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## RACE STILL MATTERS

Making the Case for a Racial Lens in Measuring Poverty and Inequality

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### Introduction: A Dream Deferred

The United States defines itself by a collective dream of economic opportunity. The promise of upward mobility is a truth we as a nation hold to be self-evident, yet this promise is not a reality for many people of color. Moreover, our country's legacy of discriminatory policies and practices contributes to a climate in which race is a contentious topic for many to discuss.

Debates about the American Dream often leave race out of the conversation, and instead highlight socioeconomic status as the more salient issue. Indeed, for some, Barack Obama's election to presidency serves as evidence that the racial playing field is finally level. But one need only look as far as today's headlines to understand that race still plays a significant role in US politics and policies.

Moreover, the confluence between race and class is significant. According to the 2007 US Census, people of color make up about a quarter of the nation's population, yet half of Americans living in poverty are minorities. Current data shows that 12.5% of all Americans are living in poverty. Broken down

by race and ethnicity, this includes: 8.2% of Whites, 10.3% of Asians, 24.3% of Blacks, and 21.5% of Latinos of any race. In other words, one in four Blacks and one in five Latinos lives in poverty, compared to less than one in ten Whites.

In short, race and poverty are heavily intertwined, and thus race is implicit in a host of pressing policy arenas. Failing to report and collect data on race and ethnicity obfuscates the disproportionate impact of poverty on people of color.

### The New Majority

America is on the verge of becoming a "minority-majority" country. Already, California, Hawaii, New Mexico, and Texas have a racial composition that is less than half White. According to the US Census Bureau, the nation is projected to be 54% minority by 2050. The shift will happen sooner among children: by 2023, more than half are expected to be from a minority group, and by 2050, the proportion will be 62%.

The economic implications of these demographic shifts are significant. For



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instance, the purchasing power of Latinos, Blacks, and Asian Americans combined tripled from 1990 to 2008, reaching \$1.5 trillion. (Humphreys, 2008). And the US Department of Commerce projects that the purchasing power of people of color will triple again by 2045.

At the same time, people of color disproportionately attend inferior schools, lack health insurance, and face detrimental housing conditions. For example:

- The median household of color has \$0.15 for every dollar of White wealth (Oliver, 1995).
- Poverty disproportionately affects children of color: 61% of Latino children, 60% of Black children, and 30% of Asian children live in low-income families. The figure for Whites is 26% (NCCP, 2009).
- 35.6% of children of color are raised in single-parent households, compared to 19.6% of White children (US Census, 2008).
- Blacks and Latinos were 2 to 3 times more likely to receive a subprime loan, and are more likely to be in foreclosure (NCRC, 2007).
- While 75% of Whites own their own homes, only 59.5% of Asians, 49.1% of Latinos, and 47.4% of Blacks do (US Census, 2008).
- Even among borrowers with the highest FICO scores (720 or higher), 13.5% of Latino and 12.8% of Blacks received high-cost loans, compared to 2.6% of Whites. (Federal Reserve Bank of SF, 2009).

## The Nation's Changing Demographics

The current "minority-majority" states are: California, Hawaii, New Mexico, Texas

With more than 40% people of color, the next states expected to become "minority-majority" are: Arizona, Georgia, Maryland, Mississippi, and New York

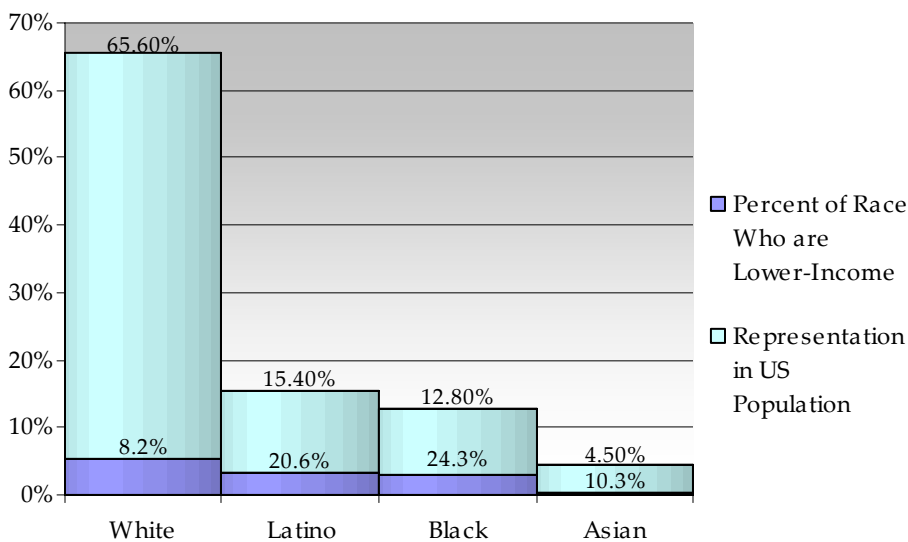
- Only 54% of Blacks and 66% of Latinos own bank accounts, compared to 86% of Whites. (First Data Corp., 2008)
- While over 75% of Whites have health insurance, only about 60% of Asians, 57% of Blacks, and less than 50% of Latinos do, reflecting a lack of good jobs among communities of color (PPIC, 2002).

Thus, our nation's changing population patterns point to a serious impact: if we do not invest in the success of communities of color, within one generation, a significant portion of our country could be struggling. This potential scenario is not only an affront to our national values, but also has enormous fiscal implications. America's economic standing rests on building human capital with the skills, education, and health to maintain our nation's powerful global position. Strategic investments in all communities will provide returns to the country as a whole.

### Intergenerational Mobility & Asset-Building

In the United States, access to opportunities is the key to achieving the American dream. Success depends on individuals' current assets, as well as their capacity to grow those assets. Although comparing income levels across racial and ethnic groups can provide useful information about the labor market at a particular point in time, social scientists agree that a more accurate measure of economic mobility is wealth. While income is the money that people receive from work, government benefits, or investments, wealth refers to savings, real estate,

**Racial Representation of the US Population and Percent of Each Race Who are Lower-Income**



### **The racial wealth gap is widening.**

In 1998, the net worth of White households was, on average, \$100,700 higher than that of Black households.

By 2007, the gap had increased to \$142,600.

securities, and other financial assets. In short, wealth is defined as one's net worth, or what one truly owns after all debts have been subtracted.

Wealth matters because it provides a cushion when the economy takes a downturn or when personal circumstances necessitate quick access to money. Wealth, not income, is what enables a family to live in a safer neighborhood, provide for health and education needs, and even impart greater political influence.

Approximately half of the wealthiest people in America inherited family fortunes. But the effect of inherited wealth can be seen on a more modest level as well. For example, a couple that buys a house with the financial help from their parents or a student that has his or her college education paid for, are benefiting directly from the accumulated wealth of previous generations (Gilbert, 2002).

The latest Survey of Consumer Finances data indicates that the racial wealth gap is widening. This survey, supported by the Federal Reserve Board, shows an increasingly wider chasm in racial wealth inequality from the 1990s to today. In 1998, the net worth of White households was, on average, \$100,700 higher than that of Black households. By 2007, the gap had increased to \$142,600. This data is collected every three years, and every time it has been collected, the racial wealth gap has widened further.

In examining families over time, Edward N. Wolff, a senior scholar at the Levy Economics Institute, found that Blacks would have gained significant ground relative to Whites in the past 30 years if the two groups had inherited similar amounts and had comparable levels of family income. Even if the racial income gap could immediately be eliminated, it could take another two generations for the wealth gap to close (Wolff, 2001).

Research drawing on data that spans thirty years and two generations shows reverse mobility trends among Whites and Blacks. White Americans are more likely to be upwardly mobile than downwardly mobile. The opposite is true for Blacks. For example, the proportion of Blacks who move up the wealth ladder is 5%, while the proportion moving down it is 48% (Hertz, 2005).

This trend holds across all income levels and is particularly strong at the top of the income distribution, indicating that higher income Blacks have especially poor prospects of staying on their parents' rung of the ladder (Hertz, 2005). Such results indicate that today's Black-White wealth gap cannot be explained solely by the fact that, on average, Blacks were born to families that had fewer resources to invest in their children.

A similar pattern exists among low income Blacks. Controlling for family size, parents' income and education, Black families have a 14% higher rate of persistence in the bottom income quartile from one generation to the next than White families. Differences in mobility between Whites and Blacks persist even after controlling for additional parent background factors and children's education and health, as well as whether the household head was female or receiving welfare. (Hertz, 2006).

Moreover, middle-class status is more difficult for many people of color to maintain, compared to their White counterparts. A recent study conducted by Demos found that one in five (21%) White families is at high risk of slipping out of the middle class, as compared to one in three (33%) Black-headed households and two in five (41%) Latino families (Demos, 2007).

### **Blacks are More Likely to Stay in Poverty than Whites**

	Percent remaining in bottom quartile	Percent acquiring top quartile
Whites	62.9%	3.6%
Blacks	32.3%	14.2%

Source: Hertz, 2005

## The Myth of the “Model Minority”

By many accounts, Asian Americans have appeared to do well for themselves in terms of education, employment, and asset-building. But a closer look at the data tells a more nuanced story.

First, not all Asian Americans are the same. Breaking information down into nationality categories is revealing. For instance, while 46% of Chinese Americans and 41% of Japanese Americans have college degrees, only 9% of Cambodian, Hmong, or Laotian Americans do. Among this latter grouping, 52.7% have not completed high school, compared to 24% of Chinese, 10% of Japanese, and 15.3% of Whites.

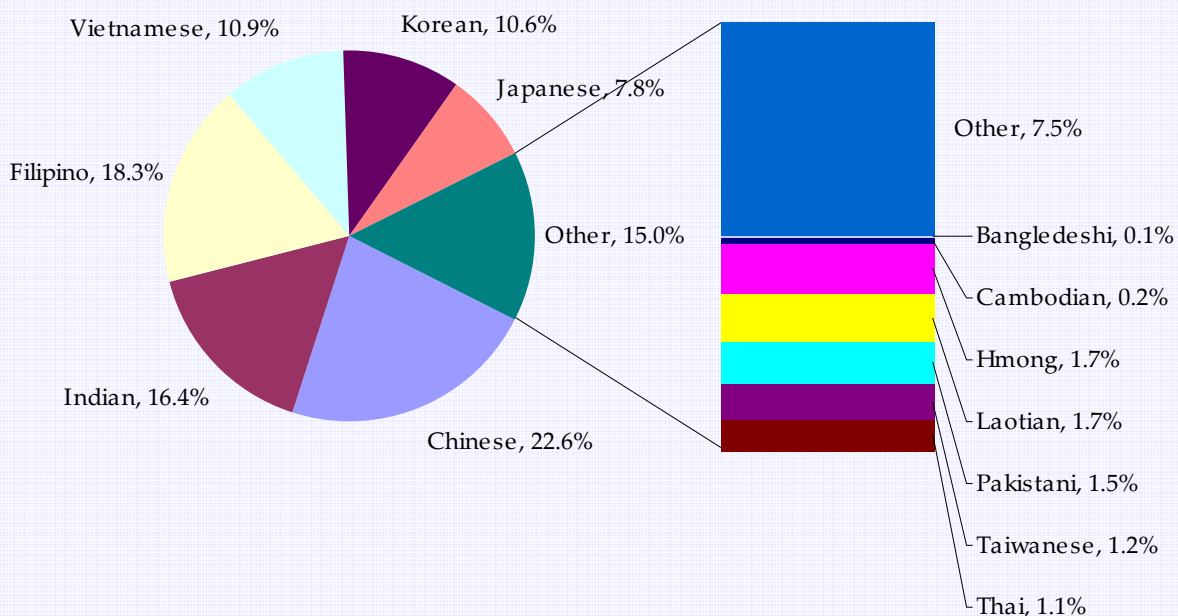
Second, the most commonly cited information can be misleading. Census data shows that, as a whole, Asian American families have higher median incomes than White families. But since the typical Asian American family tends to have more members who are working than the typical White family, such data gives the false impression that Asians are doing better than Whites. A more accurate measure of economic well-being is median personal income. Analyses along this measure indicate that Asian Americans are still trailing Whites.

	<b>Median Personal Income</b>	<b>Median Family Income</b>
<b>Whites</b>	\$23,640	\$48,500
<b>Asian-Amer.</b>	\$20,200	\$59,000

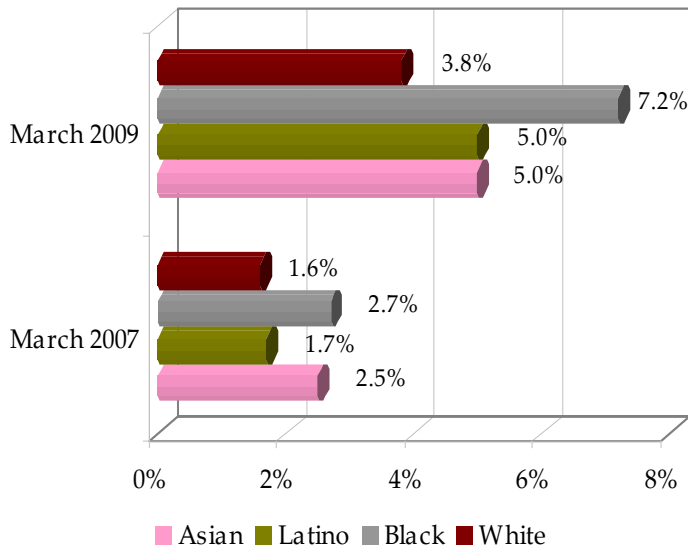
Third, despite some successes in attaining access to education and securing higher incomes, Asian Americans continue to be underrepresented in leadership positions. Just like Blacks and Latinos, they are underrepresented in political positions at the federal, state, and local levels. And, just like Blacks and Latinos, they are underrepresented as CEOs, board members, and high-level supervisors.

In short, the Asian American, Native Hawaiian, and Pacific Islander population is very diverse with over 50 different race/ethnicities who speak over 100 different languages. The heterogeneity in languages and cultures necessitate breaking down aggregate (or average) data into specific subgroups because issues tend to get lost or lose importance in aggregated data. With more credible information, we can better understand this populations’ representation in the

### Asian Americans Are Very Diverse



### Unemployment of College-Educated Persons, by Race



### Race & The Labor Market

While the accumulation of wealth does not necessarily depend on employment, the type of job one holds and accompanying income level undoubtedly plays an important role in an individual’s ability to acquire and maintain assets.

People of color continue to be hit disproportionately harder by the current economic recession, highlighting their more vulnerable positioning in society. According to a July 2009 assessment by the US Bureau of Labor Statistics, the unemployment rate for Whites was 8.6%, compared to 12.7% for Latinos, and 14.9% for Blacks. And according to Algernon Austin at the Economic Policy Institute, “Even when the national unemployment picture is good, the Black unemployment rate is more than twice that of the White unemployment rate.”

The unemployment rate for Blacks exceeds that of Whites at every education level, making it clear that the problem of joblessness among Blacks cannot be solved by education alone. The disparities among the college-educated strongly suggest that even if the Black educational attainment distribution was exactly the same as the White distribution, Blacks would still have a higher unemployment rate than Whites (Economic Policy Institute, 2008).

A growing body of research about hiring practices indicates that discrimination contributes to these racial

disparities. One such study looked at the rate in which employers called applicants back for second job interviews and found that although ex-offenders received a lower call-back rate than those who had not been incarcerated, White ex-offenders had a call-back rate equal to Blacks without criminal records. (Pager, 2005).

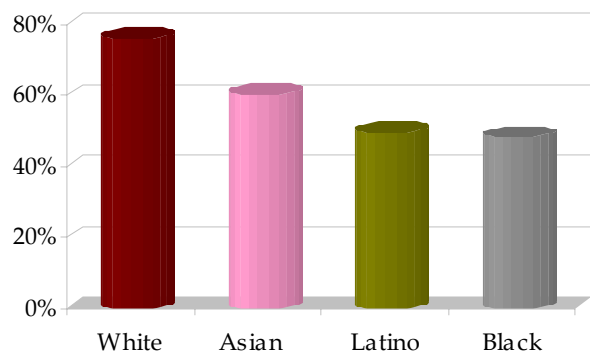
Similarly, in an experiment where researchers submitted resumes – some with “Black-sounding” names like Lakisha and Jamal, and some with “White-sounding” names like Emily and Greg – to employers with open positions, those with “White-sounding” names received twice as many callbacks for interviews, despite comparable levels of education and experience between the two groups. The study found little evidence that employers were inferring something other than racial differences, indicating that discrimination is a prominent factor in employment decisions (Bertrand, 2004).

While further investigation is needed to ascertain the pervasiveness of the problem, data clearly points to racial discrimination in hiring practices, even if it is not intentional. In fact, in the resume study, federal contractors and employers that describe themselves as an Equal Opportunity Employer in their job announcements discriminated just as much as other employers in the sample. The message is clear: the Equal Employment Act is not enough to ensure non-discriminatory hiring practices.

### Race and Homeownership

In addition to access to employment opportunities, homeownership is a critical component of establishing wealth. Homeownership rates vary significantly by race,

### Natl. Homeownership Rate by Race, 2008



with Whites having the highest rates of homeownership and Blacks having the lowest (US Census, 2008).

Historically, the lower percentage of Black homeownership could be traced to discrimination in the lending industry. Analyses conducted in the early 1980s demonstrated that the percentage of Black residents within census tracts was inversely related to the number of housing loans. Moreover, studies showed that people of color paid more for housing, faced more restrictions in both location and housing quality, and paid more for loans from private lenders (Horton, 1992).

In recent years, the “credit pendulum” has swung in the opposite direction and Blacks and Latinos were disproportionately the recipients of higher priced home loans, even when controlling for income and credit scores. According to the Federal Reserve, among borrowers with the highest FICO scores (greater than 720), 13.5% of Latino and 12.8% of Blacks received high-cost loans, while only 2.6% of White borrowers with the same scores received such loans (Federal Reserve Bank, 2009).

The impacts of these inequitable lending practices are coming to light as the foreclosure crisis continues to unfold. In California, a state hit particularly hard by the crisis and a minority-majority state, the foreclosure rates are highest in neighborhoods that predominantly house people of color. The Federal Reserve found that communities of color had access to very different mortgage markets than their White counterparts, with 45.2% of Latino and 42.9% of Black borrowers receiving their loans from independent, non-federally regulated mortgage companies, compared to 29.2% of Whites. It is important to note that the majority of the Black and Latino households foreclosed upon were not poor households, but rather middle class, earning between \$60,000 and \$120,000 per year (Federal Reserve Bank, 2009).

Among those who do maintain their homes, people of color can expect to pay what has been termed a “segregation tax.” This expression refers to the phenomenon where homes of similar quality in a neighborhood occupied by people of similar income have significantly different values, depending on whether it is majority White or majority Black. David Rusk at The

## **Disaggregated Data is Crucial to Understanding our Diversity**

Disaggregated data is needed, regardless of area of study to:

- Identify patterns (similarities, differences)
- Develop, monitor, and improve programs
- Prevent issues from getting lost in aggregate data
- Identify and address specific needs (e.g. education, health, employment)
- Provide evidence to inform and influence programs and policies
- Advocate for, and enable appropriate allocation of resources at community, local, state, and federal levels

Brookings Institution found that Black homeowners received 18% less value for their homes than White homeowners. This discrepancy is primarily due to the high degree of racial segregation in neighborhoods (Rusk, 2001).

### **Recommendations**

Policy can do more than set standards and enforce regulations. Policy can also shift cultural norms to make the American dream attainable for all people. Realizing this potential will improve our entire nation, for when our work places, neighborhoods, and schools reflect the rich diversity that makes the United States unique, we capitalize on a significant comparative advantage.

To this end, we offer the following recommendations:

#### **Collect more data from diverse racial and ethnic groups.**

The racial terminology and categorizations used by the federal government have significant implications for a host of arenas, from research grants to policy initiatives at all levels. Delineations such as “White” and “Non-White” are not sufficient for a country on the brink of becoming majority people of color. The federal and state government must take the lead in collecting data from communities of color and have the foresight to look at impending demographic shifts in order to determine which data will be needed most. Scholars and policymakers rely on robust data sets to undertake

rigorous analysis of public problems and potential solutions; information must be collected from different groups of Americans, including Blacks, Latinos, Asian and Pacific Islanders, Native Americans, as well as sub-populations within these groups.

### **Develop federal programs that discourage de facto segregation.**

The literature on racial disparities cites segregation, particularly in diverse metropolitan areas, as a critical contributor to a host of social welfare problems, from education to employment. The “spatial mismatch” between where people of color live and where job opportunities are located continues to be a barrier to mobility within the labor market (Brookings, 2005). Moreover, the “segregation tax” incurred by minority homeowners will persist unless efforts are made to diversify neighborhoods.

The United States has a history of federal government intervention to encourage stable housing settlements. The Homestead Act of 1862 and the G.I. Bill of 1944 are instances of such interventions. The current foreclosure crisis is an unprecedented phenomenon that presents a unique opportunity to develop policies at the federal level that help communities of color, while simultaneously stimulating the overall national economy.

### **Poverty disproportionately affects people of color**

Failing to report and collect data on race and ethnicity obscures the disproportionate impact of poverty on people of color.

### **Strengthen the Community Reinvestment Act**

The Community Reinvestment Act (CRA) serves as an example of successful federal legislation that has simultaneously supported low-income communities of color and helped banks find profitable markets that otherwise would have been avoided. As our nation grows more diverse and our banking system more complex, now is the time to strengthen the CRA by making it applicable to all financial institutions, including investment banks, hedge funds, large credit unions, insurance companies, and any other institutions that provide financial services.

Furthermore, to succeed in the future, CRA should focus on a variety of asset and wealth building initiatives and regulators should use a coordinated approach to track progress. Indicators that regulators can focus on include, but are not limited to: homeownership, business ownership; checking, savings, and retirement accounts; stock ownership; and employment.

### **Conclusion**

The future of America depends on the productivity, health, and wealth of its workers and leaders, the majority of whom will be people of color by the year 2050 (US Census, 2008). Therefore, the future of America depends on the policies we adopt today that will support the success of Blacks, Latinos, and Asian Americans. This includes finding a solution to improving educational outcomes, providing affordable healthcare to all, and creating entry-level job opportunities with the possibility of advancement.

American policy has the responsibility to ensure that we are training the next generation to assume the reins of our prosperity. Failing to do so will have grave implications for our ability to maintain our standard of living and our global leadership position.

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