AFRICAN AMERICAN ECONOMIC INEQUALITY
A Twenty-First Century Challenge

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Depressed living standards for Negroes are not simply the consequences of neglect. Nor can they be explained by the myth of the Negro's innate incapacities, or by the more sophisticated rationalization of his acquired infirmities. They are a structural part of the economic system in the United States.

—Dr. Martin Luther King, Jr., 1968

By the middle of the twenty-first century, the United States will be a "majority minority" nation.[2] If we hope to ensure a strong middle class, historically the backbone of the national economy, then the financial health of households of color will become even more urgent than it is today.[3] Closing the persistent "wealth divide" between white households and households of color, already a matter of social justice, must become a priority for broader economic policy. The size of that wealth divide is sobering: the median African American household's net worth is only $7,113, according to the Census Bureau, while the comparable figure for white households is $111,740.[4]

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1 Dedrick Asante-Muhammad wrote this essay during his tenure as the Senior Director of the Economic Department at the NAACP. He recently left the NAACP to create the Racial Wealth Divide program at CFED.

2 Ruy Teixeira and John Halpin, "Creating an All-In Nation." In *All-In Nation: An America that Works for All*, edited by Vanessa Cárdenas and Sarah Treuhaft (Washington, DC: Center for American Progress and PolicyLink, n.d.), p. 11.

3 Rather than "minority," this essay uses "households of color" and "communities of color" to refer to those ethnic and racial groups who are currently minorities (but are expected no longer to be by the middle of the century). "Black" is used to refer to historical movements or trends (e.g., "Black Freedom") with the terminology by which they were known at that time; otherwise "African American" is used.

4 U.S. Census Bureau, Survey of Income and Program Participation, 2008 Panel, Wave 10, (2013).

As we consider what it is going to take to close the wealth divide, it is useful first to understand and acknowledge the level of resources it took to create it in the first place.

The scale of investment that was required to build the white middle class is underappreciated. According to Ira Katznelson's *When Affirmative Action Was White*: "By 1950, the federal government had spent more on schooling for veterans than on expenditures for the Marshall Plan, which had successfully rebuilt Europe's devastated economic life."[5] Along with funding higher education on that massive scale, the GI bill also financed 40 percent of the mortgages in 1946 and 1947.[6] Yet as Katznelson puts it: "Despite the assistance that black soldiers received, there was no greater instrument for widening an already huge racial gap in postwar America than the GI Bill."[7] It's easy enough to see why. When the GI bill passed, segregation and white supremacy were the law of the land in many states and the de facto reality throughout the nation. So injecting massive resources into that particular status quo had the effect of intensifying a racial economic inequality that endures even today.

THE REALITY OF RACIAL INEQUALITY AND AFRICAN AMERICANS

The Civil Rights movement of the 1950s and 1960s ended the legally sanctioned segregation of the South and challenged de facto segregation across the country. But as in the Reconstruction era following the Civil War, the economic aid and investment necessary for African American communities to develop wealth was denied, leaving racial inequality to endure. Today, as we look back on the term of the first African American president, one would hope that much of the racial inequality between African Americans and white Americans had in fact been overcome. Indeed, this is what most people in the country believed soon after the election of President Obama. According to a 2010 ABC News/Washington Post poll, a little more than 70 percent of white Americans think that African Americans have achieved or will soon achieve racial equality. According to this same poll, African Americans are much more tempered

5 Ira Katznelson, *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America*, (New York: W.W. Norton, 2005), p. 116.

6 Ranajoy Ray Chaudhuri, *The Changing Face of American Banking: Deregulation, Reregulation, and the Global Financial System*, (New York: Palgrave Macmillan, 2014), p. 100.

7 Katznelson, *When Affirmative Action Was White*, p. 121.

in their optimism, but optimistic nonetheless. Although only 11 percent of African Americans believe racial equality has been achieved, almost 40 percent believe it will be soon.[8]

Since the Black-led Freedom movement of the 1950s and 1960s, there has in fact been some progress for African Americans. According to the U.S. Census Bureau, in 2013, 83.4 percent of African Americans received a high school diploma or its equivalent, up from 25.6 percent in 1964.[9] In 1968, the college graduation rate for African Americans was 38 percent that of the white rate.[10] Today it is more than 60 percent that of whites.[11] There has also been progress for the poorest African Americans. Poverty among African Americans has declined from nearly 42 percent in 1966 to about 27 percent in 2012.[12]

Despite gains in educational attainment and declines in the share of African Americans living in poverty, African Americans have gained almost no ground in income disparities. Whether by household or per capita, African Americans do not earn even 60 percent of what white Americans earn, and this gap has barely moved in more than 40 years.[13] And income is only one part of the economic picture. Wealth inequality is another source of great concern for the nation. As noted previously, the median net worth of African American families is less than 10 percent that of white families.[14]

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8 Taylor Nelson Sofres, ABC News/Washington Post Monthly Poll, January 2010.

9 U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement, "Table 1: Educational Attainment of the Population 18 Years and Over;" U.S. Census Bureau, "Table 1: Years of School Completed by Persons 14 Years Old and Over: March 1964."

10 U.S. Census Bureau, "Table 1: Years of School Completed by Persons 14 Years Old and Over: March 1968."

11 U.S. Census Bureau, Current Population Survey, 2014 Annual Social and Economic Supplement, "Table 1: Educational Attainment of the Population 18 Years and Over."

12 Drew Desilver, "Who's Poor in America? 50 Years into the 'War on Poverty,' a Data Portrait" (Washington, DC: Pew Research Center, January 2014).

13 Tim Sullivan et al., "State of the Dream 2012: The Emerging Majority." (Boston, MA: United for a Fair Economy, January 2012), p. 6–7.

14 U.S. Census Bureau, Survey of Income and Program Participation, 2008 Panel, Wave 10, (2013).

THE REGRESSIVE AMERICAN ECONOMY

Since the Reagan era of the 1980s, the nation's wealth has been increasingly concentrating in the hands of the richest Americans. The U.S. Census Bureau finds that from 1979 to 2008, the real income of the poorest one-fifth of Americans decreased by 4 percent. For the middle one-fifth, real family income increased by 14 percent. For the richest 5 percent, real family income growth has increased more than 70 percent. What this trend has meant for African Americans is that nearly one-third (30 percent) of the African American population saw its income decrease and another 25 percent saw only a small (6 percent) increase—in almost 30 years. Meanwhile, during this same timeframe (1979 to 2008), six in ten whites saw more than a ten percent increase to their incomes, with two-thirds of this group seeing an increase of more than 20 percent.[15]

As with income, assets in America are increasingly concentrated in the hands of the wealthiest. The richest 10 percent of Americans now owns 70 percent of the wealth.[16] The more this wealth concentration intensifies, the less likely the wealth divide between whites and communities of color will ever close.

This racial wealth divide extends to communities of color beyond African Americans. In this post–civil rights era, communities of color in the United States increasingly are recent immigrants.[17] In effect, more and more people of color are being added to a country that is more and more economically segregated. Immigrants of color who come to this country with fewer professional skills or without an elite education become part of the large share of the population that is being left behind by the wealthiest Americans.

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15 U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, "Table F-3. Mean Income Received by Each Fifth and Top 5 Percent of Families, All Races: 1966 to 2013;" U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement, "Table HINC-05. Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent in 2012."

16 Jesse Bricker et al., "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances." (Washington, DC: Board of Governors of the Federal Reserve System, October 2014).

17 Jeffrey S. Passel, Gretchen Livingston, and D'Vera Cohn, "Explaining Why Minority Births Now Outnumber White Births." (Washington, DC: Pew Research Center, May 2012).

THE NEED FOR RADICAL CHANGE

In the last few years, a series of high-profile events, both tragedies (the killings of unarmed African American youth) and vulgarities (racial and ethnic slurs and stereotypes from NBA owners and presidential candidates) have reminded the American public of the reality that racial inequality and racism are far from a thing of the past. But even before more dramatic events galvanized public awareness around racial inequality generally, there had been a dawning realization that economic inequality was real and growing, and had a racial dimension.

Around the country, city leaders are implementing local initiatives to combat some of the biggest factors driving racial and economic inequality—unemployment, low wages, and expensive housing. A recent example is Ras Baraka, elected mayor of Newark, NJ, in May 2014. Baraka's campaign promise included targeting the chronically unemployed and appointing a "Deputy Mayor for Full Employment." This demonstrates a real focus on the high unemployment that affects most of our urban centers and that disproportionately affects communities of color. It also harkens back to the 1960s civil rights call for full employment.

Seattle was the first big city to raise the minimum wage, from $9.32 an hour to $15 an hour, the highest in the nation. None of the circumstances responsible for the Seattle plan was unique (although the convergence of them was unusual). The plan emerged from the joining of a politically strong mayor, a highly visible worker-organizing campaign, a progressive city council, and a private sector that saw short-term bottom-line costs as only one among many considerations. The phased-in increase in Seattle's minimum wage starts with businesses employing more than 500 workers and then moves on to smaller businesses, which will have five to seven years to put the new minimum wage in place. Crucially, the law is designed so that employers will not cut workers' benefits with the new minimum wages, and wages going forward will be indexed to inflation.

In New York City, the strong economic boom now underway on Wall Street has brought little economic gain to working- and middle-class people. In fact, it has had the opposite effect as affluent professionals, who have benefited from the stock market gains, compete with working-class families, who haven't, for limited space in a geographically small and intensely gentrifying city. In the last decade, median monthly housing costs in New York rose 18.6 percent for renters and nearly 10 percent for homeowners. In the borough of the Bronx, 57 percent of households are rent-burdened, meaning they must spend more than 30 percent of their take-home pay on housing.[18]

In one of the most innovative plans of its kind, New York mayor Bill de Blasio has proposed to use thousands of acres of largely vacant, city-owned public housing land to build as many as 200,000 units of affordable housing to accommodate the city's increasingly strapped working families. Under de Blasio's plan, 50 percent of the units would be sold at below-market rate prices — 30 percent of the units to moderate-income households and 20 percent to lower-income residents.[19]

Stable housing and access to steady, living-wage paying work benefits individuals, families, neighborhoods, and communities. Expanding the availability of affordable housing in New York City, raising the minimum wage to a living wage in Seattle, and attacking chronic unemployment in Newark are examples of the types of policies needed to address our challenge of twenty-first century racial economic inequality.

NATIONAL ASSET DEVELOPMENT POLICY

As encouraging as these and other local initiatives may be, the racial economic divide is ultimately a national problem. Just as massive federal investment was necessary to develop the white American middle class economy of the 1950s and 1960s, so too will it be necessary to develop an American economy that finally bridges racial economic inequality. The kind of massive-scale and sustained national policy commitment that is required will depend on strong leadership and broad-based consensus. It should be driven by a comprehensive strategic vision. But existing evidence already suggests several elements that should be included.

Equity Assessment. An equity assessment reviews whether federal funds are being invested in communities that are most in need of federal assistance. A proper assessment should determine where funds go, what jobs

18 U.S. Census Bureau, 2013 American Community Survey, Table B25070, Bronx County, NY.

19 Charles V. Bagli and Mireya Navarro, "Mayor de Blasio's Plan Aims to Spur More Affordable Housing in New York," *New York Times*, May 6, 2015.

are created, and in what communities. This information will help ensure that government funds get to working-class Americans, disenfranchised racial minorities, households with children, and communities experiencing severe economic crisis, all of whom must be at the center of the economic recovery. Equity assessments are already being used in different parts of the United States and Britain. It is important to analyze whether government spending is entrenching economic inequality or bridging it. A regular national equity assessment can develop a clear picture of the policies that advance greater equality and opportunity in this country.

Direct Federal Job Creation. For decades, much of working-class America has had a hard time finding stable employment with wages and benefits that can keep a family in the middle class, even the lower middle class. Former industrial centers have been dealing with high unemployment for years, and African American unemployment, even when at record lows, remains almost twice that of white Americans.[20] A massive federal job program is needed; one that will create jobs for those with the greatest challenges in finding employment and that can lift up marginalized communities. During the most recent recession alone, the federal government spent hundreds of billions of dollars on programs to create temporary work or to stimulate private-sector employment.[21] But the cheapest and most effective means to creating stable working-class employment is to directly create government jobs.

In *Back to Work: A Public Jobs Proposal for Economic Recovery*, the think tank Demos notes that for $46.4 billion, one million jobs could be created through a government program. The report also notes that the creation of those one million jobs would trigger a multiplier effect of about 400,000 jobs beyond the government program. Demos then compares the returns on a two-year $100 billion investment in direct job creation versus investment in benefits and tax cuts, and concludes that direct job creation yields the greater return on investment.[22] To further

20 U.S. Bureau of Labor Statistics, "E-16. Unemployment rates by age, sex, race, and Hispanic or Latino ethnicity."

21 Stephen Wandner and Randall Eberts, "Public workforce programs during the Great Recession." (Washington, DC: U.S. Bureau of Labor Statistics, July 2014).

22 Philip Harvey, "*Back to Work: A Public Jobs Proposal for Economic Recovery*." (New York: Demos, 2011).

increase the return on this federal investment, these jobs should ideally be those that not only hire people from disadvantaged communities but that also are located within and serve those same communities.

Finally, bridging the racial inequality in employment must be an explicit goal of any government jobs program, as should a tracking mechanism to document whether disenfranchised minorities are being hired at a sufficient level. Currently, African Americans make up approximately 23 percent of the unemployed and Latinos approximately 20 percent. Therefore, among those who find employment from the government job program, more than 23 percent should be African Americans and more than 20 percent should be Latinos, in order to bridge racial employment inequality.[23]

No meaningful progress can be made on the larger issue of racial economic inequality until we tackle the foundational issue of racial inequality in employment. The reality is that a public program to close the racial employment gap is necessary because the free market has failed to close it for more than 50 years.

Asset Development Policy. A common response to proposals for investing in asset development is that there are not enough funds available. Yet hundreds of billions of dollars are already routinely invested in wealth development. CFED's "Upside Down: The $400 Billion Federal Asset-Building Budget" highlights how this investment is concentrating wealth among the already-wealthy instead of the asset-poor. "Upside Down" reports that more than one-half of an estimated $400 billion goes to the richest 5 percent of Americans. Effectively, federal investment in wealth development reinforces racial economic inequality among those who have very little wealth.[24]

Part of the solution to racial wealth inequality is simply to ensure that more asset-development investment is directed toward asset-poor communities than to the already-wealthy. CFED proposes a host of reforms, including using refundable tax credits rather than tax breaks to support asset development, placing caps on mortgage interest deductibility,

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23 Author calculations using Bureau of Labor Statistics data, "Table A-2. Employment status of the civilian population by race, sex, and age."

24 Beadsie Woo, Ida Rademacher, and Jillien Meier, "Upside Down: The $400 Billion Federal Asset-Building Budget." (Washington, DC: Annie E. Casey Foundation and CFED, 2010).

and using direct budget outlays for asset development rather than just tinkering with the tax code (since the people who find it advantageous to itemize their deductions tend to be among the wealthier citizens). In short, a first step in bridging wealth inequality is to stop spending so many federal dollars on asset development for the already-wealthy.

BACK TO THE FUTURE: THE TWENTY-FIRST CENTURY FREEDOM BUDGET

The policy suggestions above are but pieces of what must be a comprehensive plan to rebuild the American middle class—and make it racially inclusive for the first time. In 1967, Black Freedom organizations joined with their allies in civil rights reform to propose a comprehensive Freedom Budget. Economist Leon Keyserling and March on Washington organizer Bayard Rustin created the budget, and Dr. Martin Luther King, Jr., wrote the foreword. The Freedom Budget would have invested $185 billion a year (in contemporary dollars) for 10 years to bridge racial socioeconomic divisions.[25] It involved major investments in public works and infrastructure, training programs that would upgrade skills and education, job creation, and affordable public health services, and it called for a higher minimum wage of $2.00 an hour, or $13.79 in today's dollars.

Dr. King described two phases of the civil rights struggle: "The first phase has been a struggle to treat the Negro with a degree of decency, not of equality... When Negroes looked for the second phase, the realization of equality, they found that many of their white allies had quietly disappeared."[26] The first phase can be described as an attack on southern institutional racism. The second phase was a challenge to the nationwide socioeconomic inequality that helps perpetuate racial inequality to this day. The animating spirit of the Freedom Budget—its remarkable vision at once bold in its scope and pragmatic about what it would take—is as relevant today as it was when it was written nearly 50 years ago. It is that second phase of the civil rights struggle, for meaningful equality—economic equality very much included—for which the Freedom Budget provides a blueprint. And it is that second phase,

25 "Introduction." In *A "Freedom Budget" for All Americans: A Summary* (New York: A. Philip Randolph Institute, 1967).

26 Martin Luther King, Jr., *Where Do We Go From Here?: Chaos or Community?* (New York: Harper & Row, 1967), p. 3.

that long-deferred work, which we must take up today. The increasing diversity of the United States should be something that the country can celebrate—and it will only be so when Americans of color finally achieve the means, economic and otherwise, to pursue the dream of equal economic opportunity and prosperity.

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