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Race and Economic Disparities

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Summary

Race and Economic Disparities is one of a series of papers prepared by the Institute of Public Policy as briefing materials for the Ferguson Commission during the summer of 2015. It is published here for the benefit of a broader audience.

- Labor market outcomes for black Americans, particularly for men, continue to be significantly worse than those of their white counterparts. The reasons are complex and intertwined but the bottom line is that there are large income and wealth disparities that undermine the economic well-being of black Americans.

- The data paint a stark picture of the income gap between white and black Americans. The contributing factors include educational challenges, impacts of segregated neighborhoods, hiring discrimination, difficulties in transitioning to work, concentrations in poorly paid occupations and low wages and benefits.

- The wealth gap is even larger due to decades of discriminatory housing policies and the cumulative effects of income disparities and limited economic opportunity.

- The historical context shows that there have been times when the disparities have been reduced as a result of a major policy mobilization – World War II and the Civil Rights Act – but the disparities persist and continue to grow, abetted by long-standing and popular Federal policies.

Income Disparities

The income disparities are clearly shown by the following data points:

- The median annual household income for black households of $32,028 is 63.5 percent of that of white households at $50,400 (Sullivan et al, 2015).

- The proportion of adult population who are in the labor market – the labor force participation rate – varies slightly between races with white Americans at 63.0 percent and black Americans at 62.0 percent. However, black women participate in the labor market at a higher rate (61.9 percent) than white women (57.6 percent), while white men (72.2 percent) participate at a higher rate than black men (68.0 percent) (BLS, 2015).

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- The unemployment rate nationally for black Americans is 10.2 percent, well over twice the rate for white Americans at 4.7 percent. The rate for black men is 10.2 percent compared with 4.2 percent for white men, and the rate for black women is 8.8 percent and 4.3 percent for white women. The unemployment rate for young black adults aged 16-19 is 30.1 percent compared with 15.5 percent for young white adults (BLS, 2015). The latest available state level rates show even greater disparities between white and black Missourians with an unemployment rate of 5.2 percent for white men compared with 18.2 percent for black men (BLS, 2014).

There are several factors that give rise to these income disparities, although which are the most important is subject to intense and continuing debate:

Education: Black Americans tend to attend lower quality schools and live in neighborhoods where the average level of cognitive skills (learning skills, speech, memory, attention) is lower, and whose parents suffer similar challenges (Lang & Lehmann, 2011). Some research points to the fact that many children enter school with lower abilities, through lack of pre-school enrichment interventions and this disadvantage increases as they progress through school. Moreover, gaps in non-cognitive skills (critical thinking, problem-solving, social skills, creativity) open up early and will become barriers later, given employers' stated needs for such skills in the workplace (Carneiro, Heckman & Masterov, 2005). Young black males may fall behind at an early age, experiencing higher rates of disciplinary action, lower expectations from teachers, and thus higher drop-out rates (Spaulding et al, 2015).

Neighborhood Impacts: As a result of historic and persistent discrimination that has shaped housing, education, criminal justice, and workforce policies, black Americans tend to be concentrated in low-income, racially-segregated neighborhoods. This has the effect of socially isolating job seekers who lack the social capital and connections into the labor market (Spaulding et al, 2015). This may also lead to the formation of negative social identities and behaviors, speech patterns and ways of interacting that may not fit well with employers' expectations (Lang & Lehmann, 2011).

Hiring Discrimination: Although discriminatory hiring practices are illegal, it is widely assumed that they continue, even if not overtly. Employers may exclude applicants with "black sounding" names or from certain zip codes, or limit their recruitment channels to their current employees (Spaulding et al, 2015). Some argue that income disparities are less to do with discrimination, which they now believe to be much less important, but are mainly due to lack of education, lower cognitive skills and less work experience (O'Neill & O'Neill, 2012). However, recent research on hiring of college graduates indicates that both discrimination and differences in human capital contribute to racial economic inequality (Gaddis, 2015).

Transition to Work: Communication, teamwork, problem-solving, responsibility and reliability are critical skills, but the inability to secure well-structured work experience in their early working years limits the opportunity for young black men to refine these skills so that they can compete in the labor market. The current emphasis on GED may not be helpful as it does not seem to provide much advantage in the labor market (Spaulding et al, 2015).

Occupations: The distribution of black men across broad occupational categories shows that higher proportions, as compared with their white counterparts, work in service occupations (22 percent vs. 14 percent) and in production, transportation and material moving (16 percent vs. 11 percent). In contrast, a much lower proportion of black men work in management, professional and related occupations, which also are the highest paying (23 percent vs. 35 percent) (BLS, 2014). Black Americans comprise 11 percent of all employed workers but account for 36 percent of those in nursing, psychiatric and home health aide occupations, 27 percent of bus drivers, and 27 percent of security guards and gaming surveillance officers (BLS, 2014). The top three occupations for black Americans are health aides, cashiers and personal care aides (Povich, Roberts & Mather, 2014).

Wages and Benefits: Of all the employment gains since 2010, 58 percent comprise low-wage jobs of less than $13.83 per hour, mainly in the health care and personal care industries, the jobs in which black Americans are highly represented. Moreover, these types of jobs have limited opportunities for growth, offer few benefits such as health care, pensions, and paid leave, and may require nonstandard work hours, creating issues for childcare and transportation (Povich, Roberts & Mather, 2014).

Wealth Disparities

Wealth disparities are even more marked. In 2013, the median wealth of all black households was just $11,184, 8.5 percent of that of white households, which was $134,008 (Emmons & Noeth,2015). There are two main sets of reasons for these disparities:

Homeownership: 73 percent of white American households are homeowners compared with 45 percent of black American households. This reflects historic discriminatory practices in mortgage availability, land covenants, and zoning that acted as barriers to black American homeownership. The wealth impact is heightened by differences in home equity -- $86,800 for white households and $50,000 for black households – resulting from concentrations of black-owned homes in lower value neighborhoods and limited intergenerational transfers, as few parents are able to help their children purchase their first homes (Sullivan et al, 2015).

Labor market: The combination of low incomes, jobs without health coverage and retirement plans, and lack of progression, leaves little room for savings and wealth accumulation. Moreover, health and family emergencies, and unemployment mean that families have to draw down on the savings they might have and/or incur additional debt.

Historical Context

Since World War II, there have been two periods where income disparities were reduced. The wartime mobilization brought large scale migration from the South to the northern industrial cities. The structural shift for black Americans from agriculture to manufacturing was reinforced by the Roosevelt Administration's actions to increase wages for low-paying jobs through the National War Labor Board and to reduce wage inequality in government jobs through the Fair Employment Practice Committee. These together with increased unionization had a positive impact on wages and discriminatory practices.

The second boost was in the mid-1960s to mid-1970s with the implementation of civil rights policies and continued unionization, which led to another reduction in the earnings gap between white and black Americans. However, these gains were not sustained and for the past forty years, there has been a steady drift back to significant income – and wealth – disparities. This was due partly to economic restructuring and deindustrialization, which drastically reduced the number of good-paying blue-collar jobs, partly to the parallel loss of union membership and influence, and partly to the reduction in the real value of the minimum wage.

Also in the mix was a skills mismatch for black Americans who lacked the education, skills and experience for the new high-paying jobs in the technology and communications sectors. And of course, there was the continuing impact of discriminatory hiring practices, and reduced enforcement of anti-discrimination laws and regulations (Sites & Parks, 2011). The Great Recession certainly impacted every American household but the subsequent recovery only served to underscore growing income and wealth disparities.

The specific factors that contributed to these disparities, outlined earlier, have been supported and reinforced by a long-standing and politically popular system of Federal policies. A 2010 report looking at Federal asset-building policies calculated that the Federal government spent $384 billion in 2009 to help households build assets through mortgage and small business loan interest deductions, tax-deferred savings and investment plans, and college tuition credits. Ninety percent of these dollars were in the form of tax expenditures which disproportionately benefit the wealthiest taxpayers. At the same time, discretionary spending that would directly benefit low- income families has been subject to severe cutbacks (Woo, Rademacher, & Meir, 2010), institutionalizing the widening of the gap between rich and poor.

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