

RACIAL INEQUALITY AND POLICY

From a Tangle of Pathology to a Race-Fair America

by Alan Aja, Daniel Bustillo, William Darity, Jr., and Darrick Hamilton

According to many, America is enjoying a post-racial moment. Post-racialism asserts that structural factors affecting racial progress are largely a thing of the past, and thus the huge racial wealth gap in the United States must be due to deficiencies in the communities in which entrenched poverty exists. But this ignores persistent structural trends that are barriers to economic security, mobility, and sustainability for black Americans—and these will not change until policies providing access to jobs and asset building for all Americans are put in place.

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WHEN PRESIDENT LYNDON JOHNSON GAVE his June 4, 1965 commencement address at Howard University, he invoked a symbolic language that would both seize the political moment and serve as a foundation for subsequent policy. The Civil Rights Act had passed only a year earlier, and Johnson, noting that it is “not enough just to open the gates of opportunity,” told the black graduating class that America needed “not just equality as a right and a theory but equality as a fact and as a result.” This call for “results” was a

precursor to Johnson’s Executive Order 11246, a mandate for the enforcement of positive anti-discrimination measures in preferred positions of society, or “affirmative action.”

But later in the speech, Johnson moved away from his point of departure, abruptly arguing that “perhaps most important—its influence radiating to every part of life—is the breakdown of the Negro family structure.” This “rhetorical sleight of hand,” as sociologist Stephen Steinberg aptly calls it, would reverberate in public discussion for years to come. By defining the central problem facing the black community as not the deep-seated structures that perpetuate racism but rather deficiencies internal to blacks themselves, the focus of policy would become the rehabilitation of the black family.

The roots of this ideology can be traced to Oscar Lewis’s notion of a “culture of poverty” and the 1965 Moynihan Report, in which black families were characterized as being caught up in a “tangle of pathology.” The contemporary version of this thesis

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is the “post-racial” narrative in which America has largely transcended its racial divides. The narrative of grand racial progress is coupled with the claim that whatever racial disparities remain are overwhelmingly the result of actions (or inactions) on the part of subaltern groups themselves. If blacks (and other subaltern communities, including Native Americans, Mexicans, Filipinos, Puerto Ricans, and Vietnamese) simply would reverse their self-sabotaging attitudes and behaviors, this argument goes, full equality could be achieved. Herein lies much of the rationale for austerity policies. If behavioral modification is the central issue, why fund government agencies and programs, which, at best, misallocate resources to irresponsible individuals and, at worst, create dependencies that further fuel irresponsible behavior?

Post-racialists often confirm their perspective by pointing to black and minority appointments to the nation’s elite positions, including the election of Barack Obama to the highest office in the land. Indeed, the president himself often perpetuates this “post-racial” trope. In his speech marking the fiftieth anniversary of the March on Washington for Jobs and Freedom, Obama described how “legitimate grievances” had “tipped into excuse-making” and “the transformative message of unity and brotherhood was drowned out by the language of recrimination.” “And what had once been a call for equality of opportunity,” he continued, “the chance for all Americans to work hard and get ahead, was too often framed as a mere desire for government support, as if we had no agency in our own liberation, as if poverty was an excuse for not raising your child and the bigotry of others was reason to give up on yourself.”

The president’s rhetoric on race is consistent with the following premises:

1. The civil rights era has virtually ended structural barriers to black equality; remaining barriers are due to the legacy of *past* discrimination, the residual effects of concentrated poverty, and black folks’ own behaviors. After all, virtually all groups of Americans have faced some form of discrimination but managed to “get ahead” anyway.
2. Blacks need to cease making particularistic claims on America and begin, in the

president’s words, to “[bind] our grievances to the larger aspirations of all Americans.”

3. Blacks need to recognize their own complicity in the continuation of racial inequality, as well as their own responsibility for directly changing their disparate position.

But if structural factors are largely artifacts of the past, what explains the marked and persistent racial gaps in employment and wealth? Is discrimination genuinely of only marginal importance in America today? Has America really transcended the racial divide, and can the enormous racial wealth gap be explained on the basis of dysfunctional behaviors?

The Racial Employment Gap

In marked contrast to incremental gains in relative educational attainment and income, the racial gap in mass long-term unemployment continues to remain intolerably high, with black Americans bearing a disproportionate burden. In the spring of 2014 the black unemployment rate was estimated at 12.0 percent, compared to 5.8 percent for whites. This continues a structural trend where the black rate remains roughly twice as high as the white rate. In fact, over the past forty years there has been only one year, 2000, in which the black unemployment rate has been below 8.0 percent. In contrast, there have only been four years in which the white rate has reached that level. Blacks are in a perpetual state of employment crisis.

At every rung of the educational ladder, the black unemployment rate is twice the white rate. In 2012 the unemployment rate for whites with less than a high-school diploma was 11.4 percent, but for blacks with the same educational level the rate was 20.4 percent. Most telling as an indication of ongoing discrimination in U.S. labor markets is that the unemployment rate for adult white high-school dropouts (11.4 percent) was less than the rate for blacks with some college education or an associate’s degree (11.6 percent).

Field experiments of employment audits provide powerful evidence that employer discrimination remains a plausible explanation for racial labor market disparity. Economists Marianne Bertrand and Sendhil Mullainathan found a 50 percent higher callback rate for résumés

with “white-sounding names” than for comparable résumés with “African American–sounding names.” Even more telling, the “better”-quality résumés with African American–sounding names received fewer callbacks than “lower”-quality résumés with white-sounding names.

Princeton sociologist Devah Pager conducted another employment study in Milwaukee, Wisconsin that revealed the difficulties for stigmatized populations in finding a job. Wisconsin has outlawed employer use of criminal background checks for most jobs, yet among young males of comparable race, experience, and education, audit testers with a criminal record received half as many employment callbacks as testers without a record. Nonetheless, race was found to be even more stigmatizing than incarceration. White testers with criminal records had a slightly higher callback rate than black testers without criminal records.

Racial disparities persist even for those employed. Nearly 87 percent of U.S. occupations can be classified as racially segregated even after accounting for educational differences. Black males experience the most severe underrepresentation in construction, extraction, and maintenance occupations. These occupations tend to require low educational credentials but offer relatively high wages. At the other extreme, service occupations have the highest concentrations of black males; these are also low-credentialed occupations but, in contrast to construction, tend to offer relatively low pay. This distinction is noteworthy given the widely held view that the lack of “soft skills” on the part of blacks is a major factor in explaining their labor market difficulties.

The “soft skills” explanation fits neatly within the “post-racial” narrative. For example, Harvard sociologist William Julius Wilson argues that employers in service industries fail to hire black men because they “lack the soft skills that their jobs require: the tendency to maintain eye contact, the ability to carry on polite and friendly conversations with consumers, the inclination to smile and be responsive to consumer requests.” Yet the hard fact remains that blacks are “crowded in” to the service sector, which typically requires customer

and coworker interactions, and “crowded out” of the construction sector, which primarily involves not soft skills but working with materials and machinery. This contradicts the notion that soft-skills differentials explain the racial labor market disparity.

The Racial Wealth Gap

Wealth is of paramount importance as a pool of resources, beyond income, that individuals or families can use as a sustained mechanism for provision of support for their offspring. Wealth represents long-term resource accumulation and provides the economic security to take risks, shield against financial loss, and cope with emergencies.

Wealth is also the economic indicator in which blacks and whites are farthest apart. Prior to the Great Recession, white households had a median net worth of approximately \$135,000 and black households a median net worth of a little over \$12,000. Thus, the typical black family had less than 9 cents for every dollar in wealth of the typical white family. According to the Pew Hispanic Center, this gap nearly doubled after the Great Recession, with the typical black family having about a nickel for every dollar in wealth held by the typical white family; in 2009 the typical black household had less than \$6,000 in net worth.

Regardless of age, household structure, education, occupation, or income, black families typically have less than a quarter of the wealth of otherwise comparable white families. Perhaps even more disturbing, the median wealth of black families whose head graduated from college is less than the median wealth of white families whose head dropped out of high school, and high-earning married black households typically have less wealth than low-earning married white households.

Wealth provides, perhaps, the best evidence to dispel the myth of a post-racial society. It also provides the best evidence to dispel the parallel and reinforcing myth that the vestiges of racial inequality are the result of poor choices on the part of blacks themselves. The conventional wisdom explains the persistence of this massive racial wealth gap across all levels of income by

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invoking allegedly poor savings behavior or inferior portfolio management on the part of blacks. For example, when asked at an April 2009 lecture at Morehouse College about the racial wealth gap, then Federal Reserve Chair Ben Bernanke attributed the gap to a lack of “financial literacy” on the part of blacks, particularly with respect to savings behavior.

But greater financial literacy will do next to nothing to close the racial wealth gap in the absence of finances to manage; nor does it provide insulation against heavy hits to one’s investment portfolio. The massive loss in wealth experienced by shareholders on Wall Street in 2008 was not due to their financial illiteracy; it was due to the stock market crash. Most of the individuals defrauded in Bernie Madoff’s pyramid scheme could hardly be described as “financially illiterate.” Presumably, all Americans may benefit from improved knowledge about management of their personal financial resources, but racial differences in knowledge about management of personal financial resources do not explain the racial gulf in wealth. Maury Gittleman and Ed Wolff reinforced this in an analysis of data predating the mortgage market crisis that finds no significant racial advantage in asset appreciation rates for white families with positive assets after controlling for household income. They also find no meaningful difference in savings by race after controlling for household income—a conclusion that economists as ideologically disparate as Milton Friedman and Marcus Alexis (a founding member of *Black Enterprise*’s Board of Economists) have reached.

Most of the racial wealth gap is explained by inheritances, bequests, and intra-family transfers—transfers largely based on the economic position of the family into which an individual is born. Indeed, inheritances and intra-family transfers are far more important considerations in explaining the racial wealth gap than education, income, and household structure. Moreover, intra-familial shifts of resources are transfers made on a non-merit basis. The continued structural barriers that inhibit blacks from amassing resources and making intergenerational transfers provide strong opposition to the post-racial narrative.

Past, present, and prospective racial exploitation and discrimination provide a sounder basis for understanding the vast material disparities between blacks and whites in the United States. There is a long history of structural impediments to black wealth accumulation. Beginning with the period of chattel slavery, when blacks were literally the property of white slave owners, and continuing through the use of restrictive covenants, redlining, general housing and lending discrimination—policies that generated a white asset-based middle class—and the foreclosure crisis (which was characterized by predation and racially disparate impacts), blacks have faced structural barriers to wealth accumulation.

The Racial Self-Employment Gap

Substantial attention has been given to black business development as a means of closing the racial wealth gap. This confuses cause and effect: the racial wealth gap would have to be closed as a prelude to closing the racial self-employment gap. Business formation, success, and survival depend heavily on the initial level of financial capital available to the entrepreneur, and black firms start with much less initial capital than white firms. Policy has often reinforced this initial disadvantage. Tamara Nopper has documented specific changes in Small Business Administration policy—such as more aggregate targeting of women and other minority groups, and a shift to private-sector lenders with more stringent collateral and credit requirements—that accounted for a substantial reduction in loans directed to black business. Nopper also noted that the tendency for ethnic banks to service co-ethnics, coupled with a relative paucity of black-owned banks and undercapitalization of these banks, negatively affected black business access to finance. For example, in 2008 the Federal Deposit Insurance Corporation identified a total of ninety-six Asian- and Pacific Islander-owned banks with a total of \$53 billion in assets in contrast to only forty-four black-owned banks with \$7.5 billion in assets. The business success of certain immigrant groups relative to blacks is a consequence of greater initial wealth upon entry into the United States, the selectivity of immigration, and the support of the Small

Business Administration, rather than a “deficient” entrepreneurial spirit or cultural orientation toward business among blacks.

What Can Be Done?

The most parsimonious policy approach would be carefully targeted race-based policies. However, if such policies are becoming politically infeasible, then we need bold policies that lead to economic security, mobility, and sustainability for all Americans, or what John A. Powell has labeled “targeted universalism.”

Child Trust Accounts (Baby Bonds). These accounts are designed to provide an opportunity for asset development for all newborns regardless of the financial position in which they are born. The baby bonds would set up trusts for all newborns with an average account of \$20,000 that progressively rise to \$60,000 for babies born into the poorest families. The accounts would be federally managed and grow at a federally guaranteed annual interest rate of 1.5–2 percent to be accessed when the child becomes an adult and used for asset-enhancing endeavors, such as purchasing a home or starting a new business. With approximately 4 million infants born each year, and an average endowment of around \$20,000, we estimate the cost of the program to be \$80 billion. In relative proportional costs, this would constitute only 2.2 percent of 2012 federal expenditures.

These accounts could be paid for by a more equitable allocation of what the federal government already spends on asset development. A 2010 report by the Corporation for Enterprise Development and the Annie E. Casey Foundation estimates that the federal government allocated \$400 billion of its 2009 budget in the form of tax subsidies and savings to promote asset-development policies, with more than half of the benefits going to the top 5 percent of earners—those with incomes higher than \$160,000. In contrast, the bottom 60 percent of taxpayers received only 4 percent of the benefits. If the federal asset-promotion budget were allocated in a more progressive manner, federal policies could be transformative for low-income Americans. For example, repealing the mortgage interest deduction—which primarily benefits

middle- and upper-income households—would be an important first step in creating a tax code that is fairer for all and treats renters and homeowners alike.

A Federal Job Guarantee. This would provide economic security, mobility, and sustainability for all Americans, while also addressing the longstanding pattern of racial inequality in employment. We estimate that the average cost per job directly created by the employment corps—including salary, benefits, training, and equipment—would be \$50,000, with the total compensation package amounting to \$750 billion, which is less than the first \$787 billion stimulus package and considerably less than the first phase of the bailout of the investment banks estimated at \$1.3 trillion. The net expenses of the job-guarantee program would be reduced because of a wide array of cost savings from other social programs; in 2011 alone, federal antipoverty programs (Medicaid, unemployment insurance, and so on) cost approximately \$746 billion.

While liberal leaders, whether they be Lyndon Johnson or Barack Obama, may rhetorically acknowledge the legacies of racism, they often support policies that are based on conservative notions of a culture of poverty. Policies that emphasize deficient norms, values, and behaviors on the part of blacks and other subaltern groups amount to what William Ryan categorized over forty years ago as simply “blaming the victim.” These include efforts to encourage small business development without first addressing the racial maldistribution of wealth, and the current White House initiative, “My Brother’s Keeper,” which is aimed at transforming the motivation and behaviors of “defective” black male youths to make them more “employable” without addressing their lack of job opportunities and labor market discrimination. Addressing the racial employment and wealth gaps will require not paternalistic policy, but policies providing access to jobs and asset building for all Americans.

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