Police-Involved Killings and the Black-White Gap in Economic Expectations

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Abstract

Expectations about macroeconomic variables vary substantially by race, most notably between Black and White individuals. Our results suggest that one factor affecting the difference in expectations is that Black expectations are influenced by negative experiences with the criminal justice system. We find evidence for one channel through which these negative experiences influence expectations by showing that, relative to White respondents, Black respondents became more pessimistic about both their own economic circumstances and their inflation expectations following highly-publicized incidents related to police-involved killings. This suggests a channel through which non-economic events can affect the economy via their impact on consumer expectations.

Keywords: Police Killing, Racial Differences, Consumer Expectations

JEL Codes: E30, D84, D14

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1 Introduction

Expectations about the future of the economy are critical to forward-looking individual decisions. This idea is incorporated into standard macroeconomic models in which inflation expectations are an important driver of future inflation.[1] However, across individuals, there is substantial heterogeneity in expectations and systematic differences along racial lines. In this paper, we provide evidence that one of the reasons for a Black-White gap in economic expectations is that Black expectations are influenced by negative experiences with the criminal justice system. We find evidence of one channel through which these negative experiences affect economic expectations by showing that Black expectations are differentially affected by highly-publicized incidents of police killings of unarmed Black civilians.

To identify key event dates associated with highly-publicized events, we use Google Trends data and select five events with the highest Google search volume. Using an event study design, we are able to observe expectations of individual respondents to the Survey of Consumer Expectations in the 30 days both before and after each of the events and draw conclusions about the differential impact of incidents that drew national attention to police-involved killings of unarmed Black people on Black and White respondents.

Much of the previous work on economic expectations focuses on inflation expectations, and several authors have documented differences in expectations across individuals with different genders, race, or age. Generally, Vellekoop and Wiederholt (2019) show that individual fixed effects are important in explaining inflation expectations, and D'Acunto et al. (2021) document differences in inflation expectations by gender, income, race, and education. Others have focused on a specific demographic: Jonung (1981) shows a gender gap in expectations, Malmendier and Nagel (2016) document dispersion in expectations by age, and Bea (2019) examines racial and ethnic differences in consumer expectations. D'Acunto et al. (2021) explains the higher inflation expectations for women by attributing them to

[1] Coibion and Gorodnichenko (2015) present evidence that it is the expectations of households in particular that are important for reconciling predictions of the Phillips curve and actual inflation performance.

greater exposure to grocery store prices and Malmendier (2021) shows why personal history matters for the formation of expectations.

Differential access to information and experience can explain some of the individual differences in inflation expectations. Haaland et al. (2021) provides experimental evidence on the importance of information provision. Conrad et al. (2022) show that different information channels influence household expectations about future inflation and that these differences in information channels are associated with socioeconomic characteristics. While much work has focused primarily on economic information and experience, a few authors have explored the effects of political events. For example, Mian et al. (2021) show that individuals have more optimistic economic expectations when the President shares their political party affiliation. De Boef and Kellstedt (2004) find similarly that consumers are more optimistic in their economic expectations when they approve of the job that the President is doing.

Because we focus on events that are violent acts against Black people, our work is also broadly related to others who study the economic impact of this type of violence. For example, Cook (2014) demonstrates that race riots and lynchings decreased patenting activity by Black inventors. She argues that these events demonstrated a lack of government protection of fundamental property rights of Black inventors and discouraged them from inventive activity. Similarly, DeFina and Hannon (2011) show that MSAs in the South that had more lynchings have more housing market segregation today, and Williams et al. (2021) show a link between lynchings and a range of political and economic outcomes. Finally, Park et al. (2021) show a link between voting disenfranchisement and a reduction in mortgage applications by Black borrowers. They argue that voting disenfranchisement caused Black borrowers to become more pessimistic about their prospects for loan approval, making them less likely to apply.

In sum, existing literature argues for the importance of expectations, documents differences across demographic groups, and shows the way in which violence against Blacks affects their economic behavior and expectations about the likely outcome of their interaction with

economic and political institutions. Our results link and extend these findings by showing that highly publicized events that brought unequal treatment of Black people by the justice system to the forefront of national consciousness differentially affected the economic outlooks of White and Black people.

2 Data and Methods

We will perform an event study with primary data from three sources. Data on expectations are from the Survey of Consumer Expectations (SCE), which is collected by the Federal Reserve Bank of New York. Data on police-involved killings comes from the Fatal Encounters database, which is compiled by researchers at the University of Southern California. The analysis also draws on Google search volumes provided by Google Trends.

The SCE has been conducted monthly since 2013. Each month, approximately 1,300 individuals across the U.S. are surveyed. It is panel data, with respondents surveyed for up to twelve consecutive months.[2] Importantly for our methods, individuals are surveyed throughout the month, and the date of the survey is recorded in the data set. In our data, 75 percent of the individuals surveyed responded at least three times and 28 percent responded for 12 consecutive months.[3] Response rates for Whites and Blacks in the two months following our event dates are similar, at 92.6 percent for Whites and 91 percent for Blacks.[4] Our main variables of interest are from four questions that elicit responses requiring individuals to evaluate current and expected welfare and expectations about future inflation. The questions ask both about the circumstances of the respondent's household as well as expectations for the economy as a whole. Specific wording of the questions and variable names appear in Table 1.

[2]A small number of respondents complete the survey for more than 12 consecutive months.

[3]There is variation within individual respondents across time. For example, when we examine responses to the Current Welfare question from those who have at least six responses, only 14 percent of those individuals have the same response in each month.

[4]In an online appendix, we graph the number of Black and White respondents in the month before and after event dates.

Some of the individual responses are unusually high or low, and we address that issue by winsorizing the data at the 1st and 99th percentile.[5] The SCE contains monthly data beginning in June 2013, but as we explain below, we use a subset of this data for our event study. Post-winsorization summary statistics for this subset of the SCE data appear in Table 2; the top panel of Table 2 provides summary statistics from all respondents, and the bottom panel presents summary statistics for Black respondents only.[6]

Ten percent of the total sample of approximately 16,000 responses is from Black respondents. Interestingly, on average, Black respondents are slightly more optimistic when it comes to reporting their own economic situation, with slightly higher averages for their own current and expected welfare. However, they tend to be more pessimistic in their evaluation of the economy as a whole, with higher average expectations for inflation in both the short and long run. Figure 1 illustrates the difference in expectations of Black and White respondents over our sample period. There are fewer Black respondents in each month, creating greater volatility, but, overall, these graphs indicate that Black and White expectations are materially different from each other. As suggested by the summary statistics, inflation expectations for Black respondents are consistently higher than those of White respondents (top row of Table 1). The current and expected welfare graphs also show interesting patterns. There is a large drop in current and expected welfare of Black but not White respondents around the time of the 2016 presidential election. Both Whites and Blacks reported large decreases in welfare around the time of the initial COVID shock.[7]

We also rely on data from the Fatal Encounters data set which records 1,465 deaths of unarmed Black civilians who died during interactions with police from 2013 to 2021. Some of these killings, for example the murder of George Floyd, sparked widespread outrage and protest, while others were not widely publicized. Of course, in order for these events to have

[5]In an online appendix, we show that we obtain similar results if we conduct the winsorization separately for Black and White respondents.

[6]Mixed race respondents are classified as Black if one of the races that they identified was "Black or African American."

[7]Because we examine differential responses of White and Black respondents in our event study, it is important to note that we do not use any event dates surrounding the 2016 election.

an impact on economic expectations across the country, these events need to gain attention of households across the United States. We use Google search data as an indicator of national attention. This will allow us to systematically identify the events to include in our study.

Specifically, we use Google Trends to gather data on the monthly U.S. search volumes for the names of each of the 1,465 Black people who died during an interaction with the police. Some of the names in the data have very low search volumes and the volumes are not high enough to cross Google's privacy threshold. To thoroughly search all 1,465 names on the list, we address the issue of potentially low search volumes by gathering monthly search volumes for the deceased's name + "weather" and then subtracting the search volume for "weather." Effectively, this generates an estimate of search volumes for names relative to searches for weather.[8] In addition to allowing us to estimate search activity for low-volume searches, this technique also has the advantage of enabling comparisons across search terms, as otherwise each search is standardized individually, and across time, as Google search volumes generally increase over time.

This method generates six months in which the names of those who died had search volumes that were equal to at least two percent of the maximum search volume for weather: August 2014, November 2014, May 2020, June 2020, September 2020, and April 2021.[9] We then searched media reports during those months to identify an event date associated with the victim's name and identified five events: the killing of Michael Brown (August 9, 2014), the lack of indictment of Darren Wilson, the officer who killed Michael Brown (November 24, 2014), the killing of George Floyd (May 25, 2020), the indictment of Brett Hankison, one of the officers involved in Breonna Taylor's death (September 23, 2020), and the conviction of Derek Chauvin, the officer who killed George Floyd (April 20, 2021).

We focus our event study on these five events. We note that only two of these events are the actual killings and three of them are related to the legal system's response to the killings.

[8]This technique was introduced by Stephens-Davidowitz (2014).

[9]The threshold of two percent was chosen to ensure that the increase in searches was not due to noise in the Google Trends sampling process as well as to select events with substantial national attention.

It is worth noting that even the legal actions that resulted in indictments or convictions would not necessarily be viewed as positive events by those concerned about how Black people fare in the criminal justice system. Brett Hankison was indicted for wanton endangerment for firing blindly into a neighboring unit, not for Breonna Taylor's death. Similarly, the conviction of Chauvin came with concern by some that too much attention was focused on one bad police officer and not the longer term work needed to address systemic issues.[10] For our purposes, the important characteristic of these event dates is that they were days on which some degree of national attention was focused on how Black individuals experienced the legal system, either through the interactions of these specific people with police or through the prosecution of the police officer who killed them. Our results are not dependent on any one of these events and are robust to removing each event from the sample.

Using these five dates, we study changes in expectations of individuals who are surveyed in the 30 days before and after an event and look for differential responses from Black respondents. Intuitively, this is an event study DID design. Specifically, we estimate the following equation:

$$Y_{im} = \theta_m + \beta \times A_{im} \times b_i + \alpha_i + \epsilon_{im} \tag{1}$$

The five different events are indexed with the subscript m. Y_{im} is the expectation response for individual i for one of the four different expectations from the SCE surrounding event m. θ_m is an event-time fixed effect that allows us to control for underlying trends in expectations. It is equal to one for the 30 days before and after event m; we exclude any responses on the day of the event, as we cannot know whether the response was submitted before or after news of the event spread.[11] A_{im} is a dummy variable taking on the value of 1 if a response of individual i was elicited in the 30 days after event m and 0 if it is in the 30 days before,

[10] For example, D.A. Bullock, a member of the Minneapolis organization Reclaim the Block, told Vox. "Don't look back on that and say that's solved once you get rid of one officer. That's not true." (Vox, 2021)

[11] On the days of the events, there were 31, 89, 36, 53, and 98 responses, respectively, which are excluded from the sample.

and b_i is a vector containing a constant and a dummy variable indicating if the respondent is Black. Individual fixed effects are captured in α_i and ϵ_{im} is an idiosyncratic, mean zero, normal disturbance term.[12]

We emphasize that the inclusion of individual fixed effects allows us to control for time-invariant individual characteristics. The level effect of race that we see in our summary statistics and in Figure 1 are absorbed in the individual fixed effects, but the result that is of primary interest to our study is $\beta \times A_{im} \times b_i$. This coefficient will allow us to identify a differential response to the police-involved killings by race.

3 Results

In Table 3, we present the results of the estimation of Equation 1 for all four expectations. We first focus attention on the results in Panel A, which show results for the entire set of events. Overall, these results support the conclusion that Black respondents become more pessimistic about both their own individual circumstance and about future rates of inflation in the days following the events.

To reach this conclusion, we focus on the row of results that reports the coefficient on After $\times$ Black. This row shows that in the 30 days after an event associated with a police-involved killing of an unarmed Black person, relative to the change in responses by White respondents and to their own response in the previous month, Black respondents report lower current welfare for their own household, higher inflation expectations over the next year, and higher long-run inflation expectations. The results for expected future welfare of their household are not statistically significant at conventional levels, but the sign of the coefficient is consistent with the increased pessimism in the statistically significant results.

The magnitude of the point estimates are nontrivial but reasonable and consistent across all four measures. After these events associated with police-involved killings, relative to White respondents, Black respondents increased their expectations of inflation over the next

[12]This is similar to the primary specification in De Fiore et al. (2022).

twelve months by about 1.2 percentage points and their long-run inflation expectations by about 1.6 percentage points. Their assessment of current welfare decreased about one-tenth of one point relative to White respondents, on a five-point scale.[13] These results are robust to dropping each of the five events from the sample.

Another dimension of the response is the extent to which the effects persist beyond a few days. We explore the persistence of the effect in Figure 2 in which we plot estimates of the coefficient on After $\times$ Black by week for each of the eight weeks following the event. Figure 2 shows the results of this exercise for current welfare and long-run inflation expectations. To make these graphs, we maintained the same baseline of responses – those provided in the 30 days prior to the event – and varied our treatment window, which allows us to compare how the strength of the response varied across time. Of course, by dividing our monthly sample into weeks, we have many fewer Black respondents in each estimation. In addition, due to the way in which the SCE collects responses, each week features a different sample of individuals. This creates some volatility in the magnitude of the point estimates by week and large standard error bands. However, for both of the variables graphed, there does not appear to be much, if any, attenuation in the effect even one or two months after the event occurred. The point estimates in almost all weeks have a consistent sign, though they are not always statistically significant.[14]

As we noted earlier, some of the event dates correspond to the dates of police-involved killings and some of our event dates are associated with how the involved police officers are processed through the legal system. To determine if indictments and convictions have the same effect, in Panel B of Table 3, we omit the two events associated with killings and focus on the legal system events. We find qualitatively similar results. This would be consistent with Black people viewing the indictments and convictions of the police officers as reminders

[13]Results in Table 3 compare Black and White respondents. We show in an online appendix that we obtain qualitatively similar results when the comparison group is those who are not Black (White and other races that are not Black).

[14]We also estimated weekly responses for short-run inflation expectations, which are positive for the majority of weeks. However, we do not present these results in Figure 2, as the point estimates were not statistically significant in five of the eight weeks.

of the negative treatment of Blacks in the criminal justice system and not as signs of positive change. While it would be interesting to further explore this issue with separate estimations for each event, due to small numbers of Black respondents in any given month, it is not possible to parse out effects for individual events.[15]

Returning to the results in Panel A of Table 2, we also note that the coefficient on After is statistically significant in two of the four estimations. It is the opposite sign of the coefficient on After × Black, suggesting that White respondents became more optimistic in the 30 days following events associated with police involved killings of unarmed Black people. On the surface, this is a troubling result. However, all of the events that we identified were followed by large protests in which people of all races participated. For example, the Elephrame website, which tracks Black Lives Matter protests, lists 175 protests related to Michael Brown, 908 protests related to Breonna Taylor, and 2,111 protests related to George Floyd. One less troubling interpretation of these results is that White people became more optimistic because they believed that the protests and attention given to these events would lead to a "racial reckoning" and create positive social change.

There is some support for this conjecture in complementary literature. Eichstaedt et al. (2021) corroborate a differential effect of the murder of George Floyd on Whites and Blacks, finding that depression and anxiety increased in Black Americans in the weeks following the murder of George Floyd at significantly higher rates than for White Americans. At the same time, there is evidence that Black Lives Matter protests had a positive effect on White participants, reducing their implicit racial bias (Sawyer and Gampa, 2018; Mazumder, 2019). More broadly, Owen et al. (2008) find that overall participation in the political process is associated with higher subjective well-being which could lead to more economic optimism. Unfortunately, because the dates of the protests are very close to the date of the events, it is not possible to disentangle the effect of the protests from the effect of the killings in our

[15]Estimates when the sample is restricted to events directly related to a police-involved killing are qualitatively similar to those reported in Panels A and B of Table 3 but not significant, likely due to the smaller sample size.

event study.

More broadly, White respondents may have more trust in the criminal justice system and be more likely to believe that the national attention given to these events is a step towards obtaining justice for the victims. Sullivan et al. (2021) provide some support for these diverging views. They surveyed parents in the weeks before and after George Floyd's murder and find that after the event, Black parents were more likely to talk to their children about race and prepare them to experience racial bias. White parents were less likely to talk about race, but when they did, encouraged their children to be color blind and treat race as if it is inconsequential.

Ultimately, we are unable to explain conclusively the reason for the change in expectations of White respondents after these events. The important finding is that Black respondents become relatively more pessimistic, both about their own individual circumstances and about the general economic outlook.

One concern with attributing the differential response of Blacks to the police-involved killings is that there may have been other events occurring at these times that positively impacted White people relative to Black people. To address this concern, in an online appendix, we present the results of a placebo test in which we re-estimate Equation 1 on a sample of White and Hispanic respondents. The results do not find any statistically significant interaction terms, suggesting that the events that we identified are particularly meaningful for Black respondents, but they are not for Hispanic respondents. The results of this placebo test indicates that there was something unique about these time periods that particularly affected Black people. To the extent that Black and Hispanic people are subject to similar economic shocks, this result aids our interpretation that Black respondents were affected by the events associated with highly publicized killings that occurred during these time periods.

4 Conclusion

We document that, relative to White respondents, Black respondents assessed their own economic circumstances and the future of the economy more pessimistically following events associated with police-involved killings of unarmed Black people that gained national attention. This result may be interesting as an indicator of the direct impact on Blacks of these events, but it also suggests a channel through which non-economic events can affect the economy through their impact on consumer expectations.

In interpreting these findings, we recognize that the gap in Black-White expectations existed before national attention was given to these police-involved killings so we do not intend to suggest that police-involved killings are solely responsible for the increased pessimism. Rather, they may be highly-publicized events that draw attention to a longer-term concerns about unequal treatment of Blacks in the criminal justice system.

Finally, racial differences in expectations can be a mechanism through which differences in economic outcomes can persist. In other words, individuals with different beliefs about the future may make different choices about risk-taking, spending, investing, and other long-term planning decisions.

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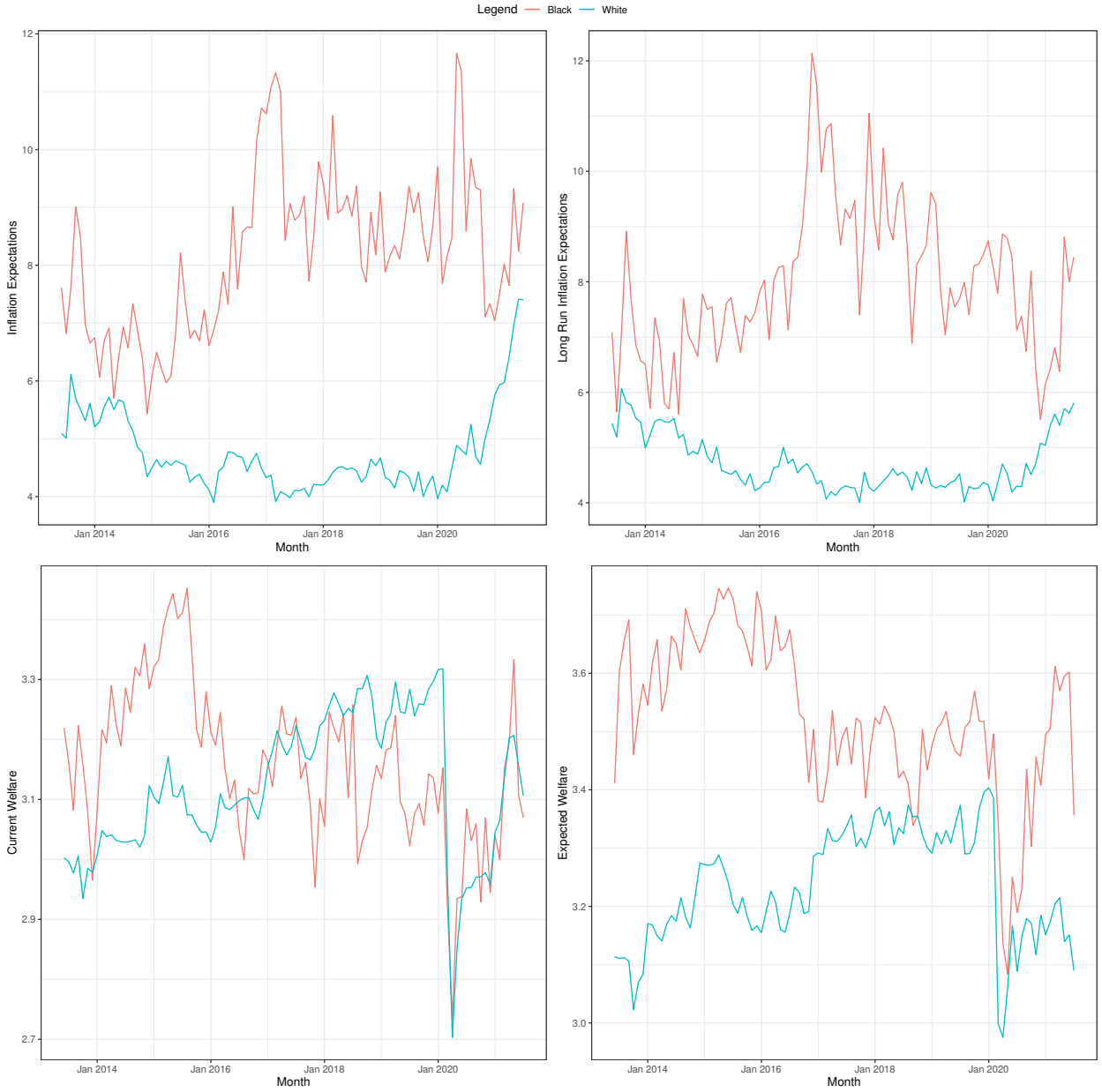
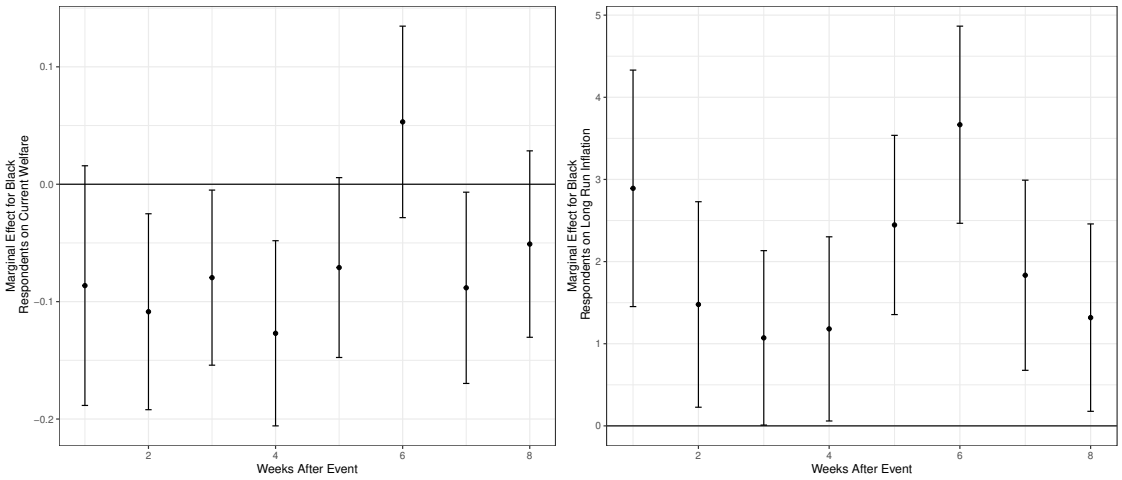
Figure 1: Macroeconomic Expectations by Race



Notes: Shows the mean of short- and long-run inflation expectations and current and expected welfare for both White and Black respondents from June 2013 to July 2021.

Figure 2: Persistence of Response



Notes: The marginal effect on current welfare and long-run inflation expectations are decomposed by the number of weeks after the event that survey participants responded. Intervals represent 95% confidence.

Table 1: Survey Question Wording

Variable Name	Survey Question
Inflation Expectations	What do you expect the rate of inflation/deflation to be over the next 12 months?
Long-Run Inflation Expectations	What do you expect the rate of inflation/deflation to be between 24 and 36 months from now?
Current Welfare	Do you think you (and any family living with you) are financially better or worse off these days than you were 12 months ago? (Scale of 1 to 5)
Expected Welfare	And looking ahead, do you think you (and any family living with you) will be financially better or worse off 12 months from now than you are these days? (Scale of 1 to 5)

Table 2: Summary Statistics

	Obs	Mean	SD	Min	Max
Black and White Respondents					
Black	16,066	0.10	0.30	0	1
Inflation Expectations	16,006	5.53	10.73	-30	51
LR Inflation Expectations	16,006	5.28	10.38	-30	50
Current Welfare	16,056	3.05	0.87	1	5
Expected Welfare	16,053	3.21	0.83	1	5
Black Respondents					
Inflation Expectations	1,591	7.71	17.22	-30	51
LR Inflation Expectations	1,592	7.48	17.44	-30	50
Current Welfare	1,592	3.17	0.90	1	5
Expected Welfare	1,591	3.51	0.85	1	5

Table 3: Event Study Results

	Inflation Exp.	LR Inflation Exp.	Current Welfare	Expected Welfare
Panel A: All Events				
After	-0.412^{**}	-0.166	0.044^{***}	0.021
	(0.189)	(0.186)	(0.013)	(0.013)
After ×	1.221^{**}	1.573^{***}	-0.094^{**}	-0.042
Black	(0.615)	(0.606)	(0.043)	(0.041)
Ind. FE	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes
Obs.	10,650	10,649	10,687	10,682
Resp.	4,351	4,350	4,359	4,358
R^2	0.672	0.656	0.757	0.743
Panel B: Legal System Events				
After	-0.321	-0.080	0.037^{**}	-0.014
	(0.254)	(0.251)	(0.017)	(0.017)
After ×	1.498^{*}	2.070^{**}	-0.098^{*}	-0.069
Black	(0.832)	(0.822)	(0.056)	(0.057)
Ind. FE	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes
Obs.	6,183	6,183	6,203	6,199
Resp.	3,261	3,260	3,268	3,267
R^2	0.735	0.730	0.823	0.798

Notes: Panel A of the table considers all five events discussed in Section 2. Panel B of the table restricts the sample to events in which the legal system was directly involved. Superscripts *, **, and *** denote significance at 10 percent, 5 percent, and 1 percent, respectively. Standard errors in parentheses.

Online Appendix: Additional Figures and Tables

Table A1: Responses per Respondent

Responses	Count
1	1,344
2	1,559
3	861
4	954
5	233
6	25

Table A2: Event Study Results – All Races

	Inflation Exp.	LR Inflation Exp.	Current Welfare	Expected Welfare
After	-0.476^{***}	-0.238	0.045^{***}	0.013
	(0.182)	(0.181)	(0.012)	(0.012)
After ×	1.273^{**}	1.651^{***}	-0.096^{**}	-0.035
Black	(0.632)	(0.627)	(0.043)	(0.041)
Ind. FE	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes
Obs.	12,172	12,166	12,128	12,131
Resp.	4,963	4,964	4,973	4,976
R^2	0.757	0.745	0.675	0.658

Notes: Replicates Panel A of Table 3 without restricting the sample to only Black and White respondents. Superscripts *, **, and *** denote significance at 10 percent, 5 percent, and 1 percent, respectively. Standard errors in parentheses.

Table A3: Event Study Results – Hispanic

	Inflation Exp.	LR Inflation Exp.	Current Welfare	Expected Welfare
After	−0.422**	−0.161	0.043***	0.020
	(0.181)	(0.175)	(0.013)	(0.013)
After ×	−0.770	−0.996	−0.043	−0.037
Hispanic	(0.628)	(0.608)	(0.045)	(0.044)
Ind. FE	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes
Obs.	10,564	10,565	10,604	10,600
Resp.	4,310	4,312	4,321	4,320
R^2	0.674	0.668	0.758	0.739

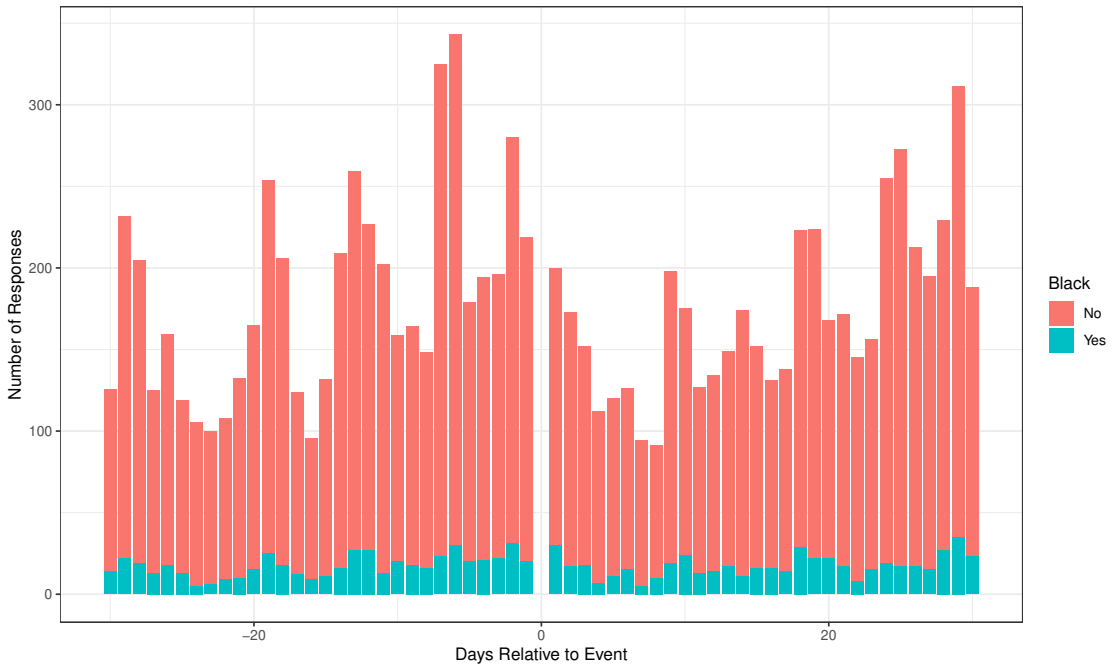
Notes: Replicates Panel A of Table 3 but replaces Black respondents with Hispanic respondents. Superscripts *, **, and *** denote significance at 10 percent, 5 percent, and 1 percent, respectively. Standard errors in parentheses.

Table A4: Event Study Results – Separate Winsorization

	Inflation Exp.	LR Inflation Exp.	Current Welfare	Expected Welfare
After	−0.420**	−0.184	0.044***	0.021
	(0.193)	(0.197)	(0.013)	(0.013)
After ×	1.258**	1.850***	−0.094**	−0.042
Black	(0.630)	(0.643)	(0.043)	(0.041)
Ind. FE	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes
Obs.	10,650	10,649	10,687	10,682
Resp.	4,351	4,350	4,359	4,358
R^2	0.679	0.644	0.757	0.743

Notes: Replicates Panel A of Table 3 when Black and White responses are winsorized separately. Superscripts *, **, and *** denote significance at 10 percent, 5 percent, and 1 percent, respectively. Standard errors in parentheses.

Figure A1: Number of Responses by Day Around Events



Notes: Shows the total number of daily observations for each day relative to an event.