

WALL STREET VS. WORKERS: HOW THE FINANCIAL SYSTEM HURTS WORKERS AND WIDENS THE RACIAL WEALTH GAP

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING HOW THE FINANCIAL SYSTEM HAS LEFT BEHIND THE MIDDLE AND WORKING CLASSES, LOWERED OUR STANDARD OF LIVING, CAUSED INEQUALITY, AND CONTRIBUTED TO THE COLLAPSE OF COMMUNITIES AND FAMILIES

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THURSDAY, MARCH 4, 2021

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:15 a.m., via Webex, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. This hearing will come to order, the Committee on Banking, Housing, and Urban Affairs. This hearing, as we have done for a number of months, is in the virtual format. A few reminders as we begin.

Once you start speaking, there will be a slight delay before you are displayed on the screen. To minimize background noise, please click the mute button until it is your turn to speak or ask questions.

All of you should have one box on your screen labeled "Clock" that will show you how much time is remaining. For witnesses, you will have 5 minutes for your opening statements, as we have told you before. At 30 seconds remaining for your statements and questions, you will hear a bell ring to remind you that your time is almost expired. It will ring again when your time has expired.

If there is a technology issue, we will move to the next witness or Senator until it is resolved. To simplify the speaking order process, Senator Toomey and I have agreed to go by seniority in this hearing.

The economy is not physics. It is not governed by scientific laws outside our control. It is made up of people making choices about our values and what kind of society we want to live in.

Despite what we are constantly told on TV, most Americans share a lot of the same values. They want an economy that is fair and just, where hard work pays off for everyone, no matter who you are or what kind of work you do, where everyone has the economic security to raise a family and to retire with dignity.

When you look at our economy, it does not reflect the society most of us want.

You cannot look at decades of growing worker productivity, with workers getting a smaller and smaller share of the profits they create, and then think the economy looks fair.

You cannot look at a racial wealth and income gap that has barely budged since we passed the Civil Rights Act and think the economy looks just or that we all have equal opportunity.

You cannot look at the millions of Americans whose hard work does not even pay the bills, while corporate profits go up, CEO pay soars, and stock buybacks and dividends explode upward and think that this economy reflects our values.

This state of affairs did not happen on its own. It was not just the invisible hand of the market.

For decades, Wall Street interests—big banks, hedge funds, private equity firms, and insurance companies—have been calling the shots—through their lobbyists, through rigged rules, through union busting.

We have left it to them to shape our entire economy and make choices about our values and what kind of society we live in.

For decades, Wall Street has rewarded the companies that squeeze their workers the hardest—companies that cut wages, cut retirement benefits, cut corners on worker safety.

When companies lay off workers, cut paychecks, or subcontract work to lower-paying companies with fewer benefits, their stock price goes up, and Wall Street calls it “cost cutting.”

We have allowed a system to take root that treats American workers as a commodity, a cost to be minimized, instead of the engine behind all of our businesses’ success.

They do it so Wall Street can funnel more and more of the profits that workers create to CEOs and shareholders.

And instead of investing those profits in something productive, they have used that money for reckless speculation that drove booms and busts, resulting in real estate crashes and the dot-com bubble.

And when all of that did not make them rich enough, they came up with ideas like credit default swaps and collateralized debt obligations. It was Wall Street that targeted workers who were struggling to make ends meet with subprime mortgages—predatory loans that stole the equity workers had saved up in their homes.

Wall Street’s crash of a decade-plus ago cost the economy tens of trillions of dollars and destroyed 53 percent of Black wealth in this country.

Millions of families lost homes and are still trying to recover. Wall Street got a bailout.

Then Wall Street found a new way to get paid: fund the payday and auto title lenders and debt collectors that targeted families who struggled to get by in what was left of this economy.

Even after all of that, some people, including a whole lot of people who have been running the Senate, think that we should let Wall Street keep dictating our economy—and by extension, the lives of everyone who gets their income from a paycheck, not a stock portfolio.

They claim they just want “markets to decide.” When the market is not fair, that means putting Wall Street in charge.

It is the same attitude that lets corporations run ad campaigns calling their workers “essential,” but then spends their profits on stock buybacks and CEO bonuses rather than a living wage or the protective equipment workers need to avoid this deadly virus.

Or that prompts Amazon to post a “Black Lives Matter” banner on its website, while unleashing every union-busting tactic in the book to undermine workers, mostly overwhelmingly African American workers, organizing for better working conditions in Alabama.

If we want a fair and just society, with a growing middle class that everyone has the opportunity to join, we have to stop letting Wall Street run the economy.

We cannot rely on quarterly earnings reports to tell us whether workers deserve a decent living.

For too long, we have allowed Wall Street’s phony populist allies to stoke fear and place blame and divide us by race and religion and region. We know why they do it: to distract from how they have been keeping the profits for themselves.

But this zero-sum view of the economy hurts everyone.

We have the largest economy on Earth, with vast resources and talent and ingenuity. If we stop siphoning off so much of our prosperity to the tiny sliver of people at the very top, not only is there enough to go around for everyone; but when we unleash all workers’ talents and give them more economic security, we will create even more economic growth.

We all learn in elementary school about Dr. King’s fight for civil and human rights. But we do not talk enough about his fight for economic rights—and how you cannot fight for one without fighting for the other.

We never forget that Dr. King was assassinated in Memphis while fighting for some of the most exploited workers in the country, sanitation workers in Memphis, Tennessee, fighting for their civil rights and workers’ rights.

As Dr. King put it: “What does it profit a man to be able to eat at an integrated lunch counter if he does not earn enough money to buy a hamburger and a cup of coffee?”

If we want to take on economic inequality and shrink the racial wealth gap, then we need to build an economy based on the dignity of work.

That means paying all workers a living wage, giving them power over their schedules, providing good benefits and safety on the job, and letting them organize a union. That means everyone gets a fair share of the wealth they create.

That means building an economy that reflects our values, American values—not Wall Street’s values—and building the kind of society we want to live in.

Senator Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman.

So the title of today’s hearing is “Wall Street vs. Workers: How the Financial System Hurts Workers and Widens the Racial Wealth Gap”. The title itself expresses a world view held by many on the left that capitalism is failing far too many people. In this world view, capitalism and a capitalist financial system has left behind the middle and working classes, lowered our standard of living, caused inequality, and contributed to the collapse of communities and families.

The proposed prescriptions to cure these ills is almost inevitable. It is expand the power and the role of Government and reduce the economic freedom of the American people.

Let me suggest a different perspective. It is this: Capitalism produces the best conditions for the largest number of people by far, and the empirical case is very simple. Capitalism clears a path for the industrious to become wealthy, for the poor to become middle class, and for the middle class to build a prosperous, secure life for themselves and their children.

No economic system has lifted more people out of poverty, created more opportunity, and produced a higher standard of living than ours. This is no time to abandon this.

Now, there are certainly absolutely serious problems and challenges we have throughout our society. We have communities that struggle. We have persistent racial disparities in areas including educational achievement. We have social pathologies that are very serious in their scale. Do we really think that capitalism and a capitalist financial system is the primary cause of these problems and challenges?

At a more fundamental level, the critics are wrong about capitalism failing too many people. In my view, capitalism ranks with the wheel and written language among the greatest of human achievements. Think about this. It took nearly 2,000 years, from the time of Julius Caesar to the time of George Washington, for the Western world's standard of living to double, and those two leaders rode into battle on the same mode of transportation.

But with the advent of democratic capitalism, we started doubling the standard of living every 20 years. In America, for all the problems we have, life is much better today than it has ever been for the vast majority of people. Wages are an important component, but that is not the whole story. What really matters is the living standard, and there is no question that the standard of living of middle-class and working-class Americans has improved dramatically over recent decades. Life expectancy has increased. The quality of health care is better. Average Americans live more comfortably in larger, more comfortable homes. They have cars that are safer and more comfortable. They have unlimited information and entertainment services right in the palm of their hands. By any reasonable standard, there is a much higher standard of living.

The Cato Institute did a study and found that the amount of time an unskilled worker has to work in order to purchase a basket of everyday items declined by 72 percent from 1979 to 2019.

And life is continuing to get better. We still have economic mobility.

In 2016, the Urban Institute looked at five different income groups and concluded between 1979 and 2016, the percentage of Americans who were poor was declining and the percentage of Americans who were rich or upper-middle class was growing.

Pre-COVID, wage growth had been occurring across the board. But wage growth was especially strong for minorities and workers without a high school degree. In 2019, the overall poverty rate reached an all-time low.

The most recent empirical experiment in expanding economic freedom occurred during the Trump administration when we reformed the Tax Code and rolled back excessive regulations.

And before COVID hit, we saw what the results were. It was an economic boom. It was the lowest unemployment rate in 50 years. There were a million more job openings than there were people looking for jobs, and workers in the bottom 10 percent, from 2016 to 2019, received on average a \$3,500 raise in real dollars.

The economic expansion was powerful, and it particularly benefited racial minorities. In 2019, Black and Hispanic unemployment rates hit all-time lows. The gap in the unemployment rate between Whites and Blacks and Hispanics reached all-time lows. Median household incomes reached record highs across every major demographic group, including African American and Hispanic households.

I have always thought rising employment and wage gains across the board is a good thing.

And let us consider how the financial system contributes to the improved standard of living and economic growth that Americans enjoy.

The financial system enables businesses and consumers to access credit and capital in a way that very few countries in the world can match. The flow of credit and capital to businesses supports job creation, technological advancements, and the provision of goods and services that benefit consumers. And, likewise, that flow of credit and capital to consumers enables them to purchase the goods and services that they value.

Consider the example of an ordinary blue-collar worker or a middle-income individual or family that wants to make a big purchase, like a car or a home. I mean, it is so ordinary that we completely take it for granted, but it is really pretty amazing that a person of very modest means can walk onto a car lot as a perfect stranger, and an hour later drive away in a vehicle worth tens of thousands of dollars. It is all because a very sophisticated financial system makes that credit available to that consumer. That is tremendous value to American consumers.

As we work to address the economic, social, and cultural problems we face as a country, we need to do this in a way that promote economic growth and freedom, not in a way that stifles it. Economic growth does not solve all problems, but it does make all problems easier to solve. And we can do more to ensure that everyone has the education and the opportunity to thrive and obtain economic mobility. That is what we should be focusing on, not policies that undermine capitalism and a capitalist financial system. If we do undermine the system, we are more likely to leave everyone poorer and probably no more equal.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Ranking Member Toomey.

I will introduce today's three witnesses. Professor Abbye Atkinson is an assistant professor of law at the University of California, Berkeley. Her research focuses on the law of debtors and creditors as it affects marginalized communities. She has been published in the Columbia Law Review, Stanford Law Review, and several other law journals. Previously, Professor Atkinson was a Thomas C. Gray

Fellow and lecturer in law at Stanford Law School and the Reginald Lewis Fellow at Harvard Law School. Welcome, Professor Atkinson.

Dr. Darrick Hamilton is professor of economics and urban policy at and the founding director for the Institute for the Study of Race, Stratification and Political Economy at the New School. He previously served as the executive director of the Kirwin Institute for the Study of Race and Ethnicity at the Ohio State University—and we miss him, if I could add that. Dr. Hamilton is a pioneer and internationally recognized scholar whose research involves understanding examining the causes of consequence in racial and ethnic disparities and the associated remedies to address those inequalities. He is also a graduate of, not far from me, Oberlin College. Welcome, Dr. Hamilton.

Dr. Glenn Loury is the Merton Stoltz Professor of Social Sciences and professor of economics at Brown University. I have two children—a child and grandchildren living in Cranston, Dr. Loury. As an academic economist, Dr. Loury has published mainly in the areas of microeconomics theory, game theory, industrial organization, and economics of race and inequality. He has written over 200 essays and reviews in journals of public affairs, mainly on the themes of inequality and social policy. Welcome, Dr. Loury.

Professor Atkinson, please begin. Keep your comments to 5 minutes if possible. Thank you.

STATEMENT OF ABBYE ATKINSON, ASSISTANT PROFESSOR OF LAW, UNIVERSITY OF CALIFORNIA, BERKELEY, SCHOOL OF LAW

Ms. ATKINSON. Thank you so much. Mr. Chairman Brown, Ranking Member Toomey, and Members of the Committee, good morning. Again, thank you for inviting me to testify before you today. It is truly an honor for me to do so.

Again, my name is Abbye Atkinson. I teach at the University of California, Berkeley, School of Law. I teach contract law as well as courses on the legal structures of debt and inequality. I am today as an academic who studies the law of creditors and debtors as it affects traditionally marginalized communities.

I would like to make three points this morning. First, credit, and so, by natural extension, debt, which I will call “credit/debt” for the rest of my remarks, has become a critical means of carrying out Federal social welfare policies. This is particularly true for socioeconomically marginalized Americans, including low-income workers, women-headed households, and African Americans. These marginalized borrowers are encouraged to rely on consumer credit markets to make ends meet and to improve their life circumstances. For example, higher education as a means of upward mobility has been Federal social provision policy for more than 50 years, and this Federal education policy is an example of credit/debt social provision because student loans are key to its operation. The resulting debt burden, however, is not evenly distributed.

For example, women hold two-thirds of the outstanding \$1.5 trillion in educational debt, and, similarly, educational debt is also disproportionately concentrated in African American and Latinx and other minority communities. And this debt overhang limits their

ability to become socially mobile, which is not consistent with the story that we tell that by going out and getting an education they will be able to pull themselves up by their bootstraps. And this policy also puts the risks then born of entrenched inequality squarely on marginalized borrowers, and it contributes to the expanding wealth gap.

Second, credit/debt is a channel through which wealth drains out of marginalized communities toward more affluent entities, including lenders and their institutional investors. For example, like marginalized borrowers, third-party beneficiaries within our social provision system, like retirement insecure workers, have also come to depend on credit/debt. Public pension funds manage the retirement security of our Nation's teachers and police officers and civil servants, and these same public pension funds are the principal institutional investors in private equity. This includes those private equity funds that target marginalized debt-dependent industries like for-profit colleges and small-dollar installment lenders as a source of wealth extraction.

And, indeed, credit/debt as a source of retirement security siphons the value that is perversely created by lending to vulnerable individuals, families, and, indeed, whole communities who have to borrow either to survive or else to be upwardly mobile.

Moreover, some of the real winners in this version of credit/debt-centered social provision are financial intermediaries like private equity firms who take their cut in fees from labor's capital on the front and reap disproportionate profits on the back end relative to their own investment and risk. All of this occurs largely behind the veil of relatively minimal Federal oversight.

Last, because credit and debt has become so critical to Federal social welfare policies across several dimensions, Congress should not delegate the regulation of credit/debt to private, profit-motivated interests whose stock in trade is credit/debt. Private intermediaries have their own priorities that are dictated by their duty to increase the bottom line for their investors and their interests in increasing their own bottom lines. These priorities undermine their ability to center equality-focused goals like shrinking the gender and race wealth gap because when push comes to shove, their loyalties are to profits and not people.

In sum, Federal credit/debt welfare policy obscures the inherent economic and social risks that debt and debt overhang pose for marginalized groups, and we need policies that will account for this particular vulnerability. This includes, among other possibilities, robust relief when debt threatens to overwhelm the socioeconomic benefits of borrowing.

Thank you so much for your time, Chairman Brown and Ranking Member Toomey. Again, it is a pleasure to be here.

Chairman BROWN. Thank you, Professor Atkinson. Dr. Hamilton for 5 minutes, please.

**STATEMENT OF DARRICK HAMILTON, FOUNDING DIRECTOR,
INSTITUTE ON RACE AND POLITICAL ECONOMY, THE NEW
SCHOOL**

Mr. HAMILTON. Thank you, Chairman, thank you, Ranking Member, and thank you, other Members. I am going to go quick and try to say a lot in 5 minutes.

The global pandemic reveals a collective public health and economic vulnerability and a system that actively produces inequality, but in plain sight, beyond class, race is a focal point. In a just world, race, gender, ethnicity, and nativity would have no transactional value in relation to material and psychological well-being. The amoral devaluation of Black lives has been ingrained in the American political economy, and it is long overdue for a reckoning.

Many Americans, Black and Brown families in particular, have low wealth, inadequate health care, and work in precarious but essential jobs with few workplace protections, lower wages, and lower benefits. Indeed, the biggest preexisting condition of them all is wealth itself. Wealthier families are better positioned to finance elite education, access capital, finance expensive medical procedures, reside in higher-amenity neighborhoods, exert political influence, purchase better counsel is confronted with an expensive legal system, leave a bequest, and withstand financial hardship resulting from any number of emergencies, including the global pandemic.

It is critical to note that it was never the case that a White asset-based middle class simply emerged but, rather, Government policies and, to a large extent, entitlements and literally Government giveaways that provided Whites with the finance, education, land, infrastructure to accumulate and pass down wealth. That in and of itself is not a bad thing. But this contrast to a history in which Black and indigenous people, their personhood and whatever capital and resources they may have been able to establish was always vulnerable to Government complicit exploitation, extrapolation, confiscation, destruction, terror, fraud, theft, and other acts of violence. This history of disenfranchisement from full economic participation is well documented. Policies like redlining, highway construction, predatory contract to own housing leasing, exclusionary zoning have all worked in tandem with restrictive covenants, regulatory control to marginalize Black Americans and constrain them from their full economic and political participation.

Our unjust racial wealth gap is in and of itself an implicit measure of the racist past rooted in a history in which we have had Government that has privileged political and economic interventions to afford Whites the ability to acquire resource and intergenerational accumulation. We use words like “choice” and “freedom” to describe the benefits of a proverbial market, but choice is an illusion if an individual lacks basic needs like a job, adequate income, shelter, food, and health care. We are not atomistic agents floating in unfettered markets guided by a free will into fair and efficient allocation. Economic freedom and authentic agency is rooted in economic power and political power. Yet much of the framing around the racial wealth gap focuses on poor financial choices and decisions largely on Black, Latinx, and poor borrowers. This framing is tied to a culture of poverty thesis in which we presume that Blacks have an undervalue for and a low acquisition of education. The

framing is wrong; the directional emphasis is wrong. It is more likely that meager economic circumstances, not poor decision-making or deficient knowledge, constrains choice itself and leaves borrowers with no other option but to use abusive financial services.

Incremental changes on the margin will not cut it. We need a profound change toward a more sustainable moral economy with Government intervention to facilitate the assets, economic security engagement, and human dignity of all its people, regardless of race, class, gender, sexual identity, and immigrant status. We need a new industrial and trade policy that centers workers, both domestically and abroad, coupled with an explicitly antiracist, antisexist economic rights frame to promote our shared prosperity.

Full citizenship demands more than political rights. It requires economic rights. We can look at the work of Nobel Laureates George Akerlof and Robert Schiller and their critique that the greater good presumption for market transactions by describing the profit motive—actually, I am going to skip it so that I can get to conclusions, and just say the sad irony is that those that can least afford finance in times of dire need end up paying the most for finance. Congress needs to provide public options that directly compete with and crowd out inferior private options that do not ensure universal quality health care, housing, schooling, financial services, capital, and the free mobility throughout society without the threat and sanction of bodily harm because somebody's identity is linked to a vulnerable or stigmatized group.

Oh, I have got a little more time. Sorry. We need to reject the empirically unsubstantiated rhetoric that ignorance and so-called grit and personal responsibility are the sources of inequality along with the accompanying Government neoliberal paternalism in which we attempt to coerce and incentivize insinuated defective people to behave accordingly and make better decisions. Let us change the pandemic and truly empower people, our most treasured resource, with economic security, dignity, authentic agency so that they can define and achieve their desired goals.

Thank you, Senator.

Chairman BROWN. Dr. Loury, 5 minutes, please. Thank you.

Dr. Loury, I think you are on mute still.

Mr. LOURY. I have to figure out how to—

Chairman BROWN. Well, you are on now. We can hear you.

Mr. LOURY. I apologize.

Chairman BROWN. That is all right. Thanks.

**STATEMENT OF GLENN LOURY, MERTON P. STOLTZ
PROFESSOR OF SOCIAL SCIENCES, BROWN UNIVERSITY**

Mr. LOURY. Thank you, Chairman Brown, Ranking Member Toomey, Members. Thank you for the opportunity.

Speaking about Black Americans disadvantaged and its implications for American democracy, I draw on my many years of study as an economist theorist and public intellectual. My testimony rests on two observations about the dynamics of human development and the foundations of racial identity. I will conclude by expressing reservations about Government pursuing a program of racial eq-

uity, meaning equal group outcomes, rather than a program of equal opportunity for all.

First, I offer two statements of principle. Persistent Black disadvantage is an American tragedy. It is a national not merely a communal disgrace.

Second, where inequality is a problem, let us address it forthrightly, but let us do so on behalf of a program of human decency, not of racial equity.

For many, these two principles will seem to be in conflict. Actually, they complement one another. Here, then, are my two observations concerning human development. My studies have taught me that human growth occurs inside of social institutions—the family, community, school, peer group. Such cultural institutions of human association are where development is achieved. Informal relations among individuals are often more important for understanding inequality than are the formal transactions between them.

Concerning racial identity, I have learned that there would be no races in the long run of any society unless on a daily basis and in regard to their most intimate affairs people paid assiduous attention to the boundaries separating themselves from racially distinct others; that is, race is not something simply given in nature. It is something that we are making and remaking, all of us. This race-making relates closely to how developmental resources come to be allocated to individuals.

I conclude from these observations that durable racial inequality is ultimately a cultural phenomenon, implicating not only the transfer of financial resources but more fundamentally decisions that we make daily about with whom to associate and identify, conceptions about identity embraced by people of all races. What I called “social capital” when I introduced that term in my doctoral thesis more than four decades ago is on this view a critical prerequisite for creating what economists routinely refer to as “human capital,” and it is this human capital, the skills, education, work experience, and social aptitudes, that reflect the person’s human development. And this in turn is a powerful determinant of earnings power and, thus, of the ability to generate and accumulate wealth.

We cannot ignore the behavioral roots of racial disparity, but we should discuss and react to them as if we were talking about our own children, our neighbors, and our friends. We are all in this together.

For that reason, I believe persisting racial disparity deserves our attention, but not via racially preferential public policy. We should recognize through law and policy that we are in the same boat here in the United States of America, sharing a common citizenship and a common humanity. And that means fashioning American solutions to American problems, and ultimately getting beyond race altogether when deciding on public action.

As Dr. King prophetically envisioned, our civic discourse should be grounded in an unwavering commitment to transracial humanism. That will sound like a pipe dream in today’s racially supercharged environment, but in light of what I know about human de-

velopment and about racial identity, it is the only viable way forward.

Indeed, there is a fatal contradiction at the heart of the argument for group equality of outcomes. The dogged pursuit of equal results between racial groups across all venues of human endeavor is a formula for tyranny and racism. Here is why. Groups are fundamental building blocks of society, an identity focused view of the world. Groups matter. Their culture and heritage matter. It is the music they listen to, the food they eat, the books they read, the stories they tell their children. These things matter, and they vary across groups.

On the other hand, group egalitarians claim that, absent injustice, there would be equality of groups in every human enterprise. But how can this be? Because if groups matter, some people are going to bounce a basketball 100,000 times a month and others are going to bounce it 10,000 times a month. If groups matter, neighbors do not do the same things, believe the same things, think the same things, spend their time in the same way. Groups have their own integrity, expressing themselves in how they live their lives, raise their children, and spend their time. This will inevitably result in a different presence of groups across various human activities. They will not have the same occupational and professional profiles. There will be differences between groups and the proportions who are members of the National Academy of Sciences, who are tenured members of the faculty, who are tech entrepreneurs or hedge fund managers, small shopkeepers, single parents, or petty criminals.

I conclude that respecting groups' integrity while demanding group equality is a contradiction. Acting in a determined way on that contradiction only leads to tyranny, disappointment, and more racism.

Thank you.

Chairman BROWN. I will start with Dr. Hamilton. Like the CARES Act, President Biden's American Rescue Plan—the CARES Act of last March—provides direct investment to the economy both to communities and to individual workers. How has that direct income—stimulus checks, increased unemployment benefits—how has that affected income inequality? How do you think it will affect the racial wealth gap?

Mr. HAMILTON. Well, without it we would have a lot more dramatic inequality than we have right now, so it is absolutely essential. There is a concept I want to introduce which is called “indentured borrowers.” If we did not provide income supports for people in this dire need, they would be subject to predation to take out products not by choice but by necessity that would have put them into basically debt traps, where they keep paying higher and higher interest rates to sustain themselves. So that is how it is related to the wealth gap. It prevents us on the debt end from putting people into these debt traps.

What also is very useful and important is that it set a precedent. It set a precedent for what Government can do with regards to action. Again, imagine a world right now if we did not have the initial CARES Act and the vulnerability people would be in. And something else we should be cognizant of is that we are in some

ways kicking the can down the road. You know, we had things like forbearance on eviction, forbearance on foreclosure, and as a result, people were not evicted or foreclosed upon, but they still are going to need resources to deal with this at some point.

Chairman BROWN. Thank you. Following on to that, Professor Atkinson, you testified about the challenges we face as we try to combat income inequality and the racial wealth gap with lending programs, often outsourced to Wall Street. How does using credit or debt instead of direct investment that Dr. Hamilton just talked about, how does using credit or debt instead of direct investment end up enriching Wall Street instead of workers?

Ms. ATKINSON. Yes, Senator Brown, so, you know, credit and debt is a contractual relationship, right? You know, when we use that as a means or a significant means of social provision, it introduces risk, right? If you think that people, for example, you know, in South Texas who needed emergency to get pipes fixed, we imagine that, you know, in addition to their already precarious existence that we are going to add risk onto what—you know, their range of issues. And so, you know, when you introduce a lender, the lender's interest is being repaid, right? Not necessarily trying to assist that individual in weathering an unexpected emergency or a significant need. And as with payday loans, we know that what makes them profitable is sort of the incidence of rollovers—right?—that people just do not ever pay down the principal, and they keep paying fees over and over again.

And so it is that constant rollover, that constant repayment, the high interest rate that sort of sucks value out of already vulnerable communities and puts it into the coffers of lenders.

Chairman BROWN. So, Professor Atkinson, Congress passed the Civil Rights Act in 1964, the Voting Rights Act in 1965. It was not until Dr. King's assassination that Congress passed the Fair Housing Act. That was all going—supposed to make good on the promise of equality. The racial wealth and income gap, as you know, has gotten worse. Inequality is still a huge problem.

What is it about the way our economy is set up that got us here?

Ms. ATKINSON. I think, you know, that is a complex answer. I think there are many aspects of the economy that might speak to that. You know, for me, as someone who thinks about financial products, I think the rise of financialization in our economy more generally, and then our sort of vesting of big social problems like inequality, like sexism, and sort of trying to remedy those sorts of big problems, investing that in financial entities, again, whose interests are—you know, we cross our fingers that their interests would kind of align with the broader social concerns that underpin it. But I think financialization has a lot to do with it—“financialization” meaning the degree to which financial products and financial channels are now occupying more and more of a place of significance in our economy.

Chairman BROWN. Thank you. And, Dr. Hamilton, make your answer really quick here, if you can, because we are kind of running out of time. Your work implied the dream of the civil rights movement cannot be realized without establishing civil rights and economic rights for all Americans. What do you mean by that?

Mr. HAMILTON. You know, at the end of the day, choice, political participation, is limited without some baseline level of resources. I think that is the large point, that if you do not have resources in your life, it is an inauthentic freedom, it is an inauthentic choice that you can actually be deliberate in determining your goals and outcomes.

Chairman BROWN. Thank you. Thanks for that brief answer.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman.

Dr. Loury, thank you for joining us. I want to pose this question to you. What we sometimes hear and I think we heard this morning is that the racial wealth gap is evidence of discrimination and structural racism. Is it your view that a racial wealth gap is, ipso facto, and indictment of our financial system?

Mr. LOURY. I am going to answer no, though I can understand some people answering yes here. The racial wealth gap is a legacy of history as well as a reflection of ongoing dynamics. I do not think, however, that broadly speaking it should be understood as an indictment of the financial system, which is a complex set of institutions and relationships, which, as you noted in your opening remarks, is a necessary part of economic development and of growth.

I do think, however, that the racial wealth gap is a problem, but I would rather put it as a problem of Americans, as I said in my remarks, who do not have the resources that they need and a decent society to flourish, that to put it strictly in racial terms for the reasons that I stated.

Senator TOOMEY. Right. Another question. There was a recent study conducted by the FDIC that concluded that the rate of unbanked Americans decreased by over a third between 2011 and 2019, reached a record low in 2019.

Now, in my view, increasing access to savings and credit through banks and nonbanks and new technologies is a positive development, including maybe especially for lower-income Americans who may not have had access to that.

Do you think that democratization of finance and broad availability of credit and financial services generally is more of a positive or is it more of a negative for low-income Americans, including racial minorities?

Mr. LOURY. Well, that is an easy question, Senator. It is a positive. The financial intermediation and the access to the system for people to be able to engage in banking transactions, as that comes closer to ordinary working people, increases their ability to prosper within the system. A former colleague of mine, a professor at Berkeley's School of Business named Ross Levine, has spent many years studying the beneficial effects of access to banking in communities, and among these in his studies has been shown a diminution in the racial wage gap, where areas where banking is easier to get at turn out to be areas where racial discrimination in the labor market is less severe. But that is just one of many studies that could be cited in this vein.

Senator TOOMEY. I think I understood you to suggest that one of the things we should focus on with respect to economic disparities, including disparities among different racial groups, is opportunity

rather than expecting guaranteed outcomes. It seems to me that education is a hugely important—education plays a hugely important role in creating opportunity for people, and I think we know that in many cases low-income families, including and especially in racial minority communities, often have very few choices about educational opportunities for their kids.

Do you think that those children and those families in those communities might be better off if parents had more choices and we provided resources that gave parents the discretion to choose a school that would suit their children best?

Mr. LOURY. Yes, I do, Senator, but as you know, not everybody agrees with that proposition. I do not know that this is a solution to the wealth gap problem. In fact, I know that it is not a solution to the wealth gap problem. But it is certainly an empowerment of families and children to be able to avail themselves of the best alternatives for their education as might be within their reach. So there are powerful interests that play here, again, as you must know, and this is a battle that has been going on for 30 years. But I am on the side of expanding opportunities for families to get alternatives where they are available to public schools, to the extent that those schools are not well serving the children.

Senator TOOMEY. Thank you.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

I believe Senator Smith is next. I understand that she is here. Senator Smith from Minnesota. Is she able to go next? And happy birthday, Senator Smith.

Senator SMITH. Thank you, Senator Brown. You surprised me there, but I am right here listening carefully, so I appreciate it very much. And thank you also to Professor Atkinson and Professor Loury and Dr. Hamilton. I really appreciate your testimony, and I think that it is so interesting and so timely for us right now.

What I am taking from your testimony is that the wealth gap that we see in our country is not an accident of our history. It is a design of our history. It is part of a plan. And I think any student of this can also see pretty quickly that the Federal Government has explicitly advanced policies that have not only contributed to this gap but that have built this gap. This is so obvious, I think, when we look at housing policy. This is a matter of great interest to me because in my State of Minnesota, a State that is often seen as a bastion of progressive values, we have one of the worst housing gaps, one of the worst wealth gaps of any place in the whole country.

So let me just ask you, I am interested in all of your perspectives on this. What advice would you give our Committee about how best to address this home ownership gap, which is so clearly—home ownership is so clearly a way that people have the capacity to build wealth and start to address some of these underlying inequities? Professor Atkinson, maybe I will start with you.

Ms. ATKINSON. Good morning, Senator Smith. Thank you for the question. You know, one way to support communities who are trying to build wealth through home ownership, you know, I will beat the drum of thinking about how debt affects them. Most Americans save in their house, right? And we can think about, you know, in-

creased access to credit, and certainly, you know, more people from different groups have had access to credit since the FHA days when explicitly they did not have access to credit. Nevertheless, as Dr. Hamilton told us when push came to shove, when the recession hit, we can see something about the relative strength of communities by who loses the most, right? And 53 percent of wealth drained out of the African American community post-recession tells us a lot about the relative strength of that particular community or the relative lack of strength. So I think having policies that support debt forgiveness, for example, policies that support modification of mortgages in times of need, to try to preserve the wealth that many Americans put into their homes.

Senator SMITH. I will turn to our other panelists, but I cannot help but observe that when we saw the housing crisis and the housing bubble in 2008, the communities in Minnesota that were the most dramatically impacted were the communities that were, I think, taken such terrible advantage of by big lenders through the subprime mortgage crisis, and the loss of wealth, the loss of home ownership in North Minneapolis, for example, was dramatic, and that community is still paying the price for that. It was predatory in every sense of the word.

Dr. Hamilton, would you like to respond?

Mr. HAMILTON. I would. To me I think the answer is obvious, and there is historical precedent, that we had the greatest growth in home ownership and we generated an asset-based White middle class with direct grants through GI bills and also a Federal infrastructure with FHA loans that provided the capacities to accumulate wealth.

The difference between a homeowner and a renter is largely a downpayment, frankly, so only this time we should do it in an antiracist way where we are not excluding people based on their race but, rather, including them.

Senator SMITH. Thank you. Thank you very much.

Chairman BROWN. Thank you, Senator Smith.

Senator Rounds is recognized.

Senator ROUNDS. Thank you, Mr. Chairman.

I think one of the biggest misconceptions about this hearing is, quote-unquote, who Wall Street really is. The Chairman and I think some of our witnesses seem to think that it is just a group of people that are working in Manhattan who benefit only at the expense of working Americans. And, actually, I just do not think that that is true, and I think we need to explore that a little bit and lay this out. I think you would be surprised at how broad investment in our public market really is. Public pension systems in particular are significant investors in equity markets. The South Dakota retirement system, for example, has a third of its assets invested in equities and private equity investments.

For the Ohio Public Employee Retirement System, that figure is upwards of 48 percent, and the median public pension fund has nearly 47 percent of its assets invested in equities. I am concerned that if we take actions that would hurt equity markets, the collateral damage will spread way beyond Wall Street.

Now, according to the Bureau of Labor Statistics, for example, nearly a third of public sector workers are non-White. If we some-

how try to blame Wall Street for inequality, won't that also hurt our public sector workers and non-White public sector workers in particular? And I think, you know, some people think that they should only rely on Social Security. I really disagree with that. I now President Obama disagreed with that. That is one of the reasons why he tried the MyRA program. And I think we should have the opportunity, I would just like to start with Dr. Atkinson, if we could. It seems to me that there has to be a recognition that if we really want to develop wealth for individuals, it really comes from allowing them the opportunity to invest. I think simply picking on the equity markets is not the right direction, and I would just like your thoughts, because I really think we need to clarify that in this discussion.

Ms. ATKINSON. Thank you, Senator Rounds. I agree with you, you know, when we think about Wall Street, when we think about big institutional investors, one story is that it is just the CEOs who are, you know, pulling as much money as they can out of the system. But another story is, just as you said, these are pension funds; these are university endowments. There are various institutional investors for whom the market and the well-being of the market and the value within the market is of great significance.

But, you know, I would posit that that is a feature of the financial structure. That is also something that we have created, right? So in terms of pensions, we have gone from a world of defined benefit to a world of defined contribution which heightens the significance then of having to have a robust private market from which, you know, our ordinary workers can retire with relative dignity.

So I agree with you. I do not dispute that when we think about what Wall Street is, writ larger, there are a lot of interests, a lot of stakeholders. But I think we have to think about the system that we have created in which, for example, a public school teacher who has to rely on her pension to be able to retire, her pension fund is investing in Corinthian College or other for-profit colleges in order to bolster. I think that is what is perverse about the arrangement and why we have to think about privatization in that context.

Senator ROUNDS. I do not mean to be argumentative on this, but I really think we run the threat of taking away the ability of the equity markets to make good investments for their investors. And I think if you talk to the folks within that pension fund that we are seeing good returns, if they were told that we have decided that we are going to change the investment strategies and you are stuck with what we determine, rather than having that pension fund be able to make that determination of how they want those funds invested—and they can shop the market today. It just seems to me that we are stepping beyond where we ought to be.

Ms. ATKINSON. So, Senator, I will say again that I think that, you know, when pension fund options are limited to investing in an entity or a business whose profit margin is dependent, for example, on people rolling over the same \$100 for 7 months, you know, to pay their light bill, I worry about that. I think we should—my suggestion is not that we should take away choice from pension funds altogether or any other institutional investor. But I think when we are worried about sort of social well-being, writ large, we have to

think about where the sources of wealth originate. And if they originate, you know, in and among already vulnerable and marginalized communities, you know, we should not pit pension funds, retirement workers, against someone who needed to get their pipes fixed in South Texas—right?—and could only afford to do that by taking a payday loan.

Senator ROUNDS. I take from your answer—and, Mr. Chairman, I think I am probably out of time, but thank you very much.

Chairman BROWN. Thank you, Senator Rounds.

Senator Warren from Massachusetts is recognized for 5 minutes.

Senator WARREN. Thank you very much, Mr. Chairman. I am grateful that you have brought us together today to talk about the racial wealth gap with these leading experts.

Professor Atkinson, welcome. I am so happy to see you here. You have written about all kinds of consumer debt, but today I want to talk about student loan debt. About 43 million Americans now carry \$1.5 trillion in student loans. That is more than Americans owe in auto loans or credit card loans, and that burden of debt is stopping people from buying homes or starting businesses. It is holding our whole economy back.

So I want to ask you about who these student borrowers are. Some people have argued that people with student loans are lawyers and doctors who took out debt to go to fancy schools. Professor Atkinson, is that an accurate picture of who has student loans?

Ms. ATKINSON. Good morning, Senator Warren. It is not an accurate picture. If anything, if we think about fancy schools—and I will insert her the Ivy League schools, too, you know, as examples of fancy schools—debt loads are among the smallest among those graduates from those schools, and some of it has to do with the schools having the resources to support students, or else they enroll students who themselves have resources. So, instead, you know, some of the schools that tend to have, you know, the highest level of debt are regional schools. For example, one school particularly—I have a set of notes here just to think about this question, and, you know, Alabama State University, 89 percent of students leave with an average of \$54,000 in student debt. And I want to focus on the word “leave.” It does not mean that they leave with a degree, right? They leave. And so, you know, I think it runs the gamut of community college students, for-profit students, traditional 4-year college students, students who are just, you know, believing what we have told them, that if you go out and get an education, your life can be better. And what they instead is debt.

Senator WARREN. Thank you so much. That is very powerful. You know, canceling student loan debt would expand opportunities for millions of people and would provide a massive stimulus for our economy. It is also a racial justice issue.

Dr. Hamilton, you have written that canceling student loan debt is—I think my quote here is “one of the quickest actions the President could take to narrow the racial wealth gap.” So can you tell us how student loan debt cancellation would help level the playing field and whether or not canceling \$10,000 of student loans is enough to accomplish that goal?

Mr. HAMILTON. First, I hope that Congress acts to cancel student loan debt, but part of the reason why it is one of the quickest ac-

tions is because I think that the President can do it through Executive action as well. But in the context, maybe we could talk about millennials. During the last Great Recession, we asked millennials to wait out a struggling job market and go to school to better themselves, to get better credentials, and they came out with record levels of debt.

If we look at millennials when they were 30 years old in the context of previous generations, they had the lowest home ownership rate of every other generation dating all the way back to the Greatest Generation that was coming out of the Great Depression. And what is more, the racial disparity in home ownership amongst millennials is as large as it has ever been since we have ever been recording the data.

So, on the one hand, it is immoral when we tell people this is your pathway for upward mobility; then we saddle them with debt that limits their capacities to get other forms of assets so that they can accumulate wealth. So, prospectively, we are looking at a generation that came out of the Great Recession, and now we are about to scar them with this pandemic recession. So we certainly need Government to act to change their reality. And it is not just millennials. We have people collecting Social Security that are still paying student debt. So this is a moral justice issue that has disparate racial effects, and in the 21st century, it is sad that we are still talking about financing a debt-free college education for all Americans.

Senator WARREN. Well, as you know, Leader Schumer and I have a plan to cancel \$50,000 in student loan debt, so let me just ask you: How much progress would that make in helping close the racial wealth gap in America?

Mr. HAMILTON. Yeah, I mean, I am for full cancellation, but if the practical reality is 50, it is a lot better than \$10,000, especially when we consider the fact that, on average, 4 years after graduation, a Black graduate has about \$50,000 in debt in relation to \$30,000 for a White graduate, which is also intolerably too high.

Senator WARREN. Well, thank you very much. You know, canceling \$50,000 of student loan debt is the single most effective Executive action available to get our economy going and to make progress toward closing the racial wealth gap, and I hope President Biden decides to do this. Thank you both so much for being with us today.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warren.

Senator Lummis from Wyoming is recognized.

Senator LUMMIS. Thank you, Mr. Chairman. I sure wish those students would have gone to trade schools and community colleges instead of high-priced institutions that caused them to leave school with massive student loan debt.

That aside, I also want to say that the name of today's hearing is "Wall Street vs. Workers", but a better name might have been "How Wall Street Can Help Workers". I know it is imperfect, but every American benefits from Wall Street through lower cost of goods and services, access to capital, buying an affordable home, and saving for retirement. We can do better in many areas, but ethical markets are an inherent public good. And as a person who

is an advocate for Bitcoin, I want to say that I see that as a great leveler for people of color and for women, both in terms of employment and for savings. It is an opportunity to buy directly into an asset that is a great store of value. You do not need Wall Street. You do not need layers and layers of financial advisers and institutions.

The person who is outside building on this building can go out after work and buy a fraction of a Bitcoin and save it, and it is going to be a greater store of value, just like gold would be, when he is older and ready to retire. And there are so many more careers in cryptocurrency for women and for people of color that I see that as a massive opportunity, because as these Wall Street banks get into crypto, finally realize that Bitcoin is for real, and that cryptocurrency is going to become part of global trading and global savings, including fiat digital assets as well as Bitcoin, I think you are going to find that it is a great leveler for people of color and for women.

I just got off the phone with people in Women Involved in Crypto, and I tell you, there are a lot of women in that workforce with expertise, and you are going to find them matriculating as the Wall Street banks realize that this is the next innovation in financial technology.

Now, that said, I have a question for Dr. Loury. Dr. Loury, many Americans live paycheck to paycheck, and they cannot afford delays in the deposit of their salary or in cashing a check. So these can cause costly overdraft fees and even the need to resort to unnecessary loans. We all see payday loan companies on street corners. Americans work hard for their money, and they deserve access to it as soon as possible.

So my question is: Can having a more innovative payment system promote financial inclusion and make Americans' lives easier?

Mr. LOURY. Sure. Why not? No, seriously, I think that would be a step in the right direction, although a small step. But why not?

Senator LUMMIS. Well, one of the things that we are trying to do here in the senate is educate people about the egalitarian aspects of having same-day settlements, about financial innovations, and about central bank digital currencies that could also help us innovate in these ways. So my fellow Senator Kyrsten Sinema and I are forming a Financial Innovations Caucus to make sure that these kinds of innovations that tend to level the playing field and take the layers out between money and the people who earned it is more available. So we look forward to all of you participating in that dialog because it is important that people be close to their own money. And when there are a whole bunch of layers between people and their own money, and everybody in those layers is taking a slice of their money, it is difficult for them to have access, management, control, and innovations associated with their own money. That is where I see the advantages of digital currencies, specifically Bitcoin at this point, and I am looking forward to having that dialog more as we go on.

Thank you, Dr. Loury. I yield back.

Chairman BROWN. Thank you, Senator Lummis.

Senator Van Hollen from Maryland is recognized for 5 minutes.

Senator VAN HOLLEN. Thank you, Mr. Chairman, Ranking Member Toomey, and to all our witnesses, thank you.

Dr. Hamilton, I have a question regarding stock buybacks. We saw after the big tax giveaway to corporations that Trump enacted back in 2017 that so many corporations used those funds for stock buybacks instead of, you know, putting them into higher wages for employees or investing in more capital.

And then former SEC Commissioner Jackson looked into this very closely and found that executives were using stock buybacks to cash out their own shares. He also found that executives selling on buybacks was correlated with worse stock performance, suggesting that stock buybacks were being used to maximize executive pay, not supporting the long-term health of the company.

And then more recently, Dr. Palladino at the Roosevelt Institute issued a paper finding a very, very close correlation between stock buyback activity and insiders selling their own shares and looked at the practice in restaurant, retail, and food manufacturing, industries in which millions of Black and Brown workers struggle to make ends meet and where they are disproportionate in the ranks of the employees. And the paper found that curbing the practice of stock buybacks could, you know, force these companies to invest more in their workers.

Can you comment on this issue of stock buybacks and, you know, whether we should be looking to close the loophole that was opened and appears to have allowed executives to use these buybacks to pad their own wallets rather than the invest in their employees and the success of their companies?

Mr. HAMILTON. Thank you, Senator. You know, I think that is a fine example of—an example of a Government intervention in a way that is not morally consistent with promoting shared prosperity.

One, we can see that there was a certain class of individuals that benefited from a tax cut of \$2 trillion, so if we want to talk about capacities of what Government can do, clearly we can do a whole lot. So not only was it directed at a specific class of individuals from a moral sense that might not have been the ones that needed it the most, but it also has racial implications when you consider the fact that that class of Americans is overwhelmingly White and overwhelmingly Black.

So I think the point I would like to make is, one, we have capacity to do big, broad things, and we need to reconceptualize the role of Government. We need to think about Government empowering people so that that can grow our economy, so that that can stimulate our economy. Had we used that money instead of allowing companies to engage in stock buybacks but endowing every American with a seed account at birth so that when they became a young adult, they could engage in building their assets just like anyone else in economic security, that would be a better way to have spent that money.

Senator VAN HOLLEN. I appreciate that, Dr. Hamilton.

Professor Atkinson, I was just listening to my colleague Senator Lummis talk about the benefits of real-time payments. I am pleased to hear her supporting this. It is something I have been fighting for for a long time because, as we know, so many Ameri-

cans are going paycheck to paycheck, and, you know, the Federal Reserve data show that about 37 percent of Americans were \$400 away from, you know, having to borrow and go into greater debt or sell something. And it is outrageous that millions of Americans, lower-income Americans, are losing billions of dollars in the form of late fees because their paychecks, for example, are not cashed in real time.

But the way to go here is not through, in my view, a private sector structure but through the Federal Reserve and the FedNow system. I have been asking them repeatedly to accelerate their efforts, which currently they say by the year 2023 we will have real-time payment capacity through that system.

But can you comment? As you pointed out, borrowing and putting people more in debt just digs people deeper and deeper into poverty, and why do we need to move forward on a FedNow type system?

Ms. ATKINSON. Good morning, Senator Van Hollen. You know, so there is already financial innovation around sort of early paychecks systems, and we have seen that sort of in the private sector where, again, you know, there is a profit motive involved, and so some percentage is taken in exchange for the privilege of getting a paycheck in real time. So that is a burgeoning area for a lot of scholarly work thinking about how we should regulate that, whether that looks like a loan or not.

Certainly having a Federal option, a public option in banking more generally, you know, is a way to, you know, as Senator Lummis put it, get people closer to their paycheck—right?—without having intermediaries sort of siphon bits and pieces here and there in order to perform those services. So certainly having a public option would be beneficial.

Senator VAN HOLLEN. I appreciate that because, as you say, you should not have to pay for the benefit of getting your paycheck in real time, and it just drives millions of Americans already close to the edge over the edge.

Chairman BROWN. Thank you, Senator Van Hollen.

Senator Scott from South Carolina is recognized for 5 minutes.

Senator SCOTT. Well, thank you, Mr. Chairman, and thank you to the panel for being here for such an interesting conversation. Like so many have already said, the title of the hearing raises eyebrows, but I am not going to spend much time on the title of the hearing itself. But I do want to spend some time on progress and what progress looks like under pro-growth policies and responsible regulations.

We saw before the pandemic, over the 3 years that preceded the pandemic we saw incomes grow at the bottom quintile faster than the top quintile. We saw the fact that America's unemployment rate of 3.5 percent also led to the lowest African American unemployment rate of 5.2 percent, for Hispanics about 4 percent. We saw gains in the labor force participation rate as well as we saw home ownership go up. And when you think about the wealth gap, you do have to stop for a moment and pause on the fact that we saw home ownership grow during those years from 41.7 percent to 46.4 percent, which is the highest it has been since 2004. So if you look at pre-Great Recession, African American home ownership had

not been higher than it was in 2019 than it was in 2004. That is a record because it leads us toward the ability to gain equity in something, an asset that works and increases even while you are sleeping. And that is the chasm between the haves and the have-nots in this country. It is driven right through this conversation around equity and margin. And for us to understand that, I think the education system that Dr. Loury and Mr. Toomey were talking about earlier is an important part of the equation, frankly. The fact of the matter is that the only parents who do not have school choice are poor parents, and those are consistently African American and Hispanic parents. And that correlation between positive education options in every Zip code does translate to what kind of income you earn in the workforce and, frankly, how long you stay in school.

We know that 3 or 4 years ago we saw the statistics around what your income looks like if you drop out of high school. It was around \$19,000. If you graduate from high school, it was around \$29,000. If you get a Bachelor's degree, it was around \$58,000, and a Master's even beyond that as well. So we know that there is a correlation between your educational achievement and your income, and we know that there is consistently a correlation between your income and your home ownership. And we know there is a correlation between your home ownership and your net worth. So let me slow it down for just a second so I can ask Dr. Loury a couple questions.

Number one, on home ownership, the fastest way to close the wealth gap from my perspective and my personal experience as a kid who grew up in poverty in a single-parent household, who nearly flunked out of high school because I did not see the importance of education, who became a business owner who understood that it is better to create jobs and not just have a job, it is better for us to have profit and income. So on home ownership, home ownership was the opportunity for us to see that profit.

Can you talk for just a minute or two—or, frankly, less, since I only have a minute or two left—about the importance of closing the wealth gap through home ownership?

Mr. LOURY. I think it is very important. Note, however, that I would not have made it closing the racial wealth gap. I would have just made it empowering people, American people of all races to avail themselves of the opportunities in this great country. I can recall my friend Robert Woodson of the Woodson Center in Washington working with public housing residents in Washington, DC, formulating development—this is way back when Jack Kemp was Secretary of Housing and Urban Development—

Senator SCOTT. Yes.

Mr. LOURY. —to allow for residents to acquire equity, ownership stake in their apartments in public housing. Very transformative on a small scale, one little experiment, but nevertheless.

So, no, I think this is very important. Giving people a stake, creating individuals, giving them a way of being able to shape their own futures, empowering them, that is the way to go.

Senator SCOTT. Well, you talk about the creativity between Jack Kemp and Robert Woodson that is celebrated by many folks who have read and millions who understood that concept. We have

heard a lot about democratization of the market. I am a simpleton, so I like to just think about it was easy access to owning stocks. The average household in this country, about half of them have stocks; African Americans, I think it is about 31 percent have a stock portfolio, average balance around \$12,000; Hispanics, about 28 percent, average balance around \$11,000. The democratization of the market really means that the fees associated with getting involved goes down, down, down, and now it is down to zero. The impact of such an opportunity on closing the wealth gap, Dr. Loury?

Mr. LOURY. Well, this is just underscoring how corporate America, Wall Street, what-not, ought not to be constructed as the enemy. They are not our enemy necessarily. I mean, they ought not to go without regulation and oversight

Senator SCOTT. Of course.

Mr. LOURY. On the other hand, we all have a stake in the prosperity of the economy, and many of us are indirectly shareholders in that process. The more democratic, the more widely spread is this opportunity to share in the fruits of American economic growth, the better.

Senator SCOTT. Dr. Loury, my parting comments. Thank you, Chairman Brown, for my time. I would simply say that what you said there may be misinterpreted. What you mean by having a stake in the market and households, your 401(k) and retirement systems are already in the market. Therefore, we have more Americans who are involved in the market than we know of because we do not necessarily appreciate that powerful engine of retirement systems. It is one of the reasons why I have worked with Bob Johnson, the creator of BET, to make sure that those small-dollar investors in their 401(k)s can transfer it as the jobs move on, because it is really important for us to stop the leakage in the 401(k)s. It is another part of creating access to wealth and opportunities in the future, by having the next you, the retired you, having the resources necessary to be self-supportive.

Thank you. My time ran out so fast. I look forward to having another conversation. Have a good one.

Chairman BROWN. Thank you, Senator Scott.

Senator Cortez Masto from Nevada is recognized for 5 minutes.

Senator CORTEZ MASTO. Thank you. Thank you for this hearing.

Let me just bring us back to the basics here, because at the end of the day, of course, everyone wants to have a retirement savings. Everyone wants to be able to put their discretionary or disposable income, whatever additional money they have, into a 401(k) or some retirement program. But if you do not have a livable wage and you are at or below the poverty level, you really do not have the luxury of investing.

So let us bring it back to the basics here for a minute. For many years, gains in productivity led to increases in real hourly wages, but that pattern has not been the case for the last 30 years. Productivity gains have not generally been reflected in gains in wages. Would you all agree with that? And, Professor Atkinson, let me start with you.

Ms. ATKINSON. Good morning, first of all, Senator Cortez Masto. You know, we can see, we can understand that there has been wage stagnation, sort of is our constant friend over many decades.

And, you know, coming back again for me to thinking about how credit and debt work in that context or how other ways we have tried to sort of cover up that problem that is not specific to—you know, it is certainly disproportionately felt by communities of color. But it is a problem for the middle class more generally.

Senator CORTEZ MASTO. Thank you. I am going to stop you there because I want to get through this really quickly, and I so appreciate this conversation. Let me say, Dr. Hamilton, would you agree that wages have been stagnant over the last 30 years and there are more people living at or below the poverty level making not a livable wage but struggling?

Mr. HAMILTON. It sounds like you want a quick answer. Absolutely, and I can elaborate more, but—

Senator CORTEZ MASTO. And we are going to get back to that.

Mr. HAMILTON. OK.

Senator CORTEZ MASTO. Dr. Loury, Professor Loury, would you agree with that?

Mr. LOURY. Well, there is a problem of wage stagnation. Senator Scott ran through some of the statistics about recent consequences of economic growth. I think productivity growth over the long run should lead to greater wages, but there is many a slip betwixt the cup and the lip on that one.

Senator CORTEZ MASTO. Yeah, and that is the challenge. That is our challenge. That is our challenge because I constantly hear this talk about unemployment, oh, the unemployment was low, so everything must be good. Well, unemployment really has nothing to do with whether you have a livable wage or not and whether you are living at the poverty level or below that poverty level. Would you agree? Ms. Atkinson, let me start with you, Professor Atkinson.

Ms. ATKINSON. In the spirit of a short answer, yes, I would agree.

Senator CORTEZ MASTO. OK. And so this is our challenge, and, really, we can talk about inequality because it is existing right now, and we can talk about how we address it. But at the end of the day, if we are not taking that productivity, which we are investing in, and turning it into livable wages for individuals, people are going to be struggling.

And let me just say, you know, I come from the State of Nevada. In southern Nevada, from our hospitality industry, you can literally graduate from high school, and there was a time when you could go make a good living for your family, put a roof over your head. But because wages have been stagnant, we have not been able to do that in this country, across the country. And so this is our challenge.

And so I so appreciate the conversation today, but this is where it starts for me. How do we address and invest more in our workforce, in that wage, and bring—lift everybody up that are struggling right now?

Let me touch on an issue—and, Dr. Hamilton, I am going to ask you about this, because the economic gap between White individuals and Native Americans remains stark. Among all racial and ethnic groups, Native Americans had the highest poverty rate at 25.4 percent compared to 8.1 percent for White individuals. And I know you co-authored a study back in 2017 that found this substantial difference.

Can you elaborate a little bit more on that and the impact to Native Americans?

Mr. HAMILTON. You know, I love the framing of your question. It is not the result of a deficit amongst Native Americans but, rather, deficits in structures and resources so that Native Americans can thrive. And, you know, we have been talking a lot about markets. One thing we should recognize is that if people are not empowered, they are vulnerable to markets. So what I am talking about is not necessarily an indictment on banks, although there is some responsibility, too. I am talking about using Government resources to empower people so they are not vulnerable, so that they actually can utilize market attributes and thrive.

Senator CORTEZ MASTO. Thank you. And, Dr. Atkinson, any—and I know I cut you off. Please, if there is more that you want to contribute, I would love to hear it.

Ms. ATKINSON. You know, I will just add my plus one to Dr. Hamilton's account. The question is not a wholesale indictment of markets generally or of Wall Street generally. But it is how can we use those resources to uplift the people who are most vulnerable.

Senator CORTEZ MASTO. Thank you. Thank you very much. I know my time is up.

Chairman BROWN. Thank you, Senator Cortez Masto.

Senator Ossoff from Georgia is recognized for 5 minutes.

Senator OSSOFF. Thank you, Mr. Chairman. Thank you for convening this hearing. Thank you to our panelists.

Professor Atkinson, what in your view is the relationship between power and access to credit?

Ms. ATKINSON. You know, I guess the first thing is what we think about as power, right? Who has access to sort of we might think network relationships and finding lending relationships and the most beneficial lending relationships and choice, who has no option but to go to the corner payday lender versus who can go out and be comfortable in negotiating and looking for the best rates. So I think power factors into that.

Senator OSSOFF. Thank you. I appreciate that. There is, I think, sometimes a false dichotomy presented in a discussion such as the one we are having at this hearing about whether we are discussing free markets or not. When, for example, the two dozen largest and most powerful investment banks in the country can access emergency cash via the Federal Reserve at zero or near 0 percent interest rates virtually overnight, but no such instantaneous credit facility exists for smaller banks, let alone households, is that the free market? Or is that something else?

Ms. ATKINSON. You know, my view is that that is not a free market. And, you know, markets do not exist outside of the social environment and the culture in which we live, and, you know, we can think about structuring, for example, the PPP payments—right?—as a forgivable loan, if you will, made available to businesses and, indeed, payday lenders and other kinds of powerful entities and not to regular ordinary people. So, absolutely, yes.

Senator OSSOFF. And isn't it the case, Professor Atkinson, that those major financial institutions which enjoy this privileged access to credit markets via a Federal entity—the Federal Reserve—then use the cash that they can access on such favorable terms to lend

at higher rates to borrowers downstream or to make investments in equities or other financial instruments to profit?

Ms. ATKINSON. Sure. I mean, their access is not conditioned on particular uses, particular interest rates, and I think that is one of the troubles of, you know, if the rationale is that by facilitating this ready, cheap money to big institutions, it will trickle down into the communities that need it, you know, that money is not burdened in any way, they are not required, and if anything, in our legal standards it is that they use the money in service of their own interests or their shareholders. So, absolutely, the money is not—you know, that access does not bring with it a requirement to deploy that access in ways that help the most vulnerable people.

Senator OSSOFF. Thank you, Professor Atkinson. And these major financial institutions which via various mechanisms of monetary policy can access cash or credit at 0 percent interest or even simply as a transfer, sometimes we think about the interest rate that a borrower pays as an indicator of that borrower's creditworthiness. But these are the same financial institutions who required a massive multitrillion bailout in 2007 and 2008 due to their own incompetence and their own irresponsible risk taking and which have benefited from a constant stream of loose monetary policy and quantitative easing ever since.

So are the rates that these powerful financial institutions pay a function of their superior creditworthiness, their superior risk management, their superior wisdom in the allocation of capital? Or is it a function of the powerful and privileged position they have in a financial system that has been structured to advantage them?

Ms. ATKINSON. I think it is a function of a system that presents or represents these entities as being crucial to the existence of the system. I think this is where the sort of "too big to fail" rationale originates, and I think we should think about individuals and communities as being, you know, too important to fail in the same way.

Senator OSSOFF. Thank you so much for your time and your testimony.

I yield back, Mr. Chairman.

Chairman BROWN. Thank you, Senator Ossoff, for your questions. Is Senator Warnock here?

[No response.]

Chairman BROWN. OK. I think we can wrap up. Everyone in this hearing on this Committee today agrees that inequality has soared, and everyone agrees that there is a serious and enormous racial wealth gap, and everyone agrees that Wall Street contributes to both these outcomes. What we disagree about is whose side are you on and do you think we should take action so that more wealth goes to the people who make this country work? Or do you think we need to protect Wall Street profits and stock buybacks and dividends? I think we can do better. The CARES Act and the American Rescue Act, as Dr. Hamilton pointed out, are a blueprint for investment in workers and infrastructure that would benefit everyone. I believe in American hard work. You have certainly heard me talk about the dignity of work. If we devote more of our resources to the people who have been left out of our economy, bringing them in not only will help reduce inequality and the racial wealth gap; it will create even more profit for everyone. We have done it before. It did

not lead to socialism. I did not destroy capitalism or democracy. It actually strengthened them. The New Deal, while other countries in Europe went in a different direction often, the New Deal strengthened American democracy and helped build a middle class. If we take care of workers first, we know that Wall Street also will do just fine.

Thanks to the witnesses today for providing testimony. For Senators who wish to submit questions for the record, these questions are due 1 week from today, on Thursday, March 11th. For our witnesses, you have 45 days, if you would, to respond to any of these questions.

With that, thank you all. Senator Toomey, thank you. This hearing is adjourned.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

The economy isn't physics—it's not governed by scientific laws outside our control. It's made up of people making choices about our values and what kind of society we want to live in.

Despite what we're constantly told on TV, most Americans share a lot of the same values—they want an economy that's fair and just, where hard work pays off for everyone, no matter who you are or what kind of work you do, and where everyone has the economic security to raise a family and retire with dignity.

But when you look at our economy, it doesn't reflect the society most of us want.

You can't look at decades of growing productivity, with workers getting a smaller and smaller share of the profits they create, and think the economy looks fair.

You can't look at a racial wealth and income gap that has barely budged since we passed the Civil Rights Act, and think the economy looks just, or that we all have equal opportunity.

You can't look at the millions of Americans whose hard work doesn't even pay the bills, while corporate profits go up, CEO pay soars, and stock buybacks and dividends explode, and think that this economy reflects our values.

This state of affairs didn't happen on its own, and it wasn't just the invisible hand of the markets.

For decades, Wall Street interests—big banks, hedge funds, private equity firms, and insurance companies—have been calling the shots—through their lobbyists, through rigged rules, through union-busting.

We've left it to them to shape our entire economy, and make choices about our values and what kind of society we live in.

For decades, Wall Street has rewarded the companies that squeeze their workers the hardest—companies that cut wages, cut retirement benefits, cut corners on worker safety.

When companies lay off workers, cut paychecks, or subcontract work to lower-paying companies with fewer benefits, their stock price goes up—and Wall Street calls it "cost cutting."

We have allowed a system to take root that treats American workers as a commodity, a cost to be minimized—instead of the engine behind all our businesses' success.

They do it so Wall Street can funnel more and more of the profits that workers create to CEOs and shareholders.

And instead of investing those profits in something productive, they've used that money for reckless speculation that drove booms and busts, resulting in real estate crashes and the dot-com bubble.

And when all of that didn't make them rich enough, they came up with the idea for credit default swaps and collateralized debt obligations. It was Wall Street that targeted workers who were struggling to make ends meet with subprime mortgages—predatory loans that stole the equity workers had saved up in their homes.

Wall Street's 2008 crisis cost the economy tens of trillions of dollars and destroyed 53 percent of Black wealth in the country.

Millions of families lost their homes and are still trying to recover. Wall Street got a bailout.

Then Wall Street found a new way to get paid: fund the payday and auto title lenders and debt collectors that targeted families struggling to get by in what was left of the economy.

Even after all of that, some people, including a whole lot of people who've been running the Senate, think that we should let Wall Street keep dictating our economy—and by extension, the lives of everyone who gets their income from a paycheck, not a stock portfolio.

They claim they just want "markets to decide," but when the market isn't fair, that just means putting Wall Street in charge.

It's the same attitude that lets corporations run ad campaigns calling their workers "essential," but then spends their profits on stock buybacks and CEO bonuses rather than a living wage or the protective equipment workers need to avoid a deadly virus.

Or that prompts Amazon to post a "Black Lives Matter" banner on its website, while unleashing every union-busting tactic in the book to undermine Black workers organizing for better working conditions in Alabama.

If we want a fair and just society, with a growing middle class that everyone has the opportunity to join, we have to stop letting Wall Street run the economy.

We can't rely on quarterly earnings reports to tell us whether workers deserve a decent living.

For too long, we've allowed Wall Street's phony populist allies to stoke fear and place blame and divide us by race and religion and region. We know why they do it—to distract from how they've been keeping all the profits for themselves.

But this zero-sum view of the economy hurts everyone.

We have the largest economy on earth, with vast resources and talent and ingenuity. If we stop siphoning off so much of our prosperity to the tiny sliver of people at the very top, not only is there enough to go around for everyone—but when we unleash all workers' talents and give them some more economic security, we'll create even more economic growth.

We all learn in elementary school about Dr. Martin Luther King Jr.'s fight for civil and human rights. But we don't talk about his fight for economic rights enough—and how you can't fight for one without the other.

We can't forget that Dr. King was assassinated in Memphis while fighting for some of the most exploited workers in the country, sanitation workers—fighting for their civil rights and workers' rights.

As he put it: “What does it profit a man to be able to eat at an integrated lunch counter if he doesn't earn enough money to buy a hamburger and a cup of coffee?”

If we want to take on economic inequality and shrink the racial wealth gap, then we need to build an economy based on the dignity of work.

That means paying all workers a living wage, giving them power over their schedules, providing good benefits and safety on the job, and letting them organize a union. That means everyone gets a fair share of the wealth they create.

That means building an economy that reflects our values—not Wall Street's values—and the kind of society we want to live in.

PREPARED STATEMENT OF ABBYE ATKINSON

ASSISTANT PROFESSOR OF LAW, UNIVERSITY OF CALIFORNIA, BERKELEY, SCHOOL OF
LAW

MARCH 4, 2021

Mr. Chairman Brown, Ranking Member Toomey, and Members of the Committee: Good morning, and thank you for inviting me to testify before this Committee. It is my great honor. My name is Abbye Atkinson. I am an Assistant Professor of Law at the University of California, Berkeley, School of Law, where I teach Contract Law as well as courses on the legal structures of debt and inequality. I appear here today in my capacity as an academic who studies the law of creditors and debtors as it affects traditionally marginalized communities and implicates the widening racial and gender wealth gap.¹

In this regard, I'd like to make three points. First, credit, and by natural extension, debt (hereinafter “credit/debt”²), has become a critical means of carrying out Federal social welfare policies, even though indebtedness contributes significantly to many of the entrenched socioeconomic problems we rely on credit/debt to solve. Second, credit/debt itself provides a channel through which wealth drains from marginalized communities, toward more affluent entities. Its burdens are not equally distributed, which exacerbates the racialized and gendered wealth gap. Third, because credit/debt has become so critical to Federal social welfare policies, Congress should not delegate the regulation of credit/debt to private, profit-motivated interests whose stock in trade is credit/debt.

¹ This written testimony includes material that has been previously published as follows: Abbye Atkinson, “Borrowing Equality”, 120 *Columbia Law Review* 1403 (2020); Abbye Atkinson, “Rethinking Credit as Social Provision”, 71 *Stanford Law Review* 1095 (2019). It also incorporates material from Abbye Atkinson, “Commodifying Marginalization”, 71 *Duke Law Journal* (forthcoming January 2022).

² Gustav Peebles, “The Anthropology of Credit and Debt”, 39 *Ann. Rev. Anthropology* 225, 226 (2010) (noting that “credit and debt stand as an inseparable, dyadic unit” and adopting the term “credit/debt” because “debt is always already a dyadic relation that requires its opposite[re], credit[re]”).

Credit/Debt Has Become an Important Aspect of American Social Provision

Credit/debt has become vital to current social provision³ policy, particularly for socio-economically marginalized Americans, including low-income workers,⁴ women,⁵ and African Americans.⁶ It is an important feature of our unique American public-private welfare regime.⁷ This is true both (1) as to marginalized borrowers themselves, who are encouraged to rely on consumer credit markets to smooth consumption, to become socially mobile, and to address entrenched inequality more generally; and (2) as to third party beneficiaries, like retirement-insecure workers, who, through their participation in public pensions, increasingly rely on wealth extracted through the channel of “marginalized debt,” the array of high interest rate, subprime, risky debt that tends to concentrate in and among historically marginalized communities.⁸ I briefly describe each below.

Credit/Debt as Social Provision for Marginalized Borrowers

The ability to borrow money in consumer capital markets is an important aspect of Federal social provision policy. Consequently, much of the current discourse of access to credit/debt for low-income and other marginalized Americans rests on the assumption that credit/debt extended on good terms is a universal public good.⁹ Moreover, on the view that credit/debt can effectively and properly fill the void left by welfare retrenchment, legislators and policymakers largely confine themselves to debating the appropriate regulation of consumer credit/debt access rather than exploring the essential qualities of credit/debt that may make it a poor substitute for a robust, public safety net.¹⁰

For example, the legislative debates that emerged in the wake of the Second Circuit’s 2015 decision in *Madden v. Midland Funding, LLC*¹¹ and the Consumer Financial Protection Bureau’s Payday Rule,¹² centered largely around the optimal regulation of credit/debt for high risk, low income borrowers. There was otherwise

³The term “social provision” refers to the range of state policies implemented to improve general welfare, including for example, “Nation-spanning social insurance and public assistance programs” such as “federally required, state run unemployment insurance; federally subsidized public assistance; and national contributory old-age insurance.” E.g., Theda Skocpol, “A Society Without a ‘State’? Political Organization, Social Conflict, and Welfare Provision”, 7 *J. of Pub. Pol’y* 349, 350–51 (1987); see also Ann Shola Orloff, “Social Provision and Regulations: Theories of States, Social Policies”, in Julia Adams, Elisabeth S. Clemens, and Ann Shola Orloff, *Modernity in Remaking Modernity: Politics, History, and Sociology* 190 (2005) (“Social provision and regulation have taken on many public and mixed public/private forms, from poor relief and publicly subsidized charity to ‘workingmen’s insurance’ and pension, ‘social security,’ ‘the welfare state,’ ‘welfare capitalism,’ ‘the social state,’ and ‘etat providence.’”).

⁴E.g., Abbye Atkinson, “Rethinking Credit as Social Provision”, 71 *Stan. L. Rev.* 1095, 1105–1120(2019) (hereinafter Atkinson Rethinking) (describing debates about how to regulate the cost of payday loans).

⁵E.g., Abbye Atkinson, “Borrowing Equality”, 120 *Colum. L. Rev.* 1403, 1419–22 (2020) (describing 1960s and 1970s advocacy for increased access to credit as a means of greater socioeconomic equality for women).

⁶Id. at 1422–24 (describing 1960s and 1970s advocacy for increased access to credit as a means of greater socioeconomic equality for African Americans).

⁷See Jacob Hacker, *The Divided Welfare State: The Battle Over Public and Private Social Benefits in the United States* 11–12 (2002) (defining the American public-private welfare regime as a combination of: (1) “direct pension social programs” like Social Security, (2) “the constellation of more indirect or ‘hidden’ Government interventions,” like tax breaks and Government subsidies, “that are designed to provide similar social benefits or shape their private provision,” and (3) “publicly regulated and subsidized private benefits”).

⁸E.g., Taz George, Robin Neuberger, and Mark O’Dell, “The Geography of Subprime Credit”, *Federal Reserve Bank of Chicago*, (Nov. 6, 2019), <https://www.chicagofed.org/publications/profitwise-news-and-views/2019/thegeography-of-subprime-credit>.

⁹See, e.g., Marek Hudon, “Should Access to Credit Be a Right?”, 84 *J. Bus. Ethics* 17, 17 (2009) (“Credit is central to the welfare of many citizens and the effective management of the economy in high- and low-income countries.”).

¹⁰See, e.g., Greta R. Krippner, “Democracy of Credit: Ownership and the Politics of Credit Access in Late Twentieth-Century America”, 123 *Am. J. Socio.* 1, 2 (2017); Gunnar Trumbull, *Credit Access and Social Welfare: The Rise of Consumer Lending in the United States and France*, 40 *POL. & SOC’Y* 9, 10 (2012).

¹¹*Madden v. Midland Funding, LLC*, 786 F.3d 246, 248–50 (2d Cir. 2015). In this case, the Second Circuit ruled that loans transferred to non-national-bank entities in the secondary market are subject to State usury caps even if the loan was originated by a national bank that would otherwise enjoy Federal preemption from State usury caps.

¹²12 CFR §1041 (2020). As initially promulgated in 2017, the Payday Rule, regulated payday lending by, for example, requiring that payday determine whether a prospective customer has the “ability-to-pay” certain types of loans before lending to the customer. The Rule was amended in July of 2020, among other reasons, to rescind the “ability-to-pay” requirement. Payday, Vehicle Title, and Certain High-Cost Installment Loans, 85 Fed. Reg. 44382 (Oct. 20, 2020) (codified at 12 CFR §1041 (2020)).

minimal engagement with the important threshold normative question of whether credit/debt, an institution rooted in private markets, should be a viable component of social provision for low-income Americans. Perspectives on both sides of the aisle shared a common baseline for their arguments, notwithstanding their differences in political ideology or methodology. Each began from the shared premise that credit/debt can and should benefit the working poor, thus implicitly framing credit/debt as a valid means of social provision.¹³ These views thus implicitly naturalized the idea that credit/debt should be a significant component of social provision for the working poor.

Similarly, Congress has articulated a legislative policy premised on the conviction that by democratizing access to credit/debt, marginalized groups, like women and African Americans, can borrow their way to increased socio-economic inclusion, better relative economic health, and even first-class citizenship.¹⁴ For example, beginning in the mid to late 1960s and continuing throughout the 1970s, Congress passed a suite of laws aimed at addressing inequality more broadly by improving the ability of marginalized groups to borrow money in the conventional consumer capital market.¹⁵ Significant among these interventions were the Higher Education Act of 1965,¹⁶ which made it more widely possible for financially constrained students to borrow money for higher education; the Consumer Credit Protection Act of 1968,¹⁷ which implemented a regime to make private lending fairer through heightened transparency; the Equal Credit Opportunity Act of 1974,¹⁸ which prohibited lending discrimination on the basis of sex and race, among other protected categories; and the Community Reinvestment Act of 1977,¹⁹ which encouraged conventional lenders to do business in marginalized communities who had been historically excluded from mainstream consumer capital markets.

With respect to these statutes, Congress acted in part to address the demands of marginalized groups who, in a world in which access to borrowed capital was increasingly synonymous with belonging, came to believe that equal access to conventional loans and purchase money to acquire the material trappings of American citizenship was integral to their broader quest for equality and first-class citizenship.²⁰ Consequently, each of these law embraces “credit” as a source of social provision, even as they ignore the debt that inevitably flows from taking a loan. Instead, Congress bifurcated its contemporaneous treatment of debt, taking a relatively restrictive and regressive approach to regulating distressed debtors in the Bankruptcy Reform Act of 1978 (Bankruptcy Code)²¹ and the Fair Debt Collection Practices Act of 1977.²²

Credit/Debt as Social Provision for Third Party Beneficiaries

Marginalized borrowers are not the only ones for whom social provision policy invokes the power of credit/debt as a valid means of social provision. Social provision policy also encompasses credit/debt as a valid means of wealth extraction in service of retirement security for workers. Specifically, public pension funds—which rely

¹³“Atkinson Rethinking”, supra note 4, at 1108-1120 (describing the legislative debates surrounding the so-called Madden-fix legislation and the Payday Rule).

¹⁴E.g., Kamille Wolff Dean, “Foreclosures and Financial Aid: Mind Over Mortgages in Closing the Plus Loan Gap”, 4 *Colum. J. Race & L.* 129, 135 (2014) (describing how “[m]inorities were particularly encouraged to take advantage of home ownership incentives from lenders and the Federal Government as a means of becoming upwardly mobile.”); Monica Prasad, *The Land of Too Much* 221-225 (2012).

¹⁵E.g., Sara Sternberg Greene, “The Bootstrap Trap”, 67 *Duke L.J.* 233, 257 (2017) (“Congress eventually responded, and beginning in 1974, it passed legislation and a series of targeted amendments that sought to end discrimination in credit evaluations and lending.”); Michael S. Barr, “Modes of Credit Market Regulation” in Nicolas P. Retsinas and Eric S. Belsky, *Building Assets, Building Wealth: Creating Wealth in Low-Income Communities* (2005).

¹⁶Higher Education Act of 1965, Pub. L. No. 89-329, 79 Stat. 1219 (codified as amended at 20 U.S.C. §§1001-1107 (2018)).

¹⁷Consumer Credit Protection Act, Pub. L. No. 90-321, 82 Stat. 146 (1968) (codified as amended at 15 U.S.C. §§1601-1616 (2018)).

¹⁸Equal Credit Opportunity Act, Pub. L. No. 93-495, 88 Stat. 1521 (1974) (codified as amended at 15 U.S.C. §§1691-1691f).

¹⁹Community Reinvestment Act of 1977, Pub. L. No. 95-128, 91 Stat. 1117 (codified as amended at 12 U.S.C. §§2901-2908 (2018)).

²⁰Greene, supra note 15, at 254-55 (“In the mid-twentieth century, . . . civil rights and women’s rights groups were behind the push to mandate uniform standards of credit.”).

²¹Bankruptcy Reform Act, Pub. L. No. 95-598, 92 Stat. 2549 (1978) (codified as amended at 11 U.S.C. §§101-1532 (2018)).

²²Fair Debt Collection Practices Act, Pub. L. No. 95-109, 91 Stat. 874 (1977) (codified as amended at 15 U.S.C. §1692 (2018)).

heavily on investment returns to meet their obligations to retirees²³—have increasingly moved their enormous pools of “labor’s capital”²⁴ into “alternative” investments, like marginalized debt, that promise higher yields crucial to fund pension obligations even as they portend greater risk of loss.²⁵ Consequently, marginalized debt is increasingly an asset that rounds out the diversified portfolios of the Nation’s public pension funds.²⁶

In this context, marginalized debt serves as a mechanism of social provision because it furnishes a basis from which working people might, at least nominally, shore up their oftenprecarious retirement prospects.²⁷ Yet, in this iteration of credit/debt as social provision, it is the investor-pensioners who ostensibly benefit from the borrowing, not the borrowers themselves. In addition, the financial intermediaries, like private equity firms, who both construct and privately regulate these channels of redistribution are significant winners in this arrangement, reaping fees on the front end and a disproportionate percentage of returns relative to their initial investments on the back end.²⁸ Thus, while neither lending and borrowing nor the accumulation of wealth through investment is inherently harmful,²⁹ pension fund investment in marginalized debt may not be a public good, when balanced against the burden that marginalized debt and chronic indebtedness disproportionately imposes in the lives of marginalized communities.³⁰

The significance of marginalized debt in pension-fund investment highlights two aspects of credit/debt-focused privatization in social welfare policy. First, it shows

²³ E.g., Pew Charitable Trusts, “State Pension Funds Reduce Rates of Return at 5” (Dec. 2019) (hereinafter Pew Report) (observing that “[i]nvestment returns make up more than 60 percent of public pension plan revenues [while] employer and employee contributions make up the rest”).

²⁴ E.g., David Webber, *The Rise of the Working-Class Shareholder: Labor’s Last Best Weapon* 8 (2018) (defining “labor’s capital” as “the trillions of dollars held in public pension funds”); Teresa Ghilarducci, *Labor’s Capitalism: The Economics and Politics of Private Pensions* 50 (1992) (observing that “[p]ensions may not be labor’s wages, but labor’s capital” in part because they function “as an insurance fund in which every [worker] holds a share”).

²⁵ Ben Christopher, “Riskier Bet: Why CalPERS, the Country’s Largest Pension Fund, Is Getting Into Banking”, *O.C. Reg.*, (Jul. 9, 2020), <https://www.ocregister.com/2020/07/09/why-calpers-the-countrys-largest-pension-fund-is-getting-into-banking/>, (observing that in the search for investment returns, “pensions [have] ventured further into the Wild West of ‘alternative investments’—private equity, one-off infrastructure projects and real estate, with each step [taking] the funds into potentially more profitable, but also more perilous, terrain”); see also Gordon L. Clark, *Pension Fund Capitalism* 28 (2000) (observing “the rise of pension fund capitalism and the world of finance with which it is intimately associated”); David F. Swensen, *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment* 55 (2009) (noting that “[f]inance theory posits that acceptance of greater risk leads to the reward of higher expected returns”).

²⁶ Pew Report, supra note 23, at 1; see also, Sondra Albert, “The Subprime Crisis’ Impact on Fixed-Income Funds”, AFL-CIO Housing Investment Trust, (Nov. 13, 2007), <https://www.sec.gov/Archives/edgar/data/225030/000116923207004677/d73205-40-24b2.htm>, (observing that “public pension funds have also increased their investments in hedge funds in an attempt to boost their returns due to larger funding requirements”).

²⁷ E.g., Jack M. Beermann, “The Public Pension Crisis”, 70 *Wash. & Lee L. Rev.* 3, 6 (2013) (observing that “many public pension plans are seriously underfunded either intentionally or due to unrealistic assumptions concerning investment performance and the amount that will be owed over time” and that one of the worries of the public pension crisis is the potential “consequences to public employees and retirees, especially those who did not participate in Social Security, who could be left with insufficient assets for a decent retirement”).

²⁸ Ludovic Phalippou, “An Inconvenient Fact: Private Equity Returns and the Billionaire Factory” 24-25, <https://papers.ssrn.com/sol3/papers.cfm?abstract=id=3623820>, (“Private equity funds tend to charge an annual management fee of 2 percent and a performance fee of 20 percent. Added to the generally higher fees already paid for target date funds, the returns will really have to be supersized to justify the cost of the alternative investments.”); accord Webber, supra note 24, at 81 (observing that [h]edge funds are very often a bad investment for everyone except hedge fund managers”).

²⁹ See, e.g., *Atkinson Rethinking*, supra note 4, at 1100 (observing that “credit and debt often amplify the underlying set of circumstances into which they are introduced” and that “where credit and its amplifying qualities are concerned, what is good gets better, and what is bad gets worse”).

³⁰ See, e.g., Paul Kiel and Hannah Fresques, “Data Analysis: Bankruptcy and Race in America”, *ProPublica*, (Sept. 27, 2017), <https://projects.propublica.org/graphics/bankruptcy-data-analysis>, (observing that “[n]ationally, bankruptcy filings are much higher among Blacks than Whites” and that “[t]he higher filing rates among Black communities can be partly explained by greater financial stress on the population as a whole”); William R. Emmons & Lowell R. Rickets, “The Demographics of Loan Delinquency: Tipping Points or Tip of the Iceberg?”, Fed. Reserve Bank of St. Louis, (Oct. 18, 2016) (“Families headed by an African American are about 81 percent more likely to be seriously delinquent on a debt than a non-Hispanic White family while Hispanic-headed families (of any race) are about 8 percent more likely to be seriously delinquent than a White family.”).

how the current publicprivate welfare regime has largely shifted retirement security into the hands of private financial actors, whose fiduciary duties and profit-sensitive incentives eschew broader moral considerations of the externalities of retiree wealth maximization.³¹ Second, the rise of marginalized debt as a source of retiree wealth maximization shows how in the financialized economy, the tenuous socioeconomic condition of one community³² is now openly a source of wealth accumulation for another vulnerable community, retirement-insecure workers.³³ Perversely then, just as credit/debt is an expedient means of promoting and facilitating a decent standard of living for low-income and other economically vulnerable groups, without the political burdens of solving for “persistent wage stagnation and other entrenched social pathologies,”³⁴ it is also an expedient means of promoting and facilitating a decent standard of living for older people, without the political burden of solving for the real failures of retirement security, like overpromising.³⁵

Credit/Debt Is a Means of Regressive Redistribution That Entrenches Inequality

Credit/debt itself provides a channel through which wealth can leave economically vulnerable communities, traveling upstream toward more affluent entities.³⁶ This regressive redistribution has grave consequences for low-income borrowers and, more broadly, for other communities whose economic prospects are consistently dim. For example, as noted by political scientist, Gunnar Trumbull, “there’s a feature of consumer credit that makes it fundamentally regressive” because “the poorest people who take out loans pay the highest interest rates.”³⁷ Those payments made in the credit “sweat box” move wealth out of distressed communities and into more affluent ones.³⁸

Moreover, data revealing entrenched racial and gender-based inequality and disproportionate indebtedness deeply challenge the notion that marginalized groups can borrow their way into greater socioeconomic equality, without meaningfully accounting for the consequences of debt in their lives.³⁹ Indeed, the expanded ability to borrow money has had mixed results for various marginalized groups who continue to struggle to find socioeconomic parity.⁴⁰ In many cases, the subsequent in-

³¹ Webber, supra note 24, at 9.

³² E.g., Peter Whoriskey, “A Way of Monetizing Poor People: How Private Equity Firms Make Money Offering Loans to Cash-Strapped Americans”, *Wash. Post*, (Jul. 1, 2018), <https://www.washingtonpost.com/business/economy/a-way-of-monetizing-poor-people-how-private-equity-firms-make-money-offering-loans-to-cash-strapped-americans/2018/07/01/5f7e2670-5dee-11e8-9ee3-49d6d4814c4c—story.html>, (“Private equity firms, with billions to invest, have taken significant stakes in the growing [small-dollar installment loan] field.”).

³³ E.g., Webber, supra note 24, at 8 (observing that for many employees with public pensions, the “loss of their jobs and pensions would leave them on the knife’s edge of poverty, if not impoverished”).

³⁴ E.g., Atkinson *Rethinking*, supra note 4, at 1101.

³⁵ G. Alan Tarr, “No Exit: The Financial Crisis Facing State Courts”, 100 *KY. L.J.* 785, 803 (2012) (“Some states have in the past balanced their budgets in part by inducing public employee unions to accept lower wage increases with the promise of future benefits payments, and the effects of this short-term gimmick are now being felt.”); cf. Beermann, supra note 27, at 27 (arguing that “[u]nfunded pension promises benefit politicians” by “allow[ing] for current officials to provide services without requiring taxpayers to pay for them until much later, when they may be out of office.”).

³⁶ Ctr. for Competition Pol’y, “Gunnar Trumbull at CCP Annual Conference” (2011), *YouTube* (Jan. 20, 2012), <https://www.youtube.com/watch?v=9yQvOzinTGg>.

³⁷ *Id.* at 1:32–1:46.

³⁸ Ronald J. Mann, “Bankruptcy Reform and the ‘Sweat Box’ of Credit Card Debt”, 2007 *U. Ill. L. Rev.* 375, 384 (2007) (“Debt-based [credit card] issuers . . . attempt to maximize the number of customers who do not repay their account balances in full each month. That strategy would not seem unusual, but for the fact that the most profitable customers are sometimes the least likely to ever repay their debts in full.”).

³⁹ E.g., Raj Chetty, Nathaniel Hendren, Maggie R. Jones & Sonya R. Porter, “Race and Economic Opportunity in the United States: An Intergenerational Perspective”, 135 *Q.J. Econ.* 711, 712-18 (2020) (studying intergenerational wealth, observing a persistent wealth gap between African Americans and White Americans, and noting that “reducing the Black-White income gap will require policies whose effects cross neighborhood and class lines and increase intergenerational mobility”); Am. Ass’n of Univ. Women, “Deeper in Debt: Women and Student Loans” 1-2 (2017), <https://www.aauw.org/app/uploads/2020/03/DeeperinDebt-nsa.pdf> (hereinafter AAUW Report) (noting that women earn less than men and therefore pay back their loans more slowly, and that “[t]he pace of repayment was particularly slow for Black and Hispanic women, as well as for men in those groups”).

⁴⁰ See, e.g., AAUW Report, supra note 39, at 9, 28 (noting that although in the last 50 years, women and people of color have made “dramatic gains in higher education,” these groups struggle to repay debt on account of disparities in pay).

creased rates of borrowing have introduced higher levels of burdensome debt among communities least able to bear this extra weight.⁴¹

The challenges that women and African Americans face with regard to student loan shed light on this outcome. Specifically, in the present day, student loan debt is quickly approaching a crisis of epic proportions.⁴² Some 44 million Americans currently owe approximately 1.6 trillion dollars in outstanding educational debt.⁴³ Women and African Americans (both separately and at their intersections) are carrying the brunt of this burden.⁴⁴ For example, although “college degrees have been a pathway to greater economic and personal independence for decades—especially for women[,] . . . acquiring those degrees results in more debt for women than for men.”⁴⁵ Women currently hold two-thirds of educational debt (over 900 billion dollars) and are more likely than men to default on these loans.⁴⁶ For some communities of color, and specifically for African American women, the reality of student debt burden is even grimmer. Student loan default rates are higher for African American and Hispanic debtors than for White and Asian debtors, and 57 percent of African American women borrowers in repayment reported that “they had been unable to meet essential expenses” as compared to 34 percent of all women borrowers in repayment.⁴⁷

At the same time, in the current American economy, structural inequality that tracks gender and racial distinctions results in pathological outcomes like disparity in postgraduate incomes and racialized and gendered views that depress asset value.⁴⁸ Indeed, although “women with college degrees are paid much better than women without them, they are still paid about 25 percent less than men with college degrees.”⁴⁹ Consequently, persistent inequities in gender pay are a “major factor that contributes to a substantial loan repayment gap between men and women following graduation,”⁵⁰ leaving women and African Americans to face challenges in repayment that confound the net present value in a loan (even in the absence of predatory lending) for marginalized groups.⁵¹

Moreover, general difficulty in repayment further reveals the ways in which debt overwhelms the capacity of credit across gender and race, and at their intersections, to facilitate greater socioeconomic equality. For example, “[w]omen and men of dif-

⁴¹ See Atif Mian and Amir Sufi, *House of Debt* 30 (2014) (observing that “[d]ebt is the anti-insurance. concentrate[ing] the risks on those least able to bear it”). Mian and Sufi also observed that “debt significantly amplified wealth inequality during the Great Recession.” *Id.*; see also Jen Mishory, Mark Huelsman, & Suzanne Khan, “How Student Debt and the Racial Wealth Gap Reinforce Each Other”, (Sept. 9, 2019), <https://tcf.org/content/report/bridging-progressive-policy-debates-student-debt-racial-wealth-gapreinforce/?session=1&agreed=1>, (reporting that “while many Black families currently need to rely on debt to access a college degree and its resulting wage premium, the disproportionate burden of student debt perpetuates the racial wealth gap”).

⁴² See, e.g., Michelle Singletary, “There Seems To Be No End to the Rise in Student Loan Debt”, *Wash. Post* (Sept. 12, 2019), <https://www.washingtonpost.com/business/2019/09/12/whos-blame-massive-amount-student-loan-debtamerica/>, (noting \$1.6 trillion in outstanding student loans and sharing examples of the personal impact of debt).

⁴³ Richard Cordray, *Watchdog: How Protecting Consumers Can Save Our Families, Our Economy, and Our Democracy* 6 (2020).

⁴⁴ See AAUW Report, supra note 39, at 1-2.

⁴⁵ *Id.* at 24.

⁴⁶ *Id.* at 1-2.

⁴⁷ *Id.* at 1-2.

⁴⁸ E.g., A. Mechele Dickerson, “Sorting the Neighborhood”, *J. Affordable Housing & Community Dev. L.* 311, 321 (2015) (“Research shows that the racial composition of a neighborhood is capitalized into the market value of homes so that comparable homes are valued differently depending on the racial makeup of the neighbors.”)

⁴⁹ AAUW Report, supra note 39, at 24; see also Daniele Kurtzleben, “How Coronavirus Could Widen the Gender Wage Gap”, NPR (Jun. 28, 2020), <https://www.npr.org/2020/06/28/883458147/how-coronavirus-could-widen-the-gender-wage-gap>. [<https://perma.cc/SK9Z-GH7V>] (describing how the pandemic is likely to exacerbate the existing gendered wage gap).

⁵⁰ AAUW Report, supra note 39, at 24.

⁵¹ See, e.g., Abbye Atkinson, “Race, Educational Loans, and Bankruptcy”, 16 *Mich. J. Race & L.* 1, 11 (2010) (reporting bankruptcy data that suggests that “attaining a higher level of education does not appear to shield African Americans against financial ruin” and noting “the tension between two Federal policies with respect to educational attainment: educational lending policy that encourages Americans to take on debt to finance their educations and bankruptcy policy that makes discharge of educational debt practically impossible”); Teresa A. Sullivan, Elizabeth Warren, Jay Westbrook, *As We Forgive Our Debtors* 151-52, 158 (2001) (describing the disproportionate impact of debt on women). Bankruptcy filings that continue to show women and African Americans represented in disproportionate numbers confirm this reality. E.g., Paul Kiel and Hannah Fresques, “Data Analysis: Bankruptcy and Race in America”, *ProPublica* (Sept. 27, 2017), <https://projects.propublica.org/graphics/bankruptcy-dataanalysis> (noting that “[t]he higher filing rates among Black communities can be partly explained by greater financial stress on the population as a whole”).

ferent races and ethnicities pay off their student loans at different rates.”⁵² In addition to borrowing more at the outset, women take longer to pay off their loans than do men, which makes the sticker price for the education much higher.⁵³ African American and Hispanic women spend an even greater time in repayment relative to White and Asian women. Between 2009 and 2012, African American and Hispanic women paid 12 percent and 18 percent, respectively, while White women and Asian women paid 33 percent and 60 percent of their debt respectively.⁵⁴ Notwithstanding greater achievements in academic attainment by women and people of color,⁵⁵ higher education has not been able to break the cycle of gender and race-based income inequality,⁵⁶ which directly affects the viability of borrowing to begin with. More than that, it further entrenches the wealth gaps that run along both racial and gendered lines.

Indebtedness also has social consequences that undermine our national goals for increased equality. Indeed, indebtedness is an independently powerful social institution whose harm, particularly in marginalized communities, should be broadly considered. In that regard, policies that promote engagement in private markets in order to achieve welfare-related ends should meaningfully engage with the notion that economic market transactions are formed and calibrated within and by the broader social context in which they are formed.⁵⁷ In other words, the market is not an autonomous institution free from sexism, racism, ageism, and other social pathologies.

For example, ostensibly economic behavior, like taking out a private loan, is necessarily “embedded” within the broader social relationships and order in which it occurs, intertwined in ways that defy partitioned consideration.⁵⁸ Thus, where there is a preexisting social relationship, such as hierarchical, racialized, and gendered subordination, it is neither feasible nor proper to isolate the economic transactions between individuals engaged in the social relationship, including in social relations that are defined by subordination and hierarchy.⁵⁹ Consequently, a policy that encourages taking on debt as a means of social provision, including as a catalyst to greater equality, should consider how these market transactions are affected by specific social networks and relations, particularly to the extent that these relationships are intractably raced and gendered.⁶⁰ Moreover, credit/debt also engenders moral hierarchy that challenges the degree to which encouraging marginalized groups to become indebted to powerful private market entities, conventional though their products may be, can truly be a catalyst for increased relative socioeconomic equality.⁶¹

Because Credit/Debt Is Critical to Federal Social Provision Policies, Congress Should Not Delegate the Regulation of Credit/Debt to Private, Profit-Motivated Interests

Credit/debt as social provision policy for marginalized Americans is an example of how privatized welfare has become a meaningful “alternative form of redistribution,” even offered as a means of social and civil rights.⁶² Moreover, the reliance on private credit/debt to achieve general welfare-focused ends is an example of the how private intermediaries and actors are now, at least indirectly, significantly responsible for important socioeconomic ends like closing the racial wealth gap and

⁵² AAUW Report, *supra* note 39, at 27.

⁵³ *Id.* at 26-27.

⁵⁴ *Id.* at 27.

⁵⁵ See *id.* at 7-11.

⁵⁶ *Id.* at 28 (noting that “a college degree does not erase gender and race gaps in pay”).

⁵⁷ See, e.g., Mark Granovetter, “Economic Action and Social Structure: The Problem of Embeddedness”, 91 *Am. J. Socio.* 481, 487 (1985) (“Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they . . . occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations.”).

⁵⁸ See, e.g., Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* 74–76 (2001). Polanyi’s view counters the neoclassical economic view that market actors should be understood as purely self-interested and rational individuals for whom “social relations and their details” are merely “frictional matters.” Granovetter, *supra* note 57, at 484.

⁵⁹ For example, sociologist Viviana Zelizer has argued that we should explicitly understand the economic and social together, as “[w]e all use economic activity to create, maintain, and renegotiate important ties, especially intimate ties, to other people.” Viviana A. Zelizer, *Economic Lives: How Culture Shapes the Economy* 178 (2011).

⁶⁰ See Granovetter, *supra* note 57, at 485-86 (discussing leading sociological arguments for viewing economic actors as an extension of their social circumstance).

⁶¹ See Rachel E. Dwyer, “Credit, Debt, and Inequality”, 44 *Ann. Rev. Socio.* 237, 238 (2016) (“Creditor–debtor relationships are inherently unequal, and the prevalence and types of credit and debt holding in a society structures social inequality more broadly.”).

⁶² PRASAD, *supra* note 14, at 239.

promoting equality among all Americans. This reliance on private actors to implement Government policy must wrestle with the potential for private actors to diminish broader wellbeing by prioritizing their own narrow financial interests, implicit biases, or prior commitments.⁶³

For example, credit/debt as a source of public pension fund wealth accumulation, the phenomenon of public pension fund investment in private equity reveals how the retirement security of millions of American retirees lies in the hands of a relatively few financial intermediaries, who freely invest in credit/debt as a means of regressive wealth extraction. The “fund-first” focus that private equity funds embrace is not aligned with the broader public mission that public pension plans are supposed to reflect, nor is it consistent with a robust sense of accountability for the externalities that private equity investment in alternative assets, like marginalized debt, may impose.⁶⁴

Indeed, by essentially privatizing significant aspects of equality and social mobility through the promotion of credit/debt, social provision policy encourages the most vulnerable groups to invest in “self-help” social mobility and equality. This is true despite an imperfect socially constructed market, populated by private actors still informed in significant part by discrimination, raced and gendered hierarchy, and other social pathologies that predictably limit (if not overwhelm) the expected social and economic returns on that investment.⁶⁵ Consequently, in pushing marginalized groups in this direction, we have an obligation to address the consequences of readily predictable failure.

Finally, like other market-based forms of privatized social provision, credit/debt expediently cloaks the significant role of Government intervention by functioning through Government-subsidized private channels.⁶⁶ In this sense, it preserves the largely “obscured” twotrack, hierarchical arrangement in American social provision that has bifurcated social welfare along class lines.⁶⁷ It implicates the pervasive and perverse reputational divide between forms of Government subsidy in the welfare system that tend to favor hidden forms of Government subsidy, namely privatized social provision, over more patent forms such as public assistance.⁶⁸ By invoking the market, advocates of more privatized, individualized welfare measures, like credit, seek to reduce, at least nominally, the primacy of the Government in direct social provision.⁶⁹ For example, the mortgage interest tax deduction, an “extravagant” subsidy that rewards private homeowners, is less offensive to the American ethos of individualistic bootstrap-pulling than is a direct subsidy like housing credits for low-income Americans; yet a Government subsidy by any other name is still a Government subsidy.⁷⁰

⁶³ See, e.g., David H. Webber, “The Use and Abuse of Labor’s Capital”, 89 *N.Y.U. L. Rev.* 2106, 2144 (2014) (observing pension funds’ “fund first” fiduciary duty that permit a public pension fund to select investments that may “undermine participant employment” as long as those investments were “are of equal economic value to a plan”).

⁶⁴ Cf. Divya Kirti and Natasha Sarin, “What Private Equity Does Differently: Evidence From Life Insurance at 22” (SSRN, Jul. 6, 2020) (describing private equity’s incursion into insurance and their penchant for “direct[ing] premiums from their insurance subsidies toward risky alternative investments, like ownership stakes in other portfolio companies”); also Bryan Ayash and “Mahdi Rastad, Leveraged Buyout and Financial Distress” 4 (2019) (reporting that 20 percent of firms taken over by private equity file for bankruptcy relief as compared to 2 percent of control firms).

⁶⁵ See Christopher J. Lebron, *The Color of Our Shame: Race and Justice in Our Time* 46 (2013). In describing the persistence of social subordination along racial lines even in purportedly neutral economic transactions like the sale of a home, Lebron observes that, “the fundamental move necessary to undermine racial inequality in the deepest sense is to understand it as the problem of social value—the fact that Blacks do not occupy equal place in the scheme of normative attention and concern upon which our society depends in the first place to justify the distribution of benefits and burdens, as well as to identify those who are deserving or appropriate recipients.” *Id.* (emphasis in original).

⁶⁶ See Chloe N. Thurston, *At the Boundaries of Homeownership: Credit, Discrimination, and the American State* (2018).

⁶⁷ Karen M. Tani, *States of Dependency: Welfare, Rights, and American Governance, 1935–1972* (2016).

⁶⁸ See, e.g., Suzanne Mettler, *The Government-Citizen Disconnect* 6-7, 9-13 (2018); Derek Thompson, “Busting the Myth of ‘Welfare Makes People Lazy’”, *Atlantic*, (Mar. 8, 2018), https://www.theatlantic.com/business/archive/2018/03/welfare-childhood/555119/?utm_source=atlfb (“Welfare makes people lazy.” . . . [This notion] is an intellectual pillar of conservative economic theory, which recommends slashing programs like Medicaid and cash assistance, partly out of a fear that self-reliance atrophies in the face of Government assistance.”).

⁶⁹ See Thurston, *supra* note 66, at 221-22.

⁷⁰ See, e.g., Marie Gottschalk, *The Shadow Welfare State: Labor, Business, and the Politics of Health Care in the United States* 1-3 (2000).

Conclusion and Recommendations

In sum, credit/debt as social provision conscripts marginalized groups into the belief that borrowing money can consistently and meaningfully facilitate social wellbeing, including social mobility. It draws attention to the aspirational upside of the creditor/debtor relationship while obscuring the inherent economic and social risk engendered by the act of borrowing money.⁷¹ It places the burden and risk of solving for entrenched and intractable inequality entirely on marginalized borrowers, unreasonably requiring them to lift themselves out of socioeconomic distress.⁷² Moreover, credit/debt as social provision for marginalized groups also opens up a channel of regressive redistribution, providing a means to extract wealth from the most socioeconomically vulnerable communities. In this regard, it also commodifies the adverse conditions that predictably and consistently churn out individuals and communities who have very limited options and must borrow to survive and/or to become upwardly mobile.

Congress can ease these credit/debt-related burdens in any number of ways. For example, Congress should make the discharge of debt, including student loan debt more specifically, in bankruptcy much simpler to provide a backstop for those who find themselves in extreme financial distress.⁷³ Similarly, Congress should address the relative lack of transparency requirements imposed on private financial intermediaries in light of their significance to credit/debt social provision policy.⁷⁴ Lastly, in recognition that credit/debt and other privatemarket approaches to social welfare are limited by the persistence of racial and gender inequality, Congress should shore up other aspects of social provision that do not rely on a private entity's ability to make money from the very marginalization that Congress hopes to solve with the proffer of credit/debt as social provision.⁷⁵

Finally, any legislative policy that promotes credit/debt as a social good for marginalized groups must engage meaningfully with the consequences of indebtedness. If Congress continues to address problems of inequality and social mobility, like the wealth gap, through credit/debt, then its policy must account for the ways in which debt itself drives the very inequality that democratized borrowing is purportedly deployed to correct.⁷⁶

PREPARED STATEMENT OF DARRICK HAMILTON

FOUNDING DIRECTOR, INSTITUTE ON RACE AND POLITICAL ECONOMY, THE NEW SCHOOL

MARCH 4, 2021

Chairman Brown and esteemed Senators, thank you for having me here today. I am Darrick Hamilton, Henry Cohen Professor of Economics and Urban Policy and University Professor at The New School and Director of the Institute on Race and Political Economy.

Racism, sexism and other -isms are not simply irrational prejudices but long-leveraged strategic mechanisms for exploitation and extraction that have benefited some at the expense of others.

In a just world, race, gender, ethnicity, and nativity would have no transactional value in relation to material, psychological or security outcomes.

⁷¹ See, e.g., Mian and Sufi, *supra* note 41, at 17-24 (describing the economic consequences of debt on low-wealth households in the Great Recession).

⁷² See, e.g., Mehrsa Baradaran, "Jim Crow Credit", 9 *UC Irvine L. Rev.* 887, 943 (2019) 943 (observing that "the state has repeatedly placed the burden to close the wealth gap on the Black community itself").

⁷³ Katherine Porter, "The Damage of Debt", 69 *Wash. & Lee L. Rev.* 979, 984-985 (2012) (arguing that bankruptcy policy must be premised on study of both the economic and non-economic consequences of debt, particularly in marginalized communities).

⁷⁴ Jason Kelly, "Everything Is Private Equity Now", *Bloomberg Businessweek*, (Oct. 8, 2019), <https://www.bloomberg.com/news/features/2019-10-03/how-private-equity-works-and-took-over-everything>, (observing that "[o]ne of PE's superpowers is that it's hard for outsiders to see and understand the industry").

⁷⁵ E.g., Nathan Fiala, "The Problem Is Bigger Than Payday Loans", *Wash. Post: In Theory* (July 1, 2016), https://www.washingtonpost.com/news/in-theory/wp/2016/07/01/the-problem-is-bigger-than-paydayloans/?utm_term=.6c0d29bfa235 ("What the U.S. truly needs are policies that ensure that low-income people don't need payday loans to begin with.").

⁷⁶ E.g., Sarah L. Quinn, *American Bonds: How Credit Markets Shaped a Nation* 18 (2019) (observing that "credit continually carries forward the prejudices and inequalities of the past," and, as a consequence, "another way [to] think of the lightness of credit policy [is] as historically serving the interests of White Americans").

This global pandemic actively produces inequality, and the heaviest toll, (well beyond class), falls on vulnerable racial and gender identity groups.

The immoral devaluation of Black lives has been ingrained in America's political economy and is long overdue for a reckoning. It has long been true that Black families have been denied universal and quality health care, housing, schooling, financial services, capital, and free mobility. Instead, they have faced of expropriation, theft, detention and bodily harm at the hands of state, simply because their social identities are linked to a vulnerable and stigmatized group.

Many Americans, and Black and Brown families in particular, have low wealth, inadequate health care, and work in precarious but "essential" jobs that have fewer workplace protections, lower wages, and benefits.

The biggest pre-existing condition of this pandemic is wealth.

Wealthier families are better positioned to finance elite educations, access capital to start a business, finance expensive medical procedures, reside in higher amenity neighborhoods, exert political influence; purchase better counsel if confronted by the legal system, leave a bequest, and withstand financial hardship resulting from any emergency, including a global pandemic!

It is critical to note is that it was never the case that a White asset-based middle class simply emerged. Rather, it was Government policy, and to a large extent, literal Government giveaways, that provided Whites with the finance, education, land, and infrastructure to accumulate and pass down wealth.

Our unjust racial wealth gap is itself an implicit measure of our racist past that is rooted in a history in which Whites have been the beneficiaries of Government-facilitated political and economic interventions that have afforded them access to resources and intergenerational accumulation.

This is in contrast to a history in which for Blacks (and Indigenous people), personhood and whatever capital and resources they may have obtained, have always been vulnerable to Government-connivance exploitation, confiscation, destruction, terror, fraud, theft and other acts of violence.

The history of disenfranchisement of Black Americans from full economic participation is well documented. Policies like redlining, highway construction, predatory contract-to-own house leasing, and exclusionary zoning have all worked in tandem with restrictive covenants and regulatory controls to marginalize Black Americans and constrain their economic participation and political power.

We use words like "choice" and "freedom" to describe the benefits of the "market," but choice is an illusion for individuals who lack basic needs like a job, adequate income, shelter, food, or health care.

It is literally wealth that gives us choice, freedom and optionality.

Economic freedom and authentic agency is rooted in resources. We are not atomistic agents floating in unfettered markets guided by our "free will," into a "fair" and "efficient" allocation.

Today, wrongly, discussions of racial wealth gap are often focused on the so-called poor financial choices and decision-making on the part of largely Black, Latinx and poor borrowers. This framing is tied to the "a culture of poverty thesis" in which Blacks are presumed to have undervalue education and to choose to acquire less education than Whites.

This framing is wrong—the directional emphasis is wrong—it is more likely that meager economic circumstance—not poor decision making or deficient knowledge—constrains choice itself and leaves poor borrowers with little to no financial options, but to attain and use predatory and abusive financial services.

We need a profound change towards a more sustainable and moral economy with Government interventions to facilitate assets ownership, economic security, civic engagement, human dignity, and social mobility for all our people regardless of their race, class, gender, sexual identity or immigrant status.

Incrementalism and changes on the margin won't cut it.

We need an industrial, banking and trade policy that centers workers (both domestically and abroad), coupled with an explicitly anti-racist and anti-sexist economic rights frame, to promote a moral economy grounded in our shared prosperity.

There is nothing new or radical about this concept of economic rights. President Franklin Delano Roosevelt called for "physical security, economic security, social security, and moral security."

He knew that full citizenship demanded more than the political rights: it required economic rights.

The concept of economic rights also has deep roots in our civil rights history.

Reverend Dr. King, a leader of the Poor People's Campaign focused on five tenants of economic rights:

The right to:

- A meaningful job at a living wage
- A secure and adequate income for all
- Access to land
- Access to capital
- And to be able to play a truly significant role in our Government (or civic engagement)

Let's discuss financial services.

In their 2015 book, *Phishing for Phools* (2015), Nobel Laureate economists George Akerlof and Robert Shiller critique the "greater good" presumption by describing how the profit motive creates incentives, especially in the financial services industry, for sellers to manipulate consumers to purchase products whether or not they are useful to the consumer.

To address this moral hazard, which in a downturn of a business-cycle puts our economy at risk of financial collapse, Akerlof and Schiller recommend enhanced consumer knowledge and greater regulation.

We should go further: the public sector should be a direct provider of basic banking accounts and financial services more broadly.

The sad irony is that those that can least afford finance end up paying the most for finance.

Households with few assets and low incomes are compelled to turn to high-cost, unconventional alternative financial products. They generally are aware that these products are predatory, but they have no alternatives.

These "last resort," debt traps render recipients "indentured borrowers," having to pay higher and higher interest and fees until, ultimately, they default on the original principle.

Congress needs to provide "public options" that directly compete with and crowd-out inferior "private options."

We need to reject the empirically unsubstantiated rhetoric that ignorance, so-called grit, and personal responsibility are the sources of inequality. And we need to reject the accompanying "neoliberal paternalism" in which Government attempts to coerce or incentivizes insinuated "defective people" to behave accordingly and make better decision.

Let's change the paradigm, be bold, and advocate for programs and initiatives that truly empower people with economic security, dignity, and "authentic" agency to define and achieve their goals.

Inequality is not rooted in deficient people, but rather deficient resource allocation.

Thank you for your time today.

PREPARED STATEMENT OF GLENN LOURY

MERTON P. STOLTZ PROFESSOR OF SOCIAL SCIENCES, BROWN UNIVERSITY

MARCH 4, 2021

I appreciate the opportunity to address this crucially important subject matter before this august assemblage. In these remarks I will speak to the fact of African American economic subordination, and its implications for the nature of American democracy. I draw on my many years of study as economist and public intellectual to briefly make two observations—about the dynamics of human development, and about the foundations of racial identity. I conclude with some reservations about the program of pursuing "racial equity" in a multi-racial, multi-ethnic society. (Here I take "equity" to mean not just equal opportunity for all, but equal results as between designated racial groups.)

Why, I ask—the success of the civil-rights movement notwithstanding—has the unequal economic status of Black Americans persisted into the 21st century? Clear thinking about this intractable problem requires one to distinguish the role played by discrimination against Blacks—past and present—from the role of behavior patterns to be found among some Blacks. This, I admit, puts what is a very sensitive issue rather starkly. Many vocal advocates for racial equality refuse even to consider the possibility that behavior could be an important factor contributing to our persisting disadvantaged status. At the same time, some critics—mostly on the right of American politics—insist that racial discrimination is not an important determinant of these unequal social outcomes. I will chart a middle course—acknowledging that anti-Black biases have existed, still exist to some degree, and should be remedied; but insisting on the imperative of identifying and reversing those be-

havior patterns that prevent some of our people from seizing newly opened opportunities.

These two positions can be recast as causal narratives. Under the “bias narrative,” one argues that the root cause of persisting disparity is racism and White supremacy; we cannot get ahead until they relent. So, since discrimination is the cause of racial inequality, we must continue to urge reform of American society toward that end. This, I hold, is necessary but not sufficient. Under the “development narrative,” by contrast, one emphasizes the need to consider how people acquire the skills, traits, habits, and orientations that foster an individual’s successful participation in American society. If Black youngsters do not have the experiences, are not exposed to the influences, and do not benefit from the resources that foster and facilitate their human development—to that extent, they may fail to achieve their full potential. On this view, it is a lack of development that ultimately causes the stark racial disparities in income, wealth, education, family structure, and much else.

These two narratives—bias versus development—need not be mutually exclusive, of course. What is clear, however, is that, in terms of prescribing intervention and remedy, they point in very different directions. The bias narrative urges us to demand an end to racism and to undertake resource transfers to and from people, based on their racial identities, aimed at reducing wealth and income gaps. By contrast, the development narrative puts more onus on the responsibilities of African Americans to act in ways that realize our full human potential.

So, what are my two observations? Over four decades ago, in my doctoral dissertation at M.I.T., I had the good fortune to coin the term “social capital.”¹ I did so by way of contrasting my concept, “social capital,” with what economists called “human capital.” Human capital theory imports into the study of human inequality an intellectual framework which had been developed primarily to explain the investment decisions by firms—a framework that focuses on the analysis of formal economic transactions. In my thesis I argued that this framework was inadequate to the problem of accounting for racial economic disparities. Allow me to explain.

My fundamental point was that associating business with human investments is merely an analogy, not an identity—particularly if one seeks to explain persistent racial disparities. Business investments are transactional. Human investments are essentially relational. So, important things are overlooked in the human capital approach, things having to do with informal social relations. My view was, and is, that the conventional economic theory is incomplete when it comes to explaining racial disparities. There were two central aspects of this incompleteness. Thus, my two observations about the dynamics of human development and the nature of racial identity.

Observation #1

First, I stressed that all human development is socially situated and mediated. That is, I argued that the development of human beings occurs inside of social institutions. It takes place as between people, by way of human interactions. The family, community, school, peer group—these cultural institutions of human association are where development is achieved. Resources essential to human development—the attention that a parent gives to her child for instance—are not alienable. Developmental resources, for the most part, are not “commodities.” The development of human beings is not up for sale. Rather, structured connections between individuals create the context within which developmental resources come to be allocated to individual persons. Opportunity travels along the synapses of these social networks. People are not machines. Their “productivities”—that is to say, the behavioral and cognitive capacities bearing on their social and economic functioning—are not merely the result of a mechanical infusion of material resources. Rather, these capacities are the byproducts of social processes mediated by networks of human affiliation and connectivity. This was fundamentally important, I thought and still think, for understanding persistent racial disparities in America. That was the first point I wanted to make, all those years ago, about the incompleteness of human capital theory.

Observation #2

My second observation was that what we are calling “race” in America is mainly a social, and only indirectly a biological, phenomenon. The persistence across generations of racial differentiation between large groups of people, in an open society where individuals live in close proximity to one another, provides irrefutable indirect evidence of a profound separation between the racially defined networks of so-

¹“Essays in the Theory of the Distribution of Income”, Ph.D. Thesis, Department of Economics, Massachusetts Institute of Technology, 1976

cial affiliation within that society. Put directly: there would be no “races” in the steady state of any dynamic social system unless, on a daily basis and in regard to their most intimate affairs, people paid assiduous attention to the boundaries separating themselves from racially distinct others.

Over time “race” would cease to exist unless people chose to act in a manner so as biologically to reproduce the variety of phenotypic expression that constitutes the substance of racial distinction.

I cannot overemphasize this point. We speak casually about “racial equality” and “racial justice.” Yet, “race” is not something simply given in nature. Rather, it is socially produced; it is an equilibrium outcome; it is something we are making; it is endogenous. It follows that, if the goal is to understand the roots of durable racial inequalities, we will need to attend in some detail to the processes that cause “race” to persist as a fact in the society under study, because such processes almost certainly will not be unrelated to the allocation of developmental resources in that society.

Here, then, is my second observation, in a nutshell: The creation and reproduction of racial inequality as a social reality in any society rests on cultural conceptions about identity that are embraced by people—Blacks and Whites alike—in that society. These are the convictions people affirm about who they are and about the legitimacy of conducting intimate relations with racially distinct others. (Here I do not only mean sexual relations.) That is, racial inequality is inescapably a cultural phenomenon. It implicates not only the transfer of resources, but more fundamentally, the decisions we make daily about with whom to associate and identify. The contrast I drew between human and social capital all those years ago was rooted in my conviction that beliefs of this kind ultimately determine the access that people enjoy to the informal resources required to develop their human potential. What I called “social capital” when I coined that term in 1976 is, on this view, a critical prerequisite for creating what economists refer to as “human capital.” And such human capital—skills, education, work experience and social aptitudes—is a key determinant of an individual’s earnings power and capacity to generate and accumulate wealth. This point is crucial, I believe, if we are to understand the persistence of racial inequality in America.

The basic fact is that Whites have more wealth than Blacks, however you measure. Now, partly that’s a consequence of history and partly that’s a consequence of ongoing dynamics. People inherit wealth from their forebears, from their parents, and so on. So, part of that is a reflection of the past, but part of it is also a reflection of what’s going on in terms of the creation of wealth. Wealth does not simply fall from the sky. Rather, it must be created. Many people will have created the wealth that they possess through years of effort and entrepreneurship and so on.

Moreover, I would question whether narrowing the racial wealth gap is the right objective for public policy. The issues of low wealth holdings that should concern us, I think, are largely issues that transcend the racial categorization. I would be thinking about people who lack wealth, not about people who are Black with low wealth holdings. And, to the extent that I thought wealth inequality to be a problem, I would address that problem across the board and not frame it in racial terms.

There’s looking backwards and there’s looking forwards. I am, of course, aware of the history of racial discrimination in this country. That history is implicated, of course, in the gaps we observe today. So, we can look backward as many have done and attempt to calculate and calibrate what were the impact of redlining, of Jim Crow segregation, of slavery, of the failure to distribute 40 acres and a mule to the freedmen and so on, and we could try to do an estimate of what would wealth be but for that historical thing.

But the other thing is looking forward. Wealth is a stock. Income is a flow. So, the stock evolves over time under influence from the flow. We can shift wealth around at a point in time. But we may not change the steady-state wealth holdings if we don’t deal with the flow. So, that’s why I want to say the creation of wealth deserves to be a part of this conversation. Because, thinking simplistically, but I think the arithmetic works out, if I don’t change the flows, I’m going to end up back in the same situation after a while, no matter what I do. That is, unless we address ourselves to enhancing the capacity of all of our people to create wealth, to develop their productive capacities and to acquire skills, we will not be addressing the root causes of the inequalities we can see all around us.

The first unspeakable truth: Downplaying behavioral disparities by race is actually a “bluff”

Socially mediated behavioral issues lie at the root of today’s racial inequality problem. They are real and must be faced squarely if we are to grasp why racial disparities persist. This is a painful necessity. Activists on the Left of American poli-

tics claim that “White supremacy,” “implicit bias,” and old-fashioned “anti-Black racism” are sufficient to account for Black disadvantage. But this is a bluff that relies on “cancel culture” to be sustained. Those making such arguments are, in effect, daring you to disagree with them. They are threatening to “cancel” you if you do not accept their account: You must be a “racist”; you must believe something is intrinsically wrong with Black people if you do not attribute pathological behavior among them to systemic injustice. You must think Blacks are inferior, for how else could one explain the disparities? “Blaming the victim” is the offense they will convict you of, if you’re lucky.

I claim this is a dare; a debater’s trick. Because, at the end of the day, what are those folks saying when they declare that “mass incarceration” is “racism”—that the high number of Blacks in jails is, self-evidently, a sign of racial antipathy? To respond, “No. It’s mainly a sign of anti-social behavior by criminals who happen to be Black,” one risks being dismissed as a moral reprobate. This is so, even if the speaker is Black. Just ask Justice Clarence Thomas. Nobody wants to be cancelled.

But we should all want to stay in touch with reality. Common sense and much evidence suggest that, on the whole, people are not being arrested, convicted, and sentenced because of their race. Those in prison are, in the main, those who have broken the law—who have hurt others, or stolen things, or otherwise violated the basic behavioral norms which make civil society possible. Seeing prisons as a racist conspiracy to confine Black people is an absurd proposition. No serious person could believe it. Not really. Indeed, it is self-evident that those taking lives on the streets of St. Louis, Baltimore, Philadelphia, and Chicago are, to a man, behaving despicably. Moreover, those bearing the cost of such pathology, almost exclusively, are other blacks. An ideology that ascribes this violent behavior to racism is laughable. Of course, this is an unspeakable truth—but no writer or social critic, of whatever race, should be cancelled for saying so.

Or, consider the educational achievement gap. Anti-racism advocates, in effect, are daring you to notice that some groups send their children to elite colleges and universities in outsized numbers compared to other groups due to the fact that their academic preparation is magnitudes higher and better and finer. They are daring you to declare such excellence to be an admirable achievement. One isn’t born knowing these things. One acquires such intellectual mastery through effort. Why are some youngsters acquiring these skills and others not? That is a very deep and interesting question, one which I am quite prepared to entertain. But the simple retort, “racism”, is laughable—as if such disparities have nothing to do with behavior, with cultural patterns, with what peer groups value, with how people spend their time, with what they identify as being critical to their own self-respect. Anyone actually believing such nonsense is a fool, I maintain.

Asians are said, sardonically, according to the politically correct script, to be a “model minority.” Well, as a matter of fact, a pretty compelling case can be made that “culture” is critical to their success. Read Jennifer Lee and Min Zhou’s book, *The Asian American Achievement Paradox*. They have interviewed Asian families in Southern California, trying to learn how these kids get into Dartmouth and Columbia and Cornell with such high rates. They find that these families exhibit cultural patterns, embrace values, adopt practices, engage in behavior, and follow disciplines that orient them in such a way as to facilitate the achievements of their children. It defies common sense, as well as the evidence, to assert that they do not or, conversely, to assert that the paucity of African Americans performing near the top of the intellectual spectrum—I am talking here about academic excellence, and about the low relative numbers of Blacks who exhibit it—has nothing to do with the behavior of black people; that this outcome is due to institutional forces alone. That, quite frankly, is an absurdity. No serious person could believe it.

Nor does anybody actually believe that 70 percent of African American babies being born to a woman without a husband is (1) a good thing or (2) due to anti-Black racism. People say this, but they don’t believe it. They are bluffing—daring you to observe that the 21st-century failures of African Americans to take full advantage of the opportunities created by the 20th century’s revolution of civil rights are palpable and damning. These failures are being denied at every turn, and these denials are sustained by a threat to “cancel” dissenters for being “racists.” This position is simply not tenable. The end of Jim Crow segregation and the advent of the era of equal rights was transformative for Blacks. And now—a half-century down the line—we still have these disparities. This is a shameful blight on our society, I agree. But the plain fact of the matter is that some considerable responsibility for this sorry state of affairs lies with Black people ourselves. Dare we Americans acknowledge this?

Leftist critics tout the racial wealth gap. They act as if pointing to the absence of wealth in the African American community is, ipso facto, an indictment of the

system—even as Black Caribbean and African immigrants are starting businesses, penetrating the professions, presenting themselves at Ivy League institutions in outsize numbers, and so forth. In doing so, they behave like other immigrant groups in our Nation's past. Yes, they are immigrants, not natives. And yes, immigration can be positively selective. I acknowledge that. Still, something is dreadfully wrong when adverse patterns of behavior readily visible in the native-born Black American population go without being adequately discussed—to the point that anybody daring to mention them risks being cancelled as a racist. This bluff can't be sustained indefinitely. Despite the outcome of the recent election, I believe we are already beginning to see the collapse of this house of cards.

A second unspeakable truth: "Structural racism" isn't an explanation, it's an empty category

The invocation of "structural racism" in political argument is both a bluff and a bludgeon. It is a bluff in the sense that it offers an "explanation" that is not an explanation at all and, in effect, dares the listener to come back. So, for example, if someone says, "There are too many Blacks in prison in the US and that's due to structural racism," what you're being dared to say is, "No. Blacks are so many among criminals, and that's why there are so many in prison. It's their fault, not the system's fault." And it is a bludgeon in the sense that use of the phrase is mainly a rhetorical move. Users don't even pretend to offer evidence-based arguments beyond citing the fact of the racial disparity itself. The "structural racism" argument seldom goes into cause and effect. Rather, it asserts shadowy causes that are never fully specified, let alone demonstrated. We are all just supposed to know that it's the fault of something called "structural racism," abetted by an environment of "White privilege," furthered by an ideology of "White supremacy" that purportedly characterizes our society. It explains everything. Confronted with any racial disparity, the cause is, "structural racism."

History, I would argue, is rather more complicated than such "just so" stories would suggest. These racial disparities have multiple interwoven and interacting causes, from culture to politics to economics, to historical accident to environmental influence and, yes, also to the nefarious doings of particular actors who may or may not be "racists," as well as systems of law and policy that disadvantage some groups without having been so intended. I want to know what they are talking about when they say "structural racism." In effect, use of the term expresses a disposition. It calls me to solidarity. It asks for my fealty, for my affirmation of a system of belief. It's a very mischievous way of talking, especially in a university, although I can certainly understand why it might work well on Twitter.

Historically oppressed groups, time and again, have evolved notions of identity that cut against the grain of their society's mainstream. A culture can develop among them that inhibits talented youngsters from taking the actions needed to develop that talent. Now, given such a situation, I wish to ask: Do kids in a racially segregated dysfunctional peer group simply have the wrong utility functions? It is a mistake to attribute the dysfunctional behavior of an historically oppressed group of people to their simply having the wrong preferences when those their "preferences" have emerged from a set of historical experiences that reflect the larger society's social structures and activities. Another way of saying this is that when thinking about group disparities social relations come before economic transactions. When ethnic communities and their local cultures are not integrated across boundaries of race in a society—then racial inequalities can persist. The persistence of racial disparities derives not simply from discrimination, but more fundamentally from the complex, morally ambiguous and difficult-to-regulate phenomena that embody and reflect what people see as the meanings giving significance to their lives, and from the structure of the social connectivity to which those meanings give rise.

All of this leads me to an important conclusion: How a diverse society answers the question, "Who are WE?" is a fundamentally significant issue. It is certainly an important question in the United States today. Who are WE? Whose country is it? When we talk about crime, violence, school failure, urban decay, etc., are these matters, in the back of our minds, that we understand as US against THEM? Because if it is US against THEM, anything is possible. It becomes possible to say about those people languishing in the ghettos of our great cities: "That's not my country. That's some third world thing." (This was actually said during the flood of New Orleans after Hurricane Katrina in 2005. But it's a lie. Black people in New Orleans had been there for 250 years. They were not aliens. They were and are as American as you can get, as American as anybody can be. That was US down there crawling up on the rooftops. That was US huddled in the Superdome. That was US.) My point is that these problems are a quintessentially American affair, not simply a measure of the inadequacy of "Black culture." They reflect upon OUR social inad-

equacy, I wish to argue. And I buttress that argument by observing the incompleteness of human capital theory, by insisting that human developmental processes are socially contextualized, and by stressing the foundational role “race” plays in all of this. This is what I mean when I, being an economist, nevertheless insist on placing relations before transactions!

Consider the poor central-city dwellers who make up a quarter or so of the Black American population. Dysfunctional behaviors of many in this population is certainly part of the problem here. Conservatives’ demand for greater personal responsibility in these quarters is, in my view, both necessary and proper. And yet, confronted with the despair, violence, and self-destructive folly of so many people, it is morally and intellectually superficial in the extreme to argue, as many have done, that “those people should just get their acts together like many of the poor immigrants. If they did we would not have such a horrific problem in our cities.” To the contrary, any morally astute response to the “social pathology” of American history’s losers should conclude that, while we cannot change our ignoble past, we need not and must not be indifferent to contemporary suffering issuing directly from that past. THEIR culture may be implicated in their difficulties, but then so too is OUR culture complicit in their troubles: We bear collective responsibility for the form and texture of our social relations.

Thus, while we can’t ignore the behavioral problems of this so-called underclass we should discuss and react to them as if we were talking about our own children, neighbors, and friends, which is to say: This persisting Black disadvantage is an American tragedy. It is a national, not merely a communal disgrace. Changing the definition of the American “we” is a first step toward fixing the racial inequality problem that afflicts our society. That requires seeing ourselves as all being in the same boat, sharing a common citizenship and a common humanity. It means fashioning American solutions to American problems—not partitioning ourselves into rival racial populations among whom must be brokered some kind of quid pro quo. This requires adjusting ways of thinking on all sides of the racial divide. Ultimately, we need to get beyond race and, as Dr. King prophetically envisioned, to ground civic discourse in an unwavering commitment to trans-racial humanism. That sounds like a pipedream in today’s hyper-racially charged environment. But I actually believe it is the only way forward. Achieving a society where all individuals regardless of race are thought of as being among US, should be the goal. If inequality is a problem, then let us address it forthrightly. But we should do so on behalf of a program of human decency, not one of racial equity.

There is a fatal contradiction at the heart of the argument for group equality of social outcomes. In my considered opinion we ought not to expect this as an outcome, and we ought not to make achieving it our goal. Equality of opportunity, not equality of results, is the only defensible public policy goal in my view. The dogged pursuit of equal results between racial groups across all venues of human endeavor is a formula for tyranny and yet more racism. Here is why.

Identitarian arguments for group equality posit that we have different groups—Jews, South Asians, East Asians, Blacks, Latinos, etc.—and that these groups have identities which deserve to be acknowledged and respected. When someone tells me, “I identify as a member of group X,” I am given to understand that this is a part of their personhood which warrants to be respected and given credence. So, groups are fundamental building blocks of society in this identity-focused view of the world. It is not a matter of indifference. We are in these various boxes. Groups matter. A group’s culture and heritage matter to its members—the music they listen to, the food they eat, the literature they read, the stories they tell their children—all these things for the identitarians are important and they all vary across groups.

On the other hand, group-egalitarians presuppose that—absent injustice—there would be equality of groups across every human enterprise. But how can that be? Because if groups matter, some people are going to bounce a basketball 100,000 times a month and other people are going to bounce it 10,000 times a month. Some people are going to be drawn to books as a way of experiencing human culture and other people are going to be more verbal or more spontaneous or whatever it might be. There are differences between groups. Groups matter after all. They’re not all the same. They don’t do the same things, they don’t believe the same things, they don’t think the same things, they don’t spend their time in the same ways. So now I have population groups that have their own integrity, expressing themselves in how they live their lives, how they raise their children, how they spend their time. This will inevitably result in different representations of the groups’ members across various human activities. The various groups’ members will not all be involved in academic pursuits, in the business world, in the professions, or in sports and entertainment to the same extent. They will not all have the same occupational or professional profiles.

Now I look out at society and I see a difference between groups in the proportion who are members of the National Academy of Sciences, who are tenured faculty members, who are tech entrepreneurs or hedge fund managers or traders on the floor of the stock exchange. I see differences in the proportion who are getting PhDs in English literature, who are small shopkeepers, single parents, or petty criminals, etc. Groups mattered after all for the identitarians. This groupness reflects itself to some degree in how people choose to live their lives. And yet, the egalitarians insist that the society is unfair unless it yields an equal proportionate representation of these groups in every human enterprise? That is simply a logical contradiction. Acting in a determined way on that contradiction can only lead to tyranny, to disappointment and to more racism.

For, if we try to flatten the cultural and behavioral distinctions that are the substance of groupness—if we put everybody into one social milieu, override parental autonomy and socialize the raising of our kids—we might be able to flatten the social terrain enough to achieve equality. But this would be tyrannical. It would extinguish our autonomy as individual human beings to associate with each other, to believe and to live as we please. And should such a draconian policy fail to produce group equality—as seems more likely—we would end-up with the question: How come there are so many Jews (or Asians, or “Whites” or whatever) in medical school, with PhDs in electrical engineering, in the top 1 percent of the income distribution? That is ultimately where identity-based group egalitarianism leads. There will be no end to the quest for group equality if, indeed, group identities are meaningful and persist. The presumption of group equality in the face of group distinctions of social organization and culture leads either to the tyrannical imposition of uniform standards in an attempt to tamp down the authentic expression of groupness, or to finger-pointing and suspicion every time some group of people moves ahead of or falls behind the pack in this or that arena of achievement. A treacherous presumption will haunt society: that any group disparity must reflect some intrinsic unfairness that is built into the system. That is a formula for perpetual conflict, not for “social justice”. And it is a temptation which should be resisted.

Thank you.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA
FROM ABBYE ATKINSON**

Q.1. Your testimony speaks to the importance of a strong social safety net as an alternative to help ease marginalized communities' reliance on credit/debt to attain economic mobility. Many anti-poverty advocates believe that a "housing first" approach is the best and most sustainable first step to reduce poverty and improve economic mobility.

Do you share this view? If not, what aspect of the safety net do you believe is the best starting point?

A.1. Housing is a basic human need that, if unmet, generates and perpetuates a host of other challenges, including entrenched financial insecurity. Consequently, I do believe that a strong social safety net should prioritize secure and stable housing for the poor (as it should for all Americans). In other words, housing is a good place to start when seeking to reduce poverty and to encourage social mobility. For example, a recent study shows that "low-income workers who were involuntarily removed from their homes—by eviction, landlord foreclosure, or housing condemnation—subsequently experienced an involuntary dismissal from their jobs."¹ Thus, by focusing on housing, social safety net programs would promote stable employment and social mobility.

Q.2. Your testimony states that systems of credit/debt are inherently regressive because the poorest Americans end up paying the most in interest and tend to take the longest to repay debt burdens. The U.S. method of calculating credit scores is unique because Americans are generally required to prove their creditworthiness to access credit, unless they have someone else with financial means and credit cosign their application. In many other countries, the burden is reversed, and people are presumed to be creditworthy until their actions demonstrate otherwise. In theory, the U.S. adopting such an approach could help Americans access better loan products at lower interest rates. Do you believe alternative methodologies of credit scoring could help, in whole or in part, address some of the concerns around who pays the most in interest?

A.2. Access to credit alone, whether through relaxed credit scoring or other means, is not a meaningful solution for the poorest Americans. The poorest Americans often use credit as a means to smooth income. Yet, credit is a tool that is useful for those who can expect to have some means of repaying the debt they owe in the future. Given the persistent economic fragility that the working poor experience, for example, offering credit (even by means of an alternative, more favorable credit scoring methodology) is not a reasonable means to address persistent and entrenched poverty. Instead, public resources would be better spent strengthening other aspects of the social safety net, including housing initiatives and direct public assistance.

¹Matthew Desmond and Carl Gershenson, *Housing and Employment Insecurity Among the Working Poor*, 63 *Soc. Probs.* 46, 46-47 (2016).

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK
FROM ABBYE ATKINSON**

Q.1. Professor Atkinson, You write in your testimony that “Congress should address the relative lack of transparency requirements imposed on private financial intermediaries in light of their significance to credit/debt social provision policy.” Can you expand on this point by speaking to what some steps in this direction by Congress could look like?

A.1. One important step Congress could take would be to increase transparency requirements for private equity funds given their significant incursion into the consumer lending sector and their capacity as de facto stewards of American retirement security. On behalf of their institutional investors, including various pension funds, private equity funds invest significantly in various aspects of consumer lending, including in subprime consumer lending like small dollar installment loans. Currently, however, private equity firms are accorded significant latitude, escaping several mandated disclosures that have been an important feature of American securities law since the Great Depression. For example, Rule 506 of Regulation D (of Section 4(a)(2) of the Securities Act of 1933) presently permits private equity firms to sell shares in their funds to as many “accredited investors” as they’d like, without meaningful SEC oversight. Given their practical significance in the solvency of an important pillar of American social welfare and their significant incursion into consumer credit markets, private equity firms should be subject to greater regulation of their internal processes.

In that regard, several members of Congress have already proposed such increased oversight in the Stop Wall Street Looting Act of 2019. Proposed by Senators Warren, Baldwin, and Brown, and Representatives Pocan and Jayapal, this legislation was referred to the Senate Committee on Finance on July 17, 2019.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

**BUILDING AN EQUITABLE RECOVERY: THE ROLE OF RACE, LABOR
MARKETS, AND EDUCATION**

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EXECUTIVE SUMMARY

The present economic downturn is unique among modern recessions. In response to the emergence of COVID-19, policymakers shut down large portions of the economy, leading to layoffs and cascading economic problems in order to save lives. Health concerns also led individuals to significant shifts in economic behavior. This report explains how this recession is different from past recessions — and how it is similar.

In at least one respect, the current calamity falls well within the trends of American history: it is plagued by racial inequity. In most recessions, unemployment increases most among Black people, followed by Latinx people.¹ In this recession, mortality and morbidity have increased in a similar fashion. Indeed, in most recessions, the primary risk facing workers is unemployment; in this crisis, workers may also face potential exposure to COVID-19. This report examines how Black and Latinx workers are unequally distributed in various job categories, compared to White workers, and shows that differences in educational attainment fail to explain the disparities.

This finding has important implications. Firstly, it implies that increasing the educational attainment of Black and Latinx workers is insufficient to eliminate racial disparities. To demonstrate this, we look at past recessions. We find that disparities between Black and White Americans persist even when comparing persons at the high end of the skills distribution — those with a college degree. We find that across groups during recessions, Black workers with a college degree are actually most harmed relative to similarly qualified White workers. Education is no protection against racial inequity, especially during economic downturns.

We conclude with twelve recommended actions that would promote a more equitable recovery from the COVID-induced collapse:

- › Invest in ending the pandemic
- › Expand the social safety net
- › Provide massive additional federal aid to state and local governments
- › Expand public sector employment
- › Restore labor power and stop low-road employment practices
- › Reduce intergenerational wealth inequality
- › End inequitable tax policies
- › Harness the education system to empower public problem-solving
- › Break the connection between local property taxes and school funding
- › Restore state-level and federal support for higher education
- › Measure how policies impact racial equity
- › Support Black, Latinx, and Indigenous organizations, leaders, and researchers

¹ Data limitations constrain full analysis of the conditions of Indigenous and Asian people in this report.

BACKGROUND

Understanding the 2020 Pandemic Recession

The collapse of the U.S. economy in 2020 is unlike previous recessions in at least four respects.

> Cause

This economic collapse was a deliberate policy choice, informed by the public health imperative to slow the spread of the virus. Previous recessions since World War II have generally resulted from a determination by the Federal Reserve that inflation was out of control (the cause of several recessions up to and including the one in 1981-82) or from the collapse of an asset price bubble (such as the tech bubble in 2001 and the housing bubble in 2007).

> Rapidity of Onset

In just one month—from March to April of 2020—more jobs disappeared from the nation's payrolls than were lost over the entirety of the Great Recession by a factor of nearly two-and-a-half.²

> Distribution of Employment Losses Across Industries

In an ordinary recession, “cyclically sensitive” industries like manufacturing and construction are hardest hit. In this economic collapse, as shown in *Figure 1* (on the following page), employment losses in service industries such as accommodation (hotels and motels) and food services and drinking places (restaurants and bars) were—at their worst—three to four times proportionately more severe than the losses in manufacturing and construction. Perhaps even more surprising, employment dropped sharply for some types of healthcare workers (for

example, those who worked in the offices of physicians or dentists).

> Gender

Women suffered a larger two-month increase in unemployment (12.8 percentage points from February to April 2020) than did men (9.9 percentage points from February to April 2020), likely because women are overrepresented in service-sector jobs. In a “normal” recession, men suffer a larger increase in unemployment because they are overrepresented in manufacturing and construction.³

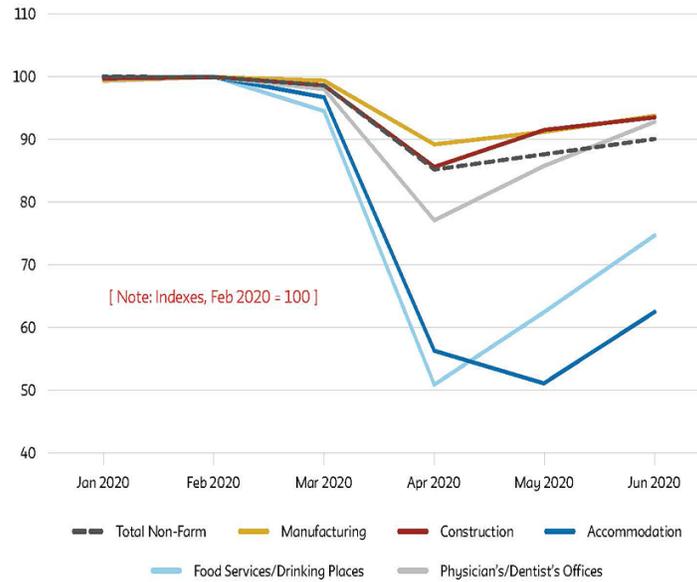
The collapse of the U.S. economy in 2020 is unlike previous recessions in at least four respects: Cause, Rapidity of Onset, Distribution of Employment Losses Across Industries, and Gender.

This economic collapse is also unlike the economic experience of common natural disasters. A tornado, earthquake, or hurricane may create temporary devastation, but even the worst of those events affects only a geographically limited area and lasts for only a few days at most, after which cleanup and repair can begin, and the rest of the nation

² According to the Bureau of Labor Statistics, employment declined by 8.7 million between August 2008 and February 2010. By contrast, the decline from March to April 2020 was 20.7 million. Similarly, in the two months from February to April, the officially recorded unemployment rate moved from its lowest level in 50 years to its highest level since measurement on the modern basis began in 1948. And there is widespread agreement—including from the government agency that generates the data—that the officially recorded unemployment rate understates the severity of ground truth due to what has been termed a “misclassification error.” Data accessed from <https://fred.stlouisfed.org/> on June 28, 2020.

³ As of this writing, the gender-related inversion of unemployment relative to usual experience has narrowed but has not disappeared.

Figure 1: Employment by Industry



Source: Bureau of Labor Statistics, by way of <https://fred.stlouisfed.org>

(in some cases, the rest of the world) can come to the aid of the affected region. In contrast, the COVID-19 shock hit essentially every economy worldwide simultaneously—leaving no country well-situated to pull the rest of the world toward recovery—and has already lasted more than three-quarters of a year.⁴

The influenza pandemic of 1918-19 might seem a closer analogy, but in that episode, the public health response was even more haphazard than in the current one. A century ago, there was no notion of playing for time until a vaccine or effective treatment could be developed and no coordinated national shutdown. As a practical matter, the only available strategy was to endure until a sufficiently large portion of the population had been exposed to the disease and developed immunity to it.⁵

⁴ As the crisis continues, regional and international differences have emerged with states like Florida and Arizona and nations like the United States and Brazil experiencing larger levels of illness and death and overtaking places where the pandemic arose faster, like New York, Italy, and South Korea. Predicting long-term regional and global trends is difficult, although regions with robust public health infrastructures clearly have advantages. Much uncertainty stems from the possibilities of emerging vaccines and treatments, which may have differing levels of effectiveness and different availability across nations and regions.

⁵ Disparities in health experience by race and ethnicity are hardly new in the United States. For example, Feigenbaum, Muller, and Wigley-Field (2019) find that, as bad as the influenza of 1918-19 was, Black Americans in southern cities experienced higher rates of infectious disease mortality from 1906 to 1920 than urban Whites experienced during the influenza pandemic. Økland and Mamelund (2019) find that Black people were less likely to contract influenza than Whites but were more likely to die from it if they contracted the disease.

Just as the causes and dimensions of the current economic collapse are unlike anything ever seen before, the basis of a durable recovery will differ from that of any prior recession. In a typical post-WWII recession, there was no unequivocal “all-clear” signal for the economy to shift back to a growth trajectory. This time, the decisive factor will be either (a) the widespread administration of safe, effective, and widely available vaccines; (b) the development of a safe, effective, and widely available therapy; or (c) the grimmest possibility, the attainment of herd immunity via mass infection (the approach taken by default in 1918-19). Until one of those three conditions is achieved, a complete recovery will be impossible. Worse yet, progress toward even an incomplete recovery may be significantly inhibited.

The start of a complete recovery will be impossible unless an effective vaccine or therapy is made widely available or until herd immunity is achieved at the cost of many more deaths.

The collapse in the labor market has departed less sharply from historical norms on the dimension of race and ethnicity. In line with historical norms, the unemployment rates for Black and Latinx workers were higher than the rate for Whites before the collapse, and these rates increased more cumulatively from February through June 2020.⁶ As such, even though history provides no exact precedents, racism is a through line. Based partly on that through line, it is possible to anticipate some of the consequences of the economic collapse for racial equity in economic well-being in the United States. On the eve of the economic collapse, certain preconditions were in place that allow us to know, with high confidence, that the hardships of this episode will fall most heavily on Black and Latinx people and on the communities in which they live.⁷

In line with historical norms, the unemployment rates for Black and Latinx workers were higher than the rate for Whites before the collapse, and these rates increased more cumulatively from February through June 2020.

⁶ Initially, it appeared as if the increase in unemployment was distributed surprisingly equitably across Black, Latinx, and White workers. That initial appearance may have been created by the fact that whole sectors of the economy were substantially shuttered at first, leaving no room for the usual practice of “lost hired, first fired” to be applied. Since April, however, the unemployment rate for White workers has come down proportionately more than the rates for Black and Latinx workers.

⁷ While the empirical work presented here focuses on the disproportionate effects of economic downturns on Black and Latinx people, based on existing research (see for instance Muhammed 2009), the economic inequities facing Indigenous people in the United States are likely similar to the racial disparities we document. More data and research into the experience of Indigenous communities during recessions is merited.

Roadmap

This paper proceeds in this way:

- › We begin with a discussion of the labor market, first with an overview of the different experiences of Black and Latinx people during recessions compared to Whites.
- › Next, we explore occupational crowding in the recession and pandemic. Occupational crowding measures the degree to which a group is over-, under-, or proportionally represented in an occupation given the group's educational attainment and the educational requirement for jobs. We show that, as compared to White men, Black women, Latinx women, and Latinx men are crowded into essential work, and White men are crowded out. As the economy opens up, we know that workers in jobs with high physical proximity to customers or colleagues face great risk. We find that, as compared to White men, Black women, Latinx women, Latinx men, and White women are overrepresented in roles with high physical proximity.
- › We document differential returns to education and rising disparity with education by race across three key determinants of life outcomes: assets and debts, labor markets, and health outcomes.
- › We then use Blinder-Oaxaca decompositions to explore the ways in which various factors, including race and education, contribute to economic well-being, showing that, compared to their White counterparts, higher levels of educational attainment do not protect Black workers during recessions.
- › Then, in a brief sidebar, we consider the case of Millennials, who have now experienced two major economic calamities during their relatively short careers.
- › Finally, we conclude with an exploration of ways that government, philanthropy, and research can attempt to better understand and address these challenges and advance economic racial equity.

RACE, GENDER, AND COVID-19 HEALTH RISK

The 2020 economic crisis is unlike most recent recessions because, in addition to the harms of unemployment, in many cases, those who continue to work are at higher risk of illness and death due to COVID-19 exposure. In this section, we examine how race and gender groups—specifically Black women, Black men, Latinx women, Latinx men, White women, and White men—are differentially exposed to the risk of COVID-19 in “essential” and “nonessential” work and occupations with high physical proximity to colleagues and customers.^{8,9}

Methodology

There is no one definition of essential work (Torner & Kane, 2020). For this analysis, we modified essential work categories established by Celine McNicholas and Margaret Poydoc’s Economic Policy Institute (EPI) report on essential workers and unionization. We ended with 13 essential sectors based on a combination of census occupations and industries (see Appendix 2 for details).¹⁰

Barbara Bergmann’s (1971) crowding theory held that Black workers, as a result of labor market discrimination, are largely excluded from high paying jobs and systematically sorted into lower paying, less desirable jobs. This report uses an update to Bergmann’s method as described in Hamilton (2013) that more explicitly controls for education by limiting the pool of eligible workers for a particular job to those with the prerequisite degree attainment. We measure occupational crowding as the degree to which workers are over-, under-, or proportionally represented in essential work sectors based on their race and gender and prerequisite educational attainment for particular categories. To do so, we count as eligible for a particular sector only those individuals whose educational attainment fits between the 20th and 80th percentiles of the educational distribution for that category.

Reflecting on Mary King’s (1993) “access model” that posits a social hierarchy where White men have the most access to desirable jobs, for most of our analyses, White men are positioned as the reference by which we compare race, gender, and their intersections. When focusing on White men, we compare them to a baseline of all workers to measure their degree of “advantage” in the economy overall.

We also compare Black women and Latinx women to White women to isolate racial disparity, particularly in “gendered” sectors such as healthcare. (See Appendix 2 for a more detailed description of occupational crowding.)

⁸ In this paper we use the Census variable “sex” as a proxy for “gender.” The Census does not currently ask participants about gender identity and acknowledges that the gender of the respondent may not correspond to sex. This also reduces our analysis to a binary that is not indicative of the full range of gender. For more information, see the Census glossary here: https://www.census.gov/glossary/#term_Gender

⁹ Given time and data limitations, we did not consider other important cases, like those of Indigenous people and Asian Americans; nor did we consider the comparisons of immigrants from a wide variety of nations of origin versus native-born Americans. Given ongoing demographic change and the extent to which historical migration patterns and experiences in the United States are tied to contemporary group outcomes, considering Black, Latinx, and White populations as homogenous categories is far from ideal. For a fuller explanation of the need to better collect data disaggregated by ancestral origin in the U.S. context, see Muñoz, Chang, Jackson, Hamilton, and Derity, *The Color of Wealth in Boston* (2015).

¹⁰ Our categorization of what is and is not “essential” work is not based on a qualitative assessment of social value. Instead, this is our attempt to operationalize essential work, modifying categories defined in Celine McNicholas and Margaret Poydoc’s Economic Policy Institute (EPI) report and following the guidance from the Department of Homeland Security’s initial recommendations during the pandemic.

Vast Disparities in Essential Work and Pay

In Table 1 (below), we show occupational crowding indices—the degree to which workers are over- ($x > 1.1$), under- ($x < .09$), or proportionally ($x \geq 0.9$ & $x \leq 1.1$) represented given their educational attainment—for essential work in any of the 13 essential sectors.¹¹ We find that White men are crowded out of essential work, even after considering the educational levels of each race and gender group. In comparison to White men, Black women, Latinx women, and Latinx men are crowded into essential work. White women and Black men are proportionally represented in essential work (crowding index of 1.0 and 1.10 respectively). Black and Latinx women are also crowded into essential work in comparison to White women. All groups—with the exception of White men—earn below average annual wages with Latinx women and Black women earning the least in essential work (54 cents and 61 cents on the dollar respectively as compared to White men), followed by Latinx men (68 cents), Black men (69 cents), and finally White women (83 cents).

Table 1: Occupational Crowding and Essential Work

Reference Group	Crowding Index	Share of Average Wages*	Change in Crowding as Wages Increase by \$10K
Black Women v. White Women	1.20	0.81	-.04***
Black Women v. White Men	1.30	0.61	-.16***
Black Men v. White Men	1.10	0.69	-.09***
Latinx Women v. White Women	1.20	0.72	-.04***
Latinx Women v. White Men	1.30	0.54	-.16***
Latinx Men v. White Men	1.40	0.68	-.06***
White Women v. White Men	1.00	0.83	-.05***
White Men v. Everyone	0.87	1.30	.07***

Crowding Index: <0.9 = Underrepresented; $0.9-1.1$ = Proportionally Represented; >1.1 = Overrepresented
 (* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$)

* Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)

Data Source: American Community Survey 2018 Five Year Estimates. Minneapolis, MN: IPUMS, 2020.

¹¹ Black women and Black men are crowded out of nonessential work while other groups are proportionally represented. See Appendix 2 for information on nonessential work.

Within essential work, the highest paying work is dominated by White men. We identify more than 400 unique occupations within the 13 essential sectors listed in Appendix 2. We estimated bivariate regressions of occupational crowding on average occupational wages (measured in \$10,000 increments) to examine the relationship between crowding and wages across the various essential worker occupations (Table 1 on the previous page; see Hamilton, 2006 for more information on this approach).¹² For every \$10,000 increase in average occupational wages for Black and Latinx women respectively, there was an estimated 16 percentage point reduction in their representation in each essential occupation category relative to White men. Similarly, there were decreases of nine percentage points for Black men, six percentage points for Latinx men, and five percentage points for White women in their respective representation in comparison to White men with every \$10,000 increase in wages in a particular essential work occupation.

Conversely, there is a positive relationship between wages and crowding for White men (compared to all workers) — as wages of a particular occupation increase by \$10,000, the estimated proportion of White men in that occupation rises by seven percentage points. All findings were statistically significant. To summarize, not only are White men less exposed to the coronavirus as a result of their underrepresentation in essential work, when they are employed as an essential worker they tend to work in occupations with higher wages. On the other hand, Black and Latinx women are not only more likely to be sorted into essential work, and thereby vulnerable to greater COVID-19 exposure, they are sorted into essential work occupations that receive the lowest wages. In contrast, White men are less likely to be exposed to the virus as essential workers, and when they are employed as essential workers, they work in occupations with relatively higher wages.

Black and Latinx women are not only more likely to be sorted into essential work, and thereby vulnerable to greater COVID-19 exposure, they are sorted into essential work occupations that receive the lowest wages.

Inequalities in the Food and Agriculture Sector

The food and agriculture sector is worthy of particular scrutiny. In our analysis, the food and agriculture sector has the lowest average annual wages of any sector — just \$32,000. Advocates and researchers have spotlighted the dangers facing workers in that sector, including deplorable working conditions, limited personal protective equipment, low pay, and few benefits (Romero, 2020; Douglas, 2020a; Fremstad et al., 2020). Many of these workers have contracted COVID-19 (Mazzei, 2020 & Douglas, 2020b).

We find that Latinx women and men—and to a lesser extent Black men—are crowded into this sector as compared to White men. White men are underrepresented in food and agriculture and still earn 30 percent above average wages in the sector (see Appendix 2, Table 2C). There is also variation for Latinx workers by citizenship (Table 2).

¹² Each occupation included in the analysis had at least 30 unweighted observations of employed individuals. If there were no unweighted observations of a particular race/gender group in an occupation, we did not include that occupation in the regression analysis for the relevant group. The number of occupations used for each group were as follows: Black women: 363 occupations in comparison to white women and 398 in comparison to White men; Black men: 408 occupations; Latinx women: 365 occupations in comparison to White women and 398 in comparison to White men; Latinx men: 411 occupations; White women: 428 occupations; White men: 440 occupations.

For example, noncitizen Latinx women are 250 percent more likely than White women and 290 percent more likely than White men to work in food and agriculture (crowding indices of 3.5 and 3.9 respectively). In contrast, Latinx women who are citizens are nearly proportionally represented with White women and just 20 percent more likely to work in food and agriculture than White men (indices of 1.1 and 1.2). Latinx women who are not citizens receive significantly lower wages than citizens relative to both White men (just 50 percent of average wages for noncitizens compared to 64 percent for citizens) and White women (72 percent of average wages for noncitizens compared to 91 percent for citizens). In comparison to White men, Latinx men who are not citizens earn 71 percent of average wages in food and agriculture compared to 84 percent for citizens.

Table 2: Latinx Citizens' and Noncitizens' Occupational Crowding in the Food and Agriculture Sector

Noncitizens	Crowding Index	Share of Average Wages*
Women v. White Women	3.5	0.72
Women v. White Men	3.9	0.50
Men v. White Men	3.4	0.71
Citizens		
Women v. White Women	1.1	0.91
Women v. White Men	1.2	0.64
Men v. White Men	1.3	0.84

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)
 Data Source: American Community Survey 2018 Five Year Estimates, Minneapolis, MN: IPUMS, 2020.

Work and the Risk of COVID-19

We next examine racial and gender differences in essential work sorting by extent of possible exposure to COVID-19 (Table 3 on the following page). Within the category of essential work, some workers are at even greater risk of illness and death due to their physical proximity to other workers and/or customers. Using listings of physical proximity from the U.S. Department of Labor Employment and Training Administration's O*NET OnLine, we designated occupations with a rating of 75 and above—those “moderately close [that is] at arm’s length” or closer—as “high physical proximity” and all others as “low proximity.” We found that about 20 percent of occupations that fell into one of the 13 essential sectors and had information available from O*NET had high physical proximity. The majority of these occupations are in healthcare. Across all occupations in this category, Black women (as compared to White men) and Latinx women (as compared to White men) had the highest average crowding scores (2.2 for each, making them 120 percent more likely to occupy these occupations than White men). Black men (crowding index of 1.4), Latinx men (crowding index of 1.2), and White women (crowding index of 1.2) were also overrepresented. Only White men were underrepresented (crowding index of .88). White men earned the highest share of average wages in essential occupations with high physical proximity (120 percent) while Black women earned the least (82 percent in comparison to White men).

Table 3: Essential Work with High Physical Proximity and Occupational Crowding

Reference	Crowding Index	Share of Average Wages*
Black Women v. White Women	1.80	1.00
Black Women v. White Men	2.20	0.82
Black Men v. White Men	1.40	0.90
Latinx Women v. White Women	1.10	0.97
Latinx Women v. White Men	2.20	0.79
Latinx Men v. White Men	1.20	0.90
White Women v. White Men	1.20	0.88
White Men v. Everyone	0.88	1.20

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)
 Data Source: American Community Survey 2018 Five Year Estimates. Minneapolis, MN: IPUMS, 2020.

As the pandemic proceeds, state and local governments have to decide when to relax or tighten shelter-in-place orders and when to allow various businesses to resume operations. These decisions are shaped by science, economics, and politics, and have disparate impacts across race and gender. As the country continues to "reopen," many more workers will be at risk of contracting COVID-19. To explore this risk, we classified all occupations, both nonessential and essential, into "high physical proximity" and "low proximity." Among the 435 occupations that were matched to O*NET, 26 percent had high physical proximity to colleagues and/or customers. High proximity occupations include occupations in fields like healthcare, as well as nonessential roles like hairdressers and waiters and waitresses. Occupations in the high physical proximity category have lower average wages (\$47,614) than those with low physical proximity (\$59,986).

As shown in Table 4 on the following page, White men are underrepresented in high physical proximity occupations as compared to everyone else. All groups in comparison to White men—with the exception of Black men, who are proportionally represented—are crowded into occupations with high physical proximity. The crowding index is highest for Black women (1.8), who are 80 percent more likely than White men to be in an occupation with high physical proximity, followed by Latinx women (1.7). Black women and Latinx women are proportional compared to White women. In high physical proximity occupations, White men are paid the highest share of average wages (140 percent of average wages for all workers), while Latinx women and Black women are paid the least (57 percent and 63 percent of average wages compared to White men). In contrast, in lower physical

Black women and Latinx women are respectively 80 percent and 70 percent more likely than White men to be in an occupation with high physical proximity.

proximity occupations (Table 4), Black women are crowded out as compared to White men. All other groups are proportionally represented. These findings are of particular concern for Black and Latinx workers as more individuals return to work. A survey from the National Employment Law Project (2020) found that Black workers are more likely to "work under conditions that are both hazardous and repressive" and are more likely to face retaliation if they raise concerns about safety.

Table 4: Physical Proximity and Occupational Crowding (All Occupations, including Nonessential)

Reference Group	High Physical Proximity		Lower Physical Proximity	
	Crowding Index	Share of Average Wages*	Crowding Index	Share of Average Wages*
	Average Income: \$47,614 ¹³		Average Income: \$59,986	
Black Women v. White Women	1.10	0.86	0.90	0.82
Black Women v. White Men	1.80	0.63	0.80	0.58
Black Men v. White Men	1.10	0.72	1.00	0.64
Latinx Women v. White Women	1.00	0.79	1.10	0.71
Latinx Women v. White Men	1.70	0.57	1.00	0.50
Latinx Men v. White Men	1.40	0.72	1.10	0.64
White Women v. White Men	1.40	0.84	0.90	0.80
White Men v. Everyone	0.60	1.40	1.00	1.30

Crowding Index: <0.9 = Underrepresented; 0.9–1.1 = Proportionally Represented; >1.1 = Overrepresented

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)

Data Source: American Community Survey 2018 Five Year Estimates, Minneapolis, MN: IPUMS, 2020.

¹³ For both high and lower physical proximity occupations, people in the 20th percentile of educational attainment hold a high school degree or a GED; in the 80th, they hold a four-year college degree.

THE DIFFERENTIAL EXPERIENCE OF BLACK AND LATINX WORKERS

Black and Latinx workers routinely experience a starkly different and distinctly worse version of the labor market than do White workers. This disadvantage manifests itself in several ways.

- › First, the average unemployment rate is much higher for Black and Latinx workers than it is for White workers. Since 1972, when the relevant data series began, the unemployment rate has averaged 11.8 percent for Blacks, 8.7 percent for Latinxs, and 5.5 percent for Whites. Prior to April 2020, the unemployment rate for White workers had never been as high as 11.8 percent—the rate it has averaged for Black workers. And the unemployment rate for Whites has been as high as 8.7 percent (the average rate for Latinxs) less than 5 percent of the time.
- › Second, Black and Latinx workers experience a higher-amplitude version of the business cycle than do White workers. Valerie Wilson (2015) estimates that, on average, when the national average unemployment rate has increased 1 percentage point, the rate for Black workers has increased 1.7 percentage points, while the rate for White workers has increased only 0.91 of a percentage point.¹⁴ Aaronson et al. (2019) show that a similar amplification—though not quite as large—exists for Latinx workers.¹⁵ Similarly, when the labor market tightens, it tightens more for Black and Latinx workers than for White workers. This amplified experience of the business cycle underscores why it is so important that fiscal and monetary policymakers fight recessions as vigorously they can and facilitate periods when the labor market is very tight to the greatest extent possible.

The average unemployment rate is much higher for Black and Latinx workers than it is for White workers.

It is important to note that these labor market differences cannot be fully explained by education or any other individual characteristics typically controlled for in empirical studies. One strong hint that the differences in unemployment rates cannot be fully attributed to differences in individual characteristics such as educational attainment is implicit in the fact that since 1992, the unemployment rate for Black workers with a college degree or more has averaged 4.1 percent, while the unemployment rate for similarly credentialed White workers has averaged 2.6 percent.

The most plausible explanation for the portion of unemployment differentials that cannot be explained based on observable characteristics such as educational attainment is discrimination. Wilson and Rodgers (2016) provide one articulation of this view. Employers may have an underlying proclivity toward racism and other forms of discrimination. When labor markets are slack, employers are able to exercise that proclivity and still find enough candidates to fill the positions they wish to fill. As the labor market tightens, the cost of exercising a proclivity toward discrimination progressively increases. As a result,

¹⁴ Wilson's sample period ran from 1979 to 2014. Aaronson et al. (2019) report similar relative amplitudes using updated data.

¹⁵ Other researchers also have observed the fact that when the labor market improves, it improves most for groups who are relatively marginalized. Arthur Okun (1973) focused on the fact that tight labor markets created opportunities for women and teenagers not available to them when the labor market was more slack. Katz and Krueger (1999) were a direct precursor to Aaronson et al. (2019) and looked at differences in labor market experience over the business cycle by race as well as by educational attainment (though they did not examine the intersection of those two characteristics).

gaps in labor market experience narrow until the business cycle peak is reached. However, members of relatively marginalized groups tend to be the first fired when the business cycle inevitably turns.¹⁶ Moreover, racism undoubtedly explains more than just the portion that observable characteristics cannot explain because racism played a role in generating the differences in observables.

Conventional wisdom holds that education is the “great equalizer” for economic security and social mobility. Yet, in many dimensions of life, racial disparity persists or worsens with higher levels of education, including college degree attainment. In the subsections that follow, we consider differential returns to education by looking at wealth, employment, and health.

Wealth

Wealth is arguably the paramount indicator of economic security and financial agency. We often think of wealth as an outcome, but its true essence is functional. Wealth enables families to absorb financial shocks and recessions. It empowers individuals to consume and invest in different ways. And wealth is iterative: wealth often generates more wealth over time, both within and across generations (Hamilton, 2017). Indeed, economic research indicates that inheritance, bequests, and extended family financial position in general explain more of the racial wealth gap than demographic and socioeconomic indicators combined (Hamilton & Chiteji, 2013).

Race matters. The wealth position of similarly educated Black and White families is dramatically different. Hamilton et al. (2015) showed that the median Black family headed by a person with a college degree has only two thirds of the wealth of the median White family headed by a high school dropout. Higher education is associated with greater wealth within race groups, but it is apparent that for Black individuals, acquiring a college degree is far from sufficient to close the racial wealth gap.

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The role of education is further complicated by the differential financial burdens of attending college. Black college students are more likely to take on debt for higher education and are more likely than White students to drop out of university *because of financial concerns* — at least in part because of inadequate household wealth for Black families (Zewde & Hamilton, 2019; Paul et al., 2016; Shapiro et al., 2013).¹⁷

Although not widely known, social science research confirms that Black students and their families are doing more with less when it comes to educational attainment. Research by economist Mason (1997) and sociologists Conley (1999) and Mangino (2010) demonstrates that Black students attain more years of schooling and credentials than White students from families with comparable resources. There is scant evidence to support the canard that

¹⁶ For evidence that Blacks are “the first fired as the business cycle weakens,” see Couch and Fairlie (2010).

¹⁷ It is also noteworthy that, despite limited financial resources, Black families appear to have a greater intensity of support for their adult children’s higher education (Nom et al., 2015).

Black families value education less than White families. In its own way, the notion that education can serve as a panacea to address socially established structural barriers to racial economic inclusion—including the racial wealth gap—is similarly pernicious since it leads to incomplete and incorrect prescriptions.

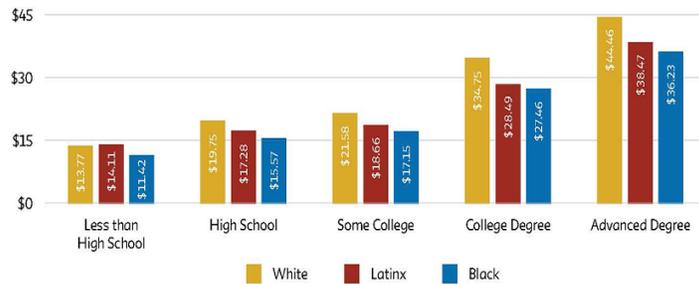
Labor Market Outcomes

In the U.S., in both good times and bad, there is a persistent and approximate 2:1 ratio of Black to White unemployment rates. This occurs at every level of degree attainment (Hamilton, 2017). In 2019, according to calculations using data from the Bureau of Labor Statistics, the rate of Black unemployment for college graduates dipped to 3.1 percent, which was still an entire percentage point higher than the rate for White college grads that year (2.1 percent) and nearly as high as the 3.2 percent rate for White workers with a high school degree and no college. Similarly, in recent years, the unemployment rate for White workers who had not completed high school has at times been lower than the unemployment rate for Black workers that had completed some college or earned an associate degree.¹⁸

It is unlikely that racial unemployment disparities across educational degree attainment can be addressed via worker incentives. On the high end of the educational spectrum, a report by Jones and Schmitt (2014), aptly titled “A College Degree is No Guarantee,” indicated that the unemployment rate for Black recent college graduates exceeded 12 percent and was as high as 10 percent for Black recent grads with science, technology, engineering, or math-related (STEM) majors, which at that time was higher than even the White unemployment level at large.

In terms of wages, an *Economic Policy Institute* report reveals that in 2018, White workers had about a 20 percent advantage in hourly wage at every level of education. Notably, from 2000 to 2018, the Black-White racial wage gap grew at every level of educational attainment.

Figure 2: 2018 Average Hourly Wages by Race/Ethnicity and Education



Source: EPI Analysis of Current Population Survey Outgoing Rotation Group Microdata from the U.S. Census Bureau, *Economic Policy Institute*, www.epi.org
 Calculations: <https://docs.google.com>

¹⁸ The unemployment rates cited in this paragraph all pertain to people aged 25 and over.

Health Outcomes

The relationship between socioeconomic status and health is well-documented across time and place (Kitagawa & Houser, 1973; Marmot, 1994; Rogot et al., Eds, 1992; Deaton, 2002; and many others). Generally, as socioeconomic status rises, health improves. Based on the relationship between socioeconomic status and health, one would expect that people with more education would have lower mortality rates than those with less, and that the benefits of education would be shared regardless of race. In fact, since Black people have worse health and lower educational attainment than White people overall, some sound as if they believe that Black people would have larger health benefits from increased educational attainment, and that racial disparities in health would narrow with higher levels of education. Yet, in many mortality-related diseases, the reverse is true (see for instance Williams & Mohammed, 2013).

Jemal et al. (2008) examined the amount of race disparity across a range of mortality outcomes—including cancer, heart disease, stroke, and HIV-related causes—and find that when comparing those with less than a high school degree to those with at least a bachelor's degree, the Black-White disparity grows larger (also, see Hamilton, 2017b). Consistent with Jemal et al., Hamilton, Cohen, and Siddiqi (forthcoming) find that, among those with less than a high school diploma, Black women had a 50 percent greater mortality rate than their White women peers, whereas Black women with a bachelor's degree had nearly a 70 percent (68 percent) greater mortality rate than their White peers.

Summary

Racial disparities in wealth, labor market experiences, and health outcomes remain substantial even amongst highly educated adults. Education matters within a group, but, since social structures do not permit Black Americans to convert education into desired outcomes at the same rate as White Americans, they are not protected by education in the same way that White Americans are. In the section that follows, we consider how the labor market is functioning during the pandemic for Black and Latinx Americans and women workers in comparison to their White men counterparts.

THE BLACK-WHITE WAGE DISPARITY ACROSS BUSINESS CYCLES

It is commonly thought that Black workers perform worse across business cycles because of the way in which they are positioned in the distribution of labor market skill requirements, specifically with regard to educational attainment. To better understand how business cycles affect wage disparity, we examine how the demographic and socioeconomic attributes of individuals explain wage disparity during the 1990-91 recession, the 2001 recession, and the 2007-09 Great Recession.

Methodology

We utilize repeated Blinder-Oaxaca decompositions, as adapted by Jann (2008), to understand what portion of the Black-White wage disparity over the last three decades can be empirically attributed to discrimination or structural barriers versus the portion of disparity that can be attributed to an individual's socioeconomic and demographic characteristics, including education (Blinder, 1973; Oaxaca, 1973; Jann 2008).¹⁹

We use data from the Current Population Survey's Annual Social and Economic Supplement (CPS-ASEC) from 1988 to 2017 (Flood et al., 2019) to perform repeated cross-sectional decompositions to demonstrate the trend in labor market discrimination during this roughly 30-year period. We decompose annual wages, converted into log form (to generate a more normal distribution), with controls for worker characteristics including education, age, family structure, metropolitan area designation, region, occupation, and industry. Next, we isolate highly educated Black and White workers to examine if wage disparities and differential labor market treatment persist across business cycles even for those with a college degree.²⁰ The final set of results repeats the analysis for men only in order to isolate race effects from potentially confounding gender effects.

Below, we report the findings from our decompositions of wage disparity between Black workers and White workers. We also report descriptive findings on the Black-White wage disparity across the period studied. We focus our analysis on four groups: (1) all workers, (2) workers with a college degree or more, (3) men workers, and (4) men workers with a college degree or more. In all four analyses, we find that Black workers see a lower return to their labor market characteristics during recessions—and this finding becomes more pronounced for Black workers with a college degree.

¹⁹ Blinder-Oaxaca decompositions decipher which portion of the difference in wage (log wage) is due to: (a) average racial differences in wage-related characteristics vs. (b) racial differences in the manner in which a given level of characteristics are translated into a given wage (also referred to as racial differences in wage regression coefficients). The latter component, the way in which the coefficients are translated into wages, is indicative of structural and uncontrolled racial differences in wages. For this exercise, we complete these decompositions annually and present trends across decades analyzed.

For more information about the measurement of racial disparity and the associated use of Blinder-Oaxaca decompositions, see Hamilton (2000). There is some debate if the uncontrolled difference after controlling for various indicators of wage is indicative of discrimination. The "clear and convincing evidence" generally comes from experimental or audit studies. Two relevant studies that use experimental methods to evaluate labor market discrimination are Bertrand and Mullainathan (2004) and Pager, Bonikowski, and Western (2009). For a review of the literature, see Fix, Golster, and Struyk (1993). Moreover, what is particularly relevant for this paper are the trends in the component not explained by observable characteristics (e.g. what we are interpreting as labor market discrimination) across business cycles. Hence, even if there is concern with regard to point-in-time measurement error to the extent that this potential measurement error is time irrelevant, our analysis regarding the extent of racial inequality across business cycles not explained by observable characteristics remains valid.

²⁰ As part of our robustness checks, we ran decompositions that specifically analyzed: (1) college graduates with no advanced degree or additional years of schooling beyond four years of college, and (2) college graduates with advanced degrees or more than four years of tertiary education. We find that the trends demonstrated for college graduates (below) are not substantially different from the trends produced by our supplemental analyses, especially in regard to trends around the 2007-09 Great Recession.

Note: a more complete analysis would include an intersectional account of gender. For example, an examination of the wage difference between Black women and White men could capture both gender and race effects, especially if contextualized in particular labor market domains. Conversely, an examination of Black women in relation to White women might presume to indicate a race effect but might ignore the ways in which White women's wages are shaped by gender discrimination.²¹ For this reason, and given the ubiquity of patriarchy in the American context and the complicated ways in which gender and race interact, as well as time and resource limitations in the production of this paper, we did not conduct those analyses in this section. More research is merited to address these questions and will be forthcoming.

Illustrating Black-White Wage Disparities During Recessions

Consider *Figure 3* and *Figure 4* (on the following page). We find that wage disparity between Black and White workers is persistent from 1988 to 2017. While the wage disparity is narrower among Black and White workers with a college degree, relative to that of all Black and White workers, we find that among college-educated workers the wage disparity is: (1) considerably more volatile across the period studied and (2) noticeably more sensitive to recessions. In other words, while the wage gap between Black college graduates and White college graduates is smaller relative to all Black and White workers, wages for Black college graduates tend to be more unstable and take a more substantial hit during economic downturns.

In other words, while the wage gap between Black college graduates and White college graduates is smaller relative to all Black and White workers, wages for Black college graduates is smaller relative to all Black and White workers, wages for Black college graduates tend to be more unstable and take a more substantial hit during economic downturns.

In *Figure 3* and *Figure 4*, we demonstrate the above trends by plotting average Black wages as a percent of White wages across the period studied. In each chart, we pull out workers with a college diploma to examine the degree to which higher levels of educational attainment might impact Black-White wage disparity. Specifically, in *Figure 3*, we provide both a trendline of the wage disparity among all Black and White workers and a trendline of the wage disparity for all Black and White workers with a college degree. In *Figure 4*, we repeat the above analysis, focusing specifically on men workers.

²¹ A study that may be helpful to consider in reference to this analysis is Chetty, Hendren, Jones, and Porter (2018), which found that Black men raised in higher income households—with access to plentiful local resources, such as quality schools—have lower earnings in early adulthood than White men raised in similar environments. Chetty et al. also found that Black men grow up to work in substantially different occupations than White men, while on the other hand, Black women grow up to work in similar occupations and make similar salaries relative to White women. However, their analysis does not consider how Black women are situated in the labor market relative to White men, which, as we state above, would offer a point of comparison that would capture both race and gender effects. Other scholars have argued that Chetty et al.'s analysis might have considered more deeply the costs—in regard to physical and mental health—of the diminished returns to social and economic resources for Black people relative to White people. For instance, see Hamilton and Cohen (2018).

Figure 3: Average Black Wages as a Percent of White Wages (1988-2017)

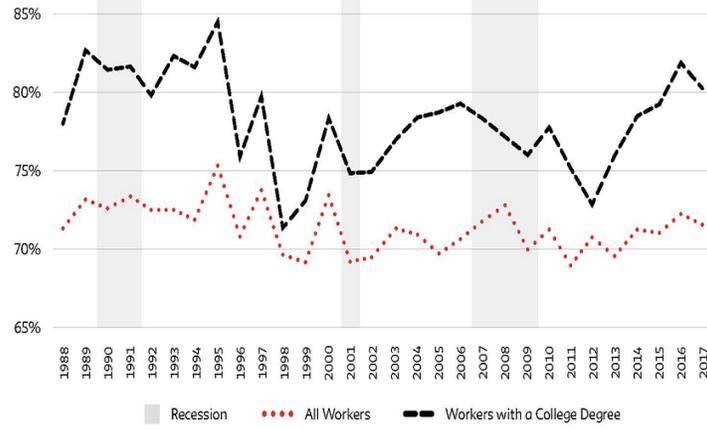
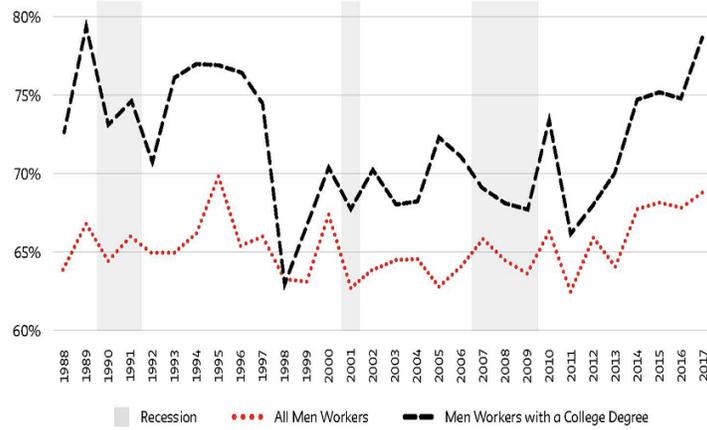


Figure 4: Average Black Men's Wages as a Percent of White Wages (1988-2017)



Trends are based on estimates from repeated cross sections of CPS-ASEC, 1988 to 2017. Analysis is of positive wage earners.
 Source: Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, and J. Robert Warren (2020), "Integrated Public Use Microdata Series, Current Population Survey: Version 7.0" [dataset]; Minneapolis, MN: IPUMS.

In both *Figure 3* and *Figure 4*, whether for all workers or men workers, we find that a college degree tends to lower wage disparity. In both charts, we also find that Black college graduates face unique declines in their relative wage position, as compared to White graduates, around recessions (shaded grey in the chart). An overarching finding from our descriptive analysis of wage disparity is that Black workers with a college degree suffer more around recessions than their White counterparts.

For instance, in *Figure 3*, we demonstrate that among all Black and White workers with a college degree, wage disparity increased around all three recessions since 1988 with a pronounced and persistent increase in wage disparity during and after the Great Recession. In the same chart, when looking at all Black and White workers, we find similar but markedly less-pronounced increases in wage disparity around economic downturns.

Further, for *Figure 4* (shown on the previous page), the general shape of our findings in regard to men workers reflect those described for all workers. We find that the wage disparity among Black and White men with a college degree is both more volatile and more responsive to economic downturns relative to all men workers. We also find that the Great Recession had a particularly damaging and persistent effect on wage disparity among Black and White men with a college degree.

Differences in Labor Market Treatment by Race

Below, we examined annual wage decompositions across business cycles to demonstrate trends in racial differences in the rates of return to labor market characteristics. Racial differences in labor market treatment are presented as trend lines in *Figure 5* on the following page.²² Among Black and White workers with a college degree, we find that the percentage of wage disparity that is not explained by the characteristics of workers increases dramatically around recessions. In other words, around recessions, labor markets offer Black workers less efficacy, relative to White workers, in converting their labor market characteristics into labor market returns as measured by wage. This is suggestive that labor market discrimination intensifies around recessions, particularly for Black workers with a college degree.

Among Black and White workers with a college degree, we find that the percentage of wage disparity that is not explained by the characteristics of workers increases dramatically around recessions.

We performed decompositions of wages for (1) all Black and White men workers and (2) Black and White men workers with a college degree.²³ The results show that the portion of the Black-White wage disparity attributable

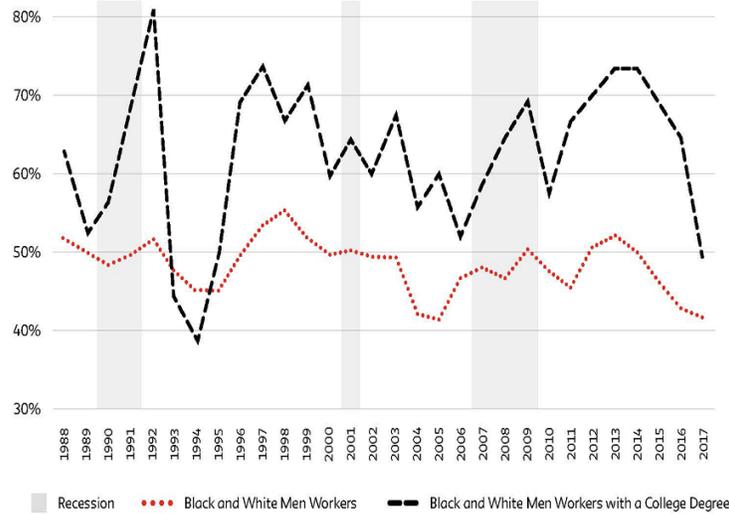
²² Our analysis includes controls, specifically variables indicating a worker's industry and occupation. Including these controls is likely to lower estimates of discrimination because the racial sorting across industry and occupation itself could be indicative of discrimination (making our estimates arguably conservative). What is most relevant to our decompositions of wages, and central to our investigation of labor market discrimination, is how trends change over time and vary in regard to discrimination. See Hamilton (2006) for a general discussion of debates around statistical methods for examining racial disparity.

²³ Appendix 1, *Figure A*, exhibits the decomposition of wage disparity for (1) all Black and White workers and (2) all Black and White workers with a college degree. While this broader analysis of Black and White workers—overall and with a college degree—demonstrates that Black workers face enhanced levels of racially differential treatment in the labor market during recessions, the results are confounded by gender effects. That is, the pattern is similar, but the results do not isolate the specific effect of race on differential labor market treatment.

to how characteristics are treated in the labor market increases during recessions. These effects are especially pronounced for Black men with college degrees. Increases are dramatic and persistent during and after the Great Recession. We also find that the portion of the disparity attributable to differential labor market treatment increased during both the 2001 recession and the 1990-91 recession—with the increase being more notable for the latter.

With regard to Black and White men overall, Figure 5 demonstrates that the trend is similar, but the magnitude is not as severe.

Figure 5: The Component of Racial Wage Disparity Due to Differential Treatment of Labor Market Characteristics (1988-2017)



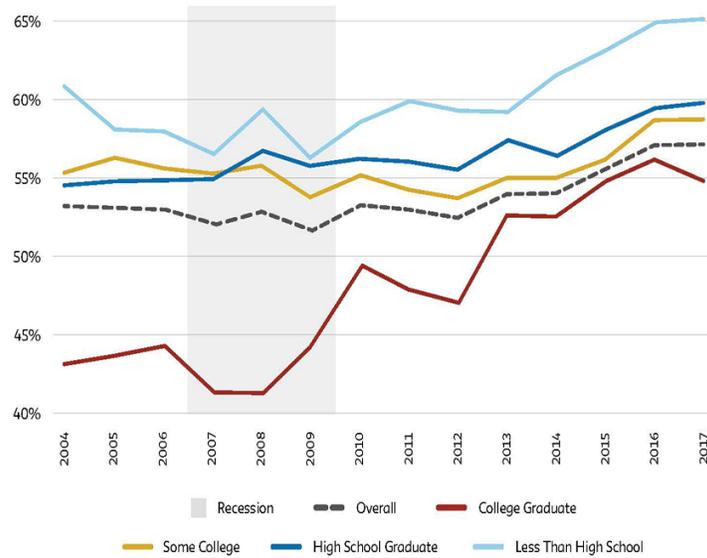
Trends are based on estimates from repeated cross sections of CPS-ASEC, 1988 to 2017. Analysis is of positive wage earners.
 Source: Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, and J. Robert Warren (2020). "Integrated Public Use Microdata Series, Current Population Survey: Version 7.0" [dataset]. Minneapolis, MN: IPUMS.

Overall, the results indicate that Black workers, relative to White workers, have a lower rate of return to their labor market characteristics and that the intensity of this lower rate of return worsens during recessions. Furthermore, this phenomenon is more pronounced amongst highly educated workers, or those with a college degree. Unsurprisingly, within each group, more education is associated with better outcomes. However, the irony is that across groups, Black workers with a college degree are most harmed relative to similarly qualified White workers during recessions.

Trends in Homeownership Disparity and the Great Recession

The pattern of results above are replicated for racial differences in homeownership, a key indicator of wealth, after the last Great Recession. Famighetti and Hamilton (2019) used Blinder-Oaxaca decompositions to examine Black-White homeownership disparity before and after the Great Recession and found that the demographic and socioeconomic characteristics of Black household heads, especially those with a college degree, explained a diminishing portion of the homeownership gap in the period following the Great Recession. Simply put, Black college graduates faced the largest increase in disparate treatment in the housing market relative to any other educational attainment group over the course of the last Great Recession (see Figure 6, below).

Figure 6: The Component of Homeownership Disparity Due to Differential Treatment of Housing Market Characteristics (2004–2017)



Trend-based estimates from repeated cross sections of ACS-1 Year Samples from 2004 to 2017. Analysis is of household heads.
 Source: Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pappas, and Matthew Sobek. IPUMS USA: Version 10.0 [dataset]. Minneapolis, MN: IPUMS, 2020.

In the section that follows, we turn to the experience of Millennials.

MILLENNIALS: DISPARITIES WITHIN AND ACROSS GENERATIONS

Born between 1981 and 1996, Millennials entered young adulthood in the aftermath of the Great Recession. Today, they face a second major economic crisis as a result of the pandemic. Millennials have invested time and money in higher education but are finding that education may not be an economic panacea.

Relative to prior generations, Millennials are both highly educated and overleveraged (Bialik & Fry, 2019; Hamilton & Zewde, 2020). On average, Millennials have \$33,000 in student debt (Whistle, 2019). Despite Millennials' high levels of education, research by Rinz (2019) and Rothstein (2019) shows that young workers have suffered reduced earnings and employment through "scarring" effects associated with the Great Recession.

The higher levels of debt incurred by Millennials make it harder for them to accumulate wealth, and indeed, research indicates that Millennials have substantially lower median and average levels of wealth than Generation Xers and Baby Boomers (Jeszeck et al., 2019). Relative to the four preceding generations, Millennials also have historically low levels of home ownership, which is troubling because home ownership is a primary way in which Americans store and grow wealth.

Millennials have faced generational challenges and recessionary scarring. Even worse, when we disaggregate Millennials by race, we find stark racial disparities. According to an analysis of 2008 graduates by Brookings, at the mean, Blacks held far more student loan debt: over \$50,000 in student loan debt compared to less than \$30,000 for Whites (Scott-Clayton & Li, 2016). Equally concerning is that for Black and White Millennials, the racial homeownership gap is greater than in any of the preceding four generations at a similar stage of the life course (Hamilton & Farnighetti, 2019).

Millennials experience broader racial wealth gaps, too (McIntosh et al., 2020). Black Millennials hold just 22 percent of the wealth of White Millennials. Latinx Millennials hold 56 percent of the wealth of their White counterparts (Addo & Zhang, 2019). If past research is any indication, the racial wealth disparities among today's young adults are likely to widen over the life course (Herring et al., 2020). Overall, the experience of Millennials is a sobering one, indicating that recessions can have worrisome long-term negative impacts and that providing access to education is insufficient to confer a comfortable life and inadequate to achieve racial equity.

DISCUSSION

This report makes clear that education is far from a panacea to address long-standing and socially and politically deeply entrenched racial economic disparity, especially during recessions. The 2020 recession, like others before, is marked by inequity across race, ethnicity, and gender, even among those with high levels of education, although in this case, harms include both unemployment and increased risk of sickness and death from COVID-19. In fact, structural components of racial inequality widen the most amongst those with a college degree around recession. Racism is not an individual quirk nor a random taste preference, but rather a structural force in American life.

If education is insufficient to build racial equity, what can do so? In international comparison, Alesina and Glaeser (2006) argue that nations with higher levels of racial resentment redistribute less, have less generous welfare states, and tolerate higher poverty and lower levels of social mobility. Why? How is racial inequity functioning in the United States, and how can racial equity be advanced?

If education is insufficient to build racial equity, what can do so?

To identify ways forward, we must investigate the processes that exacerbate racial inequities in education, the economy, politics, policy, culture, and society. Understanding those processes requires a wide variety of disciplinary tools and investigative techniques, drawing not just from education and traditional economics, but also from political science, policy analysis, and sociology. Indeed, stratification economics predict that racial discrimination is likely more pronounced amongst the highest educated because it is in that stratum that Black people pose the greatest threat to the most desired outcomes—and therefore, it is in this stratum that discriminatory structures and actions are most relevant to the preservation of social hierarchy (Hamilton, 2017).

Nobel Laureate economist W.A. Lewis (1985) argues that White people maintain their top position in the economic hierarchy in two ways. First, policies and practices limit Black people from accessing credentials that may be rewarded in the marketplace, preventing many from competing in the first place. Lewis refers to this as rendering them “noncompeting.” Then, for those who are able to overcome structural impediments and acquire “competing” credentials (for the purpose of this analysis, a college degree), outright discrimination is deployed. His proposition predicts that highly educated Black people, those who pose the greatest threat to the preferred economic position of White people, are likely to face the greatest relative extent of labor market discrimination.

In the U.S. context, economics, policy, and politics cannot be separated from race. The current recession itself, as we show above, was created by policy choices with racially disparate impacts. Recovery, too, will be shaped by policy choices. The key question is whether those policies will build an equitable or inequitable recovery. In the recommendations that follow, we suggest that those interested in reducing inequality use a broader variety of disciplinary approaches and be open to using other levers, beyond education, to advance justice.

RECOMMENDATIONS

Given that approaches that emphasize training and skill acquisition are laudable but inadequate, what can be done to spur an equitable recovery? We agree with Ibram Kendi, who argues for a new approach that actively puts racial equity at its center. Kendi argues that it is naive to think that anything is “race neutral” in the United States since the political economy of the nation has been intricately linked with race since its inception.²⁴ We present below 12 recommendations.

Invest in Ending the Pandemic

Investment in development, testing, production, and distribution of effective therapies and vaccines could speed both the end of the pandemic and the restoration of a tighter labor market; so could funding for COVID-19 testing and contact tracing

and improved public health communications to fight misinformation help individuals make decisions based on science. Attention must be placed on ensuring that the benefits of such investments, including profits, are shared with Black and Latinx communities.

Expand the Social Safety Net

Safety-net programs can reduce suffering and support recovery. Since the onset of the pandemic, federal leaders have wrestled with when and how much to expand safety-net funding as applications soared for unemployment insurance, food assistance (primarily the Supplemental Nutrition Assistance Program), housing assistance, and more. Additional funding is

needed now. For the long run, many of these programs could be redesigned to automatically expand when recessions occur. Immediate financial relief during the recession is urgently needed to assist school districts, too, especially those with large numbers of Black and Latinx students and low-income families.

Provide Massive Additional Federal Aid to State and Local Governments

Because state and local governments cannot borrow to support operating expenses, the federal government has a unique and essential role to play. State and local government services that are essential to recovery include health and public health programs and elementary and secondary schools and institutions of higher education. Further,

Black and Latinx workers have disproportionately found employment in the public sector, where equal opportunity and affirmative action hiring and employment practices have been comparatively prevalent, and these workers and their communities are disproportionately harmed by cuts in state and local budgets.

²⁴ These points are vividly made by historian Iro Kutznelson (2005) in his aptly titled book, “When Affirmative Action was White.” Kutznelson describes how New Deal and post-war policies were largely responsible for generating an asset-based White middle class, and these policies were designed and implemented in racist ways that largely excluded Black people. For instance, Social Security initially excluded both domestic and agricultural workers at a time when those sectors employed about 90 percent of Black women workers and over half of Black men workers. Moreover, much of the implementation of the New Deal was left to local bureaucrats, even in the Jim Crow context, with little to no federal oversight or antidiscrimination enforcement.

Expand Public Sector Employment

Monetary policy is already working to encourage private sector hiring by holding interest rates at record low rates. This should continue. But more is needed. Large public sector program expansions could directly employ thousands or even millions of Americans in good-paying jobs to improve public health, conduct contact tracing, care for human beings, respond to climate change, and address other pressing

challenges. As a side benefit, these public sector jobs would increase private sector labor bargaining power for better wages, benefits, and working conditions. The same low-interest-rate environment that prevents monetary policy from doing even more to fight the recession implies that the cost of spending more fiscal resources is historically low.

Restore Labor Power and Stop Low-Road Employment Practices

For decades, the power of unions has been declining in the United States, and no clear path to restoring labor power has yet been identified. Researchers and workers' organizations, supported by philanthropists, could work to test, improve, and scale innovations to rebuild worker power. Promising ideas include increasing worker ownership of businesses, improved labor union organizing, putting workers on corporate boards, and bringing together workers, management, and shareholders at the sectoral level. At the same time, policies like higher minimum wages, paid

sick leave, fair scheduling laws, and the robust enforcement of health, safety, environmental, wage, and anti-discrimination law could prevent private sector employers from relying on low-road business models. Vigorous action is also necessary to reduce the risk of exposure to COVID-19, especially for low-wage essential workers. Revitalized antitrust enforcement and support for small and new businesses could also help. As Hamilton and Neighly (2019) explain, corporate consolidation of product and labor markets contributes to racial disparity.²⁵

Reduce Intergenerational Wealth Inequality

There are many ways in which policy can help reduce the intergenerational racial wealth gap.²⁶ Initiatives could ensure that all children are provided with capital and, by extension, the choices to engage in asset markets and take advantage of asset-building opportunities. By instituting Baby Bonds, for example, the United States government could provide an account, with up to \$60,000 held in public trust, to every one of the four million children born

each year in the United States (Hamilton, Nieves, Markoff, Newville, 2020). Children whose families have the least wealth would receive the largest trust. In doing so, Baby Bonds use the universal provision methodology that has undergirded popular programs like Social Security and Medicaid to meaningfully address the economic gap between the rich and poor, and the ever-growing wealth gap between White, Black, and Latinx households (Hamilton et al., 2020).

²⁵ See Hamilton and Neighly's report, published by the Roosevelt Institute. https://rooseveltinstitute.org/wp-content/uploads/2019/11/RI_Racial-Rules-of-Corporate-Power_Issue-brief_201911-1.pdf

²⁶ Direct wealth transfers by race could be a direct and parsimonious approach. Although recently there has been some momentum with regard to political discourse around reparations, daunting political challenges remain.

End Inequitable Tax Policies

Many parts of the tax code serve to exacerbate economic inequality and racial disparity year in and year out. In 2017, the top 20 percent of families by income captured nearly 73 percent of the tax benefit of the mortgage interest deduction and nearly 67 percent of the tax benefit of the deduction for state and local income taxes. These two tax expenditures alone cost the U.S. Treasury an estimated \$97 billion in 2017. Both programs, as well as preferential tax treatment of capital gains income and so-called “carried interest,” primarily benefit persons at the top of the economic ladder, a stratum that is

disproportionately White.²⁷ Such tax provisions could be repealed or phased out, and associated revenues could be used from programs like those above that help close racial gaps in economic well-being.²⁸ More generally, the tax code could be reexamined to identify and reform or repeal innumerable provisions that are disproportionately used by the well-connected and privileged, most of whom are not Black or Latinx. Recent tax changes have gone in the wrong direction. See Hamilton and Linden (2018) for a discussion of ways in which the Tax Cuts and Jobs Act of 2017 exacerbates racial disparity.²⁹

Harness the Education System to Empower Public Problem-Solving

W.E.B. Du Bois (1935) wrote that “the Negro needs neither segregated schools nor mixed schools. What he needs is Education.” Education that supplies only job skills and college degrees is clearly insufficient. Rather, education must also provide students with tools to analyze and take on social, economic, and political problems, including structural racism — and this work must be a priority, not a sideline, for educators. Curricula for everyone should support civic engagement, help students understand power and history, learn how to combine into groups for effective action, evaluate sources, think creatively and scientifically, and use evidence. Curricula also needs to be relevant to students’ lived experiences

and delivered by trained, well-supported, empathetic educators. Education research, philanthropy, innovation, and public investment have often focused on job readiness and college access and completion. Empowering the nation’s school systems to educate students in civic skills in rigorous ways—the ways required to build a flourishing, inclusive, and antiracist United States—would require a vast infusion of research, development, stakeholder input, experimentation, and evaluation. Such a moonshot could only work with major support from educators, researchers, parents, students, philanthropists, and policymakers.

²⁷ According to data from the Survey of Consumer Finances, Blacks or African Americans were 14.6 percent of all families in the United States in 2016 but comprised only 5.5 percent of the top 20 percent of families. Similarly, Hispanic or Latino families were 10.2 percent of all families in 2016 but comprised only 4.3 percent of the top 20 percent of families. Source: Tabulation generated by one of the authors based on data from the 2016 Survey of Consumer Finance, accessed at the following site on June 25, 2020: <https://sdc.berkeley.edu/sdcweb/analysis/index.jsf>

The results were generated by cross tabulating RACECL4 (row) by INCCAT (column) by YEAR (control variable).

²⁸ Data on tax expenditures come from the Urban Institute: <https://apps.urban.org/features/wealth-inequality-charts/>, accessed June 24, 2020. The Urban Institute source does not provide distributional estimates for the preferential treatment of capital gains or carried interest.

²⁹ <https://rooseveltinstitute.org/hidden-rules-new-tax-law/>

Break the Connection Between Local Property Taxes and School Funding

The use of local property taxes to fund education perpetuates racial, economic, and political inequality. Breaking schools free from dependence on local property taxes would require a large-scale, long-term commitment by major civic actors, anchored by

philanthropy. Many strategies, including litigation, legislation, ballot initiatives, and state constitutional change, should be explored with objectives ranging from incremental to transformative.

Restore State-level and Federal Support for Higher Education

In a recession, many people seek higher education to get marketable skills and credentials and await a labor market rebound. Over the past 40 years, the reduction in the share of post-secondary education costs paid by state and federal government has made this shelter less useful. Student debt has increased (including the number of students who get debt without achieving degrees) just as the student body has grown more diverse. Leaders should advance much larger allocations by states and the federal government to public higher education, advance

new and significantly targeted direct four-year scholarships for Black and Latinx students, and advance progressive taxation, especially on corporate profits, wealth, and estates, to fund the first two. More broadly, we agree with those who advocate making the first two years of college free at all public institutions. Such a program makes even more sense in the wake of the pandemic — with an added recognition that funding for remedial education may be necessary for millions of students impacted by the pandemic.

The final two recommendations consider what we know about what works—and who has power and resources — when it comes to shaping an equitable recovery.

Measure How Policies Impact Racial Equity

Jared Bernstein and Janelle Jones recommend that the Federal Reserve Act be amended to require that the Federal Reserve include a discussion of “the extent of racial employment and wage gaps, and what the central bank is doing to reduce them” in its semiannual Monetary Policy Reports.³⁰ Such reporting would no doubt help the Fed recognize that restoring employment to high levels as soon as possible is essential to racial equity. This sort of innovative measure—and the related accountability—could be put in place in many levels of government. Researchers have already begun to measure the impacts of various policies and practices across racial groups. With support from philanthropy,

measures of racial equity could be developed and tested, similar to cost-benefit analyses used in some budgeting processes and effectiveness rankings used to evaluate educational curricula. Once developed, these measures could be adopted at the federal level by the Office of Management and Budget and the Congressional Budget Office, and in state government as well (Hamilton & Neighly, 2018). These offices could be required to estimate the influence that policy proposals would have on wealth and income differentials between major racial and ethnic groups. Instituting such requirements might also drive an improvement in data availability and methodological innovation in this area.

³⁰ See Bernstein and Jones in the Washington Post, June 15, 2020. <https://www.washingtonpost.com/look/2020/06/15/federal-reserve-could-help-make-job-market-fairer-black-workers/>

Support Black, Latinx, and Indigenous organizations, leaders, and researchers.

The analysis and recommendations above suggest important steps toward an equitable recovery. As researchers, we are grateful for the opportunity to present our findings and perspectives — and also deeply aware of the ways in which philanthropy and policy determine who gets to do research and who is empowered to govern and lead. As the occupational crowding analysis above implies, White people disproportionately occupy positions of power and control in government, nonprofits, advocacy, philanthropy, research, and industry. Conscious, persistent, systematic effort is necessary to reduce these inequities, not just because they are unjust, but also because doing so is essential to progress. In the words of Raikes Foundation founder Jeff Raikes (quoted in Dorsey et al., 2020), “Philanthropy is overlooking leaders of color who have the most lived experience with and understanding of the problems we are trying to solve.” It is essential to recognize

that all scholarship, policy, and practices are rooted in norms (Hamilton, 2017). Yes, good policymaking entails application of methods grounded in rigor and objective analysis of data, but it also entails ideas, theories, and hypotheses that are shaped, at least in part, by human experience. If society is to generate innovative new ideas to reduce economic inequality significantly—and to disrupt unjust, persistent structures of racial and gender stratification—the inclusion of scholars, practitioners, and policymakers who come with backgrounds and experiences that have been largely excluded is a critical ingredient. In the era of Black Lives Matter, allyship requires a willingness to provide support to organizations peopled by and led by Black, Latinx, and Indigenous individuals, and, dare we add, Black, Latinx, and Indigenous researchers.³¹

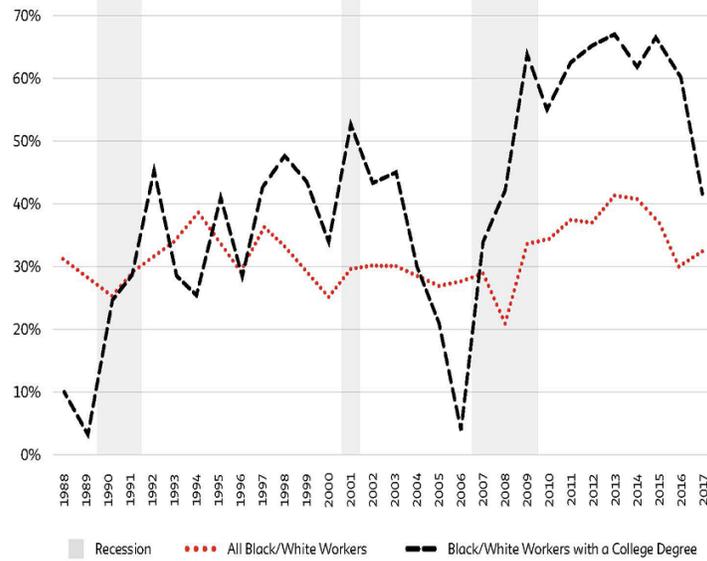
³¹ It is worth noting that it is the one Black economist who has won a Nobel prize, W.A. Lewis, whose work explains the phenomenon that racial disparities remain or grow with higher levels of educational attainment.

APPENDIX 1:

Notes and Figures for “Black-White Wage Disparity Across Business Cycles”

Figure A shows the decomposition trend of wage disparity for (1) all Black and White workers and (2) all Black and White workers with a college degree. Similar to the findings from our decompositions of wage disparity for Black and White men college graduates, we find that Black and White workers with a college degree see an increase in the portion of the wage disparity attributable to differential labor market treatment during recessions. The trend is especially pronounced during the Great Recession and the 1990-91 recession. While instructive on its face, we should note that the trend exhibited in Figure A is confounded by gender effects, and as such, does not isolate the unique effects of race.

Figure A: The Component of Racial Wage Disparity Due to Differential Treatment of Labor Market Characteristics (1988–2017)



Trend-based estimates from repeated cross sections of CPS-ASEC, 1988 to 2017. Analysis is of positive wage earners.
 Source: Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, and J. Robert Warren (2020), "Integrated Public Use Microdata Series, Current Population Survey: Version 7.0" [dataset], Minneapolis, MN: IPUMS.

APPENDIX 2: Essential Work and Occupational Crowding

A. Defining Essential Workers

For this analysis, we modified essential work categories established by Celine McNicholas and Margaret Poydoc's Economic Policy Institute (EPI) report on essential workers and unionization. EPI modeled their definitions of essential workers after a Center for Economic and Policy Research report, adding occupations required in Executive Orders in Maryland and California.

We modified the EPI designations based on the guidelines from the Department of Homeland Security's initial critical infrastructure workforce recommendations. We excluded occupations that likely would be considered nonessential regardless of the sector (e.g. barbers and manicurists). We also removed other occupations that may not widely be considered essential, added occupations/industries to existing categories (e.g. ensuring more healthcare workers were deemed essential), and added a Defense sector.

Below are examples of industries and occupations within each sector:

- › **Chemical Sector**
Includes chemical engineers, chemical technicians, hazardous waste removal workers, and chemical processing workers.
- › **Commercial Services**
Includes workers in waste management and remediation services industry and services to buildings and dwellings industry, and workers in occupations such as laundry and dry-cleaning service workers, construction workers, and construction laborers.
- › **Communications and IT**
Includes workers in broadcasting and telecommunications industries, and workers in occupations such as switchboard operators, telecommunications line installers, and telephone operators.
- › **Critical Manufacturing**
Includes workers in occupations such as sheet metal workers, metal furnace operators, engine and other machine setters, and tool and die makers.
- › **Defense**
Includes workers in industries such as the U.S. Air Force, U.S. Navy, and Military Reserves or National Guard.
- › **Emergency Services**
Includes occupations such as police officers, firefighters, emergency medical technicians, and emergency management directors.
- › **Energy**
Includes workers in industries such as coal mining and gas extraction, and workers in occupations such as electrical engineers, electrical power-line installers, and extraction workers.

- › **Financial Sector**
Includes workers in occupations such as financial analysts, tellers, credit authorizers and clerks, and credit counselors.
- › **Food and Agriculture**
Includes workers in industries such as supermarket and grocery, convenience stores, and pharmacy and drug stores, and workers in occupations such as farmers, butchers, and food processing workers.
- › **Government and Community-Based Services**
Includes workers in industries such as individual and family services and community food, housing, and emergency and childcare industries, and workers in occupations such as social and community services managers, probation officers and correctional treatment specialists, and legal support workers.
- › **Healthcare**
Includes workers in all healthcare industries and workers with healthcare occupations, including respiratory therapists, physicians, occupational therapists, and nursing assistants.
- › **Transportation, Warehouse, and Delivery**
Includes workers in industries such as postal service, warehousing and storage, bus service and urban transit, and workers in occupations such as couriers, postal service workers, and bus drivers.
- › **Water and Wastewater Management**
Includes workers in the water and wastewater treatment plant and system operator occupations.
- › **Nonessential Industry/Occupation**
Includes all workers not captured in the sectors above and excludes other workers in occupations that would not be considered essential regardless of sector (e.g. a barber who works in a healthcare setting).

Table 1A: Distribution of Workers Age 25–64 Across Essential and Nonessential Sectors

Sector	Total Employed (in millions)	Share of Workers
TOTAL	112.82	1.000
Nonessential	62.79	0.560
Essential	50.03	0.440
Chemical	0.22	0.002
Commercial Services	4.84	0.040
Communications and IT	3.53	0.030
Critical Manufacturing	1.64	0.010
Defense	1.23	0.010
Emergency Services	1.41	0.010
Energy	1.13	0.010
Financial	2.38	0.020
Food and Agriculture	8.27	0.070
Government and Community-Based Services	2.83	0.030
Healthcare	17.02	0.150
Transportation, Warehouse, and Delivery	5.45	0.050
Water and Wastewater Management	0.08	0.001

Data Source: American Community Survey 2018 Five Year Estimates. Minneapolis, MN: IPUMS, 2020.

Table 2A: Share of Essential Workers by Race and Gender

Workers Aged 25 - 64	Share of Nonessential Workers	Share of Essential Workers	TOTAL
BLACK	0.11	0.15	0.13
• Women	0.06	0.09	0.06
• Men	0.05	0.07	0.06
LATINX	0.17	0.21	0.18
• Women	0.07	0.09	0.08
• Men	0.09	0.12	0.10
WHITE	0.72	0.64	0.69
• Women	0.34	0.32	0.33
• Men	0.38	0.32	0.37

Data Source: American Community Survey 2018 Five Year Estimates. Minneapolis, MN: IPUMS, 2020.

Table 3A: Share of Workers Who Are in Essential Work by Race and Gender

Workers Aged 25 - 64	Share in Essential Work
BLACK	0.52
• Women	0.55
• Men	0.50
LATINX	0.50
• Women	0.48
• Men	0.52
WHITE	0.42
• Women	0.43
• Men	0.40

Data Source: American Community Survey 2018 Five Year Estimates. Minneapolis, MN: IPUMS, 2020.

B. Measuring Occupational Crowding

We calculate a crowding index for employed individuals who work for wages as follows: Black non-Latinx women, Black non-Latinx men, Latinx women, Latinx men, White non-Latinx women, and White non-Latinx men between the ages of 25-64. Future research could also explore workers who are self-employed.

Occupations in which the actual share of a given group exceeds the expected share by more than 10 percent are considered to be cases of overrepresentation (crowding score of more than 1.1) while occupations in which the actual share falls short of the expected share by more than 10 percent are considered to be cases of underrepresentation (crowding score of less than 0.9). Occupations where the expected number of the relevant group does not exceed nor is less than 10 percent (between 0.9-1.1) are considered proportionally represented.

$$CROWD_INDEX_x = \left\{ \frac{Actual\ Share_x^i}{Expected\ Share_x^i} \right\} = \left\{ \begin{array}{l} \frac{x^i}{y^i} \\ \frac{x^{ii}}{y^{ii}} \end{array} \right\}$$

C. Essential Work

Table 1C: Occupational Crowding and Essential Work

Reference Group	Essential Work		Nonessential Work	
	Crowding Index	Share of Average Wages*	Crowding Index	Share of Average Wages*
	Average Income: \$54,362		Average Income: \$59,153	
Black Women v. White Women	1.20	0.81	0.80	0.85
Black Women v. White Men	1.30	0.61	0.78	0.56
Black Men v. White Men	1.10	0.69	0.83	0.64
Latinx Women v. White Women	1.20	0.72	0.99	0.76
Latinx Women v. White Men	1.30	0.54	0.97	0.50
Latinx Men v. White Men	1.40	0.68	0.98	0.66
White Women v. White Men	1.00	0.83	0.99	0.76
White Men v. Everyone	0.87	1.31	1.00	1.30

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)
 Data Source: American Community Survey 2018 Five Year Estimates. Minneapolis, MN: IPUMS, 2020.

Table 2C: Essential Sectors and Occupational Crowding

Sector	Crowd Index:	Black Women v. White Women	Black Women v. White Men	Black Men v. White Men	Latinx Women v. White Women	Latinx Women v. White Men	Latinx Men v. White Men	White Women v. White Men	White Men v. Everybody
Chemical	Crowd Index:	0.89	0.28	0.75	0.87	0.27	0.84	0.42	1.6
Average Income: \$72,049	Share of Avg. Wages:*	0.8	0.6	0.8	0.8	0.7	0.8	0.8	1.1
P20 Education: HS/GED									
P80 Education: BA/BS									
Commercial Services	Crowd Index:	1.1	0.2	0.7	2.4	0.7	1.8	0.2	1.3
Average Income: \$41,419	Share of Avg. Wages:*	0.8	0.5	0.7	0.8	0.4	0.8	0.6	1.3
P20 Education: Grade 10									
P80 Education: Some College									
Communications and IT	Crowd Index:	1.3	1.3	1.1	1.1	1.2	1.0	1.0	0.9
Average Income: \$54,598	Share of Avg. Wages:*	0.8	0.6	0.7	0.8	0.5	0.7	0.8	1.3
P20 Education: HS/GED									
P80 Education: BA									
Critical Manufacturing	Crowd Index:	1.1	0.2	0.7	1.4	0.3	1.0	0.2	1.7
Average Income: \$44,393	Share of Avg. Wages:*	0.9	0.7	0.8	0.8	0.6	0.9	0.7	1.1
P20 Education: HS/GED									
P80 Education: Some College									
Defense	Crowd Index:	1.9	0.6	1.4	1.3	0.4	1.2	0.4	1.5
Average Income: \$71,737	Share of Avg. Wages:*	0.9	0.9	0.9	0.8	0.8	0.9	1.0	1.1
P20 Education: Some College									
P80 Education: MA/Prof									

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men).
Data source: American Community Survey 2018 Five Year Estimates, Minneapolis, MN; IPUMS, 2020.

Table 2C: Essential Sectors and Occupational Crowding (cont.)

Sector	Crowd Index:	Black Women v. White Women	Black Women v. White Men	Black Men v. White Men	Latinx Women v. White Women	Latinx Women v. White Men	Latinx Men v. White Men	White Women v. White Men	White Men v. Everybody
Emergency Services	Crowd Index:	1.5	0.3	0.8	1.1	0.2	0.8	0.2	1.8
Average Income: \$73,116	Share of Avg. Wages:**	0.9	0.8	0.9	1.0	0.9	1.0	0.9	1.0
P20 Education: HS/GED									
P80 Education: Some College									
Energy	Crowd Index:	0.7	0.0	0.5	0.9	0.0**	0.9	0.1	2.0
Average Income: \$68,457	Share of Avg. Wages:**	0.9	0.8	0.8	0.8	0.7	0.8	1.0	1.0
P20 Education: HS/GED									
P80 Education: Some College									
Financial	Crowd Index:	0.8	0.9	0.6	1.0	1.1	0.8	1.1	1.0
Average Income: \$96,916	Share of Avg. Wages:**	0.8	0.4	0.6	0.8	0.4	0.7	0.7	1.5
P20 Education: Some College									
P80 Education: BA/BS									
Food and Agriculture	Crowd Index:	1.0	1.1	1.2	1.5	1.7	1.7	1.1	0.8
Average Income: \$32,015	Share of Avg. Wages:**	0.9	0.6	0.7	0.8	0.6	0.8	0.8	1.3
P20 Education: HS/GED									
P80 Education: Some College									
Government and Community-Based Services	Crowd Index:	1.2	2.0	1.2	1.3	2.1	1.0	1.3	0.7
Average Income: \$75,067	Share of Avg. Wages:**	0.8	0.4	0.5	0.7	0.4	0.6	0.7	1.7
P20 Education: Some College									
P80 Education: MA/Prof									

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)

**Crowd Index = 0

Data Source: American Community Survey 2018 Five Year Estimates, Minneapolis, MN: IPUMS, 2020.

Table 2C: Essential Sectors and Occupational Crowding (cont.)

Sector	Crowd Index:	Black Women v. White Women	Black Women v. White Men	Black Men v. White Men	Latinx Women v. White Women	Latinx Women v. White Men	Latinx Men v. White Men	White Women v. White Men	White Men v. Everybody
Healthcare	Crowd Index:	1.2	2.9	1.3	0.9	2.5	0.9	1.6	0.4
Average Income: \$59,266	Share of Avg. Wages:*	0.8	0.6	0.6	0.8	0.5	0.7	0.8	1.7
P20 Education: HS/GED									
P80 Education: BA/BS									
Transportation, Warehouse, and Delivery	Crowd Index:	1.4	0.5	1.4	1.0	0.4	1.1	0.5	1.3
Average Income: \$45,554	Share of Avg. Wages:*	1.0	0.7	0.9	0.9	0.6	0.9	0.8	1.1
P20 Education: HS/GED									
P80 Education: Some College									
Water and Wastewater Management	Crowd Index:	0.5	0.0	0.5	0.0	0.4	0.5	0.1	2.2
Average Income: \$53,040	Share of Avg. Wages:*	0.8	0.7	0.9	0.7	0.6	1.0	0.9	1.0
P20 Education: HS/GED									
P80 Education: Some College									
Nonessential Industry/Occupation	Crowd Index:	0.8	0.8	0.8	1.0	1.0	1.0	1.0	1.0
Average Income: \$59,153	Share of Avg. Wages:*	0.9	0.6	0.6	0.8	0.5	0.7	0.8	1.3
P20 Education: HS/GED									
P80 Education: BA									

*Note: The share of average wages refers to the average annual wages of the two comparison groups (e.g., Black Women and White Men)
 Data Source: American Community Survey 2018 Five Year Estimates, Minneapolis, MN: IPUMS, 2020.

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HIDDEN RULES OF RACE ARE EMBEDDED IN THE NEW TAX LAW

3/12/2021

Hidden Rules of Race are Embedded in the New Tax Law - Roosevelt Institute



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BRIEFS PROGRESSIVE THOUGHT

Hidden Rules of Race are Embedded in the New Tax Law

MAY 23, 2018

By Darrick Hamilton, Michael Linden

[DOWNLOAD BRIEF](#)

The federal tax code is one of the most powerful tools of economic policymaking, housing critical rules that govern our economy. As such, it is also home to a set of hidden racial rules that, through intention or neglect, provide opportunities to some communities and create barriers for others.

The Tax Cuts and Jobs Act, also known as the Trump tax law, was a substantial rewrite of the tax code. Far from addressing, fixing, or improving the hidden rules of the tax code that disadvantage people of color, the new law strengthened some of these rules and even added new ones.

In "[Hidden Rules of Race are Embedded in the New Tax Law](#)", Roosevelt Fellows Darrick Hamilton and Michael Linden explain the four major ways that the new tax law will harm people of color: by exacerbating disparities in both income and wealth; through expected increases in local fines and fees; and from an enormous revenue loss that will undermine the public sector—and millions of black workers along with it.

Before the Trump tax law, there were myriad ways that federal tax policy could have been improved to remove the hidden and not-so-hidden barriers to economic opportunity and security for people of color embedded in the tax code. Unfortunately, the new law will deliver



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...conomy. Only with progressive tax policy can the hidden rules of race that shape the federal tax code, the U.S. economy, and society at large begin to be undone.

Learn more about the Hidden Rules of Race

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LETTER SUBMITTED BY LIBERATION IN A GENERATION



March 9, 2021

The Honorable Sherrod Brown
 Chairman
 Committee on Banking, Housing and Urban
 Affairs
 U.S. Senate
 Washington, D.C. 20510

The Honorable Patrick J. Toomey
 Ranking Member
 Committee on Banking, Housing and Urban
 Affairs
 U.S. Senate
 Washington, D.C. 20510

RE: Statement for the Record, U.S. Senate Committee on Banking, Housing, and Urban Affairs
 Hearing on "Wall Street vs. Workers: How the Financial System Hurts Workers and Widens the
 Racial Wealth Gap," March 4, 2021

Dear Chairman Brown and Ranking Member Toomey:

On behalf of Liberation in a Generation, we thank you for the opportunity to submit a statement for the record for the U.S. Senate Committee on Banking, Housing, and Urban Affairs hearing entitled "Wall Street vs. Workers: How the Financial System Hurts Workers and Widens the Racial Wealth Gap," held on March 4, 2021. In this statement, we raise some of our financial system's ways of contributing to the racial wealth gap and urge the Committee to take actions to end the dual financial system communities of color face.

As a national movement support organization working to build the power of people of color to totally transform the economy—who controls it, how it works, and most importantly, for whom—we believe that the wealth disparities we witness today are the direct result of historic systemic racism embedded into the design of our current economic systems. That embedded racism has created a dual financial system that is a crucial driver of the racial wealth gap.

The racial inequities in our financial system are no accident. Instead, it is the natural result of centuries of racist government policy and discriminatory practices used by financial institutions that have served to build wealth for white families while stripping wealth away from Black, Indigenous, Latinx, and Asian and Pacific Islander families. To put this into perspective, here are a few examples of how our dual financial system has historically and presently contributed to the Black/White wealth gap.

- **Black Sharecroppers and the Rise of Predatory Credit in the Post-Civil War South:**
 In the years following the civil war, several thousand African Americans would go on to enter into labor arrangements with former slaveholders and other landowners. Many of those arrangements would lead African Americans who did not have enough wealth (or were given a chance) to own and farm their land to become sharecroppers.¹ Eventually, sharecropping would give rise to a predatory short-credit system, facilitated through general store merchants, that many sharecroppers would rely upon at the start of a growing season to buy necessities, equipment, and supplies.

These merchants, which were almost all white, would go on to leverage their credit in several predatory ways, including by creating a two-tier system in which the cost of

¹ Charles Lewis Nier III, "[The Shadow of Credit: The Historical Origins of Racial Predatory Lending and its Impact upon African American Wealth Accumulation](#)", *University of Pennsylvania Journal of Law and Social Change*, 2007.



goods purchased through credit was significantly higher than goods purchased with cash. Adding to this, these merchants also tacked on additional interest charges on goods purchased with credit, ranging from 8-15%, as well as on smaller credit advances. For many African American sharecroppers, this two-tier credit system, along with crop liens and other predatory financial practices, would leave them vulnerable to falling victim to a cycle of perpetual economic insecurity. At the same time, white landowners and merchants reaped immense benefits from this predatory, dual financial system.

- African Americans and the Intentional Denial of Mainstream Housing and Agriculture Credit During the Mid-20th Century:** In the aftermath of the Great Depression and World War II, the federal government would go on to make massive investments to support and remake various aspects of the U.S. economy, including the housing and agriculture sectors. But as with the financial system that flourished in the post-Civil War South, these investments would eventually lead to another dual financial system, one that facilitated wealth-building for white households while at the same time stripping and suppressing the wealth-building potential of communities of color. For example, while the National Housing Act of 1934 was intended to make homeownership more accessible following the Great Depression, federal, local, and private actions over the next three decades would go on to systematically deny, or "redlined," countless African American families from purchasing a home.² Unsurprisingly, this denial would also go on to fuel the predatory practice of "contracts for deed," which would eventually strip billions in wealth from Black communities throughout the country who wanted nothing more than to secure their share of the American Dream.³

A similar story can be traced through the Farm Security Act of 1937, which was intended to support small farmers following the Great Depression. Like the previous example, public and private actions over the next several decades would create another dual financial system. This time the system often worked to deny Black farmers the financial resources they needed to maintain their farms and livelihoods. To put the impact of this dual financial system into perspective, consider that the practices facilitated by the U.S. Department of Agriculture (USDA) and its public and private partners would go on to lead Black farmers in Mississippi to lose 800,000 acres of land in a 14-year period (1950-1964)—the loss of which amounted to at least \$3.7–\$6.6 billion in lost value in today's dollars.⁴ Decades later, this dual financial system facilitated by the USDA and its partners would go on to be further highlighted by the 1999 *Pigford v. Glickman* class action lawsuit against the agency.

- Toxic Housing Credit Targeted at Communities of Color and the 2008 Housing Crisis:** Unlike the previous two examples, no single piece of legislation is entirely responsible for bursting the housing bubble that would fuel the Great Recession. However, what did contribute to the 2008 housing crisis was another dual financial system—this one fostered and encouraged by unrestrained behaviors by financial institutions (e.g., banks, investment firms, insurance companies, and credit reporting agencies). For years before 2008, financial institutions intentionally targeted

² According to an [analysis](#) by George Lipsitz, a Professor of Black Studies and Sociology at the University of California, Santa Barbara, 98% all government-backed mortgages issued between 1934 and 1968 went to White homebuyers.

³ Natalie Moore, "[Contract Buying Robbed Black Families In Chicago Of Billions](#)," *NPR*, 2019.

⁴ Vann R. Newkirk II, "[The Great Land Robbery: The Shameful Story of How 1 Million Black Families Have Been Ripped from Their Farms](#)," *The Atlantic*, 2019.



communities of color with subprime mortgages, even when these communities could qualify for a prime, more affordable and mainstream credit product.⁵

As the Committee knows, this dual financial system's cost would lead Black and Latinx homeowners to disproportionately lose their homes to foreclosure during the housing crisis.⁶ The impact of this loss not only wiped away more than half the median household wealth within these communities in the aftermath of the Great Recession,⁷ but it also left them six years behind white households in recovering from the economic downturn.⁸

A similar history on the dual financial system's racist impact can explain the wealth gap for Indigenous, Latinx, and some Asian and Pacific Islander populations.

Beyond these notable examples of how the financial system has widened the racial wealth gap, communities of color continue to face a very different economic system in a range of other ways. Though not a comprehensive list, these disparities include:

- Having less access to mainstream financial products and services (e.g., checking and savings accounts,⁹ affordable credit, and insurance);
- Increased use of costly and often predatory alternative financial services,¹⁰ like payday loans and check cashers; and
- Higher likelihood to live in "banking deserts."¹¹

Ultimately, these and countless other aspects of our financial system have served to suppress and strip the wealth-building potential of communities of color. As a result, this dual financial system is helping to further fuel a racial wealth gap that today sees Black and Latinx households owning just 6% of the nation's wealth¹² (despite making up about 30% of the population) and places them on a potential path to seeing their median household wealth hit zero by 2053.¹³

As daunting as this is, reversing these trends and closing the racial wealth gap within one generation is very much possible. But achieving that will require significant and long-term federal investment in communities of color and that Congress and relevant federal agencies end

⁵ Michael Powell, "[Bank Accused of Pushing Mortgage Deals on Blacks](#)," *New York Times*, 2009.

⁶ 5 Debbie Gruenstein Bocian, Wei Li, and Keith S. Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis." (Durham, NC: Center for Responsible Lending, 2010).

⁷ Richard Fry and Paul Taylor, "[Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics](#)," *Pew Research Center*, 2011.

⁸ Board of Governors of the Federal Reserve System, "[Survey of Consumer Finances, 1989 - 2019](#)," 2020.

⁹ According to the FDIC's [2017 National Survey of Unbanked and Underbanked Households](#), nearly half of Black and Latinx households in 2017 were either unbanked or underbanked, meaning they had a bank account but still used alternative financial services to meet financial needs.

¹⁰ According to a 2019 study by PolicyLink and UnidosUS ([The Future of Banking: Overcoming Barriers to Financial Inclusion for Communities of Color](#)), \$173 billion was spent through fees and interest to use alternative financial services by unbanked and underbanked consumers in 2017.

¹¹ According to researchers, these "[banking deserts](#)" are largely located in rural areas in the South, Southwest, Great Plains, and Northwest regions of the United States, and largely affect Black, Latinx and Indigenous People in these rural communities.

¹² Board of Governors of the Federal Reserve System, "[Distribution of Household Wealth in the U.S. since 1989](#)," 2020.

¹³ Asante-Muhammad, et al., "[The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America's Middle Class](#)," 2017.



the dual financial system that has long facilitated rampant financial predation against communities of color. Doing that will require several actions, including, but not limited to:

- Reforming the Community Reinvestment Act to ensure that people of color have access to mainstream financial products and services (including checking and savings products, mortgages, small-business loans, and other financial services);
- Bolstering the Consumer Financial Protection Bureau's ability to enforce fair lending laws;
- Forgiving student loan debt and providing debt-free access to colleges and universities;
- Putting an end to predatory products like payday loans that only serve to trap consumers in a cycle of debt; and
- Curbing the corporate power of institutions that have used their influence to concentrate power and wealth at the expense of the economic well-being of communities of color;

The hearing on March 4 is an important step in this process. We urge the Committee to take action on these and other issues to end the dual financial system communities of color continue to face.

Thank you again for the opportunity to submit a statement for the record on this important hearing.

Sincerely,

Jeremie Greer
Co-Founder, Co-Executive Director

Solana Rice
Co-Founder, Co-Executive Director

3/12/2021

Neoliberalism and Race : Democracy Journal



DEMOCRACY



SYMPOSIUM | BEYOND NEOLIBERALISM

Neoliberalism and Race

BY DARRICK HAMILTON FROM SUMMER 2019, NO. 53 - 12 MIN READ

TAGGED ECONOMICS NEOLIBERALISM RACE



An Economic Policy Institute (EPI) [brief](#) entitled “The Productivity-Pay Gap” vividly displays a disturbing trend that, for the last 45 years, essentially all of the economic gains from America’s increasing productivity has gone to the elite and upper-middle class, while workers’ real wages have remained roughly flat. In their report, 1973 serves as a demarcation line: Prior to that date, worker gains in terms of real wages increased with an almost lockstep 1:1 relationship with productivity. After 1973, however, despite the continued trend of increased productivity, the promised “trickle-down” to all workers from neoliberal supply-side economics hasn’t happened.

Nonetheless, this neoliberal political ideology has dominated, maintaining and reinforcing economic **concentration**. But to fully understand why the status-quo of growing inequality persisted, we need to examine the third pillar of this relationship: race—or, more broadly, the existence of an underclass marked by a socially stigmatized identity, which rose in the 1970s, coincident to the productivity-pay gap.

Neoliberal economics made an implicit, or sometimes explicit, promise to black Americans and to the underclass: that the rising tide would “lift all boats,” and that the new paradigm would free them from the state’s deadening hand that forced them into lives of dependency. But the promise of economic prosperity and relative racial progress of neoliberal economics for black Americans has not materialized. In fact, some progress has been reversed. Evidence from the **U.S. Decennial Census** reveals tremendous relative racial economic progress for blacks from 1940, when the typical black man earned only 45 percent of typical white male earnings, to the 1980 census, when that gap was reduced to about 70 percent of average white male wages. But this relative progress ceased. Prevailing neoliberal explanations for this reversal have focused on education, individual attitudes, and public sector programs that supposedly generate perverse incentives away from personal responsibility. The presumption is that if black people were more responsible, made better financial decisions, and focused on education, they could get a good job and achieve economic security.

But studying and working hard hasn’t been enough for black Americans. Since the United States started tracking unemployment by race, the unemployment rate for blacks has remained roughly twice as high as the white rate regardless of education. Moreover, even for highly educated blacks, a college degree has **not been a guarantee of job security**. Janelle Jones and John Schmitt (2014) estimate that the unemployment rate for recent black college graduates exceeds 12 percent. Wealth disparities persist with high levels of education, too. A 2015 **report** that I co-authored reveals the stunning fact that black households in which the head graduated from college have less wealth than white households in which the head dropped out of high school.

We often think of wealth as an outcome, but much of its value is in what it can do for you. It offers financial agency and economic security to take risks and shield against loss, and it is a necessary collateral to attain additional finance, or at least additional finance on reasonable terms. Having wealth better positions families to bankroll an expensive education, start a business, pay for an expensive medical procedure, live in a

high-amenity neighborhood, and so on. In essence, wealth begets more wealth—when it comes to economic security, it is both the beginning and the end.

Yet wealth today is just about as concentrated as it was at the beginning of the Great Depression. And with respect to race, evidence from the 2016 Survey of Consumer Finances indicates that the absolute racial wealth gap exceeds \$100,000 per family, and the typical black family owns only about \$0.10 per dollar owned by the typical white family. Overall, race is an even stronger predictor of wealth than class itself. Black households have median wealth of about \$17,600 (inclusive of home equity), and \$20,700 for Latino households, which contrasts with \$171,000 in median wealth for white households. This stark racial wealth gap is an inheritance that goes as far back as chattel slavery, when blacks were quite literally capital assets for a white landowning plantation class, and not the products of differences in education, financial literacy, or any race-based behaviors or attitudes.

We'd be remiss to discuss racial disparity without mention of mass incarceration. Since 1970, we have witnessed a seven-fold increase in the number of inmates, from about 200,000 to more than 1.5 million in state and federal prisons, which is not counting the more than 700,000 in county and local jails at any given point. A disproportionate share of this incarcerated population is composed of black males. Black males make up about 6 percent of the U.S. population, but roughly 50 percent of the incarcerated population; and there is about a one-in-three chance that a black man will end up serving time at some point in his life. It is noteworthy that the so-called “war on drugs” was also initiated in the 1970s alongside the rise of neoliberal economics and the mantra of personal responsibility.

In addition to wages, wealth disparity, and mass incarceration, black Americans face other obstacles to economic inclusion such as vulnerability to predatory finance, municipal fees, shortage of affordable housing (and the instability associated with evictions), food insecurity, environmental injustice, and climate gentrification. These vulnerabilities disproportionately fall on women, blacks, and other nonwhites. Their education, employment, and earnings are more precarious and they tend to have more caregiving and financial responsibilities. Yale political scientist Jacob Hacker summed this economic vulnerability as *The Great Risk Shift*, in which our society shifted our social insurance that evolved out of the New Deal from the government and corporations onto families and individuals.

Since the ascendance of neoliberal economics in the 1970s, the political sentiment regarding social mobility in the United States has radically shifted away from government mandates of economic security to an approach in which the “market” is presumed to be the judge of our worth, and the solution for all our problems, economic or otherwise. As a result, the onus for social mobility also radically shifted onto the individual.

This emergent political consensus was based on the view that marketized solutions were what was best for our economy. Markets, whether they were product markets, labor markets, or financial markets, were presumed to be a self-regulating, fair, and color-blind arbiter that rewarded hard work and sanctioned those who did not put forth effort. Thus did the “undeserving poor” receive their “just rewards?”

What is glaringly missing from the neoliberal perspective is the role of power and capital, and how that power and capital can be used to alter the rules and structure of transactions and markets) in the first place. Words like choice and freedom were presented as attributes of the market, but choice is an illusion for someone who lacks basic needs like shelter, food, and health care. It is literally *wealth* that gives us choice and freedom. The private sector, and market alone, has never been adequate to deal with reinforcing inequalities, worker vulnerabilities, and obstacles to social mobility. There have been recent important correctives to this. The French economist Thomas Piketty, in his book *Capital in the Twenty-First Century*, brought considerable attention to the growing problem of capital and wealth consolidation by a wealthy capitalist class for whom advantage is locked in at birth as a result of laws, policies, institutions, and economic arrangements. A plutocratic relationship as explanatory for growing inequality was also emphasized by Richard Reeves in his book *Dream Hoarders*. Yet largely absent from even their analyses is the role that race plays in both economic stratification and the political structuring of rules to iterate economic gains.

At the same time that it underplays the importance of capital and wealth, the neoliberal frame overstates the functional role of education and personal responsibility. We know, for example, that the racial wealth gap *grows* rather than dissipates with education. For instance, the 2014 Survey of Income and Program Participation data reveals that the white-black difference in median wealth for a family where the head did not complete high school is about \$80,000; about \$110,000 for families where the head has a high

school diploma; nearly \$200,000 where the head has a college degree; and more than \$300,000 for families where the head has a masters, doctorate, or professional degree. Also, black expectant mothers with a college degree have a greater likelihood of an infant mortality than white expectant mothers who dropped out of high school. Both black men and women between the ages of 25 and 64 have about a 50 percent higher mortality rate than their white counterparts. But what's even more disheartening is that these disparities *increase* with education—black men and women with a college degree have nearly a 70 percent higher mortality rate than similarly educated whites. The adage that enjoins blacks to “work twice as hard to get by” to overcome social obstacles, should also consider that there may be physical and psychological costs of exerting above normal effort in discriminatory and racially stigmatized environments, particularly for high achievers as measured by education that pose a competitive threat in attainment of the high status, preferred economic positions of the socially dominant group.

Education is associated with better economic and health outcomes within racial groups, but high-achieving black Americans, as measured by education, still exhibit large economic and health disparities relative to their white peers. In essence, education is not the magic antidote for the enormous inherited disparities that result from laws, policies, and economic arrangements that facilitate the concentration of economic and political power described above. None of this is intended to diminish the value of education—regardless of its vocational role, there is clear intrinsic value to education, especially as it relates to having a well-informed and civically engaged populace.

The extent of our dramatic inequality, especially with regards to race, is at least as much a problem of politics and rhetoric as it is a problem of economics. It is time to move beyond the false narrative that attributes inequality to personal deficits, while largely ignoring the inherited advantages (and disadvantages) of capital and the reinforcing political power that comes along with it. Instead, we need **structural solutions** that establish a more decent economy and facilitate assets, economic security, and social mobility for all its citizens, regardless of the race and family position in which individuals are born.

Rather than the government constructing policies or engaging in austerity based on a neoliberal frame that uses the market to sanction or discipline poor people, the government should provide public options that crowd-out or discipline firms

engaging in exploitative practices. There are a set of enabling goods and services that are so critical for life, liberty, and self-determination that their production and distribution should not be vulnerable to the rationing and pricing that come about from firms trying to maximize profits for their shareholders. I support an economic bill of rights that is consciously legislated and implemented in a racially inclusive way (i.e. a race-conscious economic bill of rights).

In 2017, at my National Economic Association Presidential Address, and at a National Economic Rights and Social Contract Initiatives convening on “A New Social Contract: Guaranteeing Dignity in a Precarious Economy,” I shared a 10-point [agenda](#) that could form the basis of this new social contract, or a race-conscious economic bill of rights. The list is not exhaustive but prioritizes a Federal Job Guarantee and Baby Bonds, or more accurately, Baby Trusts, as economic rights that promote inclusion, equity, and fairness, and provide a robust “public option” for jobs, income, and wealth creation for all Americans.

The list begins with the only race-specific program on the entire list, reparations, which is an ultimate necessity to achieving racial justice: reparations for slavery, sharecropping, “whitecapping” (unpunished white vigilante violence to steal black property), Jim Crow laws, and the state-facilitated exclusion of people of color from several of the New Deal and postwar policies that built the white middle class. An honest and sobering confession of our historical sins would counter the neoliberal frame that characterizes black, brown, and poor people as “underserving” and in need of market discipline, and, instead, pave the way for narratives that accurately frame inequality and poverty as grounded in resource deprivation.

However, acknowledgement and apology alone will be hollow if not accompanied by some form of material redress. The remainder of the list includes items like federalizing credit scores. A metric so determinant of individual life chances should not be left to the for-profit sector. Government should be responsible and accountable to how these scores are determined through a transparent and understandable process. Also, I advocate for postal banking to provide banking services and short and long-term loans particularly to unprivileged individuals who financially rely on predatory check cashing institutions and payday lenders, and basically put a floor on financial product availability. The Equal Employment Opportunity Commission should conduct employment audits to detect racial discrimination and prosecute discriminating firms.

Other priorities include: increase federal subsidies to Historically Black College and Universities to the proportional tune of the present value of support reached for other colleges and universities from the 1944 G.I. Bill (which was on the scale of the financing of the Marshall Plan); eliminate tracking in grade school and offer universal talented and gifted educational programs to all; single-payer health insurance; and the end of mass incarceration of non-violent offenders, while holding police criminally and civilly responsible for abusive practices.

The good news is that such change may be on the horizon, or even happening now. After the 2018 election, we now see a record number of women in Congress, and a general diversity that is greater than ever. Younger generations and social movements may be expanding our priorities and notions of economic good away from the self-interested neoliberal frame to one that incorporates morality, sustainability, and humanity. Hopefully, it will lead to a politics that is not narrowly constrained by the status quo of what does and does not seem feasible at a given moment based on our immediate past. Hopefully, it will lead to a transformative race- and-gender conscious economic bill of rights. One that will ensure universally accessible quality jobs, health care, housing, schooling, financial services, capital, and one that ensures free mobility without the psychological (and physical) threat of detention or bodily harm. Rights that this country has long offered to some but continues to deny so many.

FROM THE SYMPOSIUM

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STATE OF THE UNION

HOUSING

Darrick Hamilton and Christopher Famighetti

KEY FINDINGS

- Young millennials have lower rates of homeownership than Generation X, baby boomers, and the Silent Generation at comparable ages. We have to reach back to a generation born nearly a century ago—the Greatest Generation—to find homeownership rates lower than those found today among millennials.
- The racial gap in young-adult homeownership is larger for millennials than for any generation in the past century. Although the housing reforms after the civil rights era reduced the racial homeownership gap, all those gains have now been lost.

Homeownership has been an essential component of the American Dream since at least the housing reforms of the New Deal. The New Deal's housing reforms, however, were replete with racially disparate implementation and housing discrimination. The resulting benefits of homeownership—such as the accumulation of wealth and housing stability—disproportionately accrued to white Americans. These injustices were in turn responsible for generating an asset-based middle class for whites but not for blacks.

The purpose of this article is to examine generational trends in homeownership, and in particular racial disparities in homeownership across generations. Since millennials entered adulthood in the aftermath of the Great Recession, their access to housing may have been especially compromised.

The Great Recession reduced Americans' net worth by 40 percent—\$50,000 at the median—and particularly affected wealth held in the form of home equity.¹ It hit black households (and homeowners) especially hard. The small amount of wealth that black households amassed prior to the Great Recession, mainly in the form of home equity, was almost obliterated after the recession. The homeownership rate for blacks, which increased by 17 percent between 1990 and 2005, fell back after the Great Recession to the 1990 baseline.² We know less, however, about how black millennials fared during this period, a topic that will be taken up here.

Racial disparities in homeownership among young adults

It is useful to begin by focusing on homeownership among black and white young adults between the ages of 20 and 29. Given the compounding nature of wealth creation, the early life course is important because an early investment in a home may secure a pathway of wealth building and asset security thereafter.

We analyze Census microdata from 1940 to 2017 to compare the performance of millennials with that of the four preceding generations: Generation X (1965–1980), baby boomers (1946–1964), the Silent Generation (1928–1945), and the Greatest Generation (1910–1927).³ For each generation, we examine homeownership for household heads by age cohort and race.⁴

Table 1 presents, for each generation, the black and white homeownership rates and the white advantage in homeownership as represented by the white rate divided by the black rate. Comparing household heads aged 20–29 across generations (see the diagonal of Table 1) reveals that the only generation with a lower homeownership rate than millennials is the Greatest Generation. This generation was coming out of the Great Depression in 1940 and didn't benefit much from the New Deal programs that assisted with homeownership. It is striking that for both blacks and whites, one has to reach back to the Greatest Generation—born approximately a century ago—to find homeownership rates that are lower than those now in play for

millennials.⁷

The homeownership rates for millennials are, then, substantially lower than those for their counterparts in Generation X. This decline is especially pronounced among black millennials. Relative to Generation X, the homeownership rate for white millennials who are 20–29 years old fell by about 5 percent (or 1.7 percentage points), from 34.4 to 29.7 percent. The black millennial rate fell even more, by nearly 30 percent (or 4.6 percentage points), from 16.5 to 11.9 percent.

This large drop in the black rate produced an enormous increase in the white homeownership advantage for millennials. To be sure, the white homeownership advantage has always been large for those aged 20–29; the white rate was always at least double the black rate. But for young milleni-

als in 2010, whites were a full 2.74 times more likely to own, an advantage that is larger than in any other period in Table 1.⁸

Trends in homeownership across the life course

We have so far focused on young adults because, given the cumulative and compounding nature of wealth, early entry into homeownership is especially beneficial. It is nonetheless useful to examine rate differences between older black and white adults as well. Figure 1 thus presents the white advantage rates (from Table 1) across generations and age cohorts.

Across generations, the white homeownership advantage is most pronounced for young adults, and given the compounding nature of wealth, this can result in the wealth gap increasing exponentially with age. For each generation, the ownership advantage for

Table 1. The only generation with a lower young-adult homeownership rate than millennials was the Greatest Generation.

	2017***	2010	2000	1990	1980	1970	1960	1950*	1940
Millennials									
Age ranges	30-36	20-29							
White advantage**	2.57	2.74							
Black homeownership rate	22.4	11.9							
White homeownership rate	57.7	32.7							
Overall homeownership rate	47.5	27.1							
Gen X									
Age ranges	40-46	30-39	20-29						
White advantage	1.84	2.04	2.08						
Black homeownership rate	39.1	31.1	16.5						
White homeownership rate	71.7	63.4	34.4						
Overall homeownership rate	62.1	53.5	29.2						
Boomers									
Age ranges	60-66	50-59	40-49	30-39	20-29				
White advantage	1.49	1.50	1.53	1.90	2.04				
Black homeownership rate	55.1	53.6	50.5	33.7	19.3				
White homeownership rate	82.2	80.5	77.4	63.8	39.4				
Overall homeownership rate	76.8	75.0	71.1	57.7	35.7				
Silent									
Age ranges	80-86	70-79	60-69	50-59	40-49	30-39	20-29		
White advantage	1.16	1.29	1.33	1.41	1.48	1.87	2.54		
Black homeownership rate	68.9	65.5	63.4	58.8	54.4	36.1	14.4		
White homeownership rate	79.6	84.4	84.6	82.6	80.4	67.4	36.5		
Overall homeownership rate	77.3	80.8	80.5	78.2	75.7	62.4	33.8		
Greatest									
Age ranges	-	90-99	80-89	70-79	60-69	50-59	40-49	30-39	20-29
White advantage	-	0.96	1.15	1.25	1.34	1.47	1.78	-	2.40
Black homeownership rate	-	65.1	64.0	62.4	59.0	51.5	39.8	-	7.3
White homeownership rate	-	62.4	73.4	77.7	79.2	75.7	70.9	-	17.4
Overall homeownership rate	-	62.3	72.1	75.7	76.5	72.9	67.4	-	16.4

Source: U.S. Census microdata, 1940–2017.
 *Homeownership data for the 1950 Census unavailable.
 ** White advantage refers to the white homeownership rate / black homeownership rate.
 *** Cases for the Greatest Generation, as defined by our age cohorts, not available in the 2017 ACS microdata (i.e., no cases fell in the age range of 100–109 years old).

whites diminishes as the generation ages, a result that, in part, arises because there is a relatively large pool of non-owning blacks with the potential to become owners.

The more fundamental result in Figure 1 is that, while there was some evident progress in the period following the civil rights movement, all of those gains have been erased for the millennial generation. Following the civil rights movement, white young adults were still twice as likely to be homeowners, but their advantage narrowed somewhat. The attenuation in the white homeownership advantage could be attributable to the housing and lending reforms of the era. Those earlier gains have disappeared, though, and we are now worse off than when the time series started.

Whereas the white advantage decreased for young baby boomers and Gen Xers, the rate for black millennials has now reverted and is worse than in any other generation. It is noteworthy that this widening racial homeownership gap is occurring even as the white millennial generation homeownership rate is worsening compared with previous generations.

How could this have happened? Until recently, housing policies designed to spur fair lending and access to homeownership—such as the Fair Housing Act of 1968, the Equal Credit Opportunity Act of 1974, the Home Mortgage Disclosure Act of 1975, and the Community Reinvestment Act of 1977—appear to have had at least some marginal

effect.⁷ Yet, whether by design or enforcement, these policies seem to have lost whatever marginal effect they may have had, particularly with regard to millennials.

It is likely that urban gentrification and more stringent mortgage eligibility criteria, along with ongoing lending and housing discrimination, are impeding home purchases among millennials.⁸ Moreover, the surge in student debt may be spilling over to hurt millennials in the housing market, especially black millennials.⁹ The ongoing debate about student debt should explicitly take into account whether it has a disproportionate impact on black millennial college attendees. This is important because black young professionals are now beginning their careers with more student debt than their white counterparts.¹⁰

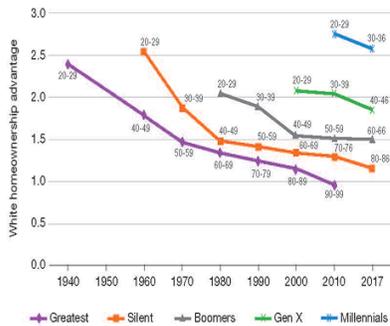
What's to be done?

The trends in Figure 1 are stark. It is well known that federal policies adopted in the 1930s and 1940s were racist in both design and implementation.¹¹ Institutions like the Federal Housing Administration and initiatives like the G.I. Bill advantaged white home buyers relative to blacks. Redlining and restrictive covenants facilitated real estate and lending discrimination and led to racial inequities in housing markets. This meant that, for black households, the ability to build wealth and to transmit it across generations was blunted by such racist policies and practices. The dramatic and persistent racial wealth gap is reinforced by the twin effects of impaired access to fair lending and lower levels of inherited wealth.¹²

With the baby boomers and Generation X, we saw some attenuation in these disparities, an attenuation that may be due to the housing reforms following the civil rights era. Though this attenuation was slight, and a large racial gap in homeownership persisted, the pattern offered at least a positive trend. But those civil rights gains have been reversed. We are now seeing racial disparities in homeownership in excess of those observed in recent U.S. history.

To address these racial disparities in homeownership, the ideal solution would be a direct one. For instance, reparations could directly compensate blacks for a 400-year-long history of dispossession and discrimination that dates back to chattel slavery, when blacks were the capital assets of a white plantation class. This was the beginning of a long history of oppression and unfairness that finds its most recent expression

Figure 1. The black-white disparity in homeownership among young adults is at an all-time high.



in housing inequities. When America is ready for the interrogation and reconciliation necessary to redress past racial injustices, reparations—especially in the form of capital and land transfer—would be the most direct, just, and parsimonious way to address them.

In the interim, we need universal programs administered in a race-conscious way that break from our nation's past and ensure that financially low-resourced Americans, a group that is disproportionately black, are provided with the

capital necessary to build wealth and pass it along to future generations.

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