

THE
SILENT
DEPRESSION
STATE OF THE DREAM 2009

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State of the Dream 2009: The Silent Depression

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State of the Dream 2009: The Silent Depression

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Executive Summary

As we celebrate the 80th birthday of Dr. Martin Luther King, Jr., we know that 2009 will be an historic year, with the inauguration of the first African American president and the deepening of what is likely to be the most serious fiscal crisis since the Great Depression.

Many American Blacks today are already experiencing a silent economic depression that, in terms of unemployment, equals or exceeds the Great Depression of 1929. Almost 12% of Blacks are unemployed; this is expected to increase to nearly 20% by 2010. Among young Black males aged 16-19, the unemployment rate is 32.8%, while their white counterparts are at 18.3%.²

Overall, 24% of Blacks and 21% of Latinos are in poverty, versus 8% of whites.

In the corporate world, we are seeing the highest executive pay and the biggest bailouts in history. CEO pay is 344 times that of the average worker, not including perks like bonuses, stock options, corporate jets, and housing subsidies. The riches of the few mask the deepening recession in the working class and the depression in communities of color.

Extreme economic inequality (which the U.S. experienced in the 1920s and is again experiencing now) is often a key indicator of recession and/or depression. The Black depression of today may well foreshadow the depth and length of the recession the whole country entered in December 2007.

A deep recession would see median family income decline by 4%. Thirty-three per cent of Blacks and 41% of Latinos would drop out of the middle class. The overall national rate would be 25%.

Economically, Blacks and Latinos have suffered disproportionately because of structural racism and the web of policies that evolved from it. Eliminating the racial wealth divide is an essential step toward eliminating institutional racism. A comprehensive economic policy could deal a knockout blow to structural racism and raise awareness of individual racism. The path forward abounds with possibilities for shrinking the racial wealth divide and further healing the racism that still afflicts our nation.

If we institute systemic wealth-building programs that help everyone; if we repair and reinvigorate the decimated watchdog policies governing all aspects of home ownership; if we target 2009 economic stimulus programs to investment, not investment in tax breaks for the rich, but in the building blocks of the American dream – affordable housing, education, job creation, and savings among low- and middle-income people – we will make strides toward a more balanced economy.

Our nation's economic policies have enabled the top 10% to accumulate 68% of the wealth, while sheltering the wealthy from sharing the nation's risks. The children of the wealthy are not marching off to war because their economic alternatives are bleak. The rising cost of medical care does not require American millionaires and billionaires to cut back on food in order to pay medical bills. Thousands of additional layoffs will not harm the financial security of those in the owning class.

Fairer policies would share the risks of our entrepreneurial economy by helping balance the economic burdens among all of us, rather than piling them onto people of color, the poor, and the middle class. Revoking the tax deduction for expensive second and third houses, ending offshore tax havens and policies that make it profitable to ship American jobs overseas, and calling – with a united voice – for those in the upper quintile of income and wealth to participate more fully in bearing the burden of fixing the economy would spread the risks more fairly.

Fairer policies would support low-cost mortgages, better and cheaper medical care for those making less than \$200,000 a year, strengthening Social Security, and freezing or raising wealth taxes like capital gains and the estate tax.

Finally, we need to recommit ourselves, via policy and our unified voices, to affirmative action. We need recognition of and apology for the U.S.'s centuries of slavery and segregation. We need a commitment by the nation and its communities to acknowledge and repudiate the institutional and individual racism – epitomized by today's Black depression – that still pervades our society.

With such actions we can move forward. The economic path behind us is collapsing in rubble. Looking backward, we can freeze in fear, or we can turn toward a future whose economic health and fairness we jointly create.

State of the Dream 2009: The Silent Depression explains the mechanisms that helped create the racialized economic depression, explores how this crisis affects individuals and communities of color, and proposes comprehensive policy solutions to this crisis.

Key Findings

Income and the State of the Economy

- Although the National Bureau of Economic Research did not announce until December 1, 2008 that the U.S. has been in a recession, it has been apparent to many that this country has been in a growing recession for more than a year. People of color have been in a recession for nearly five years and have entered a depression during the current economic crisis. (pp. 8, 19, 20)
- The Black unemployment rate is currently 11.9%. Among young Black males age 16-19, unemployment is 32.8%. (p. 8)
- The median household incomes of Blacks and Latinos are \$38,269 and \$40,000, respectively, while the median household income of whites is \$61,280. (pp. 27, 28)
- People of color are disproportionately poor in the United States. Blacks and Latinos have poverty rates of 24% and 21% respectively, compared to a 10% poverty rate for whites. (pp. 14)
- A deep recession would see median U.S. family income decline by 4% and Black income decrease by 6%. Thirty-three percent of Blacks and 41% of Latinos would fall from the middle class into poverty; nationally, 25% of currently middle-class families would fall into poverty. (pp. 14, 17)

Housing

- Since United for a Fair Economy published *State of the Dream 2008: Foreclosed* in January 2008, estimates of foreclosures from late 2008 to the end of 2009 have increased from 1.1 million to 2.2 million and the estimated total loss of housing wealth for homeowners has increased from \$2.2 trillion to \$2.7 trillion. (pp. 62-63)
- In 2006, 18 million households spent more than 50% of their income on housing. That number has since surged by almost 4 million. (p. 32)
- In nearly half of low-income households, after housing costs are paid, families have only \$257 a month left for food, \$29 for clothing, and \$9 for medical care. (p. 31)

Mobility

- Children born in the bottom 20% only have a 1% chance of reaching the top 5% of income earners. (p. 14)
- In 2006, more than 68.6% of funds in government programs designed to increase economic mobility were directed toward the top 10% of income earners. We recommend more federal asset-building funds be directed toward Individual Development Accounts and financial education for people in the bottom 40%. (p. 39)
- People of color are more likely to be poor (24.5%), remain poor (54%), and move back into poverty from any income class status than their white counterparts. (p. 16)

Wealth

- Nearly 30% of Blacks have zero or negative worth, versus 15% of whites. (pp. 33, 35)
- Only 18% of people of color have retirement accounts, compared to 43.4% of their white counterparts. (p. 30)
- On the *median*, for every dollar of white wealth, people of color have 15 cents. On *average*, people of color have 8 cents for every dollar of white wealth. (pp. 10, 39)

Structural Racism and Policy

- Concentrated poverty creates barriers to economic and educational mobility. Blacks and Latinos are twice as likely to live in these areas as whites. (pp. 46, 54, 59)
- U.S Census Bureau should change its measurement of poverty in time for the 2010 census. The current method underestimates the numbers of the most marginalized. These gaps give policymakers an inaccurate view of the scope of the problems of poverty. (p. 45)
- We urge the National Bureau of Economic Research (NBER) to integrate into indicators of recession measures for wealth inequality, asset accumulation, income inequality, employer-based benefits versus employee-based benefits, and the various types of unemployment. This will help bring economic problems to the forefront and help end the crisis of silence about the true state of the dream. (p. 67)

“...In the human rights revolution, if something isn't done, and in a hurry, to bring the colored peoples of the world out of their long years of poverty, their long years of hurt and neglect, the whole world is doomed...”

Martin Luther King, Jr., 1968
“I See the Promised Land,” speech delivered in Memphis, Tennessee
on the eve of his assassination.

Introduction

Beyond Recession

There is a silent Black depression in the U.S. and has been for the last year. This depression is exacerbated by the recession that communities of color have been experiencing for the past 5–7 years and that one scholar simply named “Black America’s permanent recession.”¹ The Black unemployment rate is currently 11.9%² and is expected to increase to nearly 29%, a level unmatched in over 20 years. Among young Black males age 16–19, unemployment is 32.8%³, a rate not seen by any population since the Great Depression. In any other population, this rate of unemployment would generate disturbing news headlines about an economic depression. But there has been no recognition of this depression by the Congress, the President, or the mainstream news media. There has been no bailout, no aid package, no rules changed to reverse this disaster.

This year, we have experienced several historic events, not least of which is the groundbreaking presidential election that has advanced the first Black person to the presidency. But we are also now experiencing the greatest financial crisis in the U.S. since the Great Depression. It is the catastrophic economic effects, particularly the ones that are hurting people of color, that are going unmentioned, unnoticed and most problematically, unaddressed.

Today, a perfect storm of structural racism, deregulation and lack of comprehensive economic public policy is raging around us. The middle class has now been affected, along with those already facing economic danger, such as older people on fixed incomes. Consumer spending has fallen precipitously; food sells at inflated prices, fuel and heating costs are high, and health care is becoming less and less affordable, even for those with full-time jobs. The subprime mortgage crisis, which has been hurting poor people for years now, is flooding communities with foreclosed properties, bankrupt businesses, and skyrocketing crime rates. These troubles are now affecting the bottom three quintiles, nearly two-thirds of people in this country, or approximately 180 million people. Yet communities of color entering this new crisis were already in an economic recession, and entering this new crisis has plunged them into an economic depression; they are beginning this new journey already weighed down with a big burden. Moreover, these communities are doubly hampered because they experience the current overall financial crisis in addition to historic and contemporary structural racism. During economic booms, people of color typically benefit much less than their white counterparts. And during economic downturns, especially those that reach the level of a recession or depression, people of color are disproportionately – and severely – affected.

As economists continue to debate amongst themselves how to technically define the state of our economy, everyday people are experiencing record levels of unemployment, underemployment, reduced work benefits, high healthcare costs and exorbitant prices for energy. Ironically, while these costs and economic burdens are at their highest points in recent history, they have been occurring alongside historically high profits for a small percentage of individuals and corporations in the country. Our current economic state is a powerful representation of our overall economic policy, as numerous indicators of inequality are at the highest they have ever been in our country’s history.

In recent years, we have seen stagnation in income and disastrous declines in wealth in communities of color. Individual and family wealth in these communities continues to decline at rates unseen in the recent past. Even more problematic is that only half of all households in communities of color have assets to lose; the other half had no assets

to begin with.⁴ This economic downturn is sabotaging the ability of these communities to accumulate assets, but assets are essential to weathering the storms of economic downturns. With little or no access to this essential protection, these communities are nearly defenseless against the economic disasters recklessly caused by wealthy individuals and corporations.

In addition, regardless of the yo-yo (“You’re On Your Own”) economic rhetoric of public policy officials, pundits, opinion leaders and the mainstream media, this crisis plagues entire communities, not just individuals, not just communities of color, and not just poor people. We are now seeing the decline of housing values, increases in school closings, across-the-board budget cuts, unaffordable higher education, and divestment from community-based assets like credit unions, small businesses, and public transportation.

While this economic crisis, particularly in communities of color, is severe, it offers a great historic opportunity. In the economic depression of 1929, our country recognized the need for investment in communities and individuals. The policies from that era fostered the growth of the largest middle class in history. The level of government investment in the development of community and individual assets was unprecedented, and many people today can attribute their economic success to that investment.

Investment in building and protecting assets was key to combating economic depression and to creating the prosperity of the 1940s, 1950s and 1960s that followed the Great Depression. Institutions such as labor unions, government programs like social security, and anti-trust legislation were all geared toward protecting low- and middle-income people from economic exploitation and helping them build personal assets. The GI Bill sent millions to college. Infrastructure projects – housing, schools, and roads – blossomed, putting millions to work and providing them a better quality of life.

Unfortunately, people of color were, for the most part, excluded from participating in these programs and benefiting from these policies due to the overt racism prevalent during those times⁵. Sadly, the nation at large took the civil rights work of the 1960s and reduced its holistic comprehensive analysis to a simplistic notion of personal or individual racism. The civil rights movement, and civil rights efforts since the founding of this country, recognized that inequity is rooted in societal institutions, aided and abided by personal forms of racism. Institutional racism is embedded in the structures (i.e., cultural, organizational, governmental and academic, etc.) of our society and manifests itself in the distribution, implementation and access to resources and opportunities.

More work challenging exploitation and fostering middle class prosperity remains to be done. In this new millennium, we need to add the elimination of institutional racism to the list. The same asset investment and policy change that supported the development of a largely white post-World War II middle class must be used to eliminate the economic depression currently affecting communities of color.

The Racial Wealth Divide

While some progress has been made, ongoing racial disparities in income, job access and high-level job attainment show that more needs to be done. Likewise, we are seeing a continuing – and growing – asset gap, caused by historic and contemporary structural racism.⁶ In the area of assets (i.e., housing, stocks, bonds and savings) people of color have been systematically limited and continue to suffer the consequences. Being the population with the least assets puts people of color at higher risk for many economic, health and social inequities. On average, people of color have 8 cents for every dollar of white wealth; on the median, they have 15 cents.⁷ This current crisis, caused in part by predatory lending to communities of color, continues to erode the most accessible asset in communities of color: housing. We have watched this human-made disaster create racial disparities that remain unaddressed and may take generations to repair. We have a unique opportunity to shift the nation’s policies to address the needs of all people and live up to our creed of equal opportunity for all.

Part and parcel of eliminating individual and institutional racism is elimination of the racial wealth divide. Comprehensive economic policy can deal a knockout blow to structural racism. Through culturally appropriate, collaborative and community-centered policies and practices, Martin Luther King, Jr.'s dream of equality and justice for all can fully come to fruition.

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“The Constitution assured the right to vote, but there is no such assurance of the right of adequate housing, or the right to an adequate income. And yet in a nation which has a gross national product of 750 billion dollars a year, it is morally right to insist that every person has a decent house, an adequate education and enough money to provide basic necessities for one’s family.”

Martin Luther King, Jr., 1966
In an essay in *Ebony* magazine, “Nonviolence: The Only Road to Freedom”

“It is a trite yet urgently true observation that if America is to remain a first-class nation, it cannot have second-class citizens”

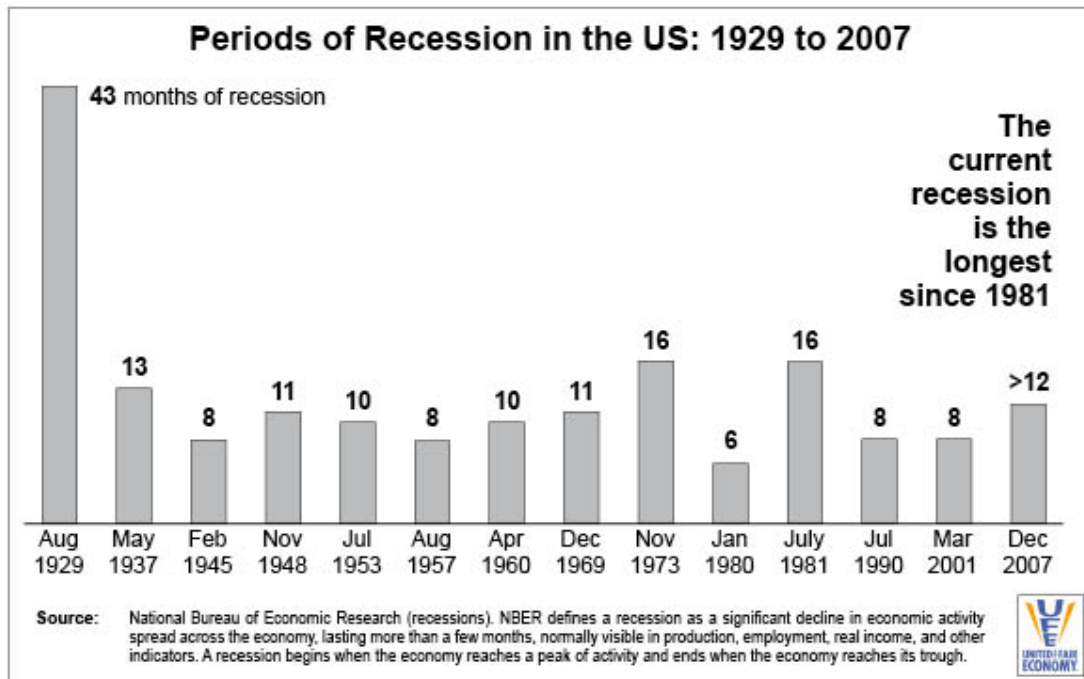
Martin Luther King, Jr., 1960
**In a speech at the 50th Anniversary of the National Urban League,
“The Rising Tide of Racial Consciousness”**

Chapter 1: A Dream Depressed

Martin Luther King, Jr., and those who worked with him, fought for civil rights, the right to access fair housing, and most importantly, the right of economic opportunity for all people in this country. This included access to jobs, worker benefits, unionization, education and economic self-determination. Specifically, King understood that public policy is simultaneously the cause of and the solution to inequality in this country. While housing is the foundation of the American Dream, economic stability is its cornerstone. The idea that vast economic inequality will negatively affect us all was central to King’s work.

What King knew intrinsically, and those who suffer the consequences of economic inequality know through experience, has now begun to surface in mainstream economics: the greater the economic inequality, the less our economy grows.⁸ Interestingly, the negative impact of economic inequality is understood to exist in most industrialized countries throughout the entire world.⁹ Vast economic disparity, typically characterized by concentration of income and wealth, has been recognized as a key harbinger of economic recessions and depressions in our country’s history¹⁰ This phenomenon was most notable in relation to the Great Depression of 1929. Currently, the U.S. is seeing the greatest economic inequality, particularly in income and wealth, since the Great Depression. While working class people in this country have been experiencing an economic recession, people of color are experiencing an economic depression.

Chart 1

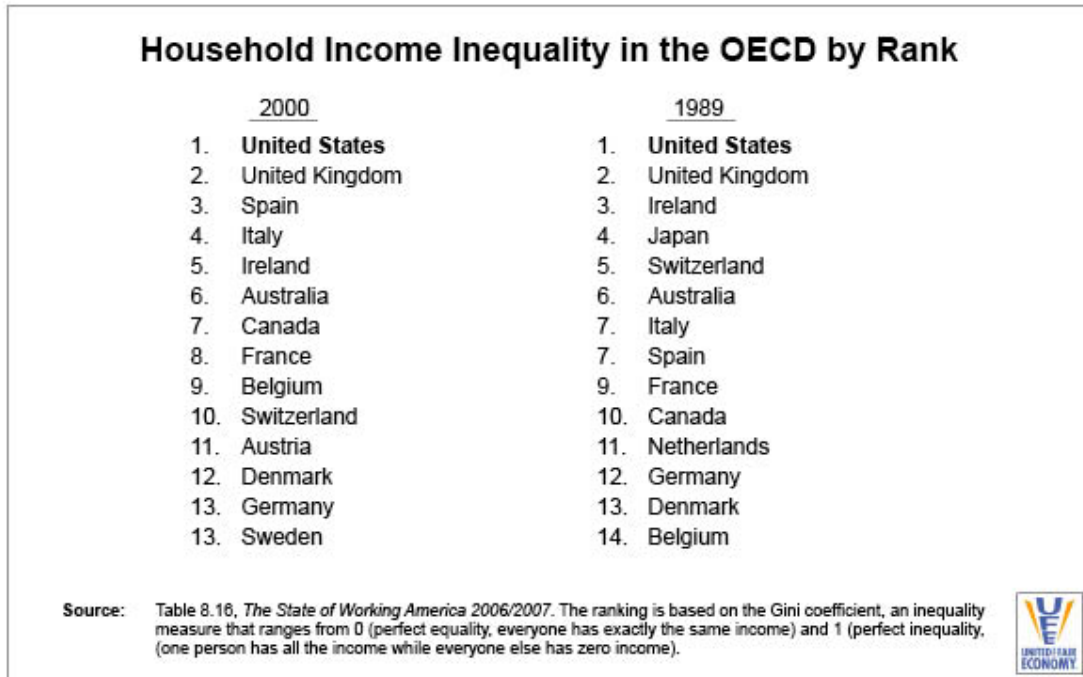


The Current State of Affairs

In the United States, inequality affects large portions of the population, but due to systemic racism in our economy, inequality is drastically and disproportionately higher in communities of color. Economic inequality is an everyday reality for people in this country – in healthcare, food prices, unemployment, underemployment, income and wealth.

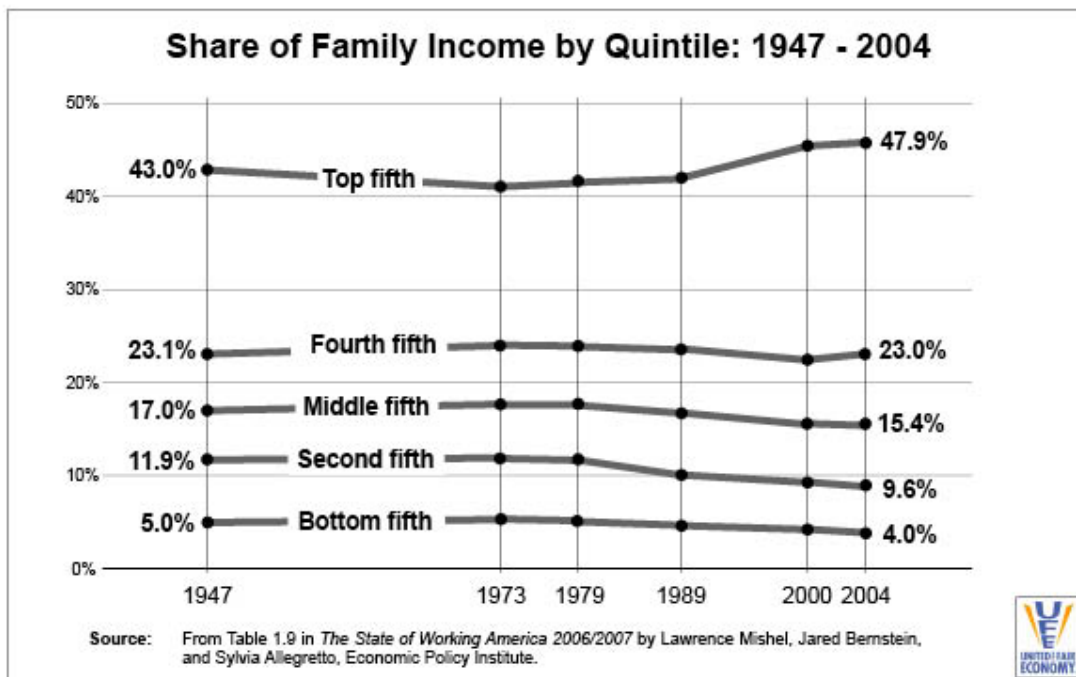
While other highly industrialized countries have begun to deal with this lack of equity, the United States has fallen far behind. The Gini Coefficient is a measurement of a country's economic inequality based on economic indicators such as income, economic mobility and wealth.¹¹ The Gini Coefficient “ranges from zero (perfect equality of income across households) to one (all income is concentrated at the very top of the income distribution).”¹²

Chart 2



The United States has consistently had one of the highest Gini Coefficient rankings among comparable countries in the entire world. At times, we have had the worst rating. In 2004, the 20% of the population with the highest incomes claimed 48% of all family income in the U.S., 12 times the amount of income of the bottom 20%.¹³ This degree of disparity has not been seen since the Great Depression of 1929.

Chart 3



When race is entered into the equation, the disparities increase. People of color are disproportionately represented in the poorest income quintiles in the United States. In 2006, Blacks and Latinos had poverty rates of 24% and 21% respectively, compared to a 10% poverty rate for whites.¹⁴ In the current recession, we are likely to see a roughly 4% reduction in median family income among all Americans, with people of color experiencing a greater decline. For example, Blacks will likely see their median family income decline by 6%, leaving a median family \$2,400 poorer.¹⁵

Inequality is measured in a multitude of ways, many of which continue to paint a dismal picture of meritocracy in this country. Research comparing the United States to other countries of similar industrial status has shown that intergenerational mobility in the U.S. (between parents and their children) is among the lowest, and in some cases the worst among comparable countries.¹⁶ According to research done by the Center for American Progress, titled *Understanding Mobility in America*, children born in the bottom 20% only have a 1% chance of reaching the top 5% of income earners, while a child born to high-income parents has 22 times the probability of reaching the top 5%. Even more disturbing, according to another study done by the *Economic Mobility Project*, 42% of those born in the bottom fifth of income earners will remain there, and an additional 42% will only make it to the lower-middle or middle class.¹⁷ Another study paints an even darker image of the American “bootstrapping” dream, citing that “over three-quarters (76 percent) of children whose parents are in the top wealth quintile remain in the top half of the distribution by adulthood. Among this 76 percent, over half (55 percent) remain in the very top quintile.”¹⁸

Chart 4

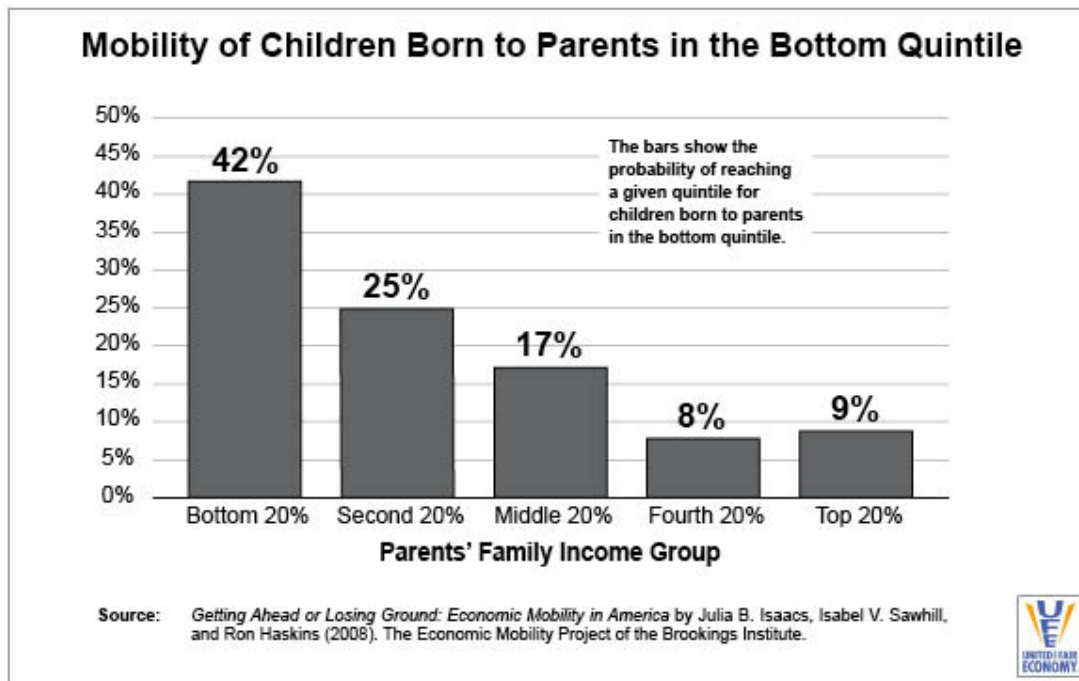


Chart 5

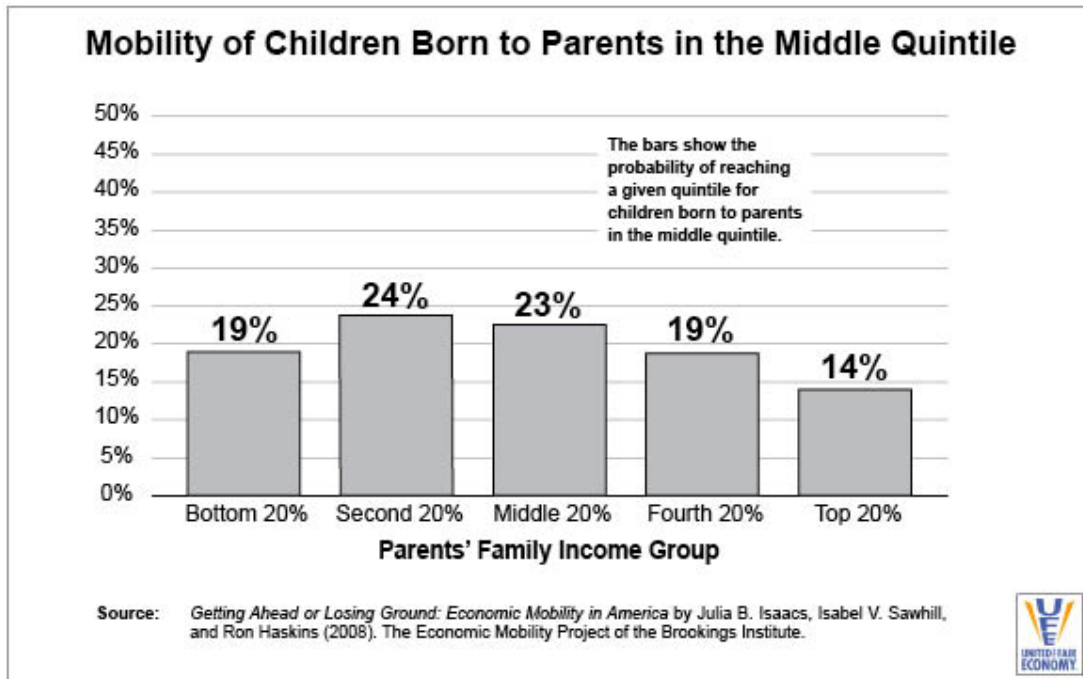
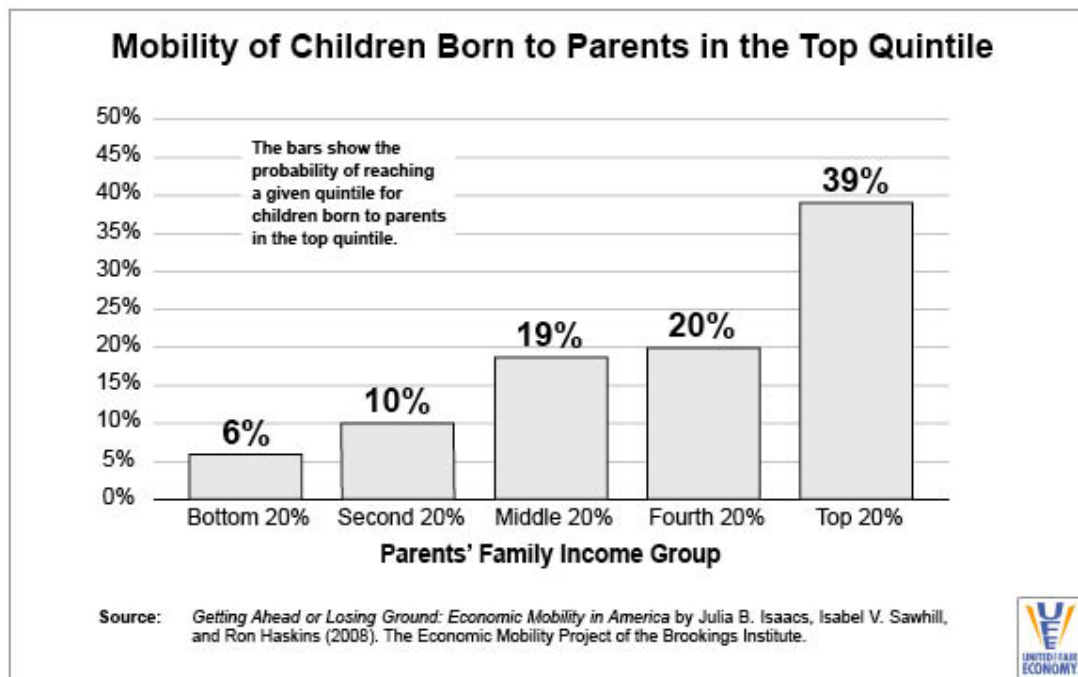
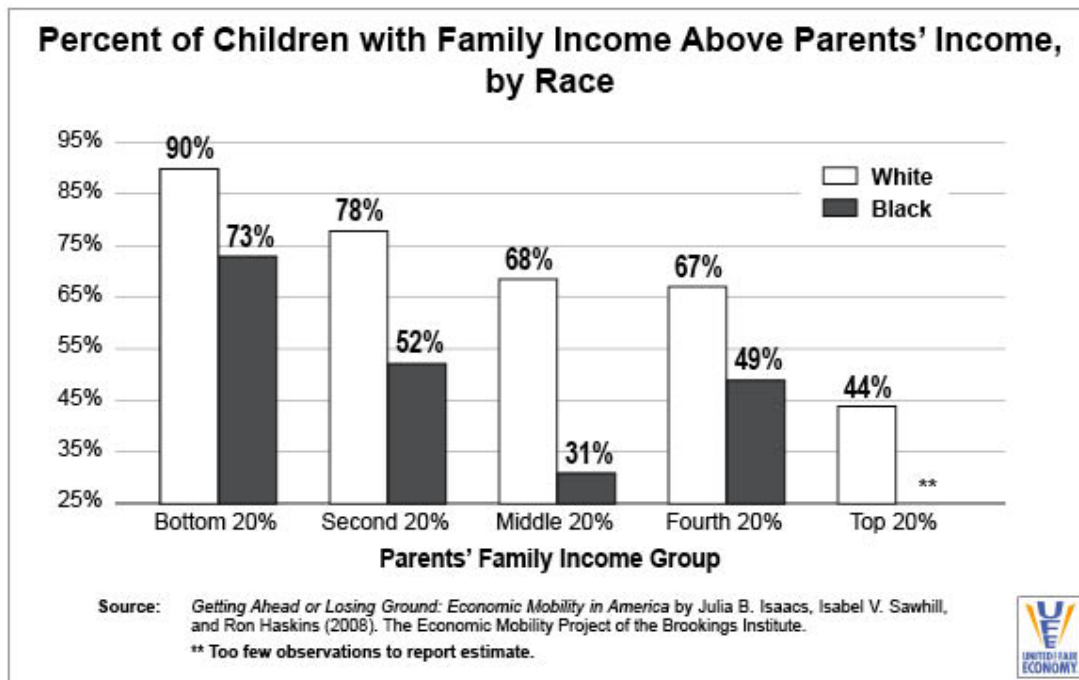


Chart 6



Similar to income inequality, mobility is exacerbated by race. Economists Samuel Bowles and Herbert Gintis have demonstrated that race is among the most important factors that determine the economic mobility of families and individuals.¹⁹ Research also reveals that people of color (after controlling for other factors ranging from education to family composition) are less mobile than their white counterparts, and more likely to remain at the bottom of the income scale, generation after generation.²⁰ At each income level, “Blacks are less likely than whites to advance beyond their parents’ income.”²¹

Chart 7



The insecurity that inequality creates, and that has gone largely unaddressed, has help to create the recession and financial crisis we are now experiencing, and the economic depression that people of color are experiencing. The combined effect of concentration of income and lack of economic mobility is being felt throughout the country, particularly among communities of color. According to a joint study conducted by Demos and the Institute for Assets and Social Policy, “One in three (33 percent) African-American middle-income families and an alarming 41 percent of Latino middle-income families are at high risk of slipping out of the middle class. These figures are substantially higher than the national figure of one in four (25 percent).”²²

Income is a telling measure of stability and security, as jobs are usually attached to other important economic benefits (e.g., healthcare and retirement accounts), but wealth is also an important indicator. Simply put, wealth is what you own minus what you owe. Income is like a river constantly flowing in and out, while wealth is a reservoir, helping weather the storm of economic uncertainty. Assets are typically categorized into two types: financial (bonds, stocks, retirement accounts) and non- financial (homes and cars).

Currently, the top 10% of income earners own 68% of all wealth in the U.S.²³ In addition, the top 1% own 44% of all stocks and bonds, and the top 10% own over 84% of all stocks and bonds.²⁴ Assets and wealth are telling indicators of inequality, as they are key to economic stability and intergenerational mobility. According to the

Corporation for Enterprise Development, “One fifth of the population does not possess enough liquid resources to survive three months at the poverty line without a job; many more lack sufficient liquid assets to put a down payment on a home, invest in two years at a community college or start a business.”²⁵ Having little or no wealth to draw on deepens the impact of every economic downturn for many people of color.

Economic inequality is deeply connected to the growth of the economy. Vast disparities are also antithetical to the vision of a healthy democracy and equality of opportunity for everyone. Key indicators of economic inequality are income, mobility and wealth. Historically, the concentration of wealth and income among the few has predicted and described major economic downturns. Our current recession and economic downturn is unusual compared to others recessions, in that it has been accompanied by the largest disparity of wealth and income since the Great Depression. High levels of poverty and loss of wealth among people of color have existed alongside some of the highest profits ever recorded in history (e.g., Exxon). These profits in recent years, going to the very few, have masked the growing recession in the working class and the depression in communities of color.

Black and Brown Silent Depression

Despite the visibility of our current economic crisis, those who are most negatively affected by past, current, and future economic disasters are often the least visible. And while some have argued that this current economic downturn affects everyone, it does not do so equally. To understand the inextricable link between race and economics, one must take into account the historic and contemporary forms of racial discrimination that cause disproportional impacts on communities of color, often lasting generations. One scholar lamented that, “Even when the national unemployment picture is good, the black unemployment rate is twice that of the white unemployment rate. This means that in what looks like good economic times nationally, most of black America is still experiencing a recession. When white America is in recession, black America is in an economic depression.”²⁶

Definitions of economic downturns, recessions and depressions vary for a multitude of reasons, ranging from political ideologies, to changes in data collection methodologies, to lack of historical data (e.g., some economic data such as race (Latinos) and unemployment has only been collected since 1973). They also differ among academic disciplines. The most popular and simplest definition describes a recession as two consecutive months of negative Gross Domestic Product (GDP).²⁷

Definition of Gross Domestic Product

“[T]he market value of the final goods and services produced by labor and property located in the United States. GDP is equal to personal consumption expenditures (PCE) plus gross private domestic fixed investment plus change in private inventories plus government consumption expenditures and gross investment plus exports minus imports. Imports are subtracted in this calculation because they are already included in the other final-expenditure components.”²⁸

The National Bureau of Economic Research (NBER), the final word on the designation of a recession, defines it this way; “the NBER does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.”²⁹

A recession is typically identified during the closing period of recession or even afterwards. For example, the “Business Cycle Dating Committee at the NBER announced November 2001 as the end of the most recent recession – but it made this determination in July 2003, roughly a year and a half after the fact.”³⁰ In other words, even in the face of alarming evidence, a recession or depression may not be declared “official” until it has been underway for quite some time, or has already ended. Despite overwhelming evidence of the financial crisis, NBER did not officially declare that the current recession had begun until a full year afterwards – in December 2008.³¹

A depression is defined as a long-term recession, but this too is ambiguous, as the lengths of these cycles continue to be contested.³² While simplistic in its official definition, an economic depression affects broad societal sectors from schools systems and hospitals to large and small businesses. In addition, a wide range of economists and economic literature find that depressions are often characterized as a prolonged recession, high double-digit unemployment rates, structural economic weakness (e.g., bank failure, high foreclosures, stock market crashes) and the collapse of consumer confidence. In addition to factors such as unemployment and GDP, these systemic indicators in totality reflect a holistic and comprehensive understanding of devastating economic downturns.

For communities of color, the decline of economic activity has been disastrous and depression-like while remaining nearly invisible on a national level. Like Hurricane Katrina, this economic disaster is a reflection of historic systems of racial inequality having contemporary impacts. And like the response to that disaster, people of color have waited in silence despite the cries of help, and sadly some are still waiting.

Looking at this comprehensive definition of an economic depression we find that all of these measures apply for people of color. At nearly 11%, the unemployment rate for people of color is at the highest it has been in years, and is predicted to reach 15.5% by 2010.³³ The level predicted for 2009 has already been surpassed, painting a dismal picture of unemployment in communities of color. In some states with high concentrations of people of color, unemployment levels have surpassed every previous record since the Great Depression. Youth of color ages 16–19 have an unemployment rate (seasonally adjusted) of 32% nationwide³⁴. Industries with high numbers of people of color, such as construction, temporary work and service-based industries, have collapsed.

Underemployment, which is a more accurate measure of hardship than unemployment, is at its highest level at 11.8% since the creation of the measure in 1994.³⁵ Despite some productivity gains of workers in general, income inequality compounds other forms of structural economic inequality. The higher prices that communities of color pay for the same goods as their white counterparts, in almost every commercial domain, is often overlooked, misunderstood and/or knowingly ignored. This, in essence, turns waves of insecurity into tsunamis of economic desperation. National home foreclosure rates are now higher than during the Great Depression, and communities of color have rates nearly twice as high. These measures (unemployment, underemployment, and home foreclosure rates), plus the depressed level of economic activity plaguing people of color for the last 5–7 years, indicates that communities of color are experiencing a second Great Depression.

The current economic downturn is caused in large part by the unscrupulous practices of the finance and banking industry that created a faulty product called “subprime” or “high interest” loans. As stated earlier, an essential component of an economic depression is structural economic weakness; the subprime industry, aided by deregulation, was a significant contributor to our current structural weakness. These subprime loans were designed to fail in a way that increased profits for lenders, producing a total of \$665 billion in profits in 2005.³⁶

Similarly, during the late 1920s and the Great Depression, lax lending standards led to a housing and construction boom that later resulted in high foreclosure rates almost mirroring our current crisis. Furthermore, during the Great Depression debt increased as a result of increases in housing cost. This debt became problematic as the recession began, and the wealth and income of individuals and families became insufficient to meet the debt that was incurred. People with these loans had difficulty selling their property, as the decline in housing values ensured that the homes would be worth less than the entirety of the debt incurred by the seller. The property was no longer worth as much as the loan that was taken out to pay for it.³⁷

As in today’s recession, the Great Depression’s mixture of stagnant wages, job losses and falling housing prices created by poor public policy made the foreclosure crisis the proverbial straw that broke the camel’s back. However, a unique characteristic of the contemporary foreclosure crisis is its concentration among people of color. Disproportionately, people of color received subprime loans at higher rates than their white counterparts, and consequently are suffering relatively more. For example, in Chicago, African-Americans were 14 times more likely

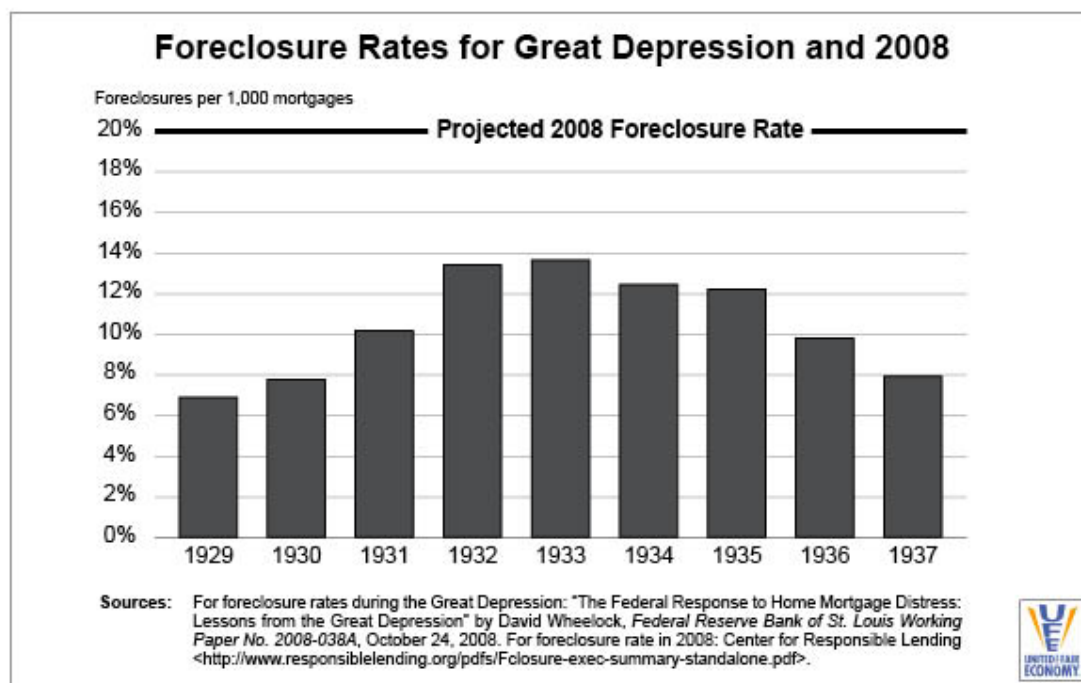
to receive a high-cost (subprime) loan than their white counterparts.³⁸ Upper income Latinos and Blacks/African-Americans were more likely to receive subprime loans than their white low-income counterparts.³⁹ While on a national level foreclosure rates are exceeding those of the Great Depression, they are nearly twice as high in communities of color.

During the Great Depression, and until about 1941, the foreclosure rate was about 1% (10 per 1,000 mortgages).⁴⁰ Currently, the majority of the foreclosures in the country are stemming from subprime loans, and of these loans, the most toxic (due to their high foreclosure and default rates) are loans called Adjustable Rate Mortgages (ARMs). At the end of the third quarter of 2008, the foreclosure rate for prime ARMs was 1.77%. The foreclosure rate was 2.2% for fixed-rate subprime mortgages and 6.4% for subprime ARMs.⁴¹ In 2007, there were approximately 6,027 foreclosures a day, totaling 2.2 million for the year.⁴²

Adjustable-rate mortgages

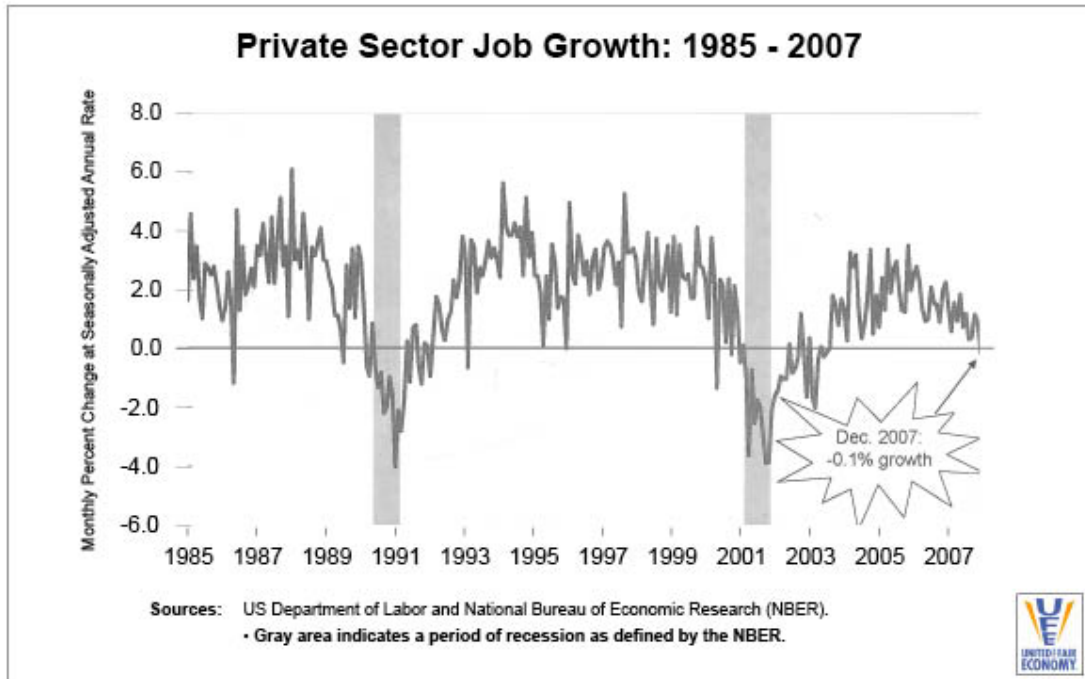
(ARMs) are loans with interest rates that change. ARMs often have lower monthly payments than fixed-rate mortgages for the first few years and then a variable rate that may be much higher. Loans called “3/27” or “2/28” ARMs have fixed interest rates for a few years (the first number) followed by a variable rate for the rest of the 30-year period (the second number).

Chart 8



Comparing economic indicators, such as income, inequality, foreclosure rates, and unemployment, to the levels during previous recessions, it is odd that officials have been reluctant to call this a recession. The U.S. Congressional Joint Economic Committee has found that several key employment indicators provide a good signal of the onset of a recession. According to their research, comparing our current economic reality to past recessions, we reached the NBER benchmark for job losses in December 2007, accompanied by 8 months of continuous job losses starting in February 2008.⁴³

Chart 9



Unemployment rates are 10–11% for Blacks and 8–9% for Latinos⁴⁴ and are predicted to continue to grow until 2010, reaching towards 20% or more.⁴⁵ Furthermore, some cities with large communities of color are already experiencing high unemployment rates (as of October 2008) such as El Centro, California at 27.6% and Yuma, Arizona at 19.5%.⁴⁶

Chart 10

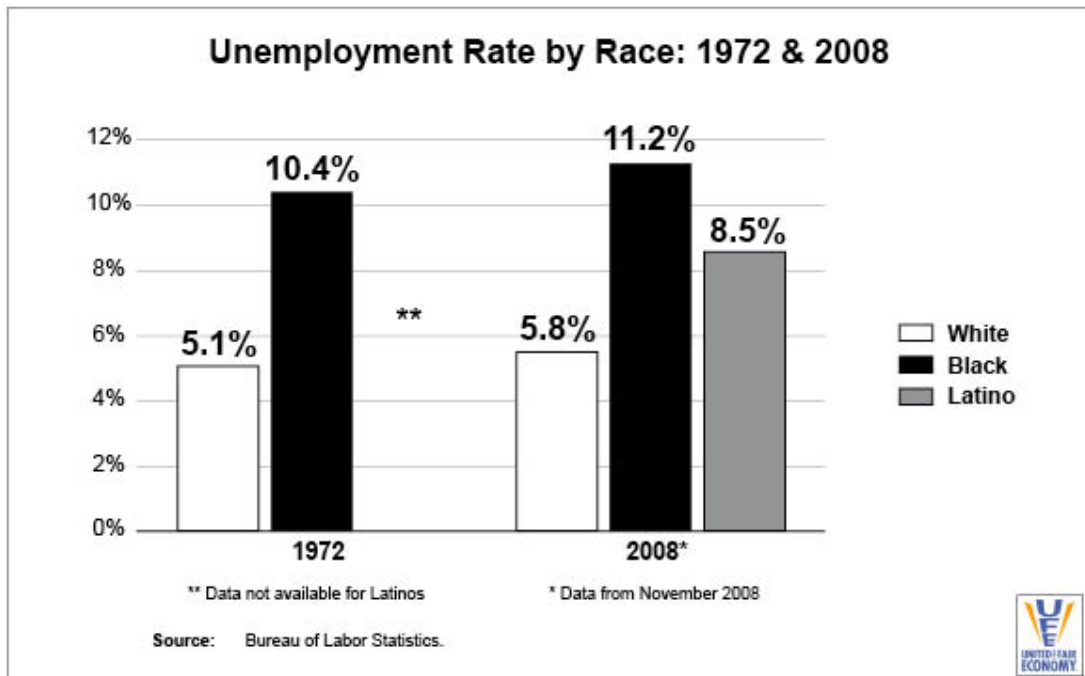


Chart 11

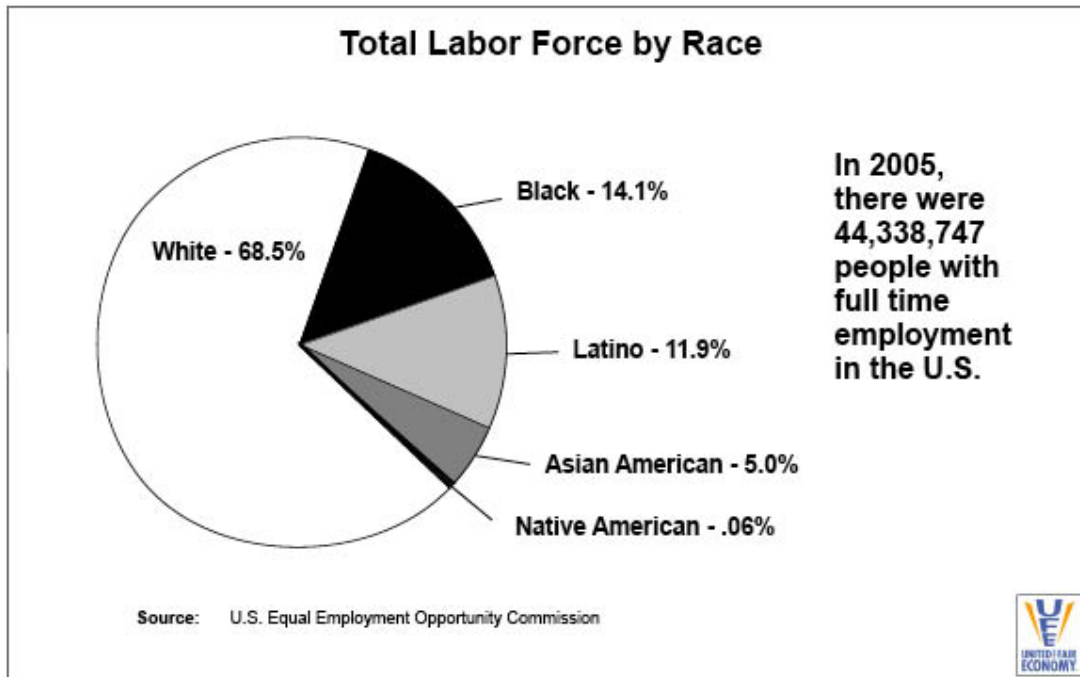


Chart 12

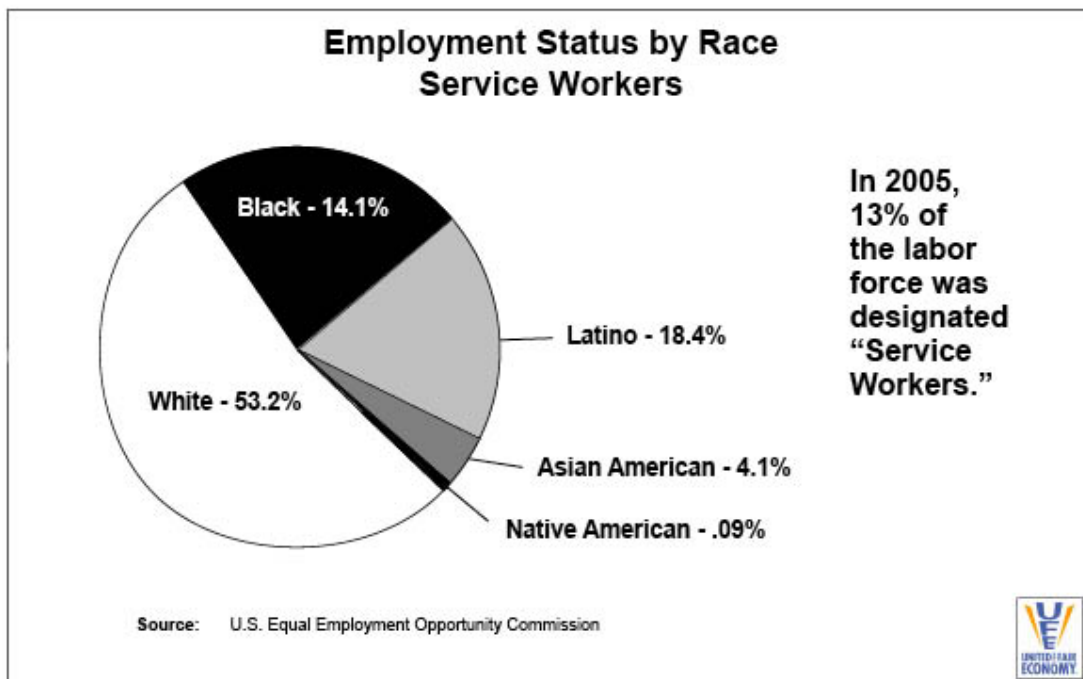
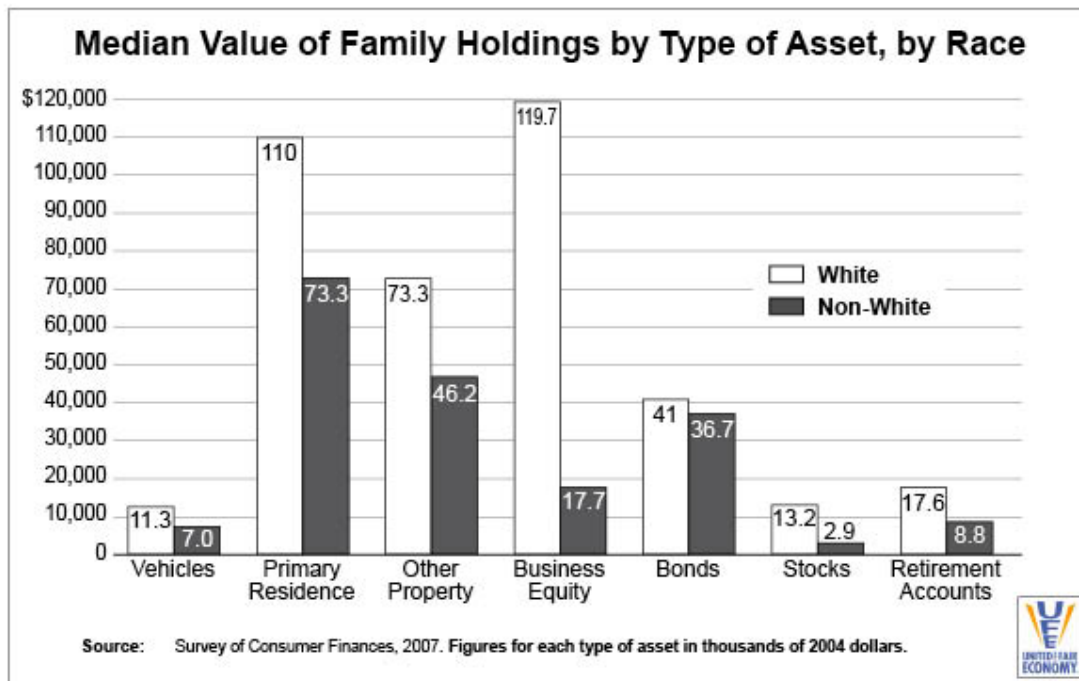


Chart 13



In September 2008, the Bureau of Labor Statistics reported, “The number of unemployed persons rose by 592,000 to 9.4 million in August, and the unemployment rate increased by 0.4 percentage points to 6.1 percent. Over the past 12 months, the number of unemployed persons has increased by 2.7 million and the unemployment rate has risen by 1.4 percentage points, with most of the increase occurring over the past 4 months.”⁴⁷ According to EPI researchers, in November 2008: “Underemployment, a more comprehensive measure of the extent of weakness in the job market, rose to 12.5%, its highest level on record since the current series began in 1994, and more than four percentage points above its year-ago level.”⁴⁸ Furthermore, unemployment rates often miscount, undercount or ignore completely “discouraged workers,” individuals who are not counted in the labor force because they are not seeking a job, but are able to work. The employment rate often reflects a more accurate picture of those who do not have jobs. “Between 2000 and 2007, the employment rate for African Americans declined 2.4 percentage points. This drop in the employment rate shows a decline in the number of working African Americans that is more than three times that indicated by the change in the unemployment rate. Even at the employment rate peak in 2000, African Americans were less likely to be employed than Americans in general.”⁴⁹ Similarly, in 2000 only 29.5% of African Americans teenagers (16–19 years of age) were employed, which dropped to 21.0% by 2007.⁵⁰

Furthermore, while most industries have been suffering from declining job openings and mounting job losses, specific sectors have been especially hard hit. The industries most hurt have disproportionately large numbers of people of color. For example, the construction industry has been particularly devastated – with an unemployment rate of 7.4% in 2007 – and over 25% of employed Latinos work in this industry.⁵¹ Industries such as “Food preparation and serving related occupations,” and “Building and grounds cleaning and maintenance occupations,” which employ the highest percentages of people of color, have some of the largest unemployment rates.⁵² The greatest unemployment rates are among those who have “temporary” work, which are overwhelmingly people of color. Of the entire unemployed temporary workforce, 40–50% have only ever had temporary work. In other words, half of temporary workers have only had temporary work as their primary job. Temporary workers represent 30–40% of people of color unemployment, despite representing a smaller numerical amount of total workers in the country compared to their white counterparts.⁵³ Temporary workers are overwhelmingly people of color, and have some of the highest rates of

unemployment. People of color are more likely to be unemployed, underemployed, and temporarily employed than their white counterparts. During a recession, the high concentration of people of color in these categories makes them especially vulnerable.

For some, these dire economic statistics may seem contrary to mainstream media rhetoric about the “economic growth” that we have been experiencing until recently. For many, growing GDP indicates economic stability and provides evidence contrary to an economic recession or depression. But working class families and people of color have experienced stagnant wages, rising inflation and relatively high unemployment for the last few years. It is true that wages and productivity were growing, but only for a relatively small group. According to the key findings of the Economy Policy Institute in a Policy Briefing titled *A Feeble Recovery*:

- “Of the 10 expansions since 1949, as measured from the end of the recession (trough) to the end of the expansion (peak), the expansion from 2001 through last year ranks last in average growth of GDP, investment, employment growth and employee compensation.”
- “GDP growth in the latest expansion was a full 40% slower than the post-World War II average (2.9% versus 4.8% in previous expansions).”
- “Despite the tax changes that were promoted as incentives to increase investment, average growth in total investment over the latest expansion was less than half of the post-WWII average, and ranked last in this group.”
- “Corporate profits were the only area of strength in the latest cycle, ranking 2nd strongest among the last ... 10 cycles.”⁵⁴

Other scholars, researchers and practitioners have agreed that the majority of people were left behind despite some minimal growth in the economy. In testimony delivered to the Congressional Committee on Health, Education, Labor and Pensions, Professor Eileen Applebaum, Director of the Center on Women and Work at Rutgers University, noted that:

“In the boom years between 1995 and 2000, the cumulative increase in productivity was 13.2 percent. For the first time in more than two decades, real median family income increased apace, rising by 11.3 percent over that half decade and narrowing inequality ever so slightly as unemployment fell to 4 percent and labor markets tightened.

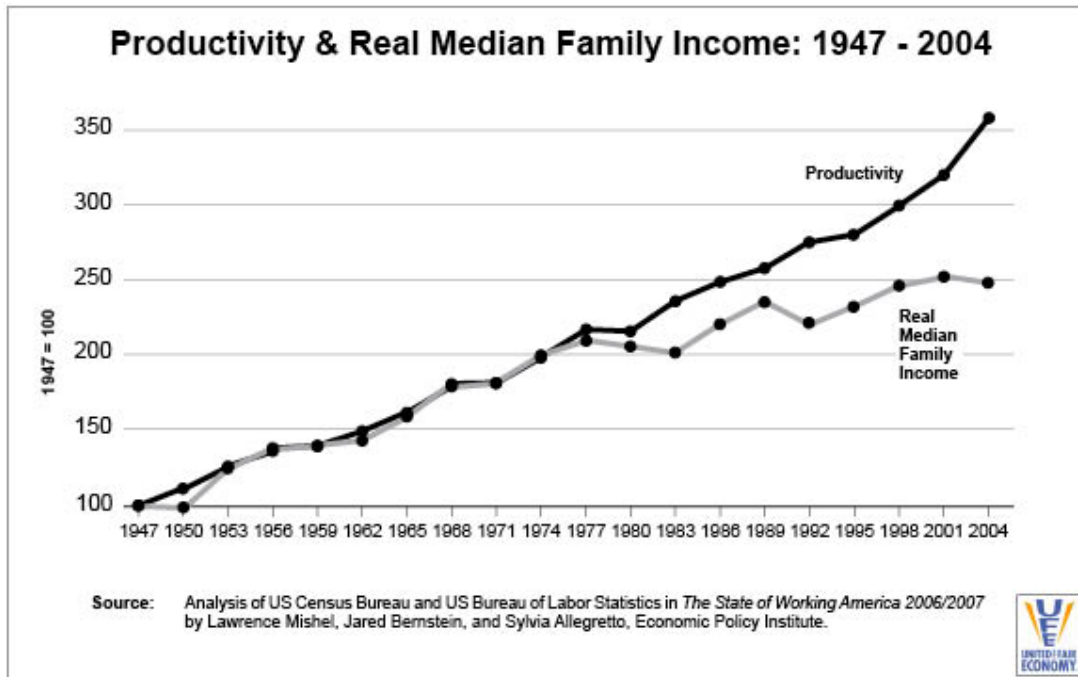
Optimism that the U.S. was returning to shared prosperity began to take hold but these hopes were soon dashed. Productivity continued to rise strongly, growing at 3 percent a year between 2000 and 2005, but real family median income, which fell in the recession of 2001, failed to keep up. By 2005, real family median income still had not recovered to its pre-recession level [...] Personal saving fell from 2.9 percent of disposable income in the first half of 1999 to -0.9 percent in the first half of 2006 [...]

Labor markets, once described as the arena in which employers and employees negotiated the distribution of a growing economic pie, are today viewed as a tournament, with few winners and many losers.”⁵⁵

An expanding or booming economy typically leads to increased wages as access to jobs helps families and individuals to be economically mobile and stable. In other words, a growing economy produces jobs and productivity that should result in increased incomes for most people in this country. Yet, due to failed public policy and unaddressed structural racism, we are in the depths of a recession, and dealing with a depression in communities of color. Historically, productivity and growth often were tied together, but from 1973 to 2005, family income has grown at less than one-third the rate of productivity, with 2000–2004 representing the greatest difference between

productivity and family income growth.⁵⁶ “From 2000 to 2007, although American workers were 19.2% more productive on average, the weekly wages for prime-aged workers *declined* by \$1. The weekly wages for prime-aged African-American workers declined by \$3.”⁵⁷

Chart 14



According to the NBER, another indicator of recession is the decline of income and wages. Current wages have grown stagnant and incomes have begun to decline. Race and class exacerbate both of these trends. As an example, in “1995, the poorest fifth of black families only earned on average 43.0% of what the poorest fifth of white families earned. Again, the economic growth of the late 1990s was a significant boom. The black/white average income ratio for the poorest fifth increased to 49.9% in 2000. By 2005, it had fallen back to 43.4%.”⁵⁸

As a country, we are seeing some of the greatest income inequality in history. The top 1% garnered the majority of income growth in the last economic boom in the 1990s.⁵⁹ More problematic is that 25.1% of all income in the United States goes to the top 1%, surpassing the percentage right before the Great Depression (23%). In addition, in 2006, the median household income of Blacks and Latinos is \$38,269 and \$40,000, respectively, while their white counterparts come in at \$61,280.⁶⁰ Furthermore, Blacks and Latinos are more likely to be unemployed than their white counterparts, further expanding their income inequality. In short, Blacks and Latinos are more likely to be unemployed, in poverty, and when employed, make less money than their white counterparts.

Chart 15

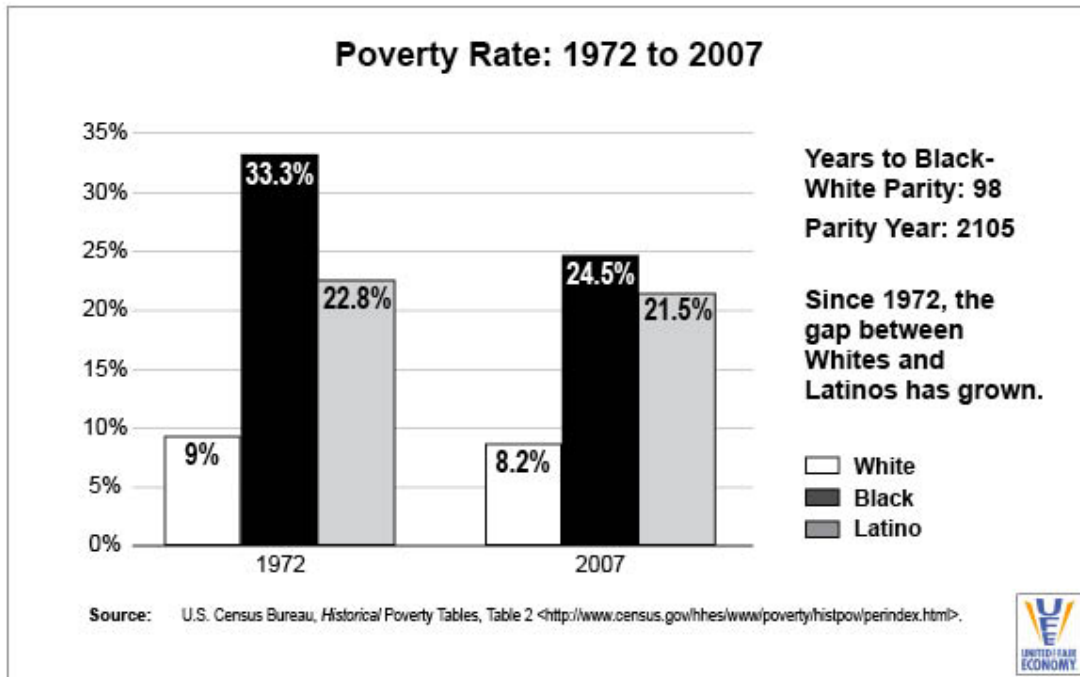


Chart 16

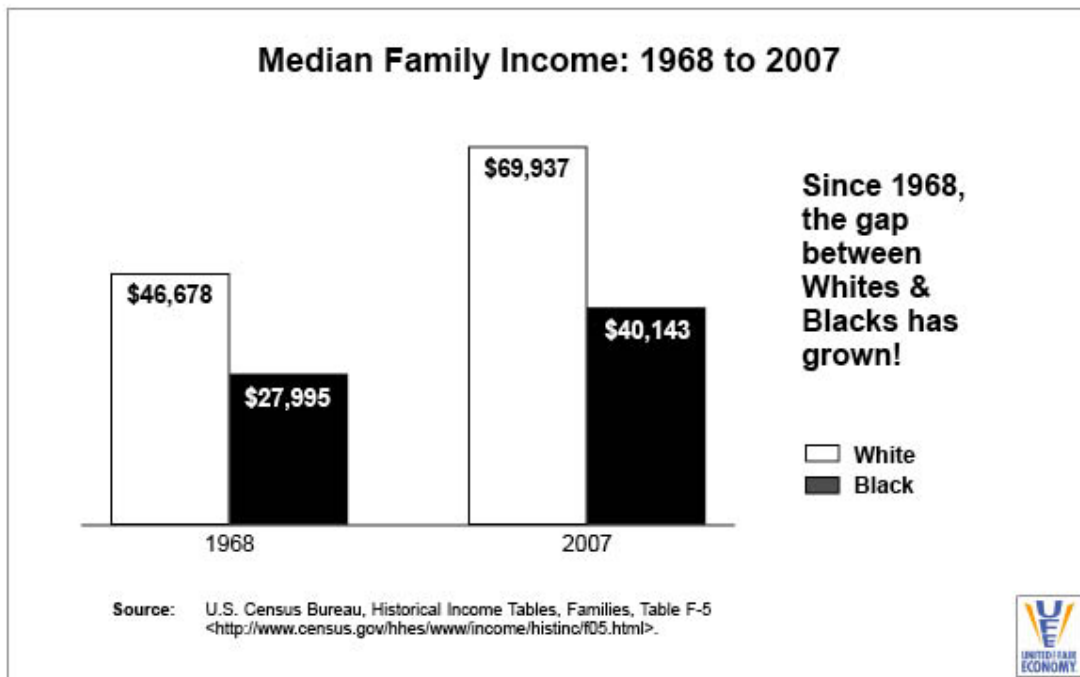
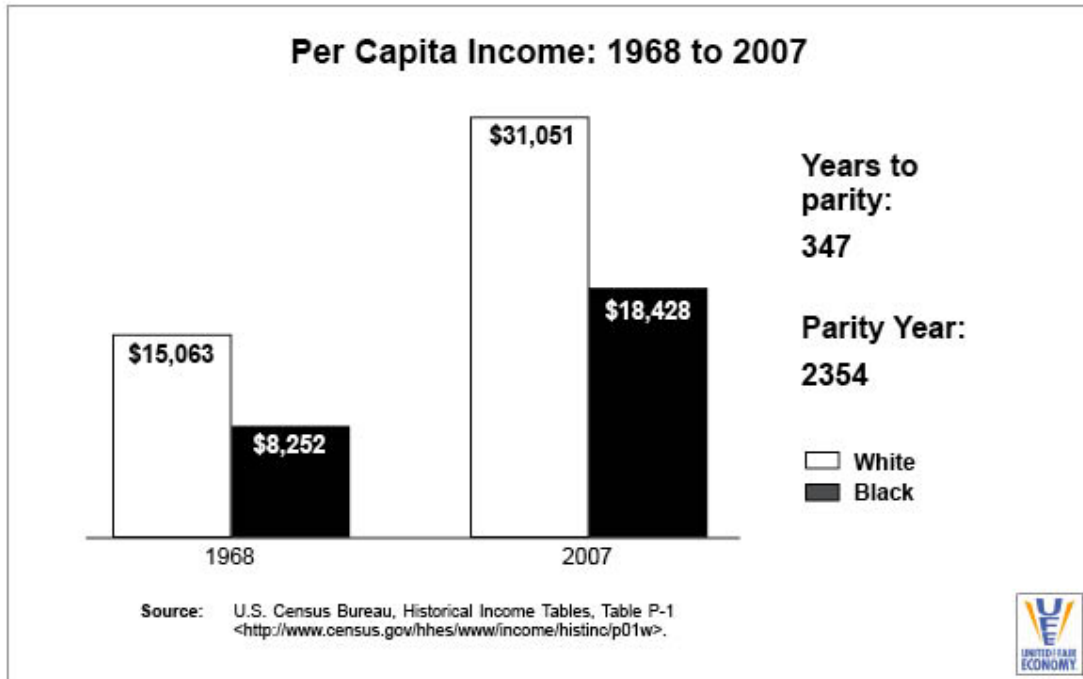


Chart 17



The least amount of growth and the greatest income decline is within poor communities, which are disproportionately people of color. From 2000 to 2006, African-Americans saw their median income fall by 2.9% and Latinos saw a near 1% decline.⁶¹ Furthermore, among Blacks, the poorest families lost the largest share of their income gains from the late 1990s.⁶²

Chart 18

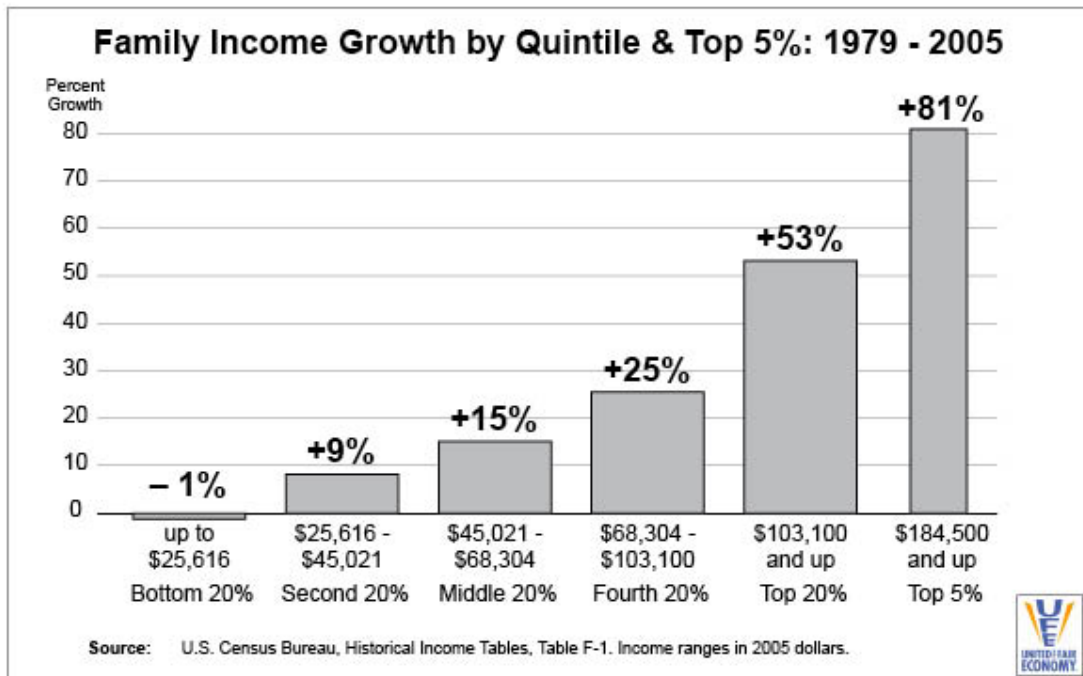
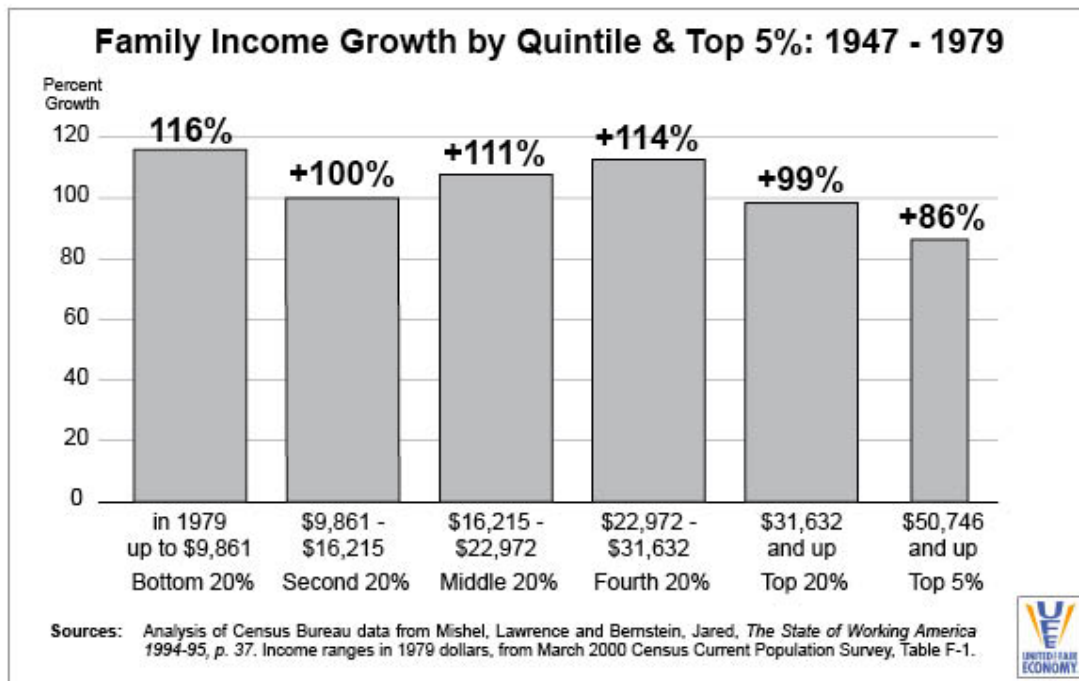


Chart 19



As stated earlier, incomes vary across race and gender, regardless of occupation. In addition, “Between the late 1970s and 2000, the hours worked per year by the average white family grew by 11 percent. In the same time frame, the hours worked by the average African-American/Black family increased by 15 percent and hours worked by the average Latino family increased by 14 percent. In 2000, middle income African- Americans/Black families actually worked the equivalent of nearly 12 full-time weeks more than white families to maintain the same income level.”⁶³

Now, as people across this country face major economic hardships related to income, people of color are starting with lower incomes for similar work, experiencing the greatest income declines and highest unemployment. Additionally, for all people in this country, their income is buying fewer goods and services. As of August 2008, the inflation rate was 5.9%, higher than the inflation rates of the last two recessions.⁶⁴ Families and individuals are paying more for goods, effectively subjecting them to even greater economic instability. According to a July 2008 study by the Center for American Progress:

“Higher prices for basic necessities exacerbate the pain of a weak labor market [...] In April 2008, the national average price of regular unleaded gasoline easily shattered an inflation-adjusted record that had stood since March 1981, and they have only continued to climb since then. According to the Energy Information Administration, the national average price for regular unleaded gasoline stood at \$4.05 per gallon in June 2008, the most recent complete month for which the data are available. This is a 26.5 percent year-over-year increase, adjusted for inflation, and a painful 133.1 percent increase since March 2001.

Related to the recent upsurge in the price of gasoline are increases in transportation costs, which were 11.4 percent higher in June 2008 than they were the previous June and 33.5 percent greater than they were in March 2001 [the last recession]. And then there’s the cost of groceries [...] Nominal food prices increased overall by 5.3 percent between June 2007 and June 2008 – and by a

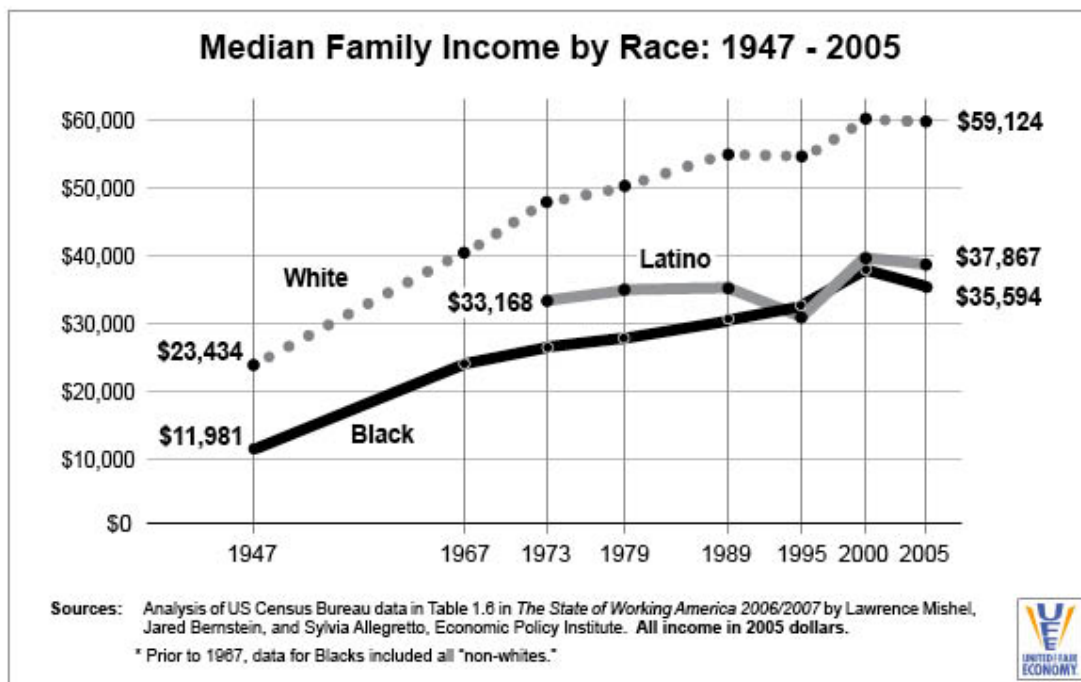
notable 24.4 percent since March 2001 [...] Fuels and utilities cost 12.3 percent more in June 2008 than they did in the previous year, and a notable 48.1 percent more than in March 2001.”⁶⁵

Despite current changes in gas prices, poorer populations, who are disproportionately people of color, pay a much greater percentage of their income for everyday necessities, such as food, than their wealthy counterparts. Data from the 2005 Consumer Expenditure Survey indicates that households earning \$10,000 to \$14,999 a year before taxes spent an average of 25 percent of their income on food. Households earning \$15,000 to \$19,999 a year before taxes spent 19 percent of their income on food in 2005, compared to a 9.8 percent average for all U.S. consumers.⁶⁶ These high percentages spent on basic goods by the lowest income groups carry through to housing, utilities, and transportation. In essence, working class people and people of color are making less, their incomes are growing less, and they are forced to spend a much greater portion of their income on essential goods and services.

The heavy burden of race and class continue to weigh down families and individuals through housing costs. According to the Joint Center for Housing Studies at Harvard University, “at last measure in 2006, 39 million households were at least moderately cost burdened (paying more than 30 percent of income on housing) and nearly 18 million were severely cost burdened (paying more than 50 percent). From 2001 to 2006, the number of severely burdened households alone surged by almost four million.” In nearly half of low-income households, after housing costs are paid, families only have \$257 a month left for food, \$29 for clothing and \$9 for health care.⁶⁷ With people of color heavily represented in these populations, rising costs, shrinking wages and a national economic recession are converging to create a perfect storm of economic depression for people of color.

In every major category defined by the NEBR, people of color and the poor are experiencing a recession empirically, and in many categories at rates we have not seen in decades or ever. Moreover, other issues are affecting the economics of these populations that are not reflected in the NBER calculations and that directly affect mobility and stability. Research studying the last three major recessions found that during recessions, the number of people without medical insurance increases, family incomes decrease, and poverty rates increase.⁶⁸ These are often clear indicators of a recession.

Chart 20



Looking at these indicators we are able to discern the economic realities of working class people and people of color. Race plays a dominant role in increasing the ranks of the uninsured, as well as in declines in family incomes and increases in poverty rates. Race is the strongest predictor of who will have the least insurance, the greatest decline in wages and the greatest likelihood of being poor.

Measures such as economic inequality, which are good predictors of economic depressions and recessions, are not considered when determining official recessions. Asset levels, which protect the finances of individuals, families and the country at large, and the loss of assets, are one of many economic indicators that are still not used to identify economic downturns.

Although asset ownership is not among the criteria for an economic recession or depression, assets are key to understanding the stability, mobility and current condition for families and individuals in this country since assets are used to weather the storms of economic hardships. As presented previously, we are seeing vast chasms between those with great amounts of wealth and those with fewer or no assets. The majority of people in this country have their wealth concentrated in their home, while the wealthiest individuals have a diversified portfolio of home and property ownership, stocks, bonds, inheritance, business ownership, etc. As with the majority of economic indicators, structural racism creates large gaps in wealth between people of color and their white counterparts. People of color have the fewest assets and the least amount of wealth. Housing is the central component of wealth for most people in this country, and Blacks and Latinos have homeownership rates of 46.1% and 48% respectively compared to 77% of whites. Furthermore, people of color are more likely to have zero or negative net wealth.⁶⁹

Chart 21

Composition of Household Wealth by Wealth Class - 2004				
Asset	All Households	Top 1%	Next 19%	Middle 3 Quintiles
Principal residence	33.5	10.9	32.2	66.1
Liquid assets (bank deposits, money market funds, cash value of life insurance)	7.3	5.1	8.6	8.5
Pension accounts	11.8	5.3	16.0	12.0
Corporate stock, mutual funds, financial securities, personal trusts	17.0	26.9	16.3	4.2
Unincorporated business equity, other real estate	28.6	49.3	25.4	7.9
Miscellaneous assets	1.8	2.6	1.5	1.4
Total assets	100.0	100.0	100.0	100.0

Source: *Recent Trends in Household Wealth in the US: Rising Debt and the Middle-Class Squeeze* by Edward N. Wolff, The Levy Economics Institute of Bard College and Department of economics, New York University, 2007 <http://www.levy.org/pubs/wp_502.pdf>




Chart 22

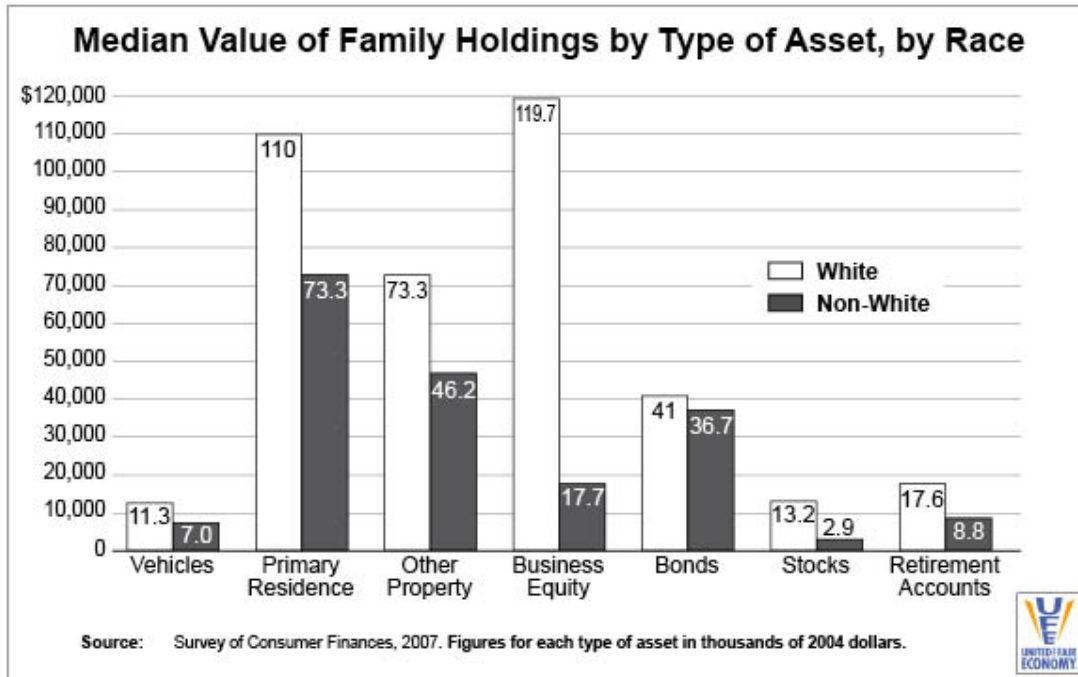


Chart 23

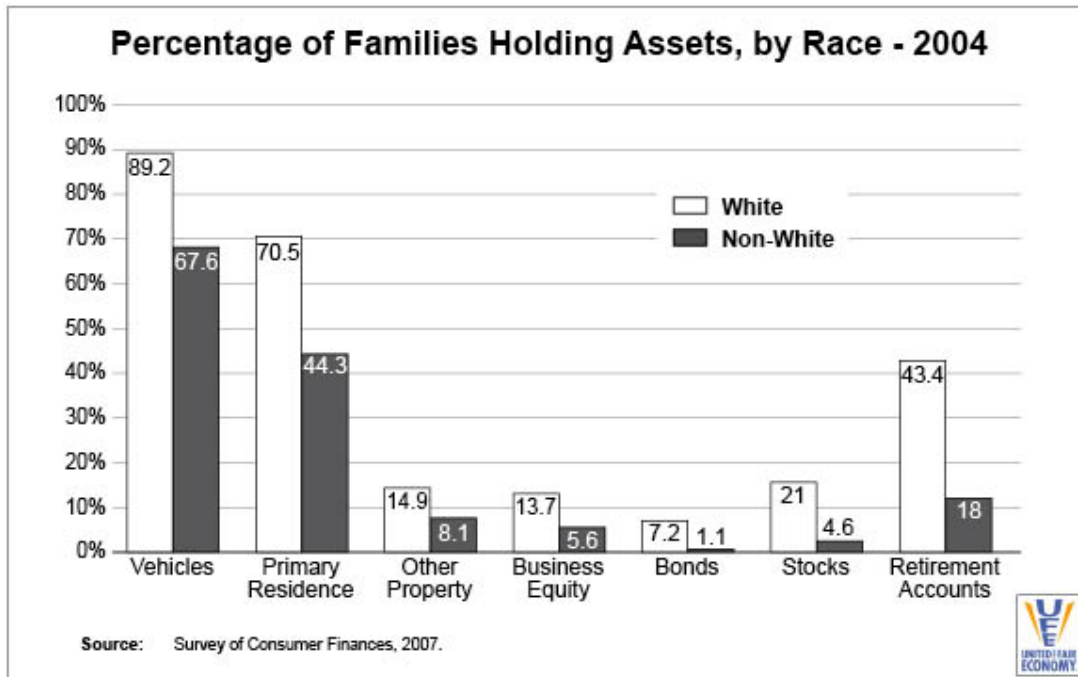
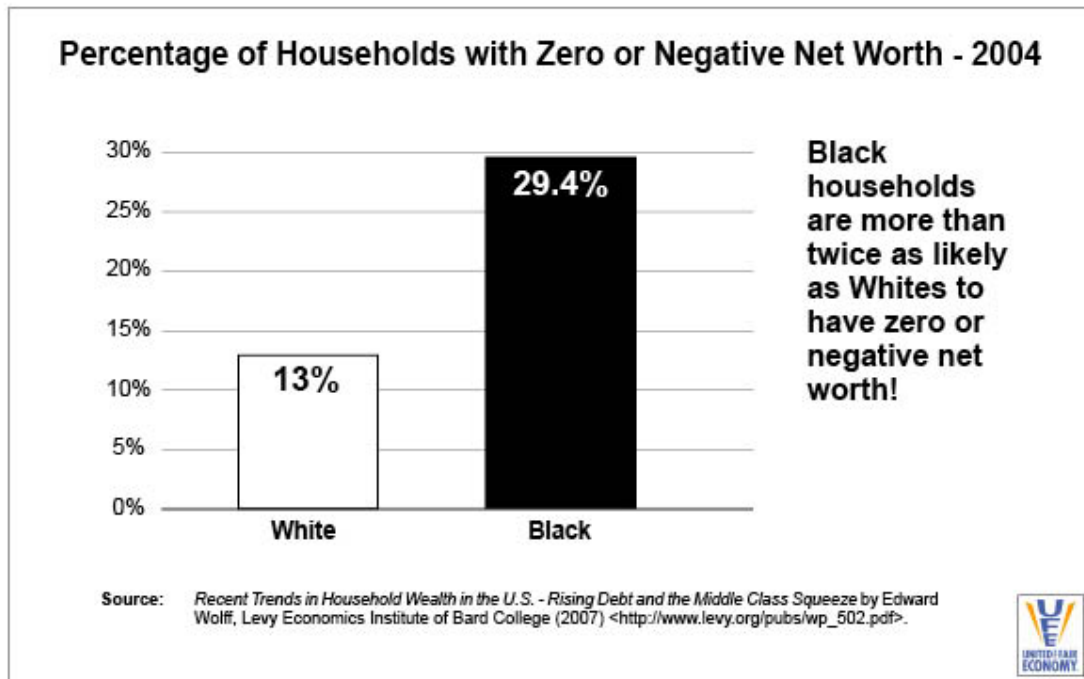


Chart 24



Assets, and the wealth they create, are the greatest predictor of intergenerational mobility and current stability. Studies not only show the importance of wealth on the economic ascendance of children, but also show that childhood wealth is a good predictor of those who will end up with wealth. One study that traced children over 20 years found that 58% of those in the top wealth quartile maintained their wealth status despite an overall rising median. Meanwhile, only 4% of the bottom quartile of the same age demographic rose to the top wealth quartile over the same time period. For people of color, the numbers are starker. Even those people of color in the top wealth quartile are affected by structural oppression, with only 22% remaining there after 20 years and nearly half (47%) going to the bottom half of wealth distribution.⁷⁰

According to a study completed by Demos and the Institute on Assets and Social Policy, “ninety-five percent of African-Americans and 87 percent of Latino middle-class families do not have enough net assets to meet three quarters of their essential living expense for as little as three months” compared to the national average of 78% among middle-class families.⁷¹ Wealth is not just a predictor of future wealth and income, but also of college attendance, neighborhood development and numerous health indicators,⁷² which we will explore in Chapter 2.

How Did We Get Here?

As stated earlier, these numbers and experiences are the result of a lack of comprehensive public policy. Before we can help develop a plan to alleviate these problematic issues that affect us all, we must understand the policies that helped shape and create this economic crisis. Dean Baker, Co-Director of the Center for Economic and Policy Research, summed it up well in his testimony to the House Ways and Means Committee, in which he said:

“Specifically, the federal government pursued policies that tended to benefit corporations and better educated workers at the expense of most of the working population. There are many areas of public policy in which it is possible to identify an upper class bias. I will focus on four areas that I consider most important:

1. **Trade and Immigration.** The federal government has pursued policies in this area that had the effect of putting workers without college degrees in direct competition with low-paid workers in developing countries. At the same time, it has largely protected the most highly educated workers (e.g. doctors, lawyers, accountants) from the same sort of competition. The predicted results of this asymmetric opening of trade are the sort of upward distribution that we've seen over the last quarter of a century.
2. **Federal Reserve Board Policy.** The Federal Reserve Board has pursued an aggressive anti-inflation policy over the last quarter century, largely ignoring its legal mandate to target full employment, which is defined in the law as 4.0 percent unemployment. The Fed's main weapon for controlling inflation is higher unemployment, which has the effect of putting downward pressure on wages. The workers who are most affected when the unemployment rate rises are those at the middle and bottom. Sales clerks and manufacturing workers are far more likely to be laid off in a downturn than doctors and lawyers. There is also an important racial dimension to this issue. If the overall unemployment rises by 2.0 percentage points because of the Fed's efforts to contain inflation, the unemployment rate for African Americans is likely to rise by 4 percentage points, while the unemployment rate for African American teens would rise by close to 12 percentage points.
3. **Labor-Management Policy.** In the last quarter century, corporations have become far more aggressive in confronting unions, especially in obstructing efforts to organize. It is now standard practice for management to simply fire any workers who are thought to be involved in an organizing drive. While firing workers for union activity is illegal, the sanctions are too small to discourage law breaking. Largely as a result of management hostility, unionization rates in the private sector have fallen to just above 7 percent from more than 20 percent back in 1980. De-unionization has systematically lowered wages for workers without college degrees.
4. **Corporate Governance.** For a variety of reasons, the factors that constrained the behavior of CEOs and top corporate management have largely broken down. As a result, these insiders have unprecedented ability to plunder corporations to serve their own interest. CEO pay for Fortune 500 companies now averages almost 300 times the pay of an average production worker. Such exorbitant salaries not only take away money from shareholders and workers, they also set benchmarks for the rest of the economy. As a result, it is now common for top executives in institutions like universities and non-profit hospitals and even private charities to earn salaries in the high six-figures.⁷³

Continuing with the key points made by Dean Baker, U.S. government policy has shifted away from the more economically vulnerable of our population towards those with more money. No system of policies is more telling than tax policy and, overwhelmingly, U.S. tax policies have benefited those with assets and large incomes. A major example of this discrepancy is the Home Mortgage Interest Deduction, which effectively does not have any upper limits for the value of a home and costs the government close to \$70 billion per year. In contrast, the housing assistance program, which helps low- to moderate-income families, costs only about \$24.5 billion annually.⁷⁴

Chart 25

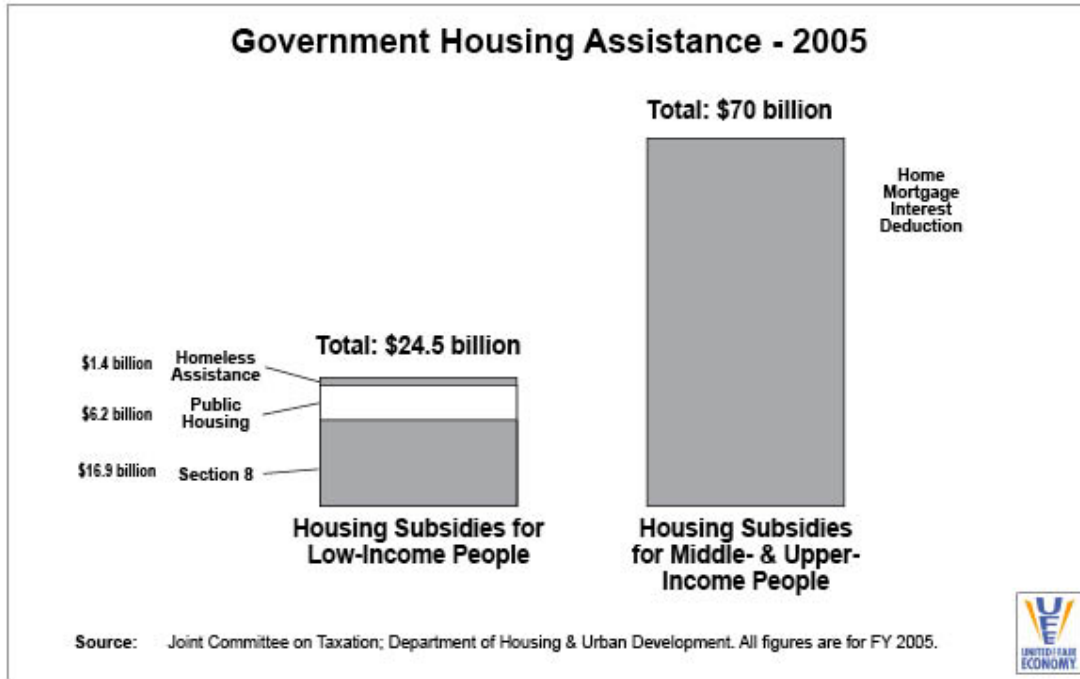



Chart 26

Share of Asset-Building Federal Tax Expenditures - 2006

Population Group by Income	Hope Credit	Lifetime Learning Credit	Student Loan Interest Deduction	Home Mortgage Interest Deduction	State & Local Property Tax Deduction	Self-Employed Health Insurance Deduction	Earned Income Tax Credit	Child & Dependent Care Credit	Preferential Rates on Capital Gains & Dividends	Tax Benefits of the Partial Exclusion for Social Security	Exclusions & Deductions for Retirement Savings	All Select Federal Tax Expenditures Combined
Bottom Quintile	0.8	1.1	0.4	0.0	0.0	0.2	27.7	0.0	0.0	1.1	0.1	3.4
Second Quintile	13.6	12.7	4.9	0.4	0.6	1.7	52.0	4.1	0.1	14.1	2.4	8.0
Middle Quintile	24.7	25.0	22.8	3.1	3.4	6.5	19.4	23.7	0.4	29.7	8.1	7.7
Fourth Quintile	34.1	35.5	29.7	14.9	17.6	15.0	0.6	30.8	2.0	36.1	17.2	12.3
Top Quintile	26.8	25.8	42.3	81.5	78.4	76.6	0.1	41.4	97.6	19.0	72.2	68.6
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *How Much Does the Federal Government Spend to Promote Economic Mobility and for Whom?* by Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle. Table 1: data from Urban-Brookings Tax Policy Center Microsimulation Model. The Economic Mobility Project of the Brookings Institute <www.urban.org/UploadedPDF/411810_economic_mobility.pdf>.




From payroll taxes to personal income taxes, tax revenues have all shifted drastically in the last decade, and even more so within the last few years. Furthermore, increasing amounts of money go to the wealthy through tax expenditures (i.e., tax deductions that do not appear in the government’s budget). In 2006, over 68.6% of funds in government programs that are designed to create mobility was directed towards the top 10%.⁷⁵

Chart 27

Minimum Wage vs. Living Wage - Massachusetts, 2008					
	One Adult	One Adult, One Child	Two Adults	Two Adults, One Child	Two Adults Two Children
Living Wage (per/hour)	\$11.75	\$19.65	\$15.48	\$21.71	\$26.11
Minimum Wage (per/hour)	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50

Minimum Wage vs. Living Wage - California, 2008					
	One Adult	One Adult, One Child	Two Adults	Two Adults, One Child	Two Adults Two Children
Living Wage (per/hour)	\$10.31	\$19.06	\$14.25	\$21.02	\$26.87
Minimum Wage (per/hour)	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50

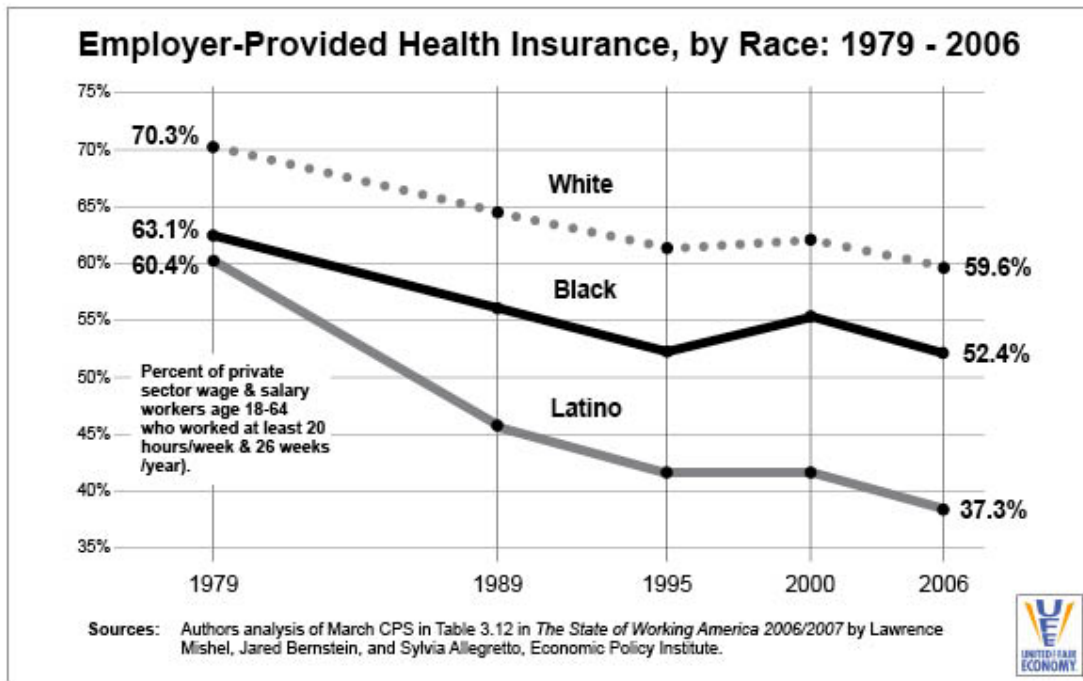
Source: Living Wage Calculator <<http://www.livingwage.geog.psu.edu/>>. The Living Wage shown is the hourly rate that an individual must earn to support their family, if they are the sole provider and are working full-time.



This trend of the government supporting the wealthiest also holds true for assets, which are the key to economic mobility and stability. This is most evident in the subprime debacle, which undermined the central assets for most people in this country, particularly people of color, and led to the greatest loss of wealth in recent history for people of color. Interestingly, the only regulation to address this situation that has passed as of September 2008 is weak, containing a clause called “preemption” that effectively eliminates strong regulation policies on the state level that provide protection from predatory lending now and in the future. Public policy officials have yet to pass comprehensive community-centered polices that address the growing racial wealth gap – a median wealth of 15 cents for people of color for every dollar of white wealth.⁷⁶ Reflecting the massive wealth concentrated among a few white people, on average, people of color have just 8 cents for 1 dollar of white wealth. And while this current crisis is disproportionately effecting people of color, particularly in the subprime housing disaster, which is well documented in *State of the Dream 2008: Foreclosed*, civil rights enforcement has been weak, and in some states non-existent.

Other government policies have also hindered economic solutions to our current crisis. Workers’ benefits are frequently tied directly to jobs – jobs that may be lost in a recession. The minimum wage was finally increased after 10 years of struggle, but was not tied to inflation so the value of a minimum wage job continues to erode. Even states like California and Massachusetts, which hold two of the highest state minimum wages in the country (at 8 dollars an hour), do not protect the populations who are most vulnerable. Jobs held primarily by the poor and people of color offer the lowest wages and offer the fewest benefits. They do not cover essential living expenses. This perpetuates structural cycles of economic insecurity.

Chart 28



In addition, federal policies providing incentives for the outsourcing of work, which disproportionately affect low-wage workers, continue to be debated instead of ended. Current federal provisions allow U.S. companies to move their headquarters outside of the United States, effectively shifting and reducing their taxes, even though they continue to make their profits from people in this country. These provisions encourage the movement of jobs overseas, particularly manufacturing jobs, which disproportionately affects people of color and the working class.

Furthermore, the shift of benefits such as healthcare, dental, and retirement accounts, from employer sponsored to employee burden, has left the most vulnerable of society struggling.

Chart 29

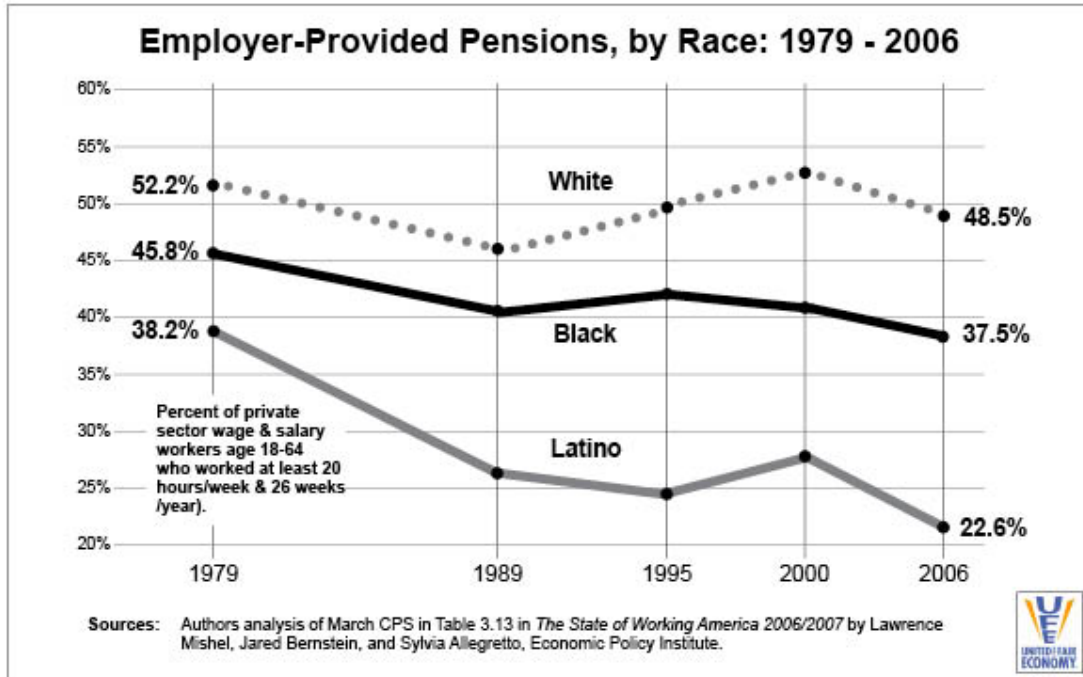
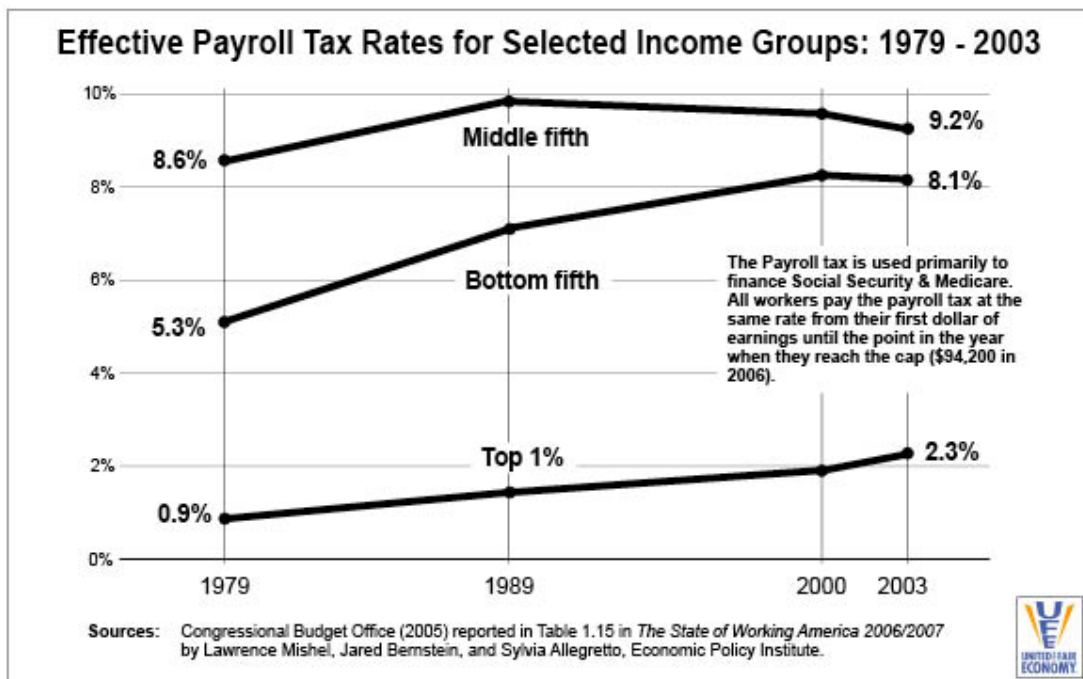


Chart 30



Many of these current policies could also potentially create future insecurity. Due to limited resources, people of color have the least amount of money saved in banks and retirement accounts. They often must continue working well past the age of retirement to supplement their income and maintain a decent standard of living.

These policies continue to trap working class people in a recession, and communities of color in a depression. In addition to the erosion of sustaining policies, protections for those who are having financial difficulties have also shifted in favor of corporations. In 2005, bankruptcy laws were changed so that debt associated with medical bills and housing, the two most expensive items for families and often the cause of their economic woes, were no longer excluded. Now, in this struggling housing market, bankruptcy courts that might have provided a solution instead perpetuate the problem.

During this financial crisis, the government has, until recently, failed to pass extensions on unemployment insurance and temporary aid to needy families, but has simultaneously pumped out hundreds of billions of dollars in subsidies to corporations and industry professionals plus a \$700 billion bailout for financial institutions. While some money was allocated for counseling people who faced home foreclosure, very little money was directly injected into communities to stabilize their human-created financial disasters.

Conclusion

To paraphrase an old adage “when America catches an economic cold, African Americans get fiscal pneumonia.” As the impacts of the current recession for the entire country continue to mount and the disastrous depression effecting people of color deepens, we are beginning to see the serious consequences of extreme inequality. This country was built on the cornerstone of equity, and though the drafters of the Constitution were unable to see it implemented, as citizens of this country we are still charged with bringing it to fruition. Lately, we have failed at our job.

Advocates, practitioners and scholars have long recognized and publicized the overwhelmingly clear empirical evidence of the economic difficulties of people of color and of the lack of a holistic, comprehensive public policy that would improve their circumstances. Yet, we continue to see the cost of not addressing economic inequality and structural racism. These issues are not intractable: they were created, so they can also be eliminated. The costs of inequality are often much greater than first perceived. Nothing is more vivid than the tragic ongoing effect of millions of subprime mortgages being sold to consumers: our current financial crisis.

Ensuring equality of opportunity can help reshape our society and help lead us to a robust economy as it has in the past during some golden moments in our history. It was a dream of Martin Luther King, Jr. to enable all people to seek their own economic self-determination, and this dream can be a shining beacon in the world. We have a unique opportunity in history to build dreams instead of nightmares, to build on hard work instead of inequity, and to replace fear with the hope that all people, regardless of their skin color, can achieve the economic destinies they deserve.

“Even though we have a civil rights bill, the Negro is still at the bottom of the economic ladder, Even though we have a civil rights bill, the Negro is still smothering in an airtight cage of poverty in the middle of an affluent society... Even though we have a civil rights bill, the Negro is still confined to slums and ghetto...”

Martin Luther King, Jr., 1965
“A Long Way to Go”

“An individual has not started living until he can rise above the narrow confines of his individualistic concerns to the broader concerns of all humanity.”

Martin Luther King, Jr., 1959
“The Measure of a Man”

Chapter 2: Chaos or Community?

In Martin Luther King Jr’s book, *Where Do We Go from Here: Chaos or Community?*, he articulated the inextricable economic link between the individual and the community. He warned of the consequences of ignoring the economic development of all communities and clearly discussed how economic inequality, exacerbated by structural racism, limits the economic futures of individuals and families.

While systematic individual incidents of racism – from hate crimes to pay inequity – still occur frequently in all aspects of society, where a person comes from and lives also plays a critical role in his or her economic future. Despite gains in some areas, the United States still remains incredibly segregated. “[T]he average white person in U.S. cities and suburbs lives in a neighborhood that is overwhelmingly white (about 84 percent) [...] The typical neighborhood for a white person is just 7.1 percent Black, 6.2 percent Asian, and 3.2 percent Latino.”⁷⁷ In a society free from structural racism and economic inequality, communities based on ethnicity, shared values and culture could and should be celebrated. In an historical context, ethnic enclaves do help create economic stability for families and individuals. Yet, in the historical context, and even more problematically in the contemporary context, communities are confined by race and income. These constrictions dictate a particular set of economic resources, leaving entire communities vulnerable compared to their white counterparts. In essence, the whiter the community, the more access people in the community have to transportation, jobs, school, social mobility and healthcare.⁷⁸ This is what scholars often refer to as “place and opportunity.”⁷⁹

Too often, the devastating impacts of structural racism on communities of color go unnoticed and unaddressed. The ripple effects of these human-made economic disasters continue to drown entire communities for generations. As the empirical evidence continues to mount on the cost of racial discrimination to individuals, community effects often end up “beyond the radar” in contemporary policy debates. In communities of color, historical and contemporary forms of economic injustice materialize in both predictable and unpredictable ways. The impact of a singular major event of injustice is the proverbial rock thrown into a pond. Once the rock hits, the ripples go far and wide.

Due to systemic inequality, communities of color get the fewest benefits during economic booms, and experience the largest deficits in economic downturns. This economic structure, caused by policies that disproportionately affect people of color, continues to cause gaps in incarceration rates, neighborhood quality, housing affordability, job access, health, retirement, and educational attainment. These gaps maintain low economic mobility for entire communities. Measures of these gaps help paint a clear picture of the economic barriers that create cycles of economic instability for communities of color. Even our current economic crisis is due in part to the instability of an

economy built on structural racism and growing class divisions. Indicators that measure these gaps, already alarming in the best of economic times, rise to epidemic levels in economic downturns.

Some argue that housing is simply a personal choice. Even though research shows that one of the largest reasons for white segregation from people of color is the view that the mere presence of Blacks will cause the loss of property values,⁸⁰ considerable empirical evidence suggests that there is a more complex reason for segregation. The research demonstrates that public policy, poorly implemented regulations, racial discrimination, improper economic zoning, state and federal funding priorities and lack of affordable housing together create “geographies of opportunity” that reinforce racial and income divisions.⁸¹

Ineffective policies, lackluster federal and state initiatives, and unaddressed structural racism often produce poverty. While disastrous to economies in general, concentrated poverty exacerbates economic inequality during economic downturns. Eight million households live in a concentrated high-poverty area, which is defined as an area with a 40% poverty rate.⁸² Despite some gains in the 1990s that began erasing the strong lines of racial and income segregation that plague the United States, a 2008 study using the latest research found that “among 58 large metropolitan areas, rates of concentrated working poverty rose in 34 over the first half of the decade, while 24 showed decline.”⁸³ Sadly, the small level of decline in high-poverty areas cannot be correlated to declines in poverty rates or incomes gains of the population. According to the most recent data, poverty has remained “level,” at approximately 37 million people, for the country at large. However, the calculation used for the U.S. Census Bureau’s poverty determination is being disputed for its lack of a comprehensive approach. The current poverty measure, which has remained the same for nearly 40 years, is based mostly on food expenditures, which underestimates economic indicators for the most marginalized, who often spend a large percentage of their incomes on utilities, rent and medical care. For example, in New York, adopting new policies that more accurately identified poor populations demonstrated a 23% poverty rate as compared to the federally calculated poverty rate for New York of 18.9%.⁸⁴ There have been small declines seen by the study in the metropolitan areas but they can be attributed to undercounting and gentrification of urban areas. In other words, the grim reality is that America’s communities are re-segregating by race and class.

Blacks and Latinos still disproportionately live in areas with concentrated poverty compared to their white counterparts. According to the most recent census data, Blacks and Latinos are five to six times more likely to live in an area of poverty than whites.⁸⁵ As an example of this national phenomenon, a study in the Boston Metropolitan Area found that “[p]oor blacks and Latinos are over twice as likely to live in high-poverty neighborhoods than are poor whites. Indeed, a substantial share of poor whites reside in largely middle-class, suburban neighborhoods, while most poor blacks and Latinos dwell in much higher-poverty, urban, racially-segregated neighborhoods. Incredibly, even Black and Latino households with incomes over \$50,000 per year are twice as likely to live in high-poverty neighborhoods than are white households with incomes less than \$20,000.”⁸⁶

Chart 31

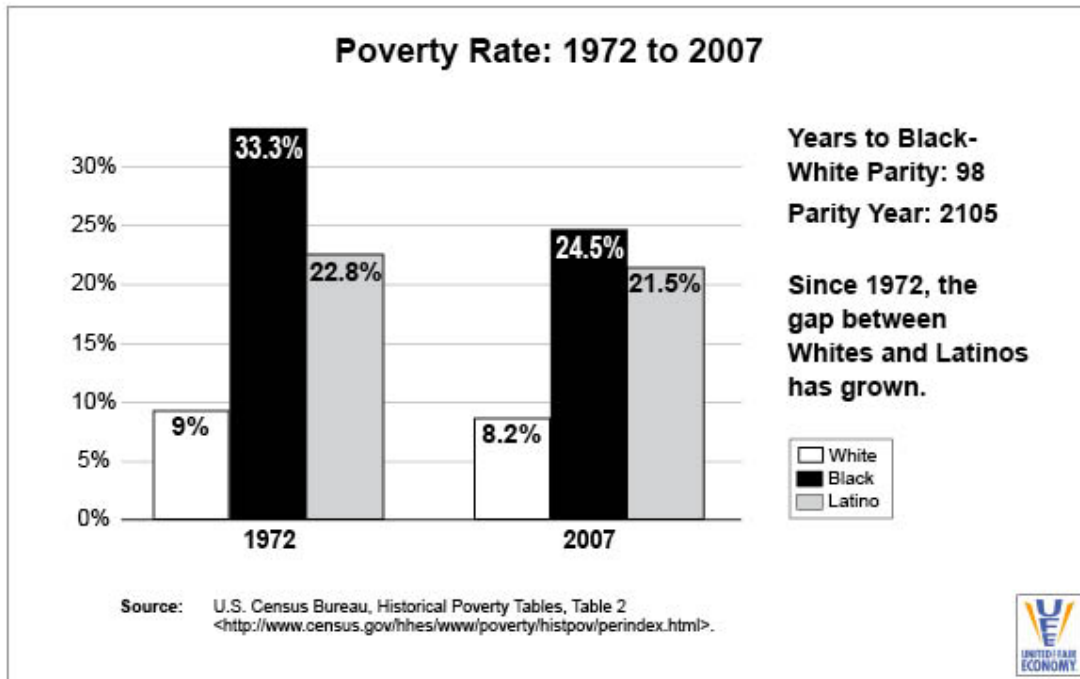


Chart 32

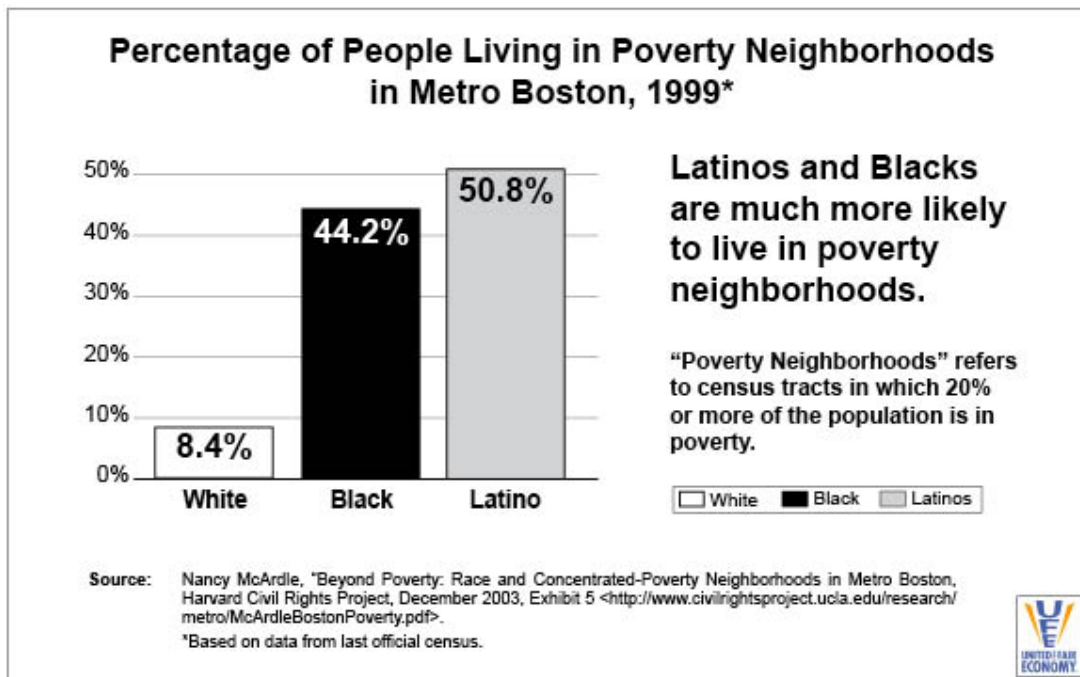
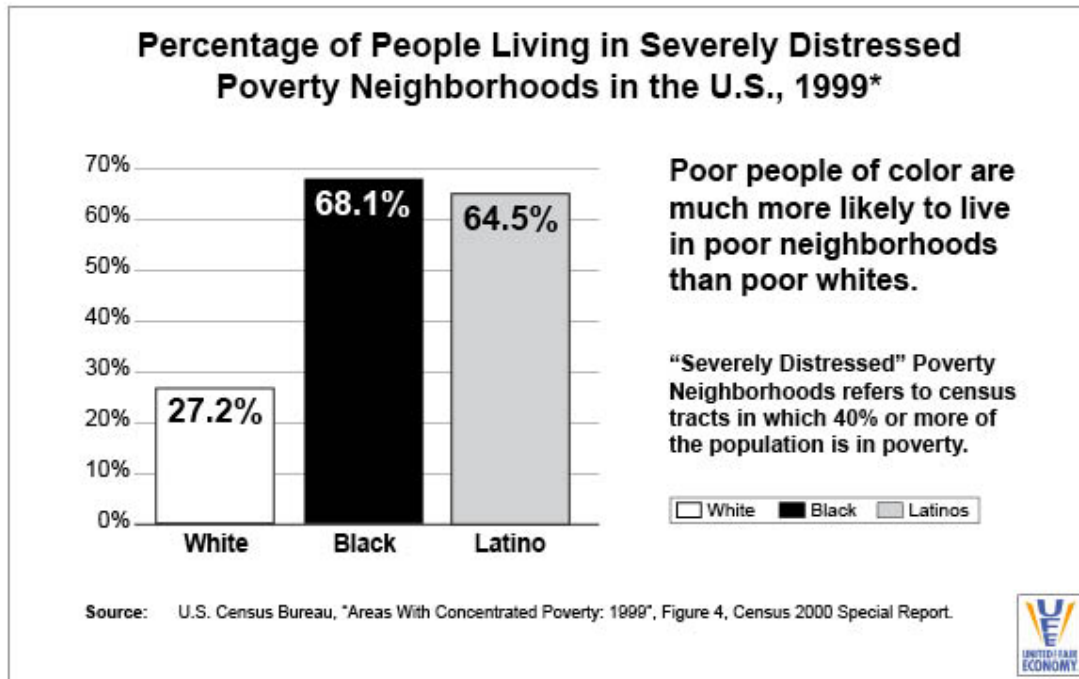


Chart 33



While poverty has remained an issue for decades, we continue to ignore that race is one of the largest predictors of who is poor, who becomes poor, and who stays poor. During times of crisis, these inequalities create pockets of economic depressions that drown communities for generations. Empirical evidence continues to show over the long-term that regardless of income and family structure, race predicts the type of neighborhoods families are exposed to. Yet, the more problematic issue is the constant battling of families and individuals of color to leave high poverty neighborhoods, only to find themselves falling back into the area in a relatively short period of time. People of color experience this “reemergence” into highly poor communities at vastly different rates than their white counterparts.⁸⁷ One study found that only 10% of whites experienced living in a highly poor neighborhood in a 10-year period.⁸⁸

The depth and impact of poverty on individuals and families cannot be understated, yet it is the structural “silo-ing,” the racial segregation of specific communities, that continues to destroy the economic futures of the people trapped in these communities. The concentration of poor and low-income people in communities creates structural barriers that maintain a nearly permanent population that remain poor and economically immobile. In communities with concentrated poverty, jobs are scarce and crime rates are high. Health problems abound and educational attainment does not. Schools are underfunded and usually underperforming. Access to transportation is difficult or non-existent. Community and individual assets are much lower than in other communities. With people of color being overrepresented in the lowest-income quintiles, the inequalities perpetuated ensure that economically marginalized areas remain for generations. Racial and economic segregation not only damages the future of those who experience it, but continues to be a crack in the foundation of our economy that serves to worsen economic downturns, affecting the entire country.

The Growing Community of Working Poor

It is well documented that low-income and poor individuals often work harder jobs, longer hours, and for less pay than their counterparts, despite the popular belief that these populations do not work. Most of those who are unemployed are seeking work, but – due to structural inequality that drains good jobs from communities – the need, desire and ability to work does not translate into a job. In 2006, 7.4 million people made up the “working poor,” which means they worked for at least 27 weeks (over 6 months) of the year, but still lived below the federal poverty level. Blacks and Latinos are more than twice as likely to be considered working poor, compared to their white counterparts. The major problem for the working poor was not the inability to work, but what the Bureau of Labor Statistics calls “market problems.” These problems typically fall into three categories: unemployment, low earnings, or involuntary part-time employment. Most job opportunities available in heavily concentrated poor communities are part-time, temporary jobs. In 2006, the most recent data established that 83.6% of those who usually worked full-time experienced at least one labor market problem. The majority of the working poor (7 out of 10) reported low wages as being the most persistent problem.⁸⁹ A recent report states that the number of jobs with pay below the poverty threshold rose to 29.4 million, or 22% of all jobs, in 2006, from 24.7 million, or 19% of all jobs in 2002.⁹⁰ In other words, a person could work full-time all year and still have an income that would place them at or under the poverty threshold.

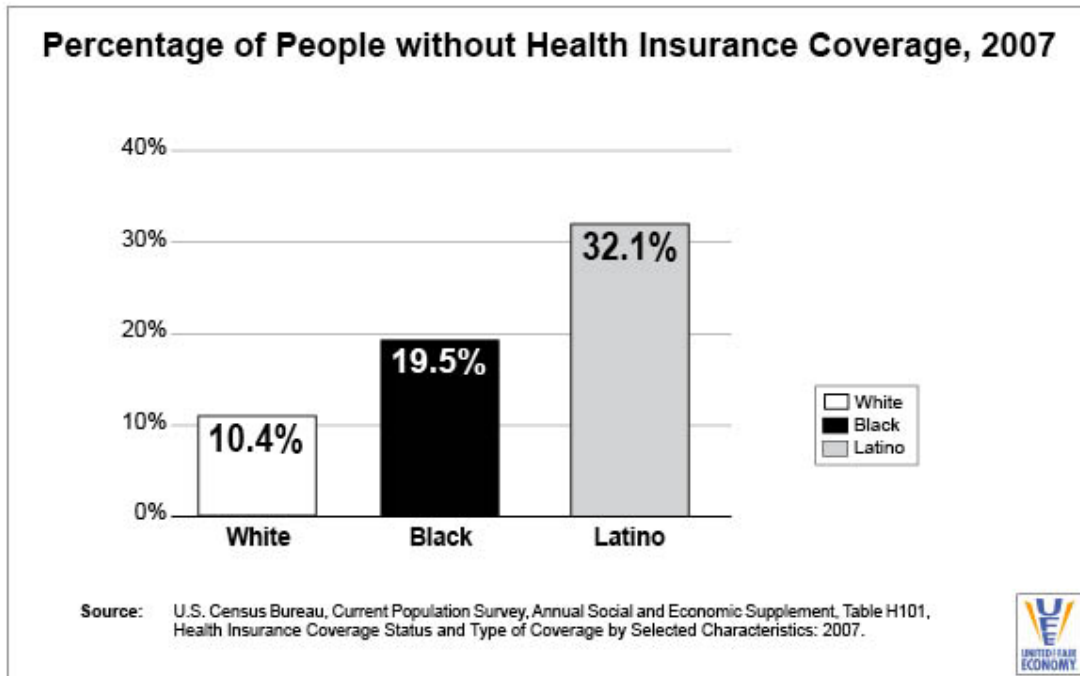
Community assets erode away as major industries leave urban centers with large low-income and poor populations. This impact is a double burden: the loss of a job removes individual financial assets and also reduces community assets from business investment (which helps support roads, schools, and hospitals). Public policy that continues to shift jobs from urban centers to rural or suburban spaces and provides incentives to move jobs abroad limits access to jobs for populations who lack the transportation and financial resources to relocate. In these poor communities, jobs that would provide long-term financial security, such as those in the manufacturing industry, are being replaced with service-industry jobs. This drastically changes the job landscape from one that, at best, would often have unions, upward job mobility and employer-based benefits, to one that lacks unions, features high turnover, and few to no employer-based benefits.⁹¹ In particular, studies have found that what academics term “spatial mismatch” affects people of color more than their white counterparts. In essence, the less industrialized and decentralized the metropolitan area, the less able people of color are to get access to jobs.⁹² This is because even poor whites often have more economic resources and forms of social capital to follow the jobs than do their counterparts of color.

The Benefits of Working: Black and White, Low-Income and High-Income: Their Effects on Community

The absence of employer-sponsored benefits, particularly healthcare, maintains the already problematic level of health disparities these low-income communities experience. Abandoned buildings that were once industrial spaces now crowd poor urban centers, often called “brownfields”. Some buildings still have lead paint plastered to their walls and contribute to giving people in poor communities and communities of color more health issues than people in any other communities. Furthermore, the pollution from industries that have been deregulated in an attempt to maintain their presence creates health disparities for generations.⁹³ These major environmental factors, combined with the population’s relative inability to receive regular check-ups from hospital staff and to afford medications, immunization and vaccine shots, literally take years off the lives of people within these communities. People of color bear the burden of those costs disproportionately. In the documentary *Unnatural Causes*, the links between poverty, race, and location are clearly laid out. This documentary brings to light the role of stress due to job fluctuations, school issues, high crime, long commutes and insufficient public funding that affects the health of poor people and communities of color. It finds that even overweight white smokers will live longer than their people of color counterparts with the same habits, and in some instances will live longer than people of color who do not share the same habits.⁹⁴

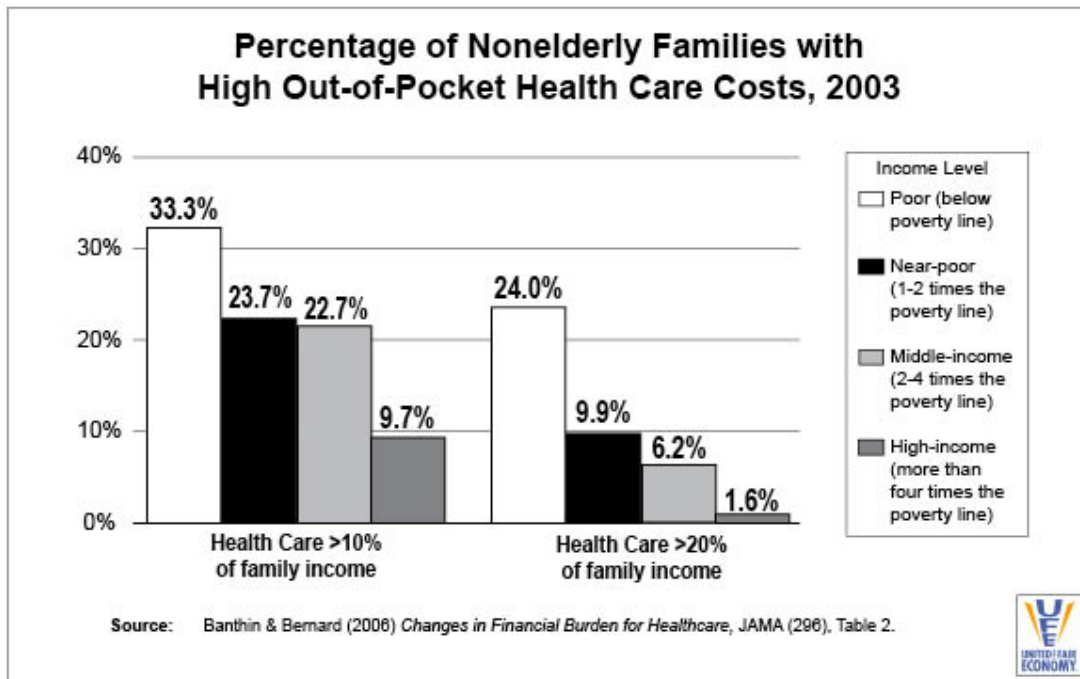
In addition, and perhaps even more problematically, a large percentage of this population do have some form of insurance, but it is inadequate to meet their needs, and limits their ability to qualify for government sponsored healthcare, which can cover more, and cost less. Of the underinsured, an estimated 73% had incomes equal to less than 200% the federal poverty level⁹⁵. In other words, the poorest and sickest typically have inadequate to non-existent health coverage.

Chart 34



Furthermore, the poor, who are disproportionately people of color, pay more for healthcare, based on where they live, than their wealthy counterparts, and receive the least amount of healthcare resources.⁹⁶ Their wealthy counterparts can afford insurance that will negotiate with hospitals, pharmacies and other institutions to obtain the best prices. In poorer communities, due to the low numbers of insured, prices are defined and not negotiated. These “invisible” health problems affect their ability to even work the low-paying, low-mobility jobs available in their communities.⁹⁷

Chart 35



Crime and the Community

Crime, which has been highly correlated with concentrations of poverty, has dual effects on high-poverty communities – physical/emotional and economic. The violence has long-lasting ripple effects. Robberies, murders, and violent crimes are higher in these neighborhoods, leading to lower longevity rates. Crime rates affect the value of homes, rental rates, and school safety for children. Crime, and the disproportionate number of crimes that the poor and people of color are convicted of, can severely hamper future earning potential, even for small crimes such as traffic violations. Poor people and people of color are arrested more often and are given longer sentences for the same crimes than their white and wealthy counterparts.

Chart 36

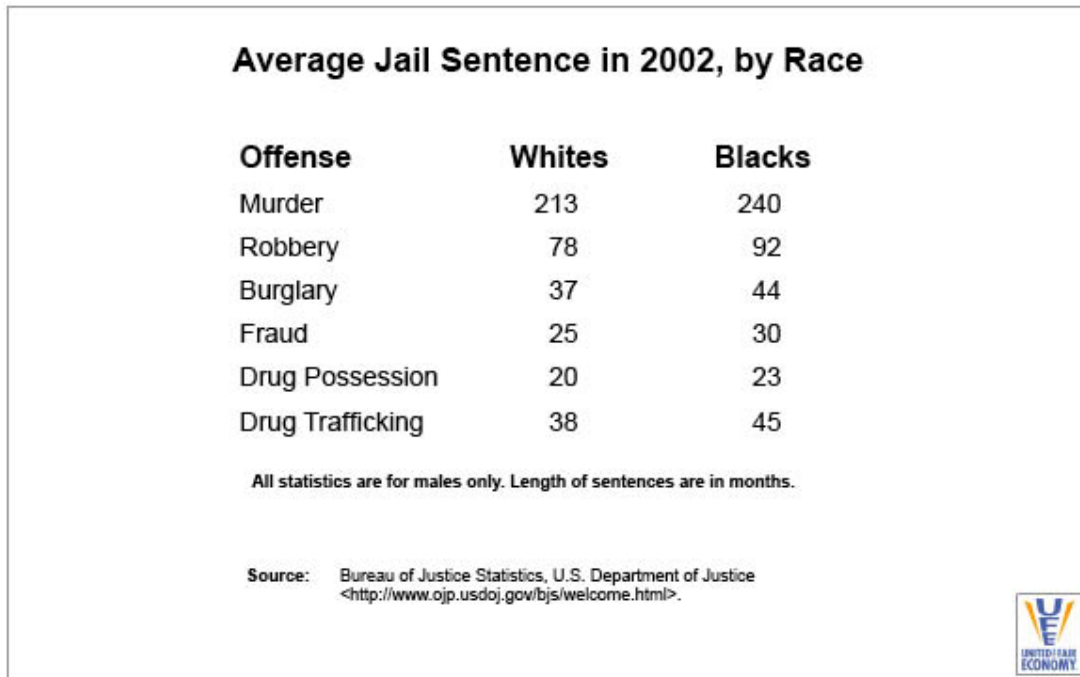
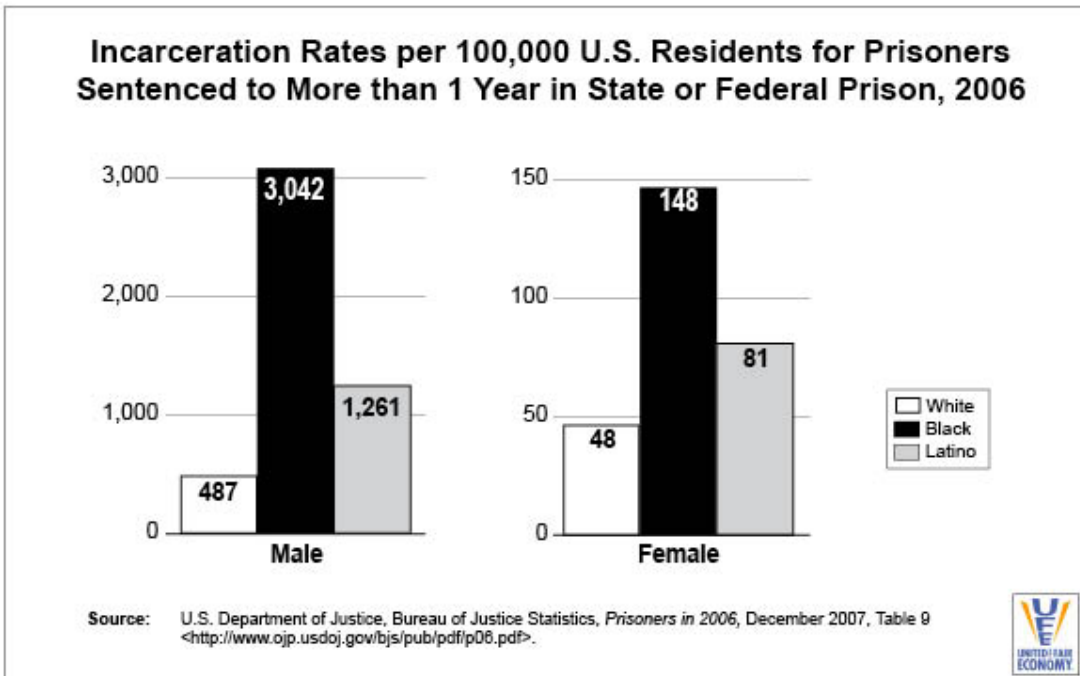


Chart 37



People of color are disproportionately represented in the prison population. A Black boy has a 1 in 3 chance of going to prison in his lifetime and a Latino boy has a 1 in 6 chance.⁹⁸

Chart 38

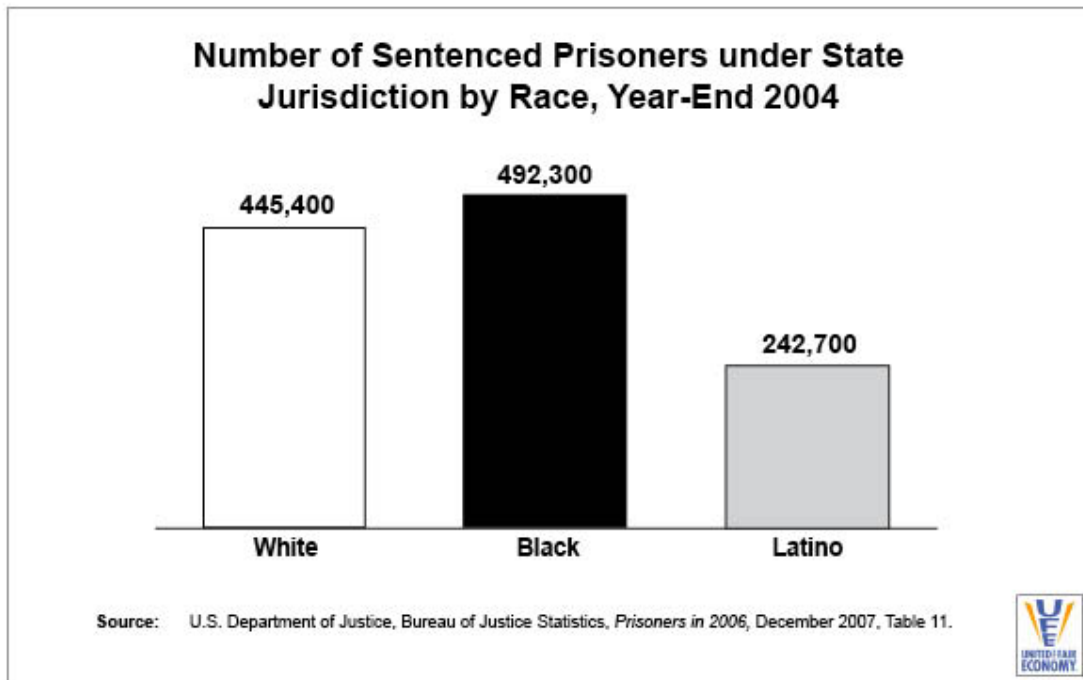
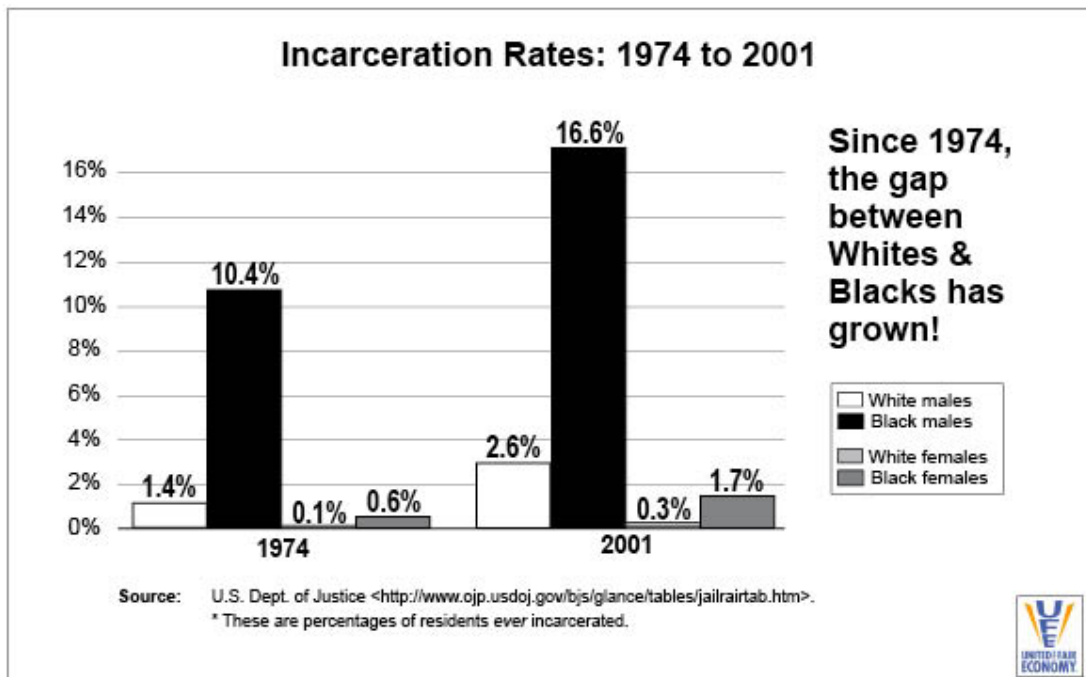


Chart 39



Arrest and imprisonment are just the beginning of the barriers for poor people and people of color. Often, having a criminal record, even if the crime was committed at an incredibly young age and was a relatively small offense, can create barriers to employment. Sadly, at times, the barriers are financial, such as not being able to post bail. Lacking funds for bail results in immediate imprisonment, regardless of innocence, and may later affect employment, housing and other needs.⁹⁹ These barriers can seem entirely overwhelming, and can result in individuals resorting to “criminal” behavior as a means to create income that leads to cycles of recidivism (i.e., the re-entry into prison). Rob Carmona, a self-identified ex-offender and substance abuser, before the U.S. Congress Joint Economic Committee, eloquently laid out the problem men of color face when they are dealing with “re-entry” into communities:

“Black/Latino men live in communities of concentrated poverty. Beyond being affected by the social pressures described above, these communities are isolated from the economic mainstream and thus lack networks of employed people, access to the informal avenues most people use to hear about job openings, and working role models.

Society at large tends to further distance Black/Latino men from the job market. There are long-standing stigmas about minority youth, young adults, and Black/Latino men as being poor performers on the job. Additionally, if these men are ex-offenders, there are additional barriers keeping them from being considered for many types of employment. (Jobs or entire industries are out of reach, such as banking, law firms, jobs at airports, etc.) Many employers impose additional restrictions that go far beyond those imposed by law. Many employers will not hire former offenders even if they are legally permitted to do so, fearing problems among co-workers, liability problems, risk to property and image and reputation.”¹⁰⁰

Employers often discriminate based on criminal background checks for myriad reasons. Many employers do not know how to read or interpret the criminal background paperwork they are requesting, a problem exacerbated by the paperwork itself, which is often marred with mistakes, indicating the wrong crime, severity of the crime, or crimes that should not be listed.¹⁰¹ The effects of incarceration are compounded by racial discrimination: a white applicant with a criminal background is more likely to get a position than the equivalent person of color without any criminal record.¹⁰²

The following case studies look at two communities with concentrated poverty, the consequences of that poverty, and the ripple effects of ineffective public policy that does not address the nature of structural economic racism. These communities each have a large concentration of people of color, and the case studies reflect the complex nature of policies that maintain racial hierarchies, but which on the surface are seemingly “color-blind.”

Case Studies

Springfield, Massachusetts: Employment

It is hard for residents of the case area to find a job – especially one that pays a living wage. Many residents in the community lack a high school diploma or college degree, limiting their employment opportunities. Moreover, there appears to be a mismatch between the kind of jobs people are trained for through government programs and the higher-wage jobs that provide a route out of poverty.

In particular, Springfield has experienced a spatial mismatch between residents' skill levels and available jobs. Between 1985 and 2000, most of the job growth has occurred in the metropolitan area, while the city of Springfield has lost jobs in industries such as manufacturing, construction, and finance. In contrast, most of the job growth in Springfield has been in the services sector. Aimee Griffin Munnings, executive director of the New England Black Chamber of Commerce, observed that residents “tend to have multiple jobs to survive because [the] service [industry] does not pay well.” A recent study by the Pioneer Valley Planning Council confirms that Springfield's residents “are heavily concentrated in service and sales or office occupations.” The report further noted although there are a number of jobs in health care and education, Springfield residents tend to be “serving in lower wage occupations in these industries.”

The lack of higher-paying jobs in Springfield contributes to lower household incomes. The median household income in the case study area in 2000 stood at \$18,804, less than half of the median household income of \$41,206 of the Springfield Metropolitan Statistical Area (MSA). “How do you manage your life on minimum wage?” asked Leslie Lawrence, who works for MassDevelopment, an economic development agency. James Morton, president and CEO of Greater Springfield YMCA, echoed Lawrence's point, “In this community, livable-wage jobs are even harder to find than that baseline [minimum-wage] job.”

The case study area's unemployment rate is also significantly higher than the region's and is especially high among specific subgroups. In 2000, the unemployment rate for the case study neighborhoods was 14%, compared with 5% for the Springfield MSA. The fastest growing population in the case study area, the Hispanic population, has the highest unemployment rate of all racial or ethnic groups, with 18% of Hispanic males and 24% of Hispanic females unemployed.

Skill-building and training programs are available to residents. Some are located close to the case study area; however, the training opportunities do not always match available job opportunities. The Massachusetts Career Development Institute in Springfield assists about 1,000 students per year in taking the General Educational Development Test (GED) or obtaining certification in a specific profession. But completion of the program does not necessarily mean that participants are entering professions with high-paying jobs. James Morton, former director of the institute, observed “frequently the demands of the job market change, yet it takes considerable time for training dollars to reach the field to provide the specific training needed to meet the demand.”

East Austin, Texas: Gentrification

Local residents saw gentrification coming 10 years ago, but it has accelerated over the past several years. “The market hit the east side of town like a hurricane,” said Paul Hilgers. “There’s not much you can do to stop the market forces.” He pointed out the dilemma of gentrification – those moving have “great opportunities,” he noted, but longtime residents do not.

Vacant lots and modest, run-down houses are selling at previously unheard-of prices, making them unaffordable for long-time residents. Locals see properties being flipped, and white-collar professionals without children are moving into expensive condos and houses that are newly renovated, expanded or brand-new. What has been largely a single-story landscape is going vertical. These developments have driven up land and house values exponentially.

As the face of housing in East Austin changes, the increase in housing values has led to a new affordability pressure, particularly among low-income residents who remain in the community. Housing values in East Austin have increased an estimated 117% from 1999 to 2005 compared with the city’s increase of just 30%. Increased property values are likely to affect renters, too. A 2007 report on East Austin published by the University of Texas School of Public Affairs states that “as property values increase, the problem [of affordability] for renters will only become worse.”

The production and supply of affordable housing units falls far short of demand. In early 2007, 4,000 families were on the Section 8 waiting list. Even for those who are able to get vouchers, it is becoming increasingly difficult to find housing options near downtown that will accept them, forcing residents to find affordable housing farther away. As low- and moderate-income families move away from East Austin and become more dispersed, they are farther from the social services and social networks they depend on for their quality of life.

Rising property values have also led to difficulties for low-income homeowners facing increased property taxes. One couple explained that their property taxes have risen approximately \$500 in each of the past three years. Although the associated house-price appreciation has increased homeowners’ wealth on paper, their incomes have not increased at a commensurate rate that enables them to pay their property taxes. Moving elsewhere in the metropolitan area to “cash out” on their increase home equity is not always optimal. Other neighborhoods within Austin are also expensive, and cheaper locales are far from downtown and its employment opportunities and amenities.

Increased property taxes have also affected people who have inherited a family home. Local resident M.H. Lopez, recently inherited a house from her mother who paid annual property taxes of \$900. When her mother died and the house was reassessed to reflect its current market values, the property tax bill rose to \$8,000.

For people like Ms. Lopez, being unable to afford staying in East Austin where their relatives’ lives are centered is an issue that goes beyond the pocketbook. In 2005, Amanda Anderson inherited the home she grew up in. “Like the homes of many black families in East Austin, it holds special significance because [my] parents sacrificed to buy it in an era when banks made few loans to minorities,” she explained.¹⁰³

Children and Community Impacts

Children are often the most telling indicators of social inequities, as they often have to deal with the problems of economic and racial disparities without having contributed to their creation. It is through the lens of children that we see the communities we created are vastly separate and unequal.

Chart 40

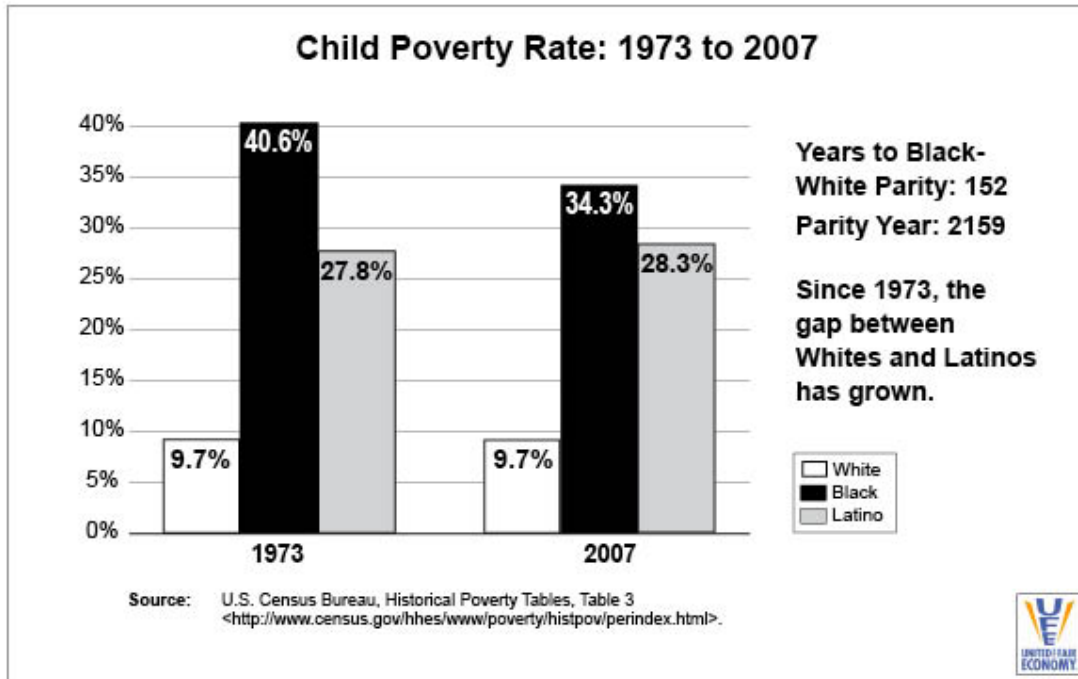
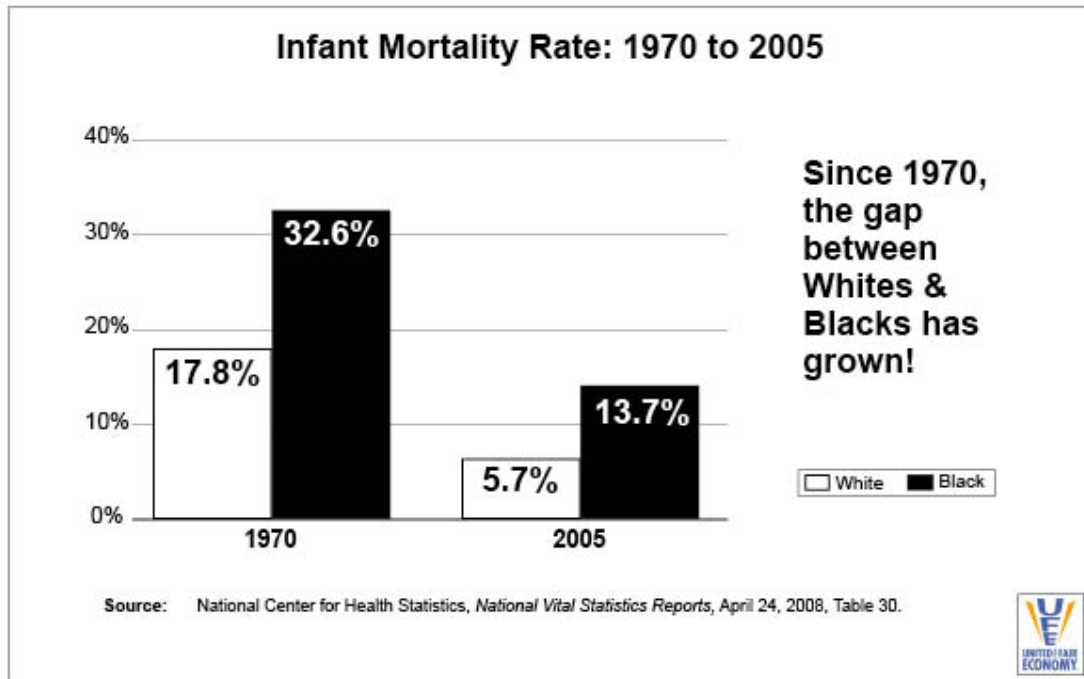


Chart 41



For most people in this country, education is the tool with which to build an economic future, and the education of children is a top priority. In one study the question was asked, “If you could choose one thing that can most help a young person succeed in the world today what would it be?” College education was the most highly selected. More Latinos (65%) and Blacks (47%) than whites (33%) felt that a college education was the most important factor to help young people succeed.¹⁰⁴ Schools play an important role in the life of a child, ranging from emotional development to predicting key economic destinies. According to empirical research the non-financial returns of education for individual and communities are vast:

- Better health
- Greater life expectancy
- Clearer self-identity
- Lower crime rates
- Environmental benefits

Where you live, your race, and your economic resources unequivocally are major determinants of childhood educational achievement and quality.¹⁰⁵

“Middle-class schools have an adequate financial base (as measured against student needs) to provide small class size, modern equipment, and the like. Most studies find that low income students need considerably more spent on their education than middle-class students do in order to produce high levels of achievement, yet affluent districts spend a cost-adjusted \$938 more per pupil, compared to high-poverty districts.”¹⁰⁶

Economic resources impact children until their adult years in a many ways. Recent studies show that, as inequality grows, high-income children’s educational attainment and outcomes improve while outcomes for children of low-income families are lowered.¹⁰⁷ Furthermore, access to early education is often scarce or highly expensive, limiting the ability of low-income people and communities of color to access education for their children at an early age. Inequalities begin before formal schooling even starts.¹⁰⁸ The disparities also exist in the acquisition of advanced degrees. Ironically, even with higher test scores, low-income children are less likely than their wealthy counterparts to enter college.

The wealth and income of families and communities predict the type of quality education one has up until high school, and has a strong correlation with access and completion of formal college educational attainment. Because race is highly correlated with class status, people of color are more likely to be on the side of low-income, poor quality schools and low economic mobility. Education is tied to greater economic success including higher incomes and earnings, more stable employment and more stable family support and higher wealth.¹⁰⁹ In essence, these high poverty communities create vacuums of economic access for a large portion of this country, disproportionately affecting people of color. In Metropolitan Boston, 97% of the high concentrated minority schools have concentrated poverty.¹¹⁰ In States like Ohio, the average Black attends a school with a poverty rate of 61–78% while their white counterparts attend schools with a poverty rate of 23–30%.¹¹¹ While some have claimed the inferiority of low-income students and their parents, families or communities, studies have found that low-income students attending middle-class schools perform higher, on average, than middle-class children attending high-poverty schools.¹¹² In Minneapolis, Minnesota, the racial segregation of schools is worse than it was in 1970, two years after race riots erupted throughout the city.¹¹³ Due to this high correlation of class, schools with high numbers of people of color have fewer resources, lower test scores, lower graduation rates and fewer economic resources.

Chart 42

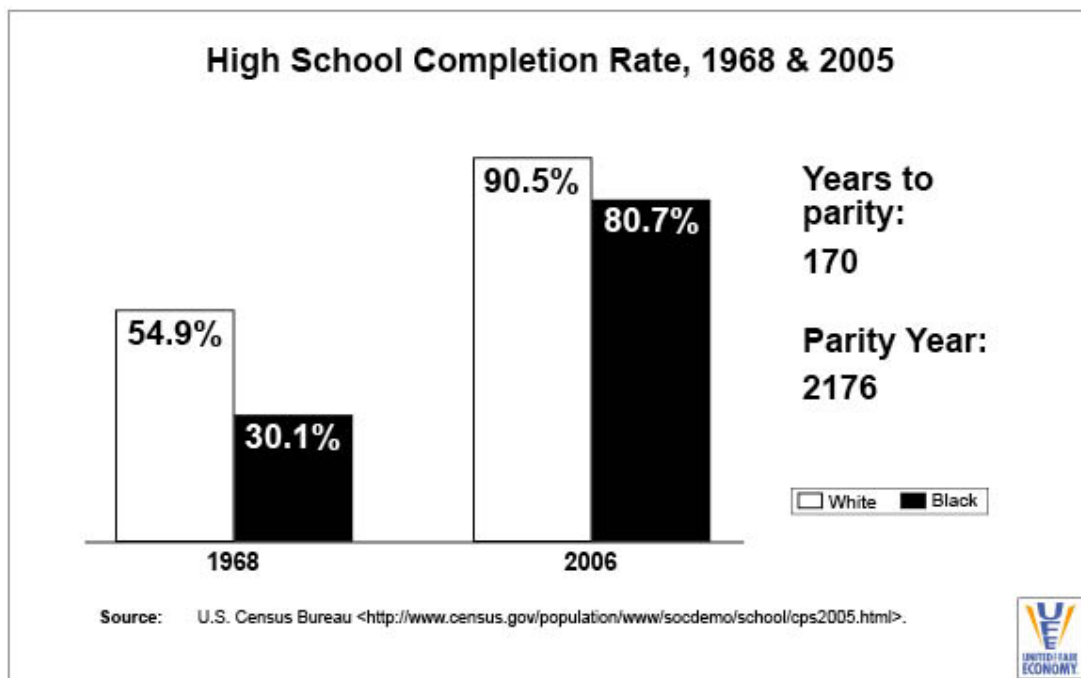


Chart 43

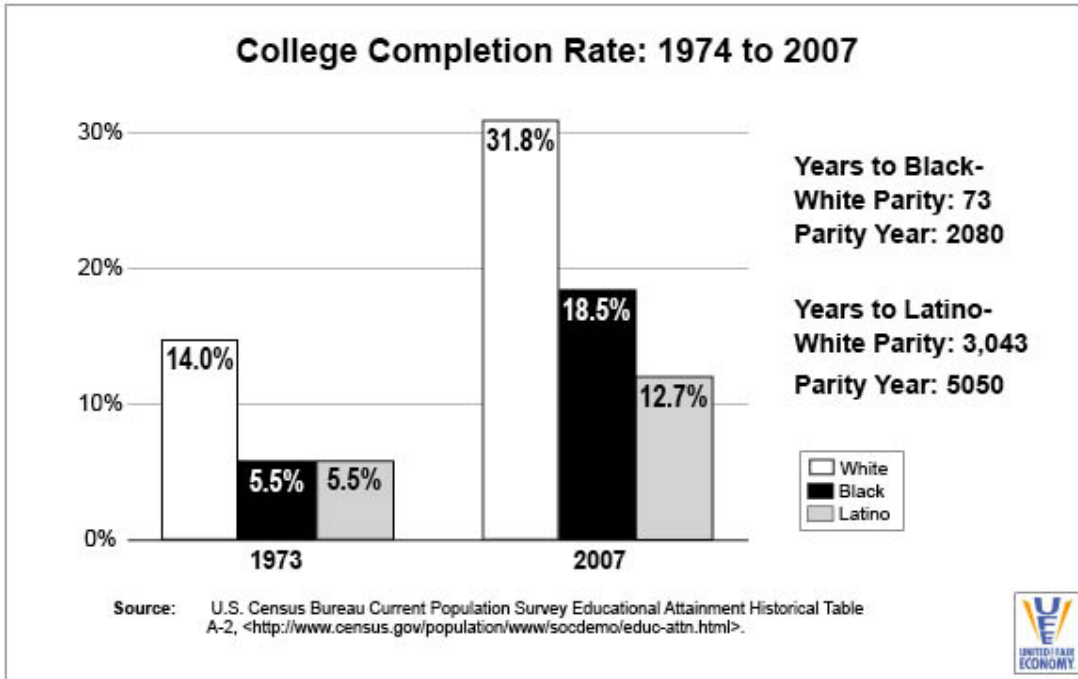
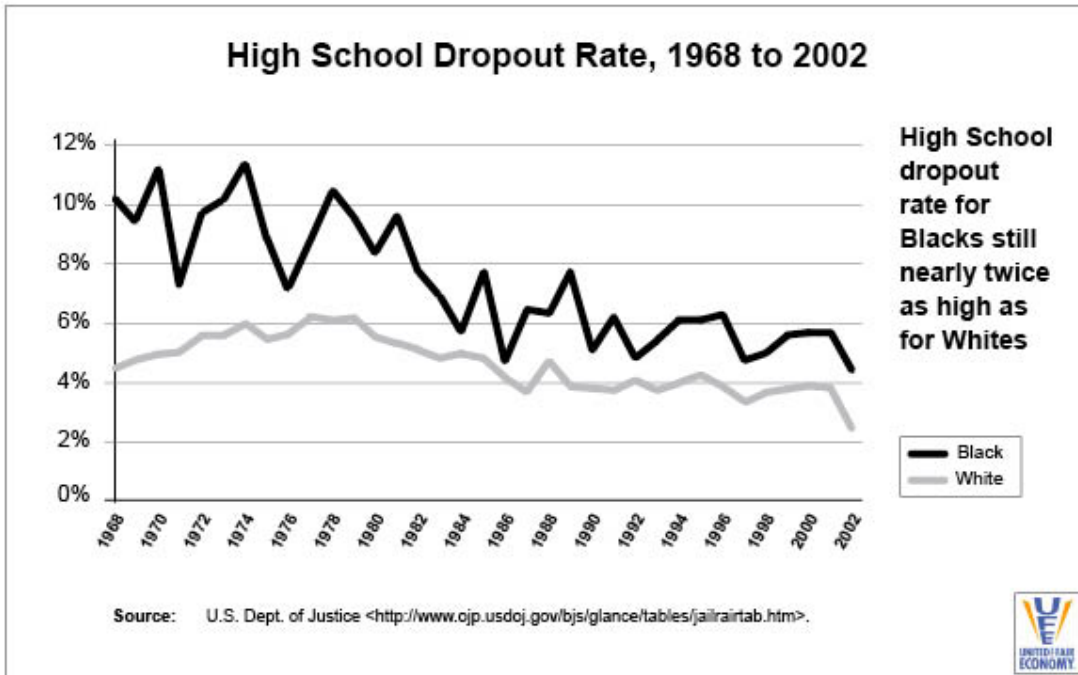


Chart 44



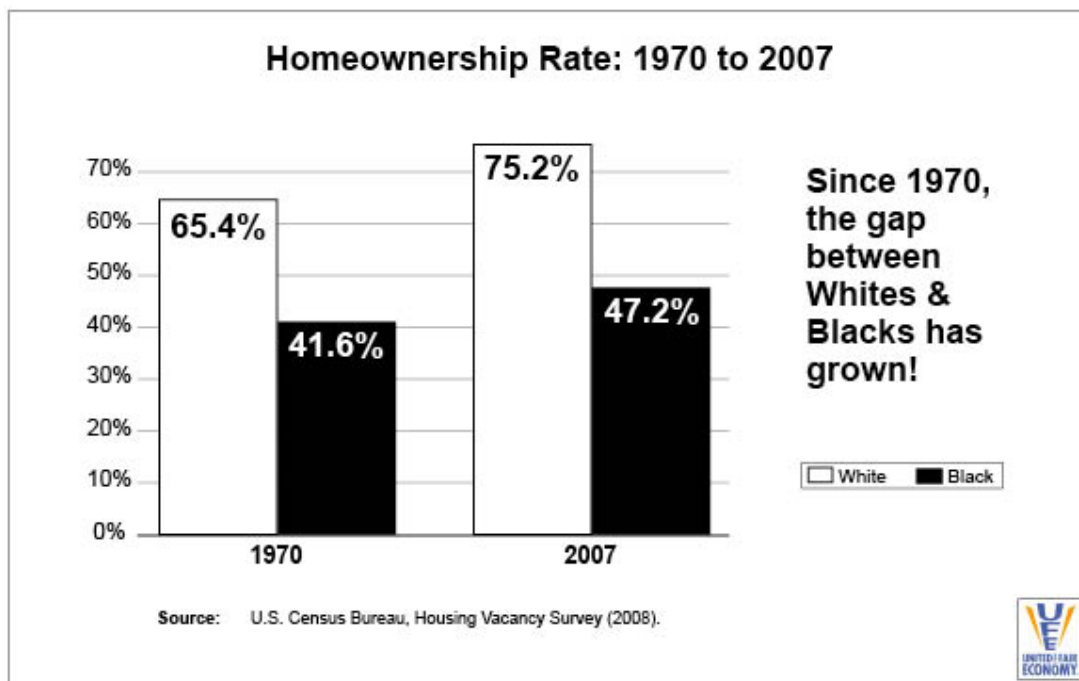
Children of color travel further to schools, have fewer formally qualified teachers, fewer school resources, and a higher level of discipline for the same issues in schools¹⁴ than their white counterparts, regardless of income. Due to the economic realities that people of color are more likely to be poor, live in concentrated poverty, rent rather than own, and have access to fewer resources, these schools are almost created to fail and yet, at times, manage to barely stay afloat against all odds. The economy of these racial disparities is rooted in already stated limited job access for people of color, but also the value of the assets they possess. In other words, for most states, housing values determine the type of funding that schools receive. When communities of color, regardless of income, are less valued compared to their white counterparts, the schools suffer the consequences.

These issues of race and class in communities are often more complex than the assertion of individual blame placed upon them. The large disparities speak to the relationships among economic structures, such as: policies; the tax code; and legal enforcement that is absent, misused or insufficient.

“Unintended Consequences” and Foreclosure

Stagnant wages, nearly unprecedented income and wealth inequality, high unemployment, surging underemployment, inflation, and the absence of comprehensive, holistic community policy solutions have perpetuated the deepening recession for everyone in this country, and the economic depression for people of color.

Chart 45



State of the Dream 2008: Foreclosed documented that the misguided policies of the last 10 years had created a black hole that was sucking the wealth out of our economy and causing communities of color to suffer the largest loss of wealth in modern history. Since that report was issued in January 2008, estimates of foreclosures have increased from 1.1 million to 2.2 million¹¹⁵ and the estimated loss of housing wealth has increased from nearly \$2.2 trillion to \$2.7 trillion.¹¹⁶ In addition to those directly affected, this crisis continues to erode critical community assets from neighborhoods, towns, cities, states, and the entire country. The devastation of communities of color reflects the precarious economic nature of these communities due to historic and contemporary discrimination. But this vulnerability has been visible for years, and the devastation was preventable.

Chart 46

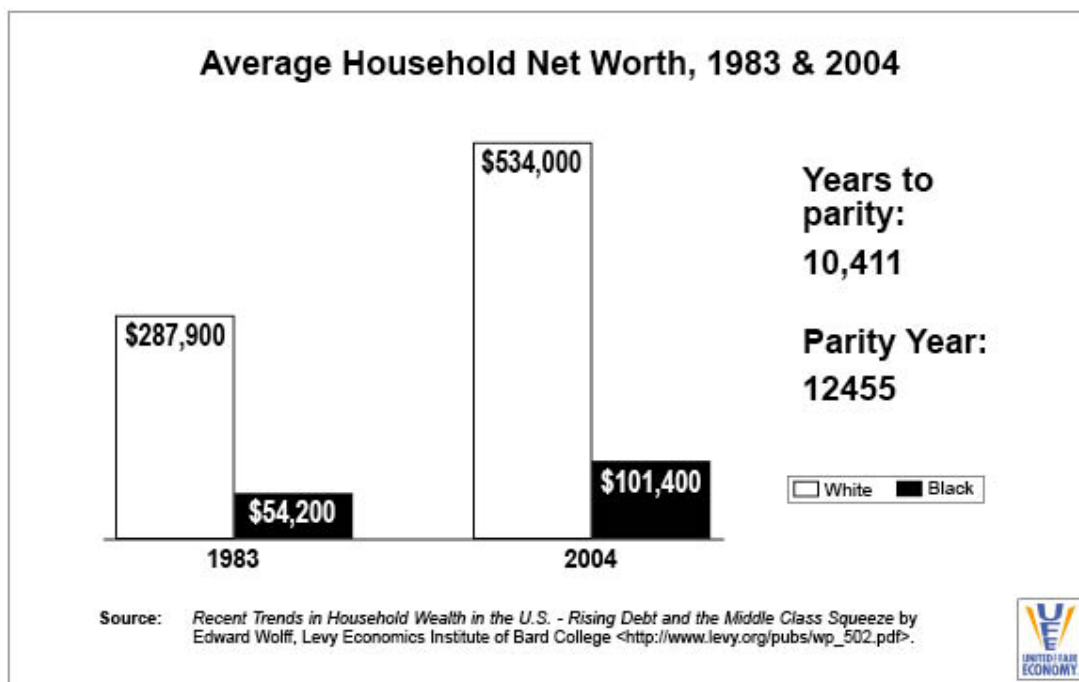
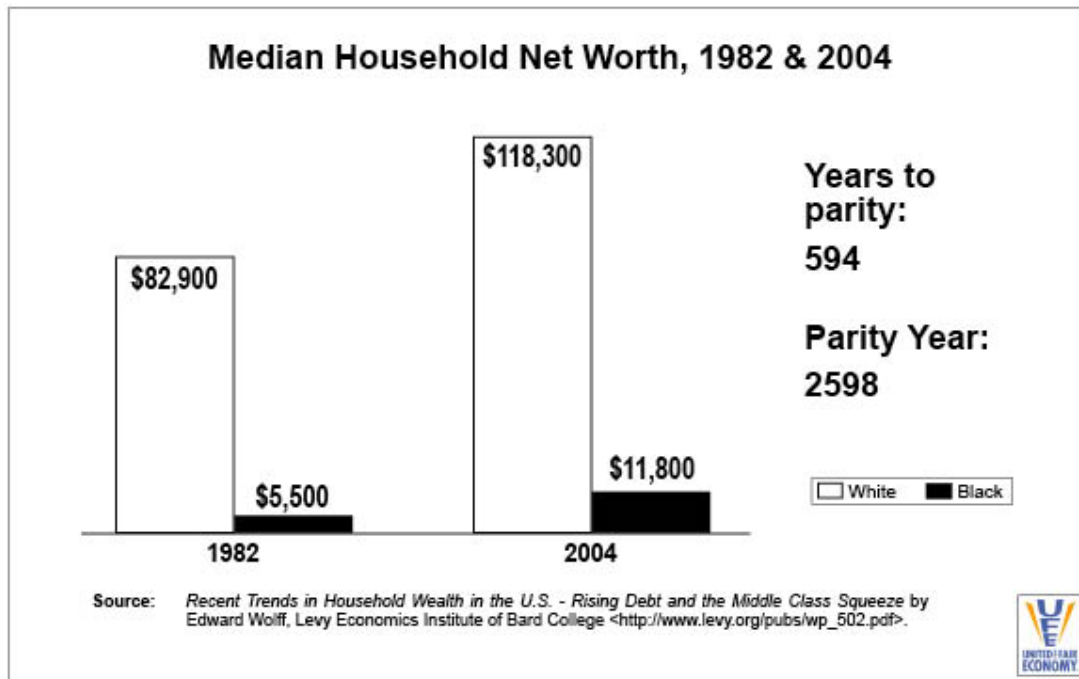


Chart 47



Housing value has continued to plummet, decreasing for both those directly foreclosed and those owning homes in the same neighborhoods. Analysts predict 40.6 million homes will experience an average \$8,667 decrease in value due to failed predatory subprime loans made to their neighbors.¹¹⁷ Communities of color, whose home values are already lower than their white counterparts and who received predatory loans at 2 to 5 times the rate of their white counterparts, have been hit particularly hard. In places such as the District of Columbia, which has a large population of color, The Center for Responsible Lending projects an average decrease in value of \$18,930 per unit.¹¹⁸

The ripples of the faulty mortgages peddled in communities of color go further than just the decreased value of neighbors' housing, extending into the coffers of city governments. It is estimated that communities are losing \$8.45 million dollars in tax revenue due to the foreclosure crisis.¹¹⁹ These losses are especially high in communities with a large number of people of color, regardless of income status. Tax revenue in many communities with large numbers of "middle-class" income earners have been hit disproportionately harder than those with large numbers of low-wage income earners. With the loss of revenues, local and state governments are heading for shortfalls and are planning spending cuts. Ironically, it is often essentials like school, health insurance, and other social services that are the first cut.

Overall, in 2008, 29 states were experiencing budget shortfalls, with a total deficit of over \$48 billion.¹²⁰ California is predicted to slash its education budget by \$4.8 billion in 2009.¹²¹ President Bush proposed reducing the national education budget by \$3.2 billion by eliminating 47 key educational programs in the most recent budget session.¹²² As a result of these federal and state-level budget crises, some communities across the country are moving to a 4-day school week. In other words, the best chance for people in impoverished communities to increase their opportunities is now being limited. While cuts are being made to the wealthiest schools, they are still providing high quality education. Cutbacks disproportionately affect schools of color, due to the precarious nature of funding associated with those schools and communities.

Conclusion

Empirical evidence continues to mount of the growth of a permanent “lower class” that is disproportionately made up of women and people of color. But more disturbing are the emotional stories of families and individuals who work hard and yet find themselves stuck while others pass them by. For the first time, large communities of young people may not make as much income as their parents. Generations of discrimination and economic marginalization have exacted a deep emotional toll. Martin Luther King, Jr. envisioned a world in which a person who is willing to work can find it, a person wanting a home can buy it, and a person wanting education can earn it, but we are still far from that dream.

Problematic government policies have created high poverty neighborhoods that restrict economic opportunities and mobility. Structural barriers limit job opportunities to low-wage offerings, poor healthcare hinders people in these communities from working, and criminal records restrict the job opportunities of even the most willing individuals. Economic assets are nearly non-existent in communities with concentrated poverty. While evidence of the existence of and brutality inflicted by these structural problems continues to grow, they continue to be unaddressed.

Still, our history reminds us that problems like this can be addressed. This moment presents us with a unique opportunity to recognize the failures of existing government policies and renew our covenant to make this country live up to the dreams of its people: that regardless of where you are from, you can go anywhere.

“I am convinced that if we are to get on the right side of the world revolution, we as a nation must undergo a radical revolution of values. We must rapidly begin the shift from a “thing-oriented” society to a “person-orientated” society.”

Martin Luther King, Jr., 1967
“A Time to Break Silence”

“Let us be dissatisfied until the tragic wall that separates the outer city of wealth and comfort and the inner city of poverty and despair shall be crushed by the battering rams of the forces of justice.”

Martin Luther King, Jr., 1967
“Where do we go from here?”

Chapter 3: Where Do We Go from Here?

As we celebrate the 80th birthday of Dr. Martin Luther King Jr., we have the first African American president of the United States and face the most serious economic crises the nation has seen in a generation. This historic moment is ripe with opportunity to reduce economic inequality and end the legacy of white racism that has contributed to today’s racial wealth divide and so long stained this country.

Today, the wealthiest 10% of Americans own more than two-thirds of America’s wealth. In the last 35 years, the richest 1% of Americans experienced a 62% drop in their federal income tax rate, while their incomes increased over 80%. In the same time period, low- and middle-income people saw their wages stagnate while payroll taxes, which fall most heavily on them, increased 25%. The average American has used debt to compensate for stagnant wages and increasing healthcare, education, energy, and other basic costs. Some on Wall Street bought and sold this debt, making billions for themselves, but leaving the economy of the nation in ruins.

Today’s recession, financial crisis, and subprime crisis all stem from the failure of our economy to sustain a strong and growing middle class. Over the last 30 years, middle-class and low-income Americans have seen their incomes stagnate, their savings disappear, and their net worth vastly dissipate. The Center for Economic and Policy Research estimates that, if home values decline by 20%, the median home owning household between the ages of 45–54 will see a 45% decline in wealth compared to their wealth in 2004 (The Housing Crash and the Retirement Prospects of Late Baby Boomers, Dean Baker and David Rosnick, June 2008). According to the S&P Case/Schiller 20-City Home Price Indices as of August 2008 home prices have already declined by 15.9%.

The roots of the financial crisis and the larger economic crisis are the government forsaking average Americans for the short-term interests of the economic elite, and the uninhibited greed and rampant speculation by some of the wealthiest Americans who now demand that the American public bail them out. Government has failed to adequately advocate and provide for those who worked hard and who increased the nation’s level of productivity, but never saw a corresponding increase in wages.

As we usher in a new president, a new Congress and a new economic agenda, America must not look to solely redress the immediate problems of a down economy but also the longstanding problems of disenfranchised communities and growing inequality. The following are policies and ideas that, if implemented, would advance Dr. King’s hopes and dreams, providing the country an opportunity to enact change all of America could believe in.

Understanding the Problem

Our current financial crisis is both one of empirical severity and a crisis of silence. While some have sounded the alarm of economic inequality for years, the crisis has seemingly evaded our public policy discourse. This is due, in part, to our current instruments for measuring the economic health of communities, demographic populations, and the country at large.

Our current indications for recession do not take into account:

- Wealth inequality
- Assets measures
- Income inequality
- Employer-based benefits versus employee-based benefits
- Various types of unemployment (temporary workers, underemployed workers, multiple-job unemployment)

Other indicators, in their current formulation, often mask the depths of economic issues that affect the entire country. For example, the poverty measure does not account for fluctuations in income that poor populations and people of color experience throughout the year. In addition, arbitrary limits on the definition often indicate economic health that is, in fact, temporary. These arbitrary limits (e.g., asset limits) are also found in other government-based programs such as welfare and other benefit programs.

Developing a New Understanding of Wealth Creation

Wealth is not created through a sole individual and a “free” market system. Wealth is created by individual efforts, a well-regulated economy and the investment of public resources. The mythology of one person pulling themselves up by their bootstraps is pervasive and too often provides a false premise on which economic policy is subsequently based.

The struggle around economic policy is often over the distribution of mass public investment or access to public resources. Corporate America has historically used public resources and investments to generate much of its private profits. Because most forms of public wealth are poorly defined or poorly managed, many extractive industries such as fishing, oil, coal, mining, and timber take public wealth while paying little or nothing in return.

Private corporations siphon off wealth created by public and community investments for private gain. They often enlarge their profits by shifting costs off their balance sheets and onto the public ledger, which is done by externalizing costs such as pollution, infrastructure, and employee healthcare. Enormous profits are also made by corporate appropriation of publicly developed popular art, culture, internet content, and other goods that should be owned by the entirety of the country. Profits of this nature are often gleaned by placing publicly funded and developed knowledge under private ownership, and reaping the benefits of charging for its use. All this is done largely within the framework of the existing legal and economic belief systems.

Former Secretary of the Interior Walter Hickel quipped, “If you steal \$10 from a man’s wallet, you’re likely to get into a fight, but if you steal billions from the commons, co-owned by him and his descendants, he may not even notice.” A commonwealth perspective is important in looking at current wealth inequalities and solutions.

There is a long and unseemly history of the U.S. government channeling common wealth to expand the individual wealth and opportunity of privileged whites.

Even before the existence of the United States as a nation, Europeans confiscated and enclosed land and natural resources from indigenous peoples, creating the base of wealth from which our modern economy derives. Similarly, the U.S. has repeatedly appropriated the natural resources and markets of foreign nations for its own benefit, oftentimes doing so through military interventions.

For hundreds of years, African people were shipped out of their native lands to be tools of wealth production in the U.S. Blacks were considered part of the wealth owned by whites. Black labor built wealth for white America, while their communities were later used as dumping grounds for the negative externalities produced by industrialization.

Domestically, we can also look back at the great “robber baron” fortunes of the industrial revolution that were based on white elites gaining free access to the nation’s natural resources to exploit for personal enrichment. Great edifices and charitable institutions still carry the names of the individuals who cornered markets built on public resources including oil, timber, and minerals – as well as wealth derived from mass public investment such as railroads and capital markets.

While public wealth has often helped fuel the great wealth of private corporations, it has also has been used for the greater public good. The post-World War II housing boom was fueled by subsidized assistance to over 35 million Americans between 1948 and 1972. During these years, 11 million families bought homes and another 22 million improved their properties. The biggest beneficiary was de facto “whites only” suburbia, where half of all housing could claim Federal Housing Administration (FHA) or Veterans Administration (VA) financing in the 1950s and 1960s. The home mortgage interest and property tax deduction also disproportionately benefited suburban homeowners, and interstate highway construction served as an indirect subsidy, as it opened up inexpensive land for suburban commuters. Today, the children and grandchildren GI Bill recipients benefit from intergenerational wealth transfers that enable them to purchase homes, attend private schools, and start businesses.

Central to the moral claim to eliminate the historical racial wealth divide is recognition that each of us has a birthright to a part of our inherited commons for our sustenance and livelihood. People chafe at the notion of “giving people something for nothing,” yet our history is replete with providing public resources and investment for private and public use. Much of the economic success of this nation should be understood as coming from access to government programs and public investments. We must create and expand programs that broaden wealth and opportunity so that more than just a few wealthy individuals and corporations benefit from the collective public wealth of our nation.

Rebuilding the U.S. Homeownership Market

As highlighted in *State of the Dream: Foreclosed 2008*, leaving homeownership to the dictates and uncertainty of the private market has never adequately resulted in homeownership for most Americans. Whether it was the Homestead Act of 1862, the Servicemen’s Readjustment Act of 1944 (otherwise known as the GI Bill), or the on-going mortgage insurance programs by the federal government, government subsidies have been a necessary component of growing homeownership. Recently, government policy has shifted from developing policy that would foster homeownership and protect homeowners, to removing regulation from financial institutions. In the short term, this shift created great profits; the immense and rapid growth in profits was unsustainable, however, and has led to a collapse of the financial and housing sectors.

A deregulated mortgage lending industry, a federal fiscal policy that fed the unsustainable increase in home prices, and a cut in federal aid to low and moderate income housing has contributed to the burst of a housing bubble and a massive loss of wealth for all Americans. Today housing policy needs to focus once again on strengthening homeownership, rather than allowing private industries to grossly enrich themselves through leveraging, speculation, and predatory lending.

Better Regulation of the Real Estate, Mortgage Lending, and Finance Industries

There needs to be a stronger national standard in home buying instead of the current complicated patch-quilt system of state and local regulations. A national standard would simplify the home buying process, thereby lessening costs of compliance. For years consumer groups have advocated to strengthen the Home Ownership Equity Protection Act (HOEPA), but this call has been successfully opposed by the mortgage lending industry concerned that strengthening HOEPA would limit the securitization of subprime loans. As the nation faces a recession sparked by the mass securitization of bad subprime loans, it is apparent that greater regulation of the mortgage lending industry would have been beneficial to the nation as a whole.

In response to the subprime mortgage crisis, the Federal Reserve has finally taken a few of the many steps advocated by consumer groups. The Federal Reserve approved a proposal to require mortgage companies to more clearly outline how customers will be able to make required payments, and to more clearly show the costs of loans that are often hidden in interest payments. This Federal Reserve plan is limited to only subprime loans, but should be expanded to all loans, as all Americans should have a more transparent home loan process. HOEPA should also be expanded to include contractors, appraisers, and other actors in real estate transactions.

Finally as we have learned, finance plays an incredibly important role in homeownership. Strengthening homeownership in America will also require great reforms in the financing industry; these reforms should include extending financial reserve requirements to new security categories, placing limits on leverage for all regulated financial institutions, regulating the packaging of loans, and regulating hedge funds and private equity in a comparable manner to banks.

Ending the Mortgage Interest Deduction Subsidy for the Wealthy

American taxpayers should not have to subsidize the homes of the richest 3% of US households, yet this is exactly what we do because of the unlimited mortgage interest deduction. Capping this deduction for households with incomes over \$200,000 would generate \$20 billion a year.

In 2005, President Bush's Advisory Panel on Tax Reform recommended making the mortgage interest deduction more progressive by converting it from a deduction to a tax credit. A tax credit assists all taxpayers, while tax deductions are used only by those who itemize their tax returns. Only a third of taxpayers find it beneficial to itemize, and upper-income taxpayers are the most frequent itemizers. Changing the existing mortgage interest deduction to a tax credit would maximize the number of beneficiaries, instead of further concentrating such benefits among the already wealthy.

Strengthening Programs Providing Low-Cost Credit

Providing high-cost loans to low- and moderate-income individuals with less than perfect credit can too often lead to unsustainable mortgage agreements, as demonstrated by the current subprime crisis. Low-interest mortgage loans are required for more of wealth-poor America. Vehicles such as low-interest, tax-free Mortgage Revenue Bonds (MRBs) that are sold to investors need to be greatly expanded so first-time homebuyers with low- and moderate income have the opportunity to access low-interest loans.

An Economic Stimulus for Affordable Homes

Over a trillion dollars has been set aside for those in Wall Street who, through grossly irresponsible leveraging, turned the problem of predatory lending into an economic crisis that brought an end to the investment banking industry as we knew it. Similar riches have not been invested in homeownership and job opportunities for middle class and lower-income Americans. In order to move the American economy out of the current recession, a bottom-up economic stimulus package focused on the real estate industry is required.

The government needs to stimulate the construction of affordable homes. In the private market, the primary motivating force is not just the drive to make a profit, but to make the largest profit possible. The higher profit margins that come with building expensive homes have made the affordable housing market less attractive for private home development companies. In some cases, the cost of building affordable homes is greater than the market value of these homes.

Government subsidy of private business through affordable housing tax credits will provide an economic incentive to get this important industry building homes that middle-class Americans seek and providing jobs lower-income Americans need. This tax credit would increase profit margins for private companies to build affordable housing, which would require the tax credit to close the “appraisal gap” and create a margin of profit.

In many communities throughout the country, local governments mandate that a certain percentage of all new housing construction be affordable. The federal government should consider requiring states, as a condition of receiving federal housing aid, to mandate a percentage of affordable and low-income housing in all new construction and renovations. This would not only increase moderate- and low-income housing, it would also help break up the segregated areas of concentrated poverty, which provide a breeding ground for societal problems and dysfunction.

Investing in the Future of America

Investing in Job Creation

The National Urban League, in their Opportunity Compact announced in 2007, proposes an Urban Infrastructure Bank that would fund the repair and development of our schools, water systems, parks, roads, bridges, and community centers. There has also been much discussion about creating “green jobs” as America transforms its industry and lifestyle to better sustain the environment. Funding environmentally sustainable improvements to urban infrastructure would provide employment opportunities, strengthen America’s infrastructure and provide for a more secure and stable world.

Organizations like Green For All have developed an agenda to create mass employment that corresponds to a scale-back our fossil fuel energy use. Becoming more environmentally responsible not only provides an innovative platform from which new jobs can be generated, it will also help prevent a recurrence of the run-up in energy prices that so challenged the budgets of most Americans during the summer of 2008. “Green jobs” are not the only avenue for job creation, however. Organizations such as YouthBuild USA and Job Corps should be supported, as they have proven to be effective in turning many who would otherwise become economically disenfranchised into employed contributors to the economy.

Increasing federal investment in job benefits the economy as a whole. The Institute for Policy Studies report “Alternative Spending: Effects on Job Creation” notes that federal spending in construction and home weatherization is much more effective as a job stimulant than the standard conservative approach of tax cuts or military spending.

Investing in Wealth Development

To address the nationwide precipitous decline of wealth, a comprehensive national savings program is required. Matched saving programs like Individual Development Accounts (IDAs) and so-called “KidSave” accounts have, for years, been successfully tested on a small scale in the United States. It is time to broaden these programs nationwide. As the recent turmoil in the stock market and the rapid decline of home value has demonstrated, good old-fashioned savings accounts are still an essential part of a wealth portfolio and are the most secure during a time of economic downturn.

Programs like IDAs encourage and strengthen the savings of those Americans who are most vulnerable during recessionary periods. IDAs are saving accounts that provide matching funds to assist and provide greater incentive for lower income families to save and build wealth. Ideally, lower- and middle-income Americans would be eligible to receive matching funds for their IDA through partnerships between various community based organizations, government programs, and sometimes the private sector. Through such government investment, America could strengthen wealth development from the bottom up rather than predominantly from the top down.

Tying Wealth Programs to Financial Education

With wealth development must come wealth education or financial literacy. The 2002 Millennial Housing Commission reported that face-to-face counseling reduced defaults on home mortgages by up to 34%. This report also pointed out that financial education programs for low-income people are drastically inadequate. Only 120,000 to 150,000 individuals received pre-purchase education through Federal Housing and Urban Development-related programs out of the approximately 1 million low-income, first-time homebuyers.

The government should create wealth-building programs that require participation in wealth education. These wealth education programs will strengthen both the individual and national financial health. Wealth education will help individuals use the private market to their benefit. For example, studies have shown that up to 30% of those with high-cost subprime loans could have qualified for lower-cost mortgages (MHC Report, p.17)

Spreading the Wealth

The primary beneficiaries of trickle-down economics over the last several decades will be disproportionately expected to fund the new bottom-up economy that will stabilize and strengthen the national economy. Since the time of Dr. King, the richest 1% of Americans has seen their incomes explode while the top federal income tax rate declined by half. Since 1980, taxes paid primarily by the wealthy have been cut dramatically: the estate tax rate decreased by 46%, and the capital gains tax rate decreased by 31%. Meanwhile, the payroll tax rate – which falls most heavily on working people – increased by 25%. Overall, the trend has been a shift of the tax burden off of the wealthy and onto middle- and low-income Americans. The progressive nature of our tax system has seriously eroded over the past several decades. It has been estimated by the American Enterprise Institute that a family of four earning \$50,000 pays exactly the same 30% of its income on taxes as a family earning \$150,000.

Hundreds of billions of dollars are required to remake the American economy into one where the majority of Americans can share in its prosperity. This money will have to come disproportionately from the wealthiest in society. To get us started, the Institute for Policy Studies has proposed the following tax policy reforms to generate new and desperately needed revenue.

Securities transaction tax: \$100 billion a year

In this era of bursting economic bubbles a small transaction tax will help put a break on the most rampant speculation. A penny on every \$4 invested would generate \$100 billion a year. Internationally taxes on stock transactions are already in use to discourage speculation.

Ending overseas corporate tax havens: \$100 billion a year

Eliminating corporate tax havens that currently allow corporations to lessen, and sometimes avoid altogether, their fair share of the tax burden would generate an additional \$100 billion a year.

Wealth tax surcharge on households with \$10 million: \$300 billion a year

Congress should institute a wealth tax surcharge of no more than 3 percent on households with net worth over \$10 million. These multi-millionaires realized huge gains from the manipulation of capital markets and the asset bubbles that created the current crisis. The small number of households with over \$10 million of wealth currently control over 20% of the nation's private wealth.

Eliminating the tax preference for capital gains: \$95 billion a year

Only the wealthiest of Americans make significant income off of capital gains. These Americans pay a 15% tax rate on this income while a police officer can end up paying 35% tax rate on her or his income. The capital gains tax rate should reflect the progressive nature of the income tax rate and rise as capital gains increase. Taxing wealth and work at the same rates would generate \$95 billion a year in revenue.

Progressive inheritance tax: \$60 billion a year and more

President George Bush rolled back the estate tax as part of his road to creating record deficits. In 2010, the estate tax will disappear entirely causing a loss over \$30 billion, before returning in 2011 to previous rates. Implementing a progressive estate tax on estates over \$2 million – \$4 million for a couple – could generate \$60 billion a year in the short term and much more in the future.

Healthcare and Social Security

Healthcare

Our country faces a major crisis in health care. The United States spends more on health care than any other country, yet lags behind other industrialized countries in health insurance coverage, infant mortality and life expectancy. Americans of color are disproportionately affected by this national crisis. Though people of color make up only one-third of the US population, they are more than half of those uninsured.

In addition to the health risks increased by not having adequate health insurance, lack of insurance and insufficient insurance is a dangerous economic liability. A 2005 Harvard study points out that illness and medical bills contribute to almost half of all bankruptcies.

Comprehensive and universal healthcare for all Americans is critically needed. President Obama has promised to make health insurance “affordable and accessible” to all Americans. This is a promise Americans must ensure that he keeps, as it will strengthen both our healthcare system and the economy.

Social Security

Social Security has proven to be one of the most successful anti-poverty programs in US history. As the National Bureau of Economic Research notes, between 1960 and 1996 the poverty rate of the elderly has declined from 35% to 10%. The NBER also highlights how an increase in social security expenditures per capita correlates with a decrease in poverty for the elderly. These facts, and the current recognition of the volatility of the stock market and even home value, re-enforces the need to make the public social security system stronger than ever before. In our current tax system only the first \$90,000 of an individual's income contribute to social security. Most Americans do not make more than \$90,000, so most have their entire income contributing to Social Security. Higher-income Americans have only part of their income contribute to Social Security; the highest-income people have an even smaller percentage of their income contribute to Social Security. A small reform that should take place immediately is the expansion to tax past the current exemption to \$250,000.

A More Perfect Union: the Need for Affirmative Action

As the nation comes together to move the country past the current economic crisis, we should also use this opportunity to break up the concentrated poverty and legacy of disenfranchisement that has marginalized too many Americans. This requires us all to re-embrace affirmative action policies. Affirmative action has a successful history of making inroads for women, people of color, disabled and lower-income Americans. Throughout the world – from Finland to Brazil to India to South Africa and countless other countries – affirmative action policies for racial, ethnic, language, economic, gender, and other groups have been and continue to be effectively used to fight institutional and historic discrimination.

For all of its limitations, affirmative action has been one of the most successful and continuous diversity measures of the American government. A Center for Community Economic Development 2007 report highlights how affirmative action in public procurement helped minority- and women-owned businesses grow. The report also showed slower growth among minority- and women-owned businesses in states that repealed affirmative action policies. A rededication of affirmative action policies, coupled with broad-based, wealth-building policies, will significantly advance this nation towards the American promise of equal opportunity and the pursuit of happiness.

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