UNITED FOR A FAIR ECONOMY

STATE OF THE DREAM 2010
DRAINED
Jobless and Foreclosed in Communities of Color

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State of the Dream 2010: DRAINED

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Executive Summary

Forty-seven years ago, Dr. Martin Luther King, Jr. uttered his famous words, "I have a dream," at the 1963 March on Washington for Jobs and Freedom. In 2010, that dream is in jeopardy. The Great Recession has pulled the plug on communities of color, draining jobs and homes at alarming rates while exacerbating persistent inequalities of wealth and income.

From December 2008 to December 2009, the unemployment rate among Blacks increased by 4.3%, and it increased among Latinos by 3.7%. Whites saw a much lower increase of 2.4% during this same period. Unemployment among Blacks now stands at 16.2%, higher than any annual rate in the past 27 years. Unemployment among Latinos is 12.9%. Both rates far exceed the 9% unemployment rate in white communities.

Based on original research presented in this report, it is clear that some states have more work to do than others to close the vast disparities. We found that in 13 states, mostly in the Midwest, the Great Plains, and the South, the unemployment rate for Blacks was at least 2.5 times higher than that of whites. In five states, the unemployment rate among Latinos was at least twice as high as for whites.

Responding to the crisis facing communities of color, the Congressional Black Caucus (CBC) boycotted a key vote in December and called for more job-creation funding to be directed at economically-distressed communities most impacted by the Great Recession. The CBC is right to call for the targeting of job-creation funds, and President Obama made a serious policy error when he ruled that out. Prioritizing our nation's highest-unemployment communities, and those with the highest foreclosure rates, is precisely the way to end the downward economic spiral in those places and start a real, ground-up recovery for the entire nation.

Most of the job-creation projects in the American Recovery and Reinvestment Act (ARRA) and other federal initiatives are investments in infrastructure and transportation, "green" building retrofits, and pass-through funds that help states maintain schools and other important programs. All are worthy, but there is no evidence that the jobs these initiatives create are going to the communities most in need. In some cases, the opposite is true.

In addition to a jobs strategy, we need a wealth strategy. The disparities of wealth that separate communities of color from their white counterparts are even greater than the disparities of income. While Blacks earn 62 cents for every dollar of white income, Blacks have only 10 cents for every dollar of net worth whites have. While Latinos earn 68 cents for every dollar of white income, Latinos have only 12 cents for every dollar of net worth whites have.

The foreclosure crisis is exacerbating these wealth disparities by stripping away homes, one of the most important assets in communities of color, at unprecedented rates. In 2009, 3.4 million homes were in foreclosure. A disproportionate share of the families impacted were people of color who were systematically targeted by the financial industry for predatory, subprime loans. In fact, over half of the mortgages to African-Americans in recent years were high-cost subprime loans, mostly to people who would have qualified for regular loans.

While some legislation to address the foreclosure crisis has been passed, much of this new legislation has already been stripped of its teeth by powerful finance industry lobbyists, and hamstrung by lack of cooperation from big banks. As a result, these policies lack elements that are essential to stemming the crisis, such as a moratorium on foreclosures, modification of bankruptcy rules, and strong financial regulation. The Obama Administration and Congress must stand up to the financial services industry lobbyists if we are to end the foreclosure crisis.

While this report focuses on racial wealth and income disparities, most of its recommendations and policy proposals would lift up working class families of all races, including white Americans. Ultimately, any effective movement for change must cross the lines of race and build a broad-based coalition for economic justice. Confronting racial disparities is the first step in this process. We call upon Congress and the Administration to enact the policy recommendations in this report without delay to prevent further damage to the economy and those who are hardest hit by the Great Recession.

As the Obama Administration and Congress grapple with strategies to address the economic recovery, they also have an opportunity to address a holdover from the Bush Administration, tax breaks targeted to the wealthiest of households that are set to expire at the end of 2010. The Bush tax cuts must be allowed to expire as scheduled. They are wasteful tax cuts that only work to exacerbate the racial wealth and income disparities that have long plagued this nation.

Throughout this report, the theme of rivers and reservoirs recurs. Any analysis of racial economic inequalities must take a systemic approach, viewing the interaction between the rivers of income and jobs, with the reservoirs of wealth and home ownership. Additionally, we recognize that in communities of concentrated poverty, the economic equivalent of a desert can take shape where neither rivers nor reservoirs easily exist.

As the nation struggles to rebuild from the Great Recession, we must focus recovery efforts on the people and places most affected by joblessness and foreclosures. In doing so, we will help close the racial wealth divide that has long torn our nation apart, while lifting up working-class families of all races. Like the deserts of the natural world, the deserts of the economic world can spread and encroach on the fertile lands nearby. It is in all our interests, as a people bound together by a shared destiny and a shared prosperity, to let it rain in the deserts.

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Key Facts

Jobs and Unemployment:

- As of December 2009, 16.2% of African Americans and 12.9% of Latinos are unemployed, compared to 9% of whites (Sect. 1).
- From December 2008 to December 2009, the unemployment rate among Blacks grew by 4.3%, and among Latinos by 3.7%, as compared to 2.4% for whites (Sect. 1).
- In at least two states, Michigan and Ohio, African-American unemployment is expected to exceed 20% in 2010 (Introduction).
- Blacks earn 62 cents for every dollar of white income, and Latinos earn 68 cents for every dollar of white income (Sect 2).
- Wages and salaries lost from 2008 to 2012 will total $142 billion for African-Americans and $138 billion for Latinos, out of a total $1 trillion loss for the entire nation (Sect 1).
- Blacks and Latinos are 2.9 and 2.7 times as likely, respectively, to live in poverty than whites (Graph in Sect. 1).
- Black and Latino children are 3.3 and 2.9 times as likely, respectively, to live in poverty than white children (Graph in Sect. 1).
- Unemployment disparities vary by region (Sect. 1).
    - In five Midwestern and Plains states — Nebraska, Minnesota, Iowa, Wisconsin, and Oklahoma — the unemployment rate for Blacks was at least 3 times that of whites.
    - In another eight a — Indiana, Louisiana, Ohio, Kentucky, Kansas, Colorado, Mississippi, and New Jersey — the unemployment rate for Blacks was at least 2.5 times higher than that of whites.
    - Among Latinos, the widest disparities were in Oklahoma, Pennsylvania, South Dakota, Connecticut, and Iowa, states where the unemployment rate among Latinos was at least twice as high as whites.
- Workers laid off in an economic downturn can take up to 20 years to replace their lost earnings (Sect. 2).

Wealth and Assets:

- Blacks have 10 cents of net wealth for every dollar of white net worth, and Latinos have 12 cents of net worth for every dollar of white net worth (Sect. 2).
- People of color as a whole had only 16 cents of wealth for every dollar of white wealth in 2007 (Sect. 2).

- Whites are 34 times more likely to have a median net wealth over $3.5 million than African-Americans, based on new analysis of Survey of Consumer Finance data (Tax Sect.).
- The Obama Administration missed opportunities in 2009 to stop foreclosures, stabilize the economy, and start rebuilding wealth in the communities that the predatory mortgage industry targeted (Sect. 2).
  - An estimated 3.4 million families will have experienced foreclosure in 2009 (Sect 2).
  - The foreclosure crisis has morphed. Initially driven by predatory lending, unemployment is now feeding the viscous cycle. In 2009, nearly 60 percent of mortgage defaults were triggered by unemployment (Sect. 2).
  - Over half of the mortgages to African-Americans in recent years were high-cost subprime loans (Sect. 2).
  - More than 60 percent of those subprime loans went to borrowers whose credit ratings qualified them for lower-cost prime loans (Sect. 2).
- Neighborhood poverty trumps the effects of both the parent's level of education and type of occupation combined (Sect. 3).
- The median value of the financial assets held by white families with assets was $39,500, while families of color with assets held only $5,500 on average (Tax Sect.).

Policy Recommendations:

- Target job creation in high-unemployment communities.
- Track job-creation efforts / equity assessments.
- Recommit to affirmative action policies.
- Impose an immediate moratorium on foreclosures.
- Keep families in their homes through federal loan modification programs and modification of bankruptcy laws.
- Strengthen financial regulation to end predatory practices.
- Expand use of Individual Development Accounts (IDAs).
- Preserve the Estate Tax.
- Tax capital gains and dividends the same as ordinary Income.
- Strengthen the federal income tax / let the Bush tax cuts expire.

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Introduction

"We called our demonstration a campaign for jobs and income because we felt that the economic question was the most crucial that black people, and poor people generally, were confronting."

— Dr. Martin Luther King, Jr., *Look Magazine*, 1968

Martin Luther King's voice echoes in Congress

Dr. Martin Luther King Jr. uttered the refrain — "I have a dream" — at the 1963 March on Washington for Jobs and Freedom. Half a century later, the jobs it will take to bridge the racial economic divide are still a dream. The Great Recession[1] has pulled the plug on communities of color, draining jobs and homes from families that were already in crisis.

On December 2, 2009, ten members of the Congressional Black Caucus (CBC) took a stand for jobs and communities struggling amidst the crisis. They boycotted a House vote on regulating the financial services industry and demanded that ten percent of federal job-creation monies go to jobs in regions with the highest unemployment rates.[2] As a result of their strong stand, the CBC succeeded in adding $6 billion for job-creation projects, foreclosure assistance, and other targeted projects to two separate bills.[3]

The CBC was responding to a real crisis. Long-running disparities of wealth and income between whites, African-Americans, and Latinos have been worsened by the Great Recession. Our new data show that the CBC was right to call for targeting of job-creation funds to those in greatest economic need. President Obama makes a serious policy error in failing to prioritize our nation's highest-unemployment communities.

As of December 2009, 16.2 percent of African Americans and 12.9 percent of Latinos are unemployed, compared to 9 percent of whites.[4] In at least two states, Michigan and Ohio, African-American unemployment is expected to exceed 20 percent in 2010.[5] The jobs crisis exacerbates a foreclosure crisis that has stripped unprecedented wealth from communities of color.

This report shows that broad-spectrum, universal solutions to the economic crisis will neither solve the pervasive racial wealth divide nor end gaping racial differences in income. We need job-creation and foreclosure-prevention programs that are targeted to communities most in need, including those with the highest unemployment and foreclosure rates. Such focused strategies will not only help close the racial wealth divide, but will lift up working-class families of all races.

In a flu epidemic, vulnerable populations are routinely identified and given significantly more support than populations at less risk. No one objects if children, pregnant mothers, or the elderly are given extraordinary access to flu vaccines before the general public gets access. Economic policy should emulate public health policies and heal the nation by supporting the most vulnerable first.

Given the economic chasm between white communities and communities of color in our nation, universal programs may relieve the current downturn, but they will maintain racial disparities in income and wealth. A rising tide does not lift all boats because the public policies, economic structures, and unwritten rules of racism form mountains and ridgelines, and hills and valleys that shape our economic landscape. As a result, a rising economic tide fills the rivers and reservoirs of some, while leaving others dry and parched.

We follow in the legacy of Dr. King and call for a different reality: as we rebuild the American economy, we can build a bridge to close the racial economic divide that has scarred this nation since its birth.

Washington's current policy approaches are not building this bridge. When recovery efforts are focused on jobs, those jobs must be generated where they are needed most. A targeted jobs policy is needed in light of the widening jobs and income gap.

The wealth gap is even more troubling. Years of predatory lending are coming to a head. Foreclosures are rising, especially in communities of color, stripping away personal wealth at alarming rates. In mid-2009, 9.24 percent of borrowers were behind in home mortgage payments by at least thirty days.[6] An estimated 3.4 million families will have experienced foreclosure in 2009.[7]

Unemployment and foreclosures are feeding each other in a growing cycle of economic failure. "The first wave of foreclosures was driven by reckless loan products, but the crisis is now fueled by unemployment and loss of income," one expert told Congress. "In 2009, nearly 60 percent of mortgage defaults were triggered by unemployment."[8]

While this report focuses on racial wealth and income disparities, many of its recommendations will lift up working class families of all races, including white Americans. Ultimately, any movement for change must cross the lines of race to build a broad-based coalition for economic justice. Confronting racial disparities is the first step in that process.

In talking about "communities of color" we mean to include all traditionally disenfranchised groups, including Native Americans, Pacific Islanders, Asians, Latinos, and African-Americans. Due to the limitations of available data, much of this report cites statistics related to African-Americans, Latinos, or people of color collectively.

Rivers, Reservoirs, and Deserts: A Metaphor for Our Economy

In this report, "rivers" represent the incomes that sustain families week to week. These rivers — income and jobs — are examined in section one. "Reservoirs," the subject of section two, are the pools of family wealth — homes and assets — that build up when the rivers supply more than the family's immediate needs, and that are tapped when the rivers run dry.

"Deserts," in section three, refers to geographic areas of concentrated poverty, which emerge when rivers and reservoirs are drained. Decades of widening inequality, systemic racial discrimination in jobs and lending, and the Great Recession are spreading deserts of economic deprivation. To push back the deserts, Congress must target economic recovery funds towards the communities hardest hit. The reservoirs need to be replenished and the rivers kept flowing lest economic deserts become a permanent feature of our landscape.

In the solutions section of this report, we recommend clear policy directions Congress can take in 2010 to help close the racial wealth and income gaps. These policy recommendations will stem and reverse job losses, create income security, attack the foreclosure epidemic, and start to rebuild reservoirs of wealth in communities of color for the twenty-first century.

The report concludes with a special report on taxes. A wide range of tax cuts are scheduled to expire in 2010. The choices that Congress makes in addressing these expiring tax cuts will affect the racial wealth divide for years to come.

Section One: Economic Rivers

Jobs and Income in Communities of Color

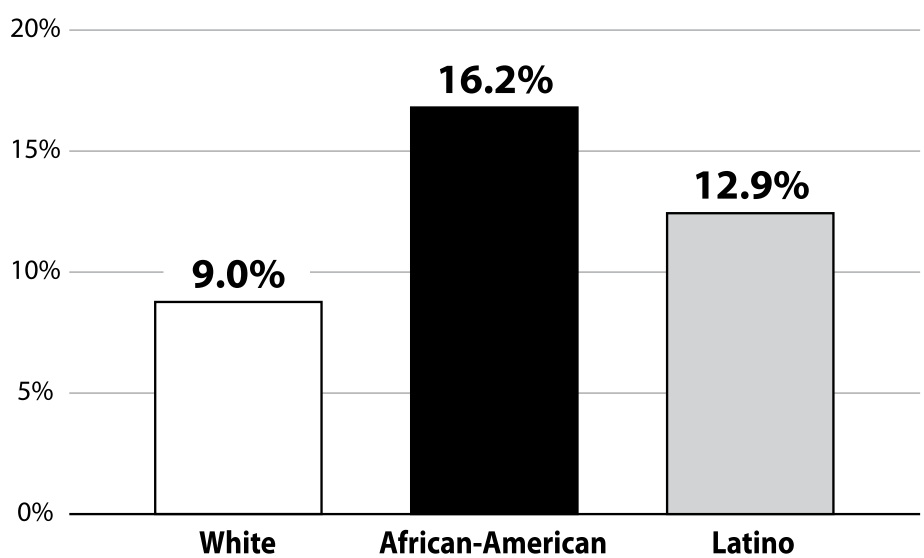
"We have come a long way in our understanding of human motivation and of the blind operation of our economic system. Now we realize that dislocations in the market operation of our economy and the prevalence of discrimination thrust people into idleness and bind them in constant or frequent unemployment against their will."

— Dr. Martin Luther King, Jr., *Where Do We Go From Here: Chaos or Community*, 1967

Forty-three years after Dr. King wrote these words, the Great Recession has brought such "dislocation" and "discrimination" to critical levels. White unemployment stood at 9 percent in December 2009. Black and Latino unemployment stood at 16.2 percent and 12.9 percent respectively[9] (see Figure 1). Unemployment is expected to rise in 2010 and deepen the Great Recession, not only for individual persons of color but for entire states and regions. Even more troubling, the Federal Reserve's Open Market Committee predicts that unemployment will not return to pre-recession levels for six years.[10]

Even accounting for education and training, African-Americans are still unemployed at much greater numbers. In fact, college-educated Black men are nearly twice as likely to be unemployed as their white, college-educated counterparts, according to the Bureau of Labor Statistics.[11]

FIGURE 1:
Unemployment Rates in December 2009, by Race



Source: Bureau of Labor Statistics, Economic News Release, Employment Situation Summary (January 2010).

The Center for Economic and Policy Research (CEPR) estimates that wages and salaries lost from 2008 to 2012 will total $142 billion for African-Americans and $138 billion for Latinos, out of a total $1 trillion loss for the entire nation.[12]

Chronic, dramatically higher unemployment in communities of color will cause permanent damage. Job losses lead to lasting losses in family income, and "the adult children of fathers who ever lost a job have earnings 9 percent lower than similar children whose father did not experience unemployment."[13] The cumulative costs to the economy of childhood poverty are about $500 billion per year or about 4 percent of GDP.[14]

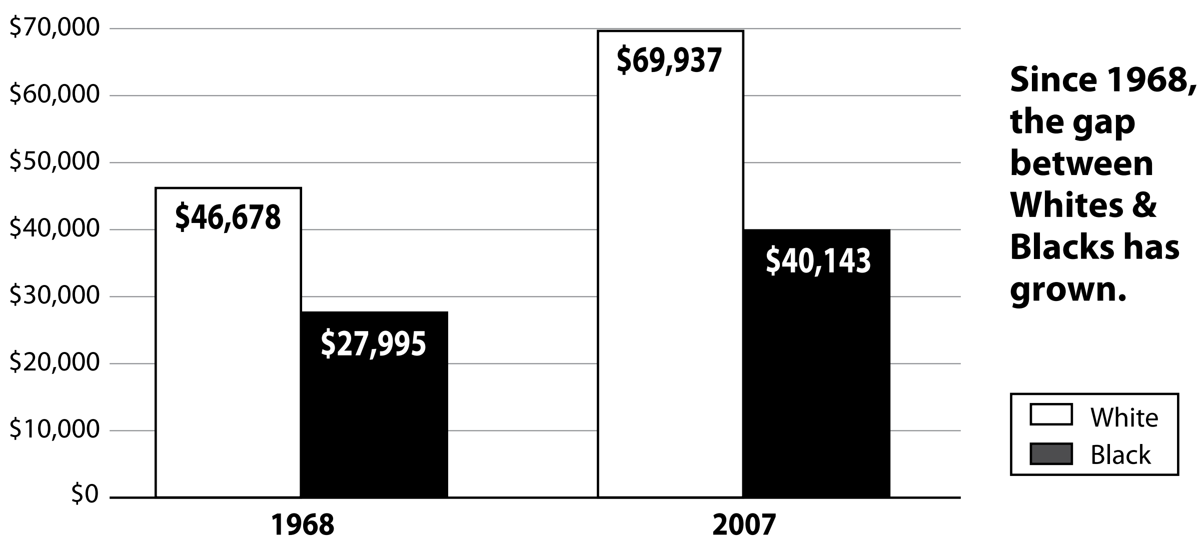
Ample jobs and good jobs feed the income rivers that sustain communities. When not enough jobs are open to communities of color or when job quality deteriorates, the rivers start drying up, and persistent poverty results.

Job losses lead to lasting losses in family income, and "the adult children of fathers who ever lost a job have earnings 9% lower than similar children whose father did not experience unemployment."

The overall national poverty rate hit an 11-year high of 13.2 percent in 2008 (the most recent data available at the time of this printing). "The African-American poverty rate was 24.6 percent, the Latino rate was 23.2 percent, and the white rate was 8.6 percent. The poverty rate for children under the age of 18 rose to 19.0 percent — again the highest level since 1997. More than one-third of African-American children (34.7 percent) lived in poverty,

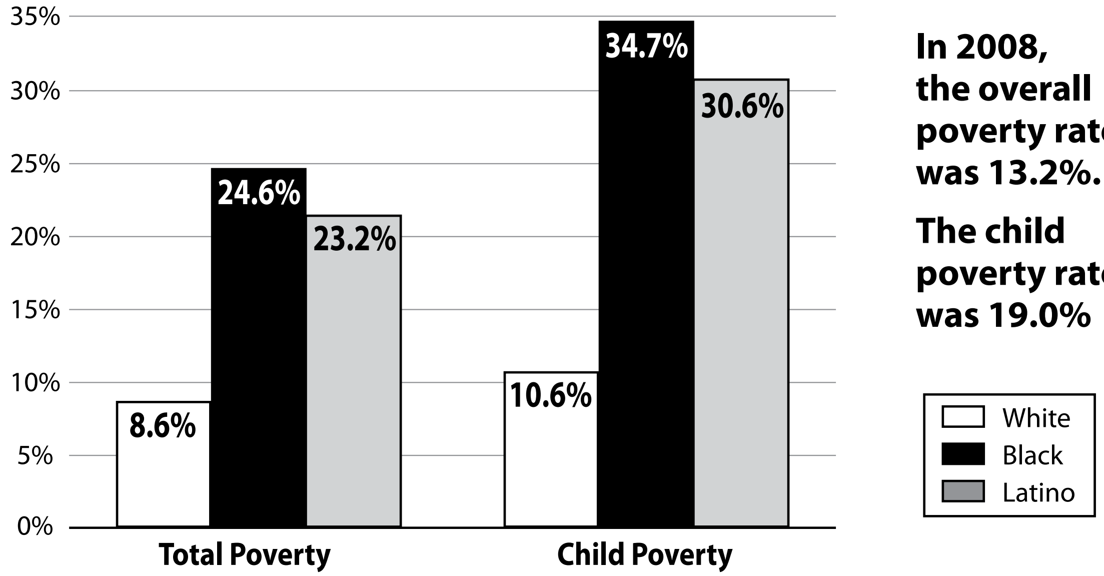
FIGURE 2

Median Family Income, 1968 to 2007



Source: U.S. Census Bureau, Historical Income Tables, Families, Table F-5 <http://www.census.gov/hhes/www/income/histinc/f05.html>.

FIGURE 3
Poverty Rates, 2008



Source: Christian E. Weller, *Economic Snapshot for December 2009*, Briefing Paper, Center for American Progress.

compared to 10.6 percent of white children, and 30.6 percent of Latino children"[15] (see Figure 3).

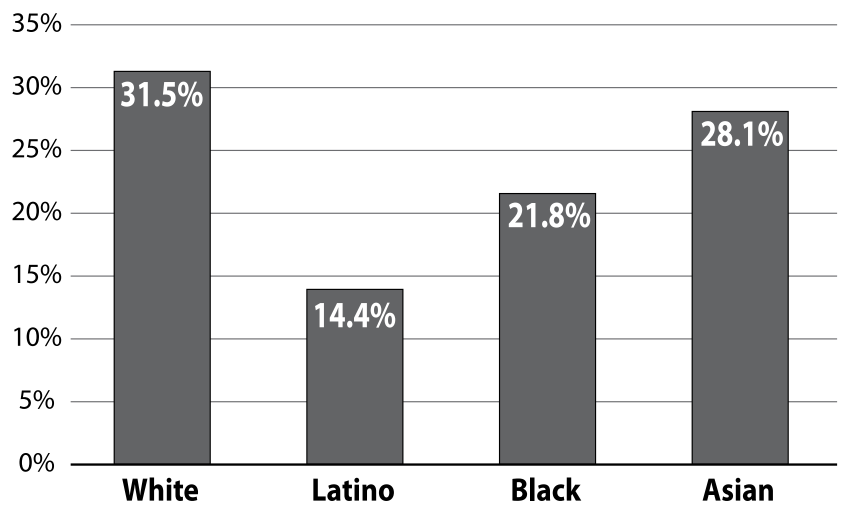
Unequal Incomes

Even when employed, people of color earn significantly less than their white counterparts. In 2007, the Urban Institute studied the wages of newly hired workers. They found that the average hourly wage of newly hired white workers in jobs that did not require a college education was $13.08. This is less than half of what it takes to support a family in a high cost city (as calculated by the National Center for Children in Poverty).[16] Newly hired Black workers in the same jobs averaged even less, only $10.23, while newly hired Latino workers averaged $11.46 an hour.[17] Research shows that significant Black-white wage disparities persist even after controlling for differences in employees' work experience and training[18] — demonstrating that addressing employers' discriminatory actions is essential to closing the racial wage gap.

Not all jobs are created equal. The Economic Policy Institute defines good jobs as those "that pay a sufficient wage to support a family and provide health care and retirement benefits."[19] Without "good jobs," people of color do not have enough income to build wealth. Without wealth reservoirs, they cannot eliminate the systemic poverty that disproportionately affects them, and are at risk in times of economic drought.

To determine the wage level that can support a family in your geographic location, see <www.livingwage.geog.psu.edu/>.

FIGURE 4
Rate of Employment in "Good Jobs" in 2008



A "good job" is defined as one that pays at least $14.51 an hour and provides health insurance and a pension plan.

In 2008, less than 3 of every 10 jobs in the U.S. met this criteria.

Source: Algernon Austin, "Getting Good Jobs to America's People of Color", *EPI Briefing Paper #250*, Economic Policy Institute, November 2009. Authors analysis of Bureau of Labor Statistics (2009a) data.

In 2008, 31.5 percent of whites had "good jobs," while only 14.4 percent of Latinos and 21.8 percent of African Americans had them[20] (see Figure 4).

State-by-State Unemployment Disparities

A state-by-state analysis using Bureau of Labor Statistics data from 2008 (the most recent year where significant state-by-state unemployment data are available by race) shows that unemployment disparities are prevalent across the country. While white unemployment data is available for all 50 states, comparative data by race is more limited. Black to white unemployment data is available for 40 states, and Latino to white unemployment data is available for 45 states.

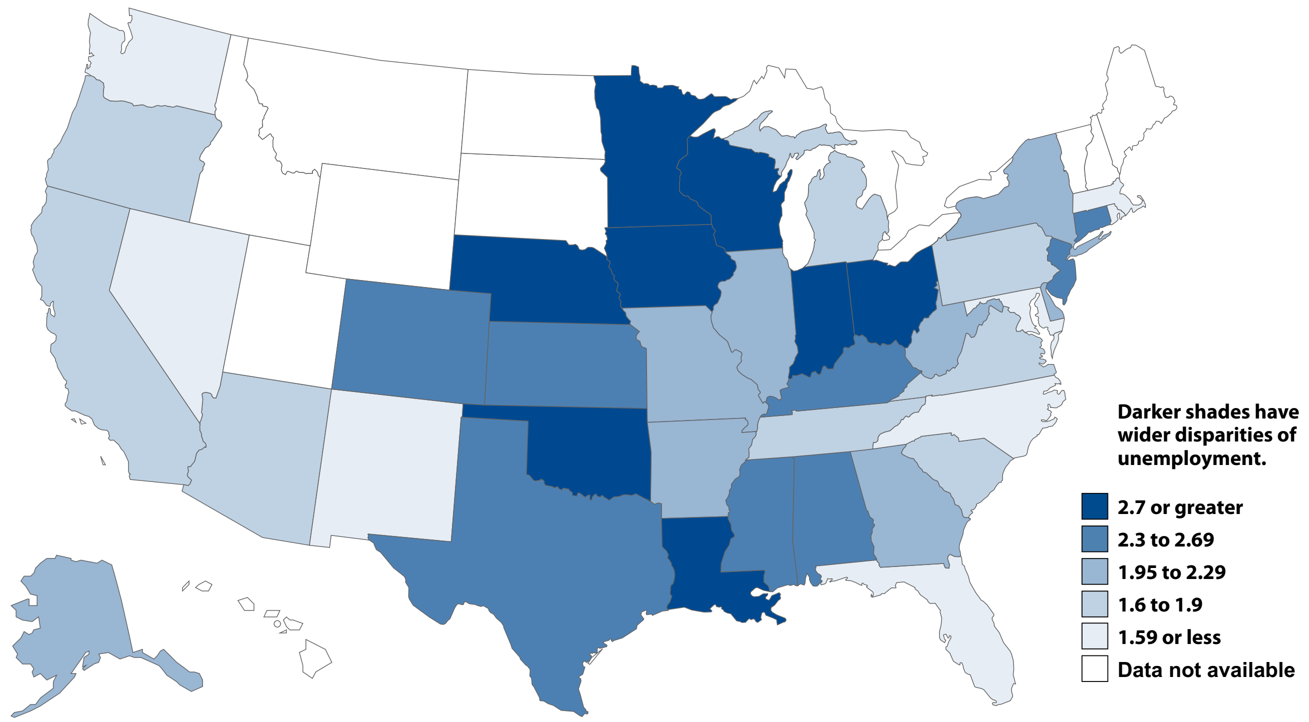
Nationally, the unemployment rate for Blacks was 1.9 times higher than that for whites in 2008, but that gap varies significantly by state. In every state but New Mexico, the unemployment rate for Blacks was at least 1.3 times higher than whites. In most states, the ratio is far higher (see Figure 5). In five Midwestern and Plains states — Nebraska, Minnesota, Iowa, Wisconsin, and Oklahoma — the unemployment rate for Blacks was at least 3 times that of whites. In another eight — Indiana, Louisiana, Ohio, Kentucky, Kansas, Colorado, Mississippi, and New Jersey — the unemployment rate for Blacks was at least 2.5 times higher than that for whites.[21]

Nationally, the unemployment rate among Latinos was 1.5 times as high as whites in 2008, with the widest disparities in Oklahoma, Pennsylvania, South Dakota, Connecticut, and Iowa, states where the unemployment rate among Latinos was at least twice as high as whites.[22]

While the ratio has narrowed slightly during the Great Recession, from 1.9 to 1.8 for Blacks and 1.5 to 1.4 for Latinos, the *growth* of Black and

FIGURE 5

Ratio of Black to White Unemployment Rates in U.S. States, 2008



Latino unemployment continues to outstrip that of whites. From December 2008 to December 2009, the unemployment rate among Blacks increased by 4.3 percent, and among Latinos by 3.7 percent, as compared to 2.4 percent for whites. As a result, the gaping racial disparity in unemployment rates has not changed significantly [23] (see Figure 6 on page 8).

Projections for 2010 are even worse. In a state-by-state analysis from the Economic Policy Institute (EPI), unemployment among Blacks is expected to be highest in Michigan, where 24.9 percent will be unemployed, compared to 14 percent of whites.[24] The vast disparities between Blacks and whites, as well as between Latinos and whites, will persist across the nation.

While the Great Recession is hitting Americans from all walks of life, people of color were already at a disadvantage when it began. As we pointed out in the *State of the Dream 2009: The Silent Depression*, people of color had already been in an economic depression as a community,[25] which has made them even more vulnerable to the Great Recession.

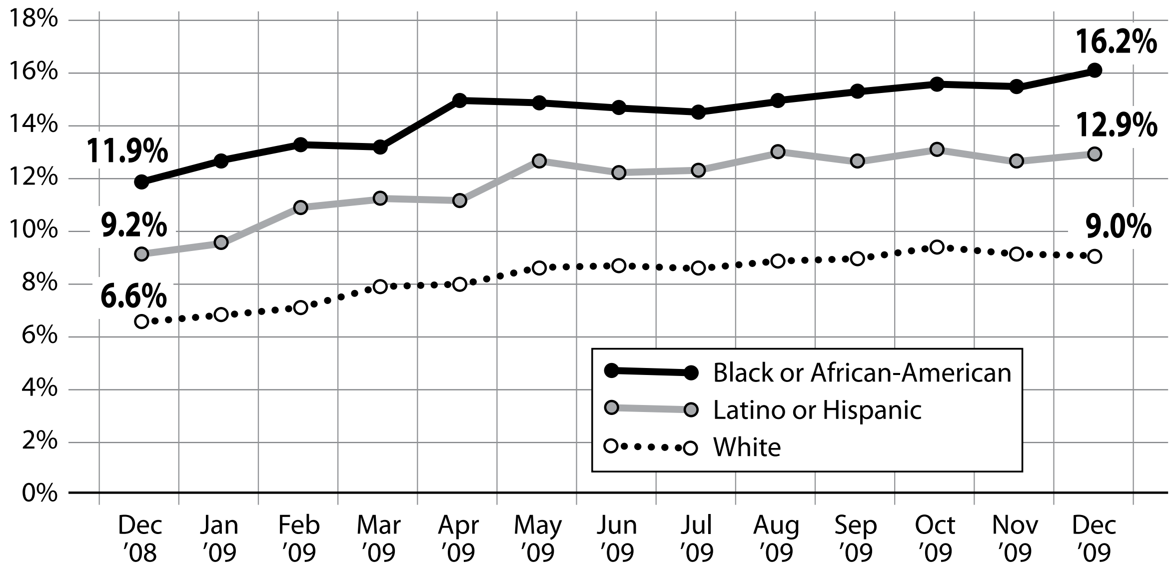
The unemployment gap existed long before the Great Recession and will continue long after it unless we take a new approach to the economic recovery. Broad-spectrum jobs programs may stimulate overall employment growth but will do nothing to eliminate the constant gap that separates communities of color from whites. We need targeted job-creation initiatives to supplement broad-spectrum programs in order to ensure both recovery and broadly-shared prosperity.

Needed: Targeted Jobs Programs

Anti-recession funds, if distributed in a broad-spectrum approach across the country, are unlikely to relieve those hardest hit — be they economic sectors in need, or geographic areas in distress.

FIGURE 6

Unemployment Rate, by Race/Ethnicity



Source: For Dec '08 - Nov '09: Bureau of Labor Statistics, Table A-4. Employment status of the civilian noninstitutional population by race, Hispanic or Latino ethnicity, sex, and age, seasonally adjusted <ftp://ftp.bls.gov/pub/suppl/empsit.cpseea4.txt>. For Dec '09: Bureau of Labor Statistics, Economic News Release, Employment Situation Summary (January 2010).

Most of the job-creation projects in the American Recovery and Reinvestment Act (ARRA) and other federal initiatives are investments in infrastructure and transportation, "green" building retrofits, and pass-through funds that help states maintain schools and other important programs. All are worthy, but there is no evidence that the jobs these initiatives create are going to the communities most in need. In some cases, the opposite is true.

- The Associated Press found that, across the U.S., stimulus money for transportation was directed away from where the economic conditions are most dire. More money went to areas with higher rates of employment.[26]

- The New York University report *Race, Gender and The Recession* reported that federal recovery money is creating more jobs in construction and retail than any other industries. These are industries that traditionally have not been major job sources for African American communities.

If the rain falls on relatively well-watered areas of economic opportunity, it does little to revive the driest economic landscapes in our country. Targeted approaches are much more likely to be effective. Prioritizing our nation's highest-unemployment communities is precisely the way to end the downward economic spiral in those places and start a real, broad-based recovery for the entire nation.

Congress must identify communities with the highest unemployment rates and target job-creation initiatives toward those communities, whether by census tract, zip code, or other method. This policy direction will lift up working-class white communities while narrowing the racial income gap. Congress should also ensure that as many of those jobs as possible pay a living wage.

Section Two: Economic Reservoirs

Wealth, Assets, and Home Ownership in Communities of Color

> **"The great problem facing our nation today in the area of race is that it is the black man who to a large extent produced the wealth of this nation. And the nation doesn't have sense enough to share its wealth and its power with the very people who made it so."**
>
> — Dr. Martin Luther King, Jr, Mount Pisgah Missionary Baptist Church, Chicago, Illinois, August 27, 1967

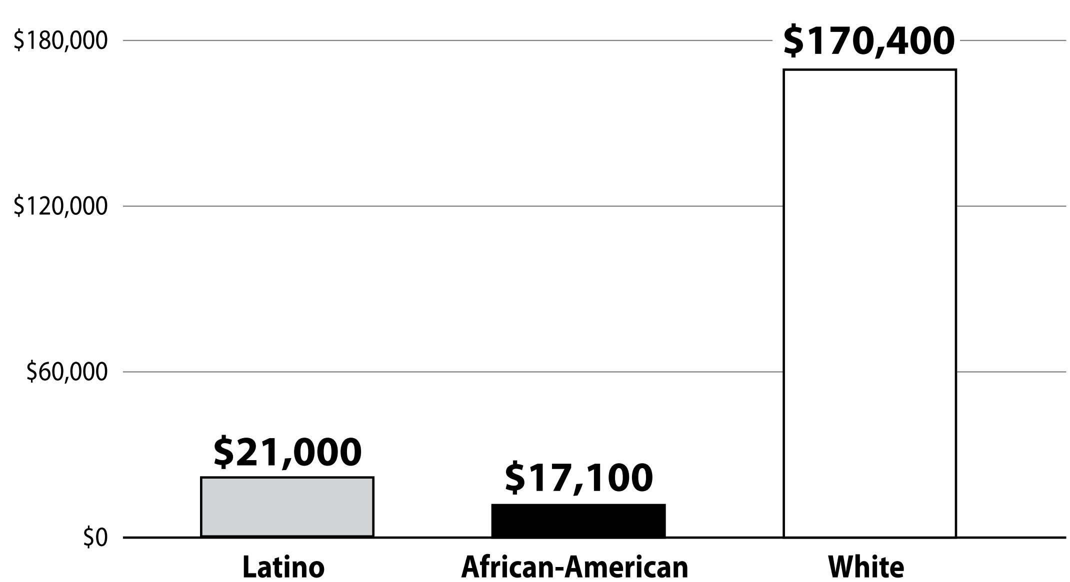
Just as we need a targeted approach to securing jobs and adequate income for working America, we also need a targeted approach to protecting and building reservoirs of wealth, especially for those with the fastest-dwindling wealth reserves.

Wealth — homes, savings, and investments — acts as an economic reservoir. This reservoir supplements the river of income during dry times and is replenished by the river in good times. It helps families survive periods of unemployment, costly medical emergencies, and other unexpected expenses that income alone cannot address. Families can use wealth reservoirs to buy a home, start a business, take time off from work to care for children or parents, or advance their careers by returning to school. Wealth reservoirs allow families to relocate away from economically depressed regions. Wealth can also generate its own income streams.

In part because wealth can be transferred from generation to generation, the wealth divide seems to be more persistent than the income divide. It is also far more dramatic (see Figure 7).

FIGURE 7

Household Median Net Worth by Race, 2007



Source: *Laying the Foundation for National Prosperity - The Imperative of Closing the Racial Wealth Gap*, Insight Center for Community Economic Development (March 2009), from SCF, Federal Reserve Bank.

- While Blacks earn 62 cents for every dollar of white income,[27] Blacks have only 10 cents of net wealth for every dollar of white, non-Hispanic net worth.[28]

- While Latinos earn 68 cents for every dollar of white income,[29] Latinos have only 12 cents of net worth for every dollar of white net worth.[30]

- People of color as a whole had only 16 cents of net wealth for every dollar of white net worth in 2007.[31]

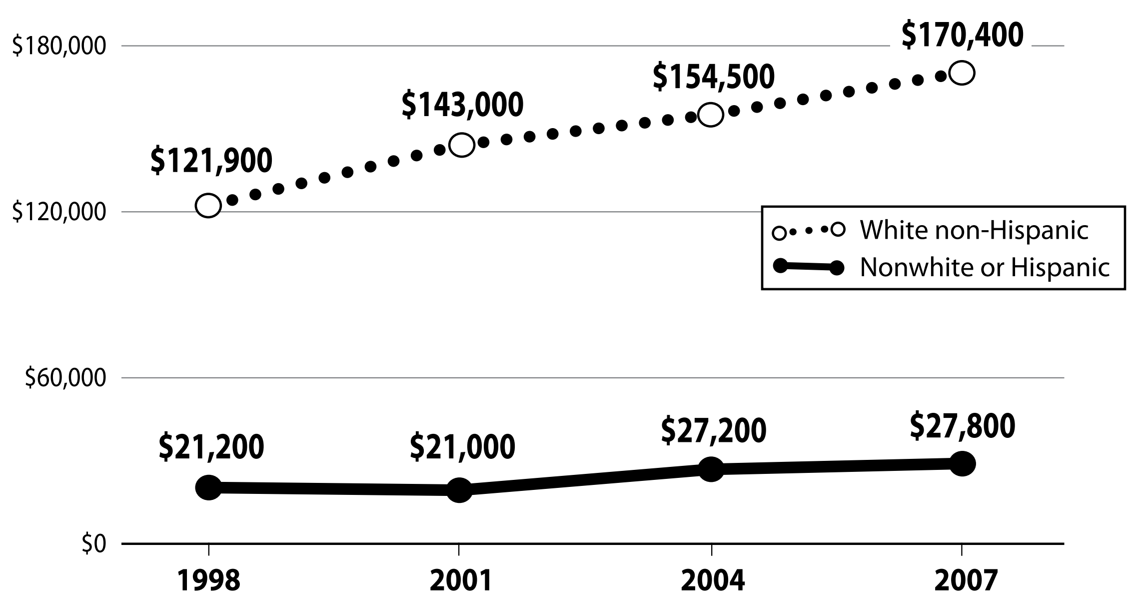
America's highly racialized wealth divide has deep roots. It started with dispossession of Native American lands and slavery of African-Americans, which helped build white wealth while preventing people of color from accumulating it. While African-Americans painstakingly started building wealth after emancipation, those reservoirs were drained by public and private policies that enforced or encouraged residential segregation, urban flight, including redlining, predatory lending, and even the design of transportation systems. Deindustrialization and declining union density accelerated the wealth divide, and the recovery from the dot-com recession of 2000–2001 failed to narrow it.

Our history of racial wealth disparity will continue to stain our nation unless we change the rules that shape our economy. At this moment in history, that includes ending the foreclosure crisis that is stripping wealth at alarming rates from communities of color.

Foreclosures: Draining the Wealth Reservoir

Foreclosures continue to rise alarmingly (see Figure 8). There were an estimated 3.4 million foreclosures in 2009.[33] "Due to the rise in homeowner walk-aways, lack of forced bank modifications, growing unemployment figures… Housing Predictor forecasts foreclosures will now top 17-million homes through 2014."[34]

FIGURE 8
Family Median Net Worth, 1998 - 2007



Source: *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*. Table 4. Family net worth, by selected characteristics of families, 1998-2007 surveys. Amounts in 2007 dollars.

As is well-documented by various sources, including the *State of the Dream 2008: Foreclosed* (see sidebar), the foreclosure crisis is disproportionally impacting communities of color.

"Foreclosures continue to grow as the nature of the crisis has evolved," said James H. Carr, COO of the National Community Reinvestment Coalition, in written testimony to Congress. "The first wave of foreclosures was driven by reckless loan products, but the crisis is now fueled by unemployment and loss of income. In 2009, nearly 60 percent [of] foreclosures [were] triggered by unemployment."[35]

In addition to rampant unemployment, communities of color experience higher foreclosure rates due to racially targeted predatory lending, in which virtually every sector of the mortgage industry participated. A 2006 study that controlled for income and credit worthiness found that non-whites were significantly more likely than whites to receive high-

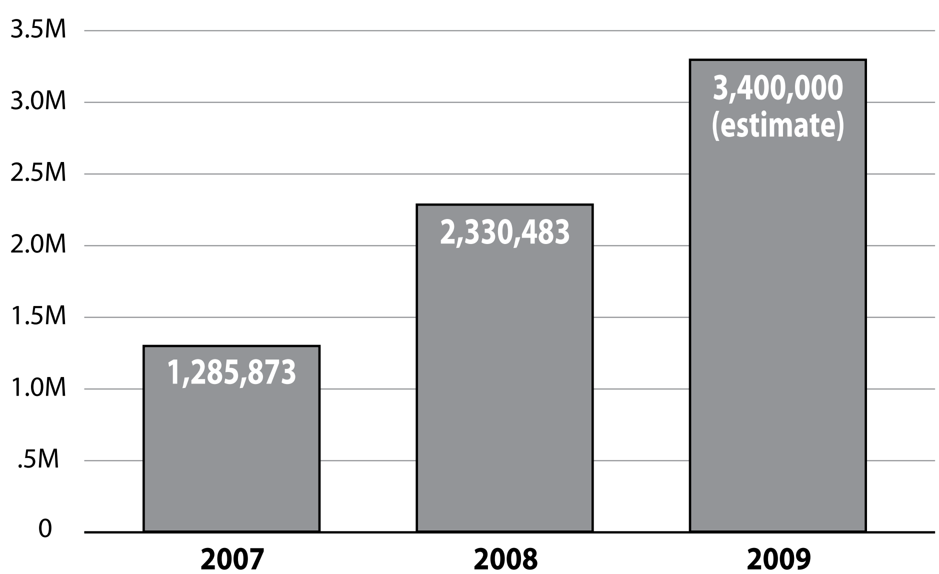
Revisiting the *State of the Dream 2008: Foreclosed*

The wealth-stripping effects of the recession and foreclosure crisis were documented in UFE's 2008 *State of the Dream: Foreclosed*, which showed that predatory lending practices were stripping wealth from communities of color.

- People of color were more than three times more likely to have subprime loans than whites.
- Commonly, lenders gave people of color loans with less advantageous payment rates, even when they qualified for better ones.
- Lenders failed to provide those applying for a home loan with information on the strenuous repayment schedule.
- Lenders inserted stiff fines for people to pay to get out of a subprime loan if they discovered it was too expensive.[39]

Since homes are the main form of wealth for working-class families and especially for communities of color, these practices drained their wealth reservoirs to dangerously low levels.

FIGURE 9
Foreclosures, 2007 - 2009



In three years, there have been more than 7.1 million foreclosures in the U.S.

Source: RealtyTrac reports, with NCRC projecting foreclousres for December 2009 (see Endnotes in report for full citation).

cost loans.[36] Over half of the mortgages to African-Americans in recent years were high-cost subprime loans. This predatory lending formed the epicenter of the first stage of the foreclosure crisis. Significantly, more than 60 percent of those subprime loans went to borrowers whose credit ratings qualified them for lower-cost prime loans, according to a 2008 *Wall Street Journal* study.[37]

The disproportionate damage from foreclosures compounds the economic challenges that communities of color face and makes their economic recovery more difficult. A recent study shows that workers laid off in an economic downturn can take up to 20 years to replace their lost earnings.[38] Replacing the wealth stripped from communities by predatory lending and foreclosure could take even longer. And while some economic indicators are improving, unemployment and the foreclosure crisis continue to do long-lasting damage to the nation's economy.

Are we narrowing or widening the racial wealth divide?

Arresting the foreclosure crisis is a critical first step toward restoring health to the national economy. The housing industry employs millions of workers and provides the property tax base of cities across the country. Housing is also a main pillar of the nation's credit markets; while that pillar remains shaky, credit cannot fully recover.

The irresponsible and predatory lending practices of our nation's financial institutions directly led to the current foreclosure crisis that is stripping wealth from communities of color at alarming rates. The Obama Administration and Congress missed opportunities in 2009 to stop foreclosures, stabilize the economy, and start rebuilding wealth in the communities that the predatory mortgage industry targeted. Our government has an important role in protecting communities from the destructive actions of any party, be it the breaking and entering of a common burglar or the deceptive actions of the mortgage industry. On this front, the government has failed.

While the Administration and Congress set up several programs to stem the tide of foreclosures, these efforts have been largely ineffective in getting the mortgage industry to renegotiate most mortgages.[39]

Actions that could have been taken include:

- **Declare an immediate moratorium on foreclosures.** This would have stabilized housing markets, stopped the vicious spiral of wealth-stripping in communities of color, and given the financial industry an incentive to renegotiate predatory loans.

- **Give bankruptcy judges the power to lower mortgages for insolvent homeowners.** This would have kept millions of families in their homes.

- **Make mortgages more affordable by requiring cooperation from financial institutions with the affordability programs**, including loan modifications, set up by the Administration.

- **Strongly regulate financial markets and protect consumers.** This would prevent future financial market failures that strip wealth and jobs from all communities and take down the nation's economy.

Although the Administration has proposed a comprehensive plan to restructure financial system regulation, restructuring has yet to occur. In some ways, the system is even more risky than it was before the crisis. For example, the "too big to fail" firms that needed hundreds of billions of federal dollars to avoid collapse have actually grown larger.[40]

We are now looking at more waves of foreclosures nationwide as Alt-A mortgage rates reset to higher levels this year and more families default on mort-

gages where the amount of the loans far exceeds the value of their properties. (Alt-A is a mortgage risk categorization that falls between prime and sub-prime, but is closer to prime. Also referred to as "A minus.")
These waves will further drag down attempts to rebuild community wealth and revive the national economy.

By failing to fully rein in the financial industry[41] and put into place foreclosure mitigation steps that could end the crisis, the Obama Administration's policy package is widening and further racializing the wealth gap. While the President is refusing to target recovery funds for those most impacted, he is failing to counteract the racial targeting practiced by predatory lenders.

The lack of strong rules and effective oversight has enabled the financial services industry to siphon off the reservoirs of wealth from people of color across the country. As the reservoirs are drained, families are at greater risk from the long-term unemployment and economic drought brought on by the Great Recession.

It is now clear that predatory lending, which flooded the market with toxic assets, pushed the economy over the edge and into recession. Indeed, the country might be in a very different position today if it had not been for the targeting of communities of color with risky, predatory loans. George Goehl, executive director of the National Training and Information Center noted: "If there were ever a story that proves that we're all in this together, the foreclosure crisis is the epitome of that." Without addressing the structural factors that make communities of color vulnerable to predatory lending, foreclosure and homelessness, and without new regulations on financial services and lending that simultaneously deal with racial discrimination in the housing market, everyone will remain vulnerable both to financial predators and the kind of economic crisis we are currently experiencing.

Race and Recession, (Oakland CA: Applied Research Center 2009), pg. 46.

Section Three: Economic Deserts

Communities of Concentrated Poverty and Unemployment

"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."

— Dr. Martin Luther King, Jr., *Where Do We Go From Here: Chaos or Community*, 1967

The exponential effects of geographically concentrated poverty on the loss of opportunity impact entire communities. Massive job losses and foreclosures are creating and expanding economic deserts where neither rivers nor reservoirs can easily exist.

For most middle-class, white Americans, these communities of concentrated poverty are usually hidden from view, creating a false sense of shared prosperity at times when the economy as a whole is growing. In 2005, Hurricane Katrina pulled back the veil on the harsh realities of such a community for the world to see. This is one of the few times that mainstream America has been exposed to the effects of concentrated poverty. While not visible to most, there are communities like the ones exposed by Hurricane Katrina all across America.

Chicago had $600 billion to invest in transportation earlier this decade, but spent only 15 percent in the city itself. The rest went to the suburbs.

Economic deserts have a distinct landscape of deprivation that often stigmatizes those who live in them. Blaming the victim is the easy way out, but fifty years of research in racially-isolated communities of concentrated poverty shows that simply living in these communities restricts employment, contributes to poor health, and exposes children to high rates of crime and violence, to low quality foods, and to some of the worst performing schools.[42] These outcomes are due to the effects of concentrated poverty, not to the attributes of those who live there.

The Great Recession has not brought television cameras to economically ravaged communities the way Hurricane Katrina did, but it has spread and worsened the conditions of economic deprivation as wealth drains out from communities where joblessness and foreclosures are concentrated.

Policies Create Deserts

Economic deserts are the result of policy choices such as the redlining of whole communities, the design of urban transportation systems, and lax financial regulation. For example, Chicago had $600 billion to invest in transportation earlier this decade, but spent only 15 percent in the city itself. The rest went to the suburbs.[43] Similarly, studies show that Black and Latino neighborhoods tend to be underfunded by states and municipalities today, and people from these neighborhoods currently face discrimination based not only on their race, but also their zip code.[44]

As policies have created racialized economic deserts in our cities, jobs have followed homeowners into the suburbs, outdated tax structures have forced increasingly racialized city dwellers to shoulder the entire cost of municipal services that benefit white suburbanites, and federally subsidized projects have concentrated entire neighborhoods in low-valued buildings.[45]

The desertification of communities has deep and lasting effects on its residents. We all hope that our accomplishments will improve our children's opportunities, but for those living in economic deserts, neighborhood poverty trumps the effects of both the parent's level of education and type of occupation combined.[46] Simply living in an increasingly impoverished neighborhood increases the likelihood that a child will move down the income ladder, regardless of race.[47]

The Need for Irrigation to Make Economic Deserts Fertile

Communities of color entered the Great Recession in a weak economic position. They are now further isolated in economic deserts as joblessness increases and the impact of foreclosures drains the wealth out of entire communities. The conditions of economic deserts are created and exacerbated by policy choices. Correcting the problem requires policy solutions designed specifically to address it.

The policy decisions that we make to foster economic recovery need to be directed to where the worst economic problems exist. The river of income from good jobs needs to be restored to the communities in the worst economic situation. Reservoirs of wealth need to be built up where they have evaporated. And the factors that led to the Great Recession need to be addressed with new and strengthened regulations to end predatory practices and eliminate the systemic risks in the financial industry.

Section Four: Let it Rain in the Deserts

Targeted Jobs and Wealth-Building Strategies for Communities Most Affected

> **"We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly affects all indirectly."**
>
> — Dr. Martin Luther King, Jr., *Letter from a Birmingham Jail*, 1963

Dr. King recognized that it would take massive federal investment to end racial economic inequality. Dr. King also recognized that this would be even more challenging than ending segregation, and economic history since then has proven him right.

In a speech to the NAACP in 2009, President Obama highlighted the reality of modern-day racial socio-economic disenfranchisement. In this speech, President Obama highlighted the economic structural inequality that leaves communities of color disproportionately hurt by a recession and a boom/bust economy. Obama's address repeatedly stated that the nation's racial inequality is not an African-American problem, but rather a problem of our entire nation. We couldn't agree more. But addressing that problem will require targeted intervention.

As we look across the landscape of the nation, record levels of joblessness and foreclosures have dried out the rivers and drained the reservoirs, spreading deserts of concentrated poverty. We need rain, and we must make sure the rain falls on the most parched landscapes of our nation.

While broad-based or universal solutions have their place in economic recovery strategy, they must be implemented alongside targeted solutions that go directly to the communities most hurt by joblessness and foreclosures. According to the Urban Institute, the results of such place-conscious interventions, like the Jobs Plus program, demonstrate that directly addressing the challenges of concentrated poverty and isolation "can make a big difference for families and children — they are worth the effort and the cost."[48]

Economic Rivers: Income and Jobs

Policy responses to the Great Recession can be an opportunity to reverse long-term inequality and employment disparity. Choosing the right policies for an economic recovery is a necessary step to rebuilding our economy and ensuring that all have a fair chance at achieving the American Dream. Congress should take immediate action to:

> **"The results of such place-conscious interventions, like the Jobs Plus program, demonstrate that directly addressing the challenges of concentrated poverty and isolation can make a big difference for families and children — they are worth the effort and the cost..."**

- **Target job creation in high-unemployment communities.** A significant portion of job-creation projects should be targeted toward people and places most in need, including those with the highest unemployment rates. One example, HR 4268, the "Put America To Work Act of 2009," would fund one million public jobs for workers who have been jobless for at least 26 weeks and low-income workers who have been jobless at least 30 days and need immediate assistance. While the funds are not racially targeted, they will go to individuals and communities most in need of economic relief. Coupled with anti-foreclosure measures, it would start to replenish the rivers and reservoirs those communities need to start contributing to the nation's recovery.

- **Track job-creation efforts/equity assessments.** To ensure that stimulus funds reach working class and disenfranchised communities, equity assessments should be required for all federal spending. A proper equity assessment will track where funds go, what jobs are created and in what communities. Demographic data on race, ethnicity, gender, class, and geography will be required for an equity assessment. This information will help future government programs reach the disenfranchised and the working class, the communities who must be at the center of an economic recovery.

- **Recommit to affirmative action policies.** Affirmative action has a successful history of making inroads for women, people of color, disabled and lower income Americans. This successful tool must be used to narrow the jobs and income gap that separates our "two Americas."

Economic Reservoirs: Wealth and Home Ownership

Congress must act immediately to stem the loss of wealth from foreclosures while rebuilding assets, with special emphasis on communities most affected. While proactive targeting of policies is needed, the foreclosure crisis also requires a changing of the basic rules to protect all Americans and prevent another kind of targeting: the financial industry's targeting of predatory loans and the wealth-stripping harm they cause to communities of color.

- **An immediate moratorium on foreclosures.** States and the federal government should impose extended moratoria on foreclosures in instances of unemployment-induced defaults. This would allow workers who are out of work to focus on finding a new job rather than be distracted with finding a new place to live. Additional moratoria might also be useful, such as barring foreclosures until the lender or servicer has had a face-to-face discussion with the borrower's regarding the homeowners' potential to qualify for a loan modification.[49]

- **Keep families in their homes.** To encourage servicers to more actively participate in the federal loan modification programs, bankruptcy judges must be given the power to change the terms of mortgages for bankrupt homeowners. This will allow more homeowners to hold onto their homes and stabilize the housing market. Allowing judges to treat home loans as they do other types of debt, such as loans for luxury yachts, will compel the financial industry, which profited from irresponsible lending, to share in cleaning up the foreclosure crisis.

- **Strengthen financial regulation to end predatory practices.** The financial industry that drove the entire economy to the brink of collapse by chasing short term profits and preying on communities of color needs to be effectively regulated. Reformed and strengthened financial regulation should include strong consumer protections against unfair and deceptive practices. The enactment of a Consumer Financial Protection Agency is essential to this goal. Other actions that would be helpful include extending reserve requirements to new types of securities, placing limits on leverage for all financial institutions, regulating the securitization of debt, and regulating hedge and private equity funds in a comparable manner to banks. These measures will help prevent catastrophic financial market failures that strip wealth and jobs from all communities, and especially communities of color.

- **Broaden Individual Development Accounts (IDAs).** IDAs are saving accounts that provide matching funds to assist and provide greater incentive for lower income families to save and build wealth. They have been tested on a small scale in the United States for years. It is time to broaden these programs to cover the entire nation. As the recent turmoil in the stock market and the rapid decline of home value has shown, good old-fashioned savings accounts are still an essential part of a wealth portfolio, and are among the most secure investments during a time of economic downturn. IDAs encourage and strengthen the savings of those most vulnerable during recessions. Lower and middle income people would be eligible to receive matching funds for their IDAs through partnerships between various community based organizations, government programs, and sometimes the private sector.

Conclusion

By focusing recovery efforts on communities most affected by joblessness and foreclosures, we can help bridge the racial wealth divide that has long torn our nation apart, while also lifting white working-class families who have been left behind in our increasingly stratified economy. Like the deserts of the natural world, the deserts of the economic world can spread and encroach on the fertile lands nearby. It is in all our interests as a people to let it rain in the deserts.

Special Report:

The Wrong Kind of Targeting – Tax Breaks for the Rich

"This is America's opportunity to help bridge the gulf between the haves and the have-nots. The question is whether America will do it. There is nothing new about poverty. What is new is that we now have the techniques and the resources to get rid of poverty. The real question is whether we have the will."

— Dr. Martin Luther King, Jr., from a sermon at the National Cathedral, Washington, D.C., March 31, 1968

As communities across the country struggle with widespread joblessness and foreclosures, Congress will be making several important decisions in 2010 related to a series of expiring tax cuts left over from the Bush years. Unlike the targeting of job creation and home ownership measures discussed throughout this report, the Bush tax cuts represent the entirely wrong kind of targeting.

Most of the Bush tax cuts will expire at the end of 2010, a tactic that was used to hide the actual long-term cost of the tax giveaway. In a January 2009 Meet the Press interview, Obama's economic advisor Larry Summers said of the Bush tax cuts, "I don't think there's any question they have to be repealed. The country can't afford them for the long run… They have to be allowed to expire. What the timing will be, that's something that's going to have to get worked out."[50]

The expensive and wasteful Bush tax cuts went overwhelmingly to America's wealthiest individuals, at the expense of the national debt and important public programs. In 2010, 37.8 percent of the tax cuts passed in the Bush years will go to the richest 1 percent of households. Over half will accrue to the top 5 percent of households collectively.[51] The already unbalanced distribution of wealth in the U.S., coupled with the targeting of the Bush tax cuts to the wealthiest, helps to exacerbate racial economic inequalities.

Racial disparities of wealth are far greater than racial disparities of income, with people of color holding 16 cents of net wealth for every dollar of white net wealth.[52] As a result, the Bush tax cuts that are based on wealth, including both the estate tax cuts and the capital gains and dividends cuts, have accrued heavily toward wealthy whites, worsening the racial wealth divide and the economic stratification of all Americans.

Estate Tax

In 2001, the Bush Administration pushed through a gradual repeal of the estate tax, our nation's tax on inherited wealth. What Congress chooses to do with the estate tax in 2010 will help determine disparities of wealth for years to come.

The estate tax cuts passed in the Bush years accrue overwhelmingly to the wealthiest Americans and their descendents. Under the weakened 2009 law, the first $3.5 million of an estate, and $7 million for a couple, could be passed on tax-free. At that level, only a tiny fraction of Americans, white or otherwise, are wealthy enough to pay the estate tax. Fewer still are people of color. In fact, whites are 34 times more likely to have a median net wealth over $3.5 million than African-Americans, based on new analysis of Survey of Consumer Finance data.[53]

Even with diligent savings, it is nearly impossible for non-inheritors to catch up with the enormous head start inheritors of wealth receive. Even a conservative investment strategy for that $3.5 million would yield more in interest payments alone than the average family earns in a year,[54] virtually assuring the gap cannot be closed even if the family miraculously saved 100 percent of their income. Of course, since African-Americans earn 62 cents to each dollar of white income, and Latinos earn 68 cents to each white dollar,[55] they will have an even harder time closing the gap.

Intergenerational transfers of concentrated wealth overwhelmingly benefit white families. Allowing wealth transfers to continue untaxed will only make it harder for communities of color to ever attain wealth comparable to white households. Estate tax repeal virtually guarantees that the racial wealth gap will continue for generations to come as the wealth inequalities of one generation are passed down to the next.

Capital Gains and Dividend Taxes

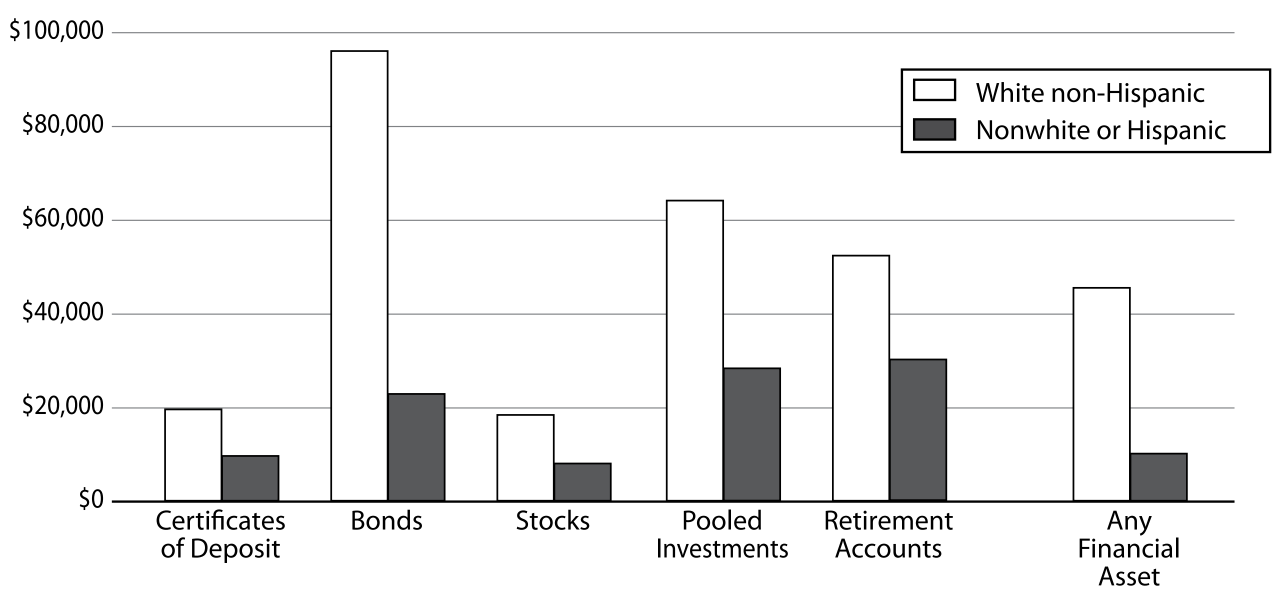
Beginning in the Clinton Administration, the top capital gains tax rate was reduced from 28 percent to 20 percent, then lowered again to 15 percent under the Bush Administration. The top tax rate on dividends was also reduced in the Bush years from 39.6 percent to 15 percent.

The result of these reductions has been to set up a two-tiered income tax structure. Income earned by working at regular jobs, known as "earned income," is taxed at a maximum rate of 35 percent. Meanwhile, income generated through dividend payments from stocks and related investments, or through the sale of those investments, also known as "unearned income," is taxed at a maximum rate of 15 percent.

Whites hold stocks, bonds, and other intangible assets, as well as homes, in much higher quantities than people of color. The median value of the

FIGURE 10

Media Value of Selected Family Financial Assets, by Race/Ethnicity, in 2007



Source: Federal Reserve Board, *2007 Survey of Consumer Finances*. "Full Public Data Set" (Washington: The Federal Reserve Board, 2009) <www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf>. Figures for each type of asset in 2007 dollars.

financial assets held by white families with assets was $39,500, while families of color with assets held only $5,500 on average.[56] As a result, the special treatment of income generated from stocks, bonds, and related wealth actually widens the racial wealth gap.

Solutions: End the Misguided Targeting of Tax Breaks to the Rich

Income and wealth have declined across the board during this Great Recession, but the gross disparities of wealth and income across race lines persist. While jobs and foreclosure prevention policies should be targeted to the communities most affected by the recession, Congress should take this opportunity to eliminate the misguided tax priorities of the Bush Administration, which targeted tax cuts to exactly where they were needed least.

Three actions Congress should take in 2010 are discussed below:

- **Estate Tax Preservation.** Congress should act immediately to reinstate the federal estate tax, retroactive to January 1, 2010. Additionally, the permanent estate tax that ultimately passes should be significantly stronger than the weakened estate tax law of 2009. Rep. Jim McDermott's Sensible Estate Tax offers a good middle ground between 2009's law and the pre-2001 estate tax.[57]

- **Tax Capital Gains and Dividends the Same as Ordinary Income.** During 2010, some in Congress will push to have the Bush tax cuts that reduced the top capital gains and dividend rates to 15 percent made permanent. Congress should resist this urge and let these wasteful and unfair tax cuts expire. Congress should reverse the capital gains tax reductions passed under the Clinton Administration as well.

- **Strengthening the Federal Income Tax.** 2010 will undoubtedly see an extended debate about the expiring Bush tax cuts that reduced the top income tax bracket from 39.6 percent to 35 percent, with some advocating for making those cuts permanent. Congress should let those tax cuts expire and revert to the pre-2001 levels for those at the top end of the income spectrum. In the long term, Congress should explore a new top tax bracket of 50 percent for incomes over $5 million.

Additional Resources

Print Publications

The Color of Wealth - This award winning, accessible book explores the historic and contemporary barriers to wealth creation for people of color and makes the case that until government policy tackles disparities in wealth, not just income, the United States will never have racial or economic justice. Buy the book at: http://faireconomy.org/books

State of the Dream Reports - Since 2004 UFE's annual report on race has tracked our progress on Martin Luther King, Jr.'s elusive dream of racial economic inequality. All of the previous reports are available to download for free. The *State of the Dream 2008: Foreclosed* report examined the details of the foreclosure crisis led up to the Great Recession. The *State of the Dream 2009 The Silent Depression* report demonstrated that as the national economy entered a recession, communities of color were already in an economic depression. Download the reports at: http://www.faireconomy.org/dream

Workshops

All of UFE's popular economics education workshops are available in English and Spanish and can be downloaded for free at http://faireconomy.org/resources/workshops/download. Or, to arrange a workshop or presentation by one of UFE's popular economics education trainers, contact Jeannette Huezo or Steve Schnapp at 617-423-2148.

Closing the Racial Wealth Divide - UFE's workshop on the racial economic divide engages participants through popular education methodology to explore their own economic lives. The workshop illustrates income and wealth trends by race, offers a structural analysis of wealth inequality, reviews the policies that shaped the racialized accumulation of assets historically, and identifies strategies and actions to close the racial wealth gap.

Banker, Brokers, Bubbles & Bailouts – an Economic Crisis Workshop - The economic trends leading up to the Great Recession are made clear through participatory activities in this workshop. The steps leading up to the housing bubble and its collapse are explained and the impact on jobs families and communities are explored. The workshop engages participants to explore solutions and strategies for building power.

The Growing Divide - UFE's flagship popular education workshop explores the effects of gross inequality on the lives of participants and their friends, families, and communities. Inequality and the roots of economic insecurity, as well as strategies for action, are detailed.

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