce for company leadership.

Diane Swonk, *Diane Swonk: Diversity and Economics*, available at <https://www.leadingauthorities.com/speakers/video/diane-swonk-diversity-and-economics> (last accessed April 20, 2019).

- H. Fostering Diversity in Public Service**: This paper discusses a key question: how to build a public workforce that is of the adequate size to secure capacity, has the right competencies for the proper delivery of public services, and is representative of the population it serves?

OECD, *Fostering Diversity in the Public Service*, (2009), available at <https://www.oecd.org/gov/pem/paper-fostering-diversity-public-service.pdf> (last accessed January 19, 2019).

- I. Workplace Diversity**: This paper critically analyses workforce diversity and its impact on productivity of an organization. After examining the literature, the researcher concluded that workforce diversity is a strength for any organization, but people still stick to their views related to caste, religion, and the like. This causes them to consider diversity as a problem and not as a way to increase productivity.

Ankita Saxena, *Workforce Diversity: A Key to Improve Productivity* (2014), available at <https://www.sciencedirect.com/science/article/pii/S2212567114001786> (last accessed April 20, 2019).