Testimony Before the Subcommittee on Oversight and Investigations of the Financial Services Committee of the U.S. House of Representatives on "An Enduring Legacy: The Role of Financial Institutions in the Horrors of Slavery and the Need for Atonement, Part Two"

December 7, 2022

I am William Darity Jr., the Samuel DuBois Cook Professor of Public Policy, African and African American Studies, Economics, and Business at Duke University. I am a specialist in stratification economics, a field that examines the sources and consequences of disparities between racial, ethnic, caste, and gender groups. I would like to open my remarks today with a quotation from Mehrsa Baradaran (2017, 11) that draws the intimate connections between slavery, the financial sector, and the emergence of the black-white wealth gap:

> Slavery modernized credit markets, creating complex forms of new financial instruments and trade networks through which slaves could be mortgaged, exchanged, and used as leverage to purchase more slaves. In highly profitable, speculation-based markets, many white men built fortunes trading in slave-backed securities. As is true of property ownership in any era, those who held slaves had the ability to grow exponentially richer because they could use their property to create more wealth.

Baradaran's incisive comment neglects the wider benefits of slavery to whites both north and south. Non-slaveowners in the south could earn decent incomes by functioning as managers ("overseers") of the enslaved workforce, selling products to the planters, or by policing (e.g. patrollers or "paddyrollers") for the system. The pecuniary success of northern white industrialists, particularly in the textile industry, was directly dependent upon a key input, slave-grown cotton. During the years before its legal closure in 1808, the overseas slave trade contributed to the fortunes of New England's most prominent families, while also serving as a boon to development of its shipping industries; even after its legal end, a number of traders continued to engage in the business as smugglers, perhaps, most notoriously, John Brown of Providence, Rhode Island the De Wolf brothers of Bristol, Rhode Island (Darity and Mullen 2020 Chapter 3).

In contrast, the enslaved were denied the opportunity to acquire assets, sell their labor for hire, nor reap the monetary benefits of any technical innovations or other products they designed. This was the foundation of today's huge disparity in net worth between black and white Americans. The most recent estimates from the Federal Reserve Board set the average difference in black and white household net worth at $840,900 (Bhutta et al., 2020), a figure sufficiently large that it would take the typical black household fourteen consecutive years of saving 100 percent of their income to bridge the gap.

The collective amount required to close the disparity for approximately 40 million black American descendants of persons enslaved in the United States will come to at least $14 trillion. This is a sum that cannot be met reasonably by private donors or other levels of government. If generous donors created a fund to eliminate the racial wealth gap by contributing $1 billion monthly, it would take a millennium to reach $14 trillion. The combined budgets of all state and local governments used to meet all of their obligations amount to less than $5 trillion.

Financial institutions were key supporters and beneficiaries of American slavery. The full scope of creditor-debtor relationships interlocked with the slave plantation system has yet to be documented adequately. For the record details are needed about which organizations were the financiers for the New England textile industry, which bank or banks had Brooks Brothers, producers of "plantation wear" for both the enslaved and the enslavers, as a client, and who were the lenders to the southern planters themselves. This will require thick archival research that has yet to be undertaken.

It is now well established that a number of existing insurance companies participated significantly in providing slaveowners with contracts to protect them for financial loss in the event of death or damage of their human property, particularly their highly skilled property These include New York Life, known as the Nautilus Insurance Company in the antebellum period, Aetna, Baltimore Life, Southern Mutual Insurance Company, the Loews Corporation, and AIG.

Lloyd's of London and RSA Insurance Group the point before the overseas slave trade was declared illegal, insurance companies routinely protected voyages to procure captive Africans. British insurers figured prominently, especially Lloyd's of London and the RSA Insurance Group , in the form of one of its ancestor business, London Assurance.

JPMorgan Chase subsidiaries' Citizens Bank and Canal Bank in Louisiana became slaveowners after their slaveholding clients defaulted on loans. Citibank, Wells Fargo, and Bank of America predecessors all participated and gained from lending to slaveholders—and, also, as a consequence, of loan defaults became slaveowners (Thomas 2019).

In the aftermath of the Civil War, the nation made a promise to the formerly enslaved of forty acres land grants as restitution for the yeas of bondage. The promise was not kept, and the American Freedmen received no land. In contrast, 1.5 million white families were granted 160 acres land grants in the western territories as the colonial settler project was completed. Homestead Act patents have benefits that resonate for at least 45 million living white Americans (Shanks 2000). The Homestead Act also triggered a western expansion. Eastern creditors supported and benefited from the "economic chain reaction of steady growth" that built new towns and produced new states (Khomina), while making the basis for the post-slavery racial wealth gap.

During the course of approximately 100 white terrorist assaults on black communities from the Civil War to the 1940s, black lives were taken and black owned property was seized or destroyed by the white mobsters. Black property owners who lived through the massacres rarely received any form of compensation, particularly from insurance companies with whom they held policies.

An estimated present value of $611 million dollars of black-owned property was lost during the 1921 Tulsa massacre. What can best be described as a "Negro clause" in the policies gave insurance companies the basis for denying the massacre victims' claims. The "…insurance companies fell back on an exclusionary clause…that…said insurers wouldn't be held liable for loss 'caused directly or indirectly by invasion, insurrection, riot, civil or commotion, or military or usurped power'" (Council 2021).

Christopher Messer, a sociology professor at Colorado State University, says this clause was inserted in contracts with black property owners intentionally, given the fact that by the early 1900s, insurance

companies were well aware of the high potential for white mob violence directed against comparatively prosperous black communities. It made it important for the companies not to describe the assaults as “massacres” but instead to describe them as “riots”, implying greater neutrality in the conflict or black responsibility for the destruction (Council 2021).

Certainly the clause has not been universal in insurance policies. Even today, riot damage generally is covered in insurance policies (Brewer and Golden 2020).

In the mid-twentieth century, redlining, a public-private partnership between the Federal Housing Authority and local banks, blocked black borrowers from easy credit in the home loan mortgage market available to white borrowers. This type of discrimination effectively produced “racially pure white suburbs…” (Baradaran 2017 108). It has led to huge black-white disparities in both homeownership rates and equity in homes.

Financial institutions have been instrumental actors in creating, maintaining, and extending the racial wealth gap. Admittedly, they have engaged in these practices in an environment established by the laws and policies of the federal government.

However, this fact does not provide complete absolution. Although rare, there have been businesses that have decided for ethical reasons not to participate in certain lines of profit generating activities. One example is illustrative: Although fully complicit in the enterprise prior to the 1840s, Brown Brothers Harriman withdrew from engagement in financing slavery and the family members owning the firm became unequivocal abolitionists (Brown Brothers Harriman). Brown Brothers Harriman continues in operation to this day. Imagine the world that might have emerged had American financial institutions *en masse* refused to play a financial role in supporting slavery and American racism.

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