

# Poverty and Prosperity

## *Prospects for Reducing Racial/Ethnic Economic Disparities in the United States*

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## **Acronyms**

<b>CETA</b>	Comprehensive Employment and Training Act
<b>CPS</b>	Current Population Survey
<b>GSS</b>	General Social Survey
<b>MTO</b>	Moving to Opportunity program
<b>PSE</b>	public service employment

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## Summary/Résumé/Resumen

### **Summary**

Because of slow and uneven growth in male earnings and family incomes over a quarter of a century, poverty and inequality in earnings and family income in the United States were higher at the end of the twentieth century than they were in the early 1970s. The economy experienced sustained recoveries during both the 1980s and the 1990s, yet during these decades economic growth did not trickle down very vigorously to the bottom 40 per cent of the population.

The official poverty rate fell every year between 1993 and 1999 from 15.1 per cent to 11.8 per cent for all persons, about the same as the 1973 rate, 11.1 per cent. In 1999, the poverty rate was 23.6 per cent for African-Americans and 22.8 per cent for Hispanics, but only 7.7 per cent for non-Hispanic whites. America has never been wealthier as a nation, but millions of families still have difficulty making ends meet, and racial/ethnic disparities remain substantial.

This paper focuses on trends in racial/ethnic disparities in employment, earnings and family income over the last quarter of the twentieth century. It also reviews several areas in which persisting racial inequalities affect life chances. These include racial disparities in wealth, how perceptions of racial inequalities affect emotional well-being, perceptions of racial discrimination, and views on racial integration. In addition, it will offer a public policy agenda for reducing racial/ethnic economic disparities.

Primary attention is be paid to the labour market, as most economists agree that the main cause of growing inequality over this period was the rising value of worker skills to employers. That is, earnings differentials between the most educated and least educated, and most experienced and least experienced workers increased dramatically.

However, there is less consensus about both the relative importance of various causes of the increased earnings differentials by education and experience, and the extent to which other factors contribute to rising inequality. No single factor can account for most of the increases in inequality, but several factors are important.

Labour-saving technological changes have increased the demand for skilled workers who can operate sophisticated equipment, and have simultaneously reduced the demand for less-skilled workers, many of whom have been displaced by automation. Global competition has increased worldwide demand for the goods and services produced by skilled American workers in high-tech industries and financial services, and has reduced demand for workers in heavy manufacturing industries.

Less-skilled workers increasingly compete with low-wage production workers in developing countries. Immigration has increased the size of the low-wage workforce and the competition for low-skilled jobs. Institutional changes, such as the decline in the real value of the minimum wage and shrinking unionization rates, have also moved the economy in the direction of higher earnings inequality.

The authors conclude that, despite much progress over the past 40 years, the United States remains divided along racial and class lines. Given current economic trends and public policies, these divisions are not likely to narrow significantly in the coming decade.

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## **Résumé**

En raison d'une progression lente et inégale des rémunérations masculines et des revenus familiaux pendant un quart de siècle, la pauvreté et l'inégalité des rémunérations et des revenus familiaux se sont aggravées à la fin du XXème siècle par rapport à ce qu'elles étaient au début des années 70. La reprise économique a été soutenue pendant les années 80 et 90 mais, pendant ces décennies, la croissance économique n'a guère profité aux 40 pour cent les plus pauvres de la population.

Entre 1993 et 1999, le taux de pauvreté officiel a baissé chaque année, passant de 15,1 pour cent à 11,8 pour cent pour l'ensemble de la population, soit approximativement le taux de 1973, 11,1 pour cent. En 1999, le taux de pauvreté était de 23,6 pour cent pour les Afro-Américains et de 22,8 pour cent pour les Hispaniques, mais seulement de 7,7 pour cent pour les Blancs non hispaniques. Les Etats-Unis, comme nation, n'ont jamais été aussi riches, mais des millions de familles ont encore de la peine à joindre les deux bouts et les disparités raciales et ethniques demeurent sensibles.

Les auteurs étudient ici l'évolution des disparités raciales et ethniques dans l'emploi, les rémunérations et les revenus familiaux au cours du dernier quart du XXème siècle. Ils se penchent sur plusieurs domaines dans lesquels la persistance des inégalités raciales compromet les perspectives d'existence, notamment sur les disparités raciales en matière de richesses, sur la façon dont les perceptions de ces inégalités affectent le bien-être affectif, sur les perceptions de la discrimination raciale et les opinions sur l'intégration raciale. Ils proposent en outre un programme de politiques publiques pour réduire les disparités économiques entre les communautés raciales et ethniques.

Ils s'attardent d'abord sur le marché du travail, d'autant que la plupart des économistes s'accordent à penser que, si les inégalités se sont creusées pendant cette période, la cause principale en a été la valeur accrue des qualifications professionnelles aux yeux des employeurs. Autrement dit, les différentiels de rémunération entre les travailleurs les plus instruits et les moins instruits, entre les plus chevronnés et les moins expérimentés ont augmenté de manière spectaculaire.

Ils sont moins unanimes sur l'importance relative des diverses raisons pour lesquelles les différentiels de rémunération ont augmenté en fonction de l'éducation et de l'expérience et sur la mesure dans laquelle d'autres facteurs contribuent à creuser les inégalités. La plupart des aggravations des inégalités ne peuvent être attribuées à un facteur unique; plusieurs facteurs sont importants.

Si les progrès techniques, qui permettent d'économiser de la main-d'œuvre, ont provoqué une hausse de la demande en travailleurs qualifiés, capables de faire fonctionner un équipement perfectionné, ils ont en même temps réduit la demande en travailleurs peu qualifiés, dont beaucoup ont été supplantés par l'automatisation. Avec la concurrence mondiale, la demande mondiale en biens et services produits par des travailleurs américains qualifiés dans des industries de pointe et des services financiers a augmenté tandis que la demande en travailleurs employés dans les industries lourdes s'est ralentie.

Les travailleurs peu qualifiés se retrouvent de plus en plus en concurrence avec ceux des pays en développement, qui produisent pour des salaires bas. Avec l'immigration, la population active à bas salaire a augmenté de sorte que les emplois peu qualifiés sont très demandés. Les changements institutionnels, tels que la baisse de la valeur réelle du salaire minimum et l'effritement des taux de syndicalisation, ont aussi fait pencher l'économie dans le sens d'une plus grande inégalité des rémunérations.

Les auteurs concluent que, bien que de grands progrès aient été accomplis au cours des 40 dernières années, les classes et les races restent des lignes de fracture bien visibles aux Etats-

Unis et que, vu l'évolution actuelle de l'économie et des politiques publiques, il est peu probable qu'elles s'estompent au cours des dix prochaines années.

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### **Resumen**

Debido al lento y desigual crecimiento que experimentaron los salarios de los hombres y los ingresos familiares durante un cuarto de siglo, la pobreza y la desigualdad de los salarios y de los ingresos familiares en los Estados Unidos fueron mayores a finales del siglo XX que a principios del decenio de 1970. La economía se recuperó progresivamente en los años 80 y 90, pero en estos decenios el crecimiento económico no llegó a beneficiar realmente al 40 por ciento más pobre de la población.

Entre 1993 y 1999, la tasa oficial de pobreza cayó del 15.1 al 11.8 por ciento para todas las personas, cercana a aquella de 11.1 por ciento, registrada en 1973. En 1999, la tasa de pobreza era del 23.6 por ciento para los afroamericanos, y del 22.8 por ciento para los hispanos, pero sólo del 7.7 por ciento para los blancos no hispanos. Estados Unidos nunca ha sido una nación tan próspera como en estos momentos y, sin embargo, millones de familias siguen teniendo dificultades para hacer que el dinero alcance y las diferencias étnicas/raciales siguen siendo importantes.

Este documento aborda las tendencias que determinan las diferencias raciales/étnicas en el empleo, los salarios y los ingresos familiares en el último cuarto del siglo XX. También se examinan algunas áreas en que las desigualdades raciales siguen afectando las oportunidades de prosperar en la vida. Éstas incluyen diferencias raciales en materia de riqueza, el modo en que las percepciones y las desigualdades raciales afectan al bienestar emocional, percepciones de discriminación racial y opiniones sobre la integración racial. Asimismo, el documento propondrá un programa de políticas públicas encaminadas a reducir la desigualdad económica racial/étnica.

En primer lugar, debe prestarse atención al mercado de trabajo, ya que la mayoría de los economistas coincide en que la creciente desigualdad a lo largo de este tiempo se debe fundamentalmente a que los empleadores valoran cada vez más las competencias de los trabajadores. Esto significa que aumentó radicalmente la desigualdad de ingresos entre las personas más educadas y menos educadas, y entre los trabajadores con más experiencia y menos experiencia.

Sin embargo, hay menos consenso sobre la importancia relativa que revisten diversas causas del aumento de la desigualdad de ingresos por motivos de educación y de experiencia, y el punto hasta donde otros factores contribuyen a la creciente desigualdad. Este fenómeno no se debe exclusivamente a un solo factor, sino a una serie de factores importantes.

Los cambios tecnológicos para ahorrar mano de obra han aumentado la demanda de trabajadores cualificados que pueden manejar un equipo sofisticado, y han reducido al mismo tiempo la demanda de trabajadores menos cualificados, muchos de los cuales han sido sustituidos por máquinas. La competencia general ha incrementado a escala mundial la demanda de bienes y servicios producidos por trabajadores estadounidenses cualificados en industrias de alta tecnología y servicios financieros, y ha reducido la demanda de trabajadores en la industria pesada.

Los trabajadores menos cualificados compiten cada vez más con trabajadores de salarios bajos en los países en desarrollo. La inmigración ha provocado el incremento de la fuerza de trabajo con salarios bajos, y de la competencia para desempeñar trabajos que exigen pocas cualificaciones. Los cambios institucionales, como la caída del valor real del salario mínimo y las tasas de

sindicalización cada vez más reducidas también han contribuido a la mayor desigualdad de ingresos que caracteriza actualmente a la economía.

Los autores concluyen que, a pesar de los grandes progresos realizados en los últimos 40 años, Estados Unidos sigue dividido por criterios raciales y de clase. En vista de las tendencias económicas y las políticas públicas actuales, estas divisiones probablemente no cambien de un modo significativo en el próximo decenio.

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## Introduction

Almost 15 years ago, the Committee on the Status of Black Americans, appointed by the National Research Council, issued a report, *A Common Destiny: Blacks and American Society* (Jaynes and Williams 1989). The report presented a comprehensive review of changes in the social, economic and political status of black Americans between 1940 and the mid-1980s. The first paragraph of the preface concisely summarized the committee's conclusions:

This report documents the unfinished agenda of a nation still struggling to come to terms with the consequences of its history of relations between black and white Americans. In many ways this history has left a legacy of pain, and the report would be remiss if it did not emphasize that fact. In the pages that follow, we describe many improvements in the economic, political and social position of black Americans. We also describe the continuance of conditions of poverty, segregation, discrimination, and social fragmentation of the most serious proportion (p. ix).

When the committee was deliberating, data on the relative economic status of African-Americans and whites was available up to the mid-1980s. The US economy had performed poorly during the period from the mid-1970s to the mid-1980s, as unemployment and inflation rates had been high, and earnings and income inequalities within both the white and black populations had increased. Against this background of slow economic growth and rising inequality, the report's conclusions were rather pessimistic:

Barring unforeseen events or changes in present conditions—that is, no changes in educational policies and opportunities, no increased income and employment opportunities, and no major national programs to deal directly with the problems of economic dependency—our findings imply several negative developments for blacks in the near future (p. 26).

This paper explores issues related to the relative economic status of racial and ethnic minorities in the United States after the “unforeseen” long economic boom of the 1990s. It analyzes the same trends in economic well-being reviewed by the committee, but updates the data through the end of the century, and it expands the analysis by focusing on the relative economic status of white non-Hispanics, black non-Hispanics and Hispanics.<sup>1</sup> The paper shows how the economic recovery of the 1990s, with its low unemployment and inflation rates, altered the relative economic status of the three largest subpopulations in the United States.

The paper documents the fact that there was much economic progress in the 1990s for all population subgroups: employment and incomes increased, poverty fell, and income inequality stopped rising. However, the gaps between whites and blacks and between whites and Hispanics remain so large that (borrowing the key phrase from the committee) “barring unforeseen events or changes in present conditions”, economic parity still remains decades away. The committee's key policy implications remain as true today as they were in the late 1980s and as true as they have been since the height of the civil rights struggles of the 1960s:

Macroeconomic growth and reduced joblessness create favorable conditions, but they do not remove some crucial barriers that exist for blacks. Improvement depends also on active promotion and vigorous enforcement of anti

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<sup>1</sup> The data for Hispanics presented here should be interpreted with caution because of the dramatic increase in their immigration over the past several decades. Immigrants often have below-average education and, hence, lower levels of economic well-being. Our analysis utilizes annual data from the Current Population Survey (CPS—a monthly survey of about 50,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics) for the years from 1970 through 1999. However, the Census Bureau only began asking about an individual's nativity in the CPS in 1994. Thus, we cannot distinguish here between trends for US-born as compared to foreign-born Hispanics. It is likely that trends for the native born are more favourable than the trends shown here for all Hispanics. See Smith (2001) for further discussion of the effects of immigration on measured economic well-being.

The Census Bureau interviews about 60,000 households per year in the CPS. Until the late 1980s, the samples were not drawn in such a way as to produce statistically reliable estimates of economic well-being for Asian-Americans, Native Americans or for distinct subgroups of Hispanics (for example Puerto Ricans). Economic well-being for more detailed race/ethnic groups and for persons classified as US-born or foreign-born are available in the Decennial Censuses.

discrimination laws and administrative measures to reduce discrimination in employment, education and housing. ... Both the removal of barriers and compensatory programs are needed for full equality of opportunity (p. 29).

Our analysis demonstrates that economic growth on its own is necessary, but not sufficient, for reducing the persistent between-group economic disparities that characterize the US economy. If the large gaps between the white non-Hispanic majority and other racial/ethnic groups are to be narrowed, increased policy attention will have to be focused both on removing barriers to equal opportunity and raising the relative educational levels and skills of minority children. In addition, there is a need for "race neutral" policies focused on all less-educated workers, since the extent of poverty and inequality within the white population is also high in comparison to the poverty rates and inequality levels of other industrialized countries.

In the context of this paper, our restatement of the need to both remove barriers to equal opportunity and adopt compensatory programmes in education and employment are also applicable to South Africa and the many other nations in which one racial/ethnic group has historically controlled the economy and society and has discriminated against other groups. Glenn Loury (2001), in his conference paper, emphasizes a similar point. He suggests that the elimination of "reward bias", defined as "unfair treatment of persons in formal economic transactions based on racial identity", is necessary, but not sufficient, to achieve racial justice. He provides a rich discussion of the policy issues that are raised when a liberal society considers whether or not, and how to, pursue compensatory programmes. This paper documents the fact that the need for such programmes is not likely to be resolved by economic growth on its own.

## **Trends in Economic Well-Being**

Economic conditions in the United States in 1999 (the latest year for which data were available when the paper was presented) were excellent. Inflation and unemployment were low (2.2 per cent and 4.2 per cent, respectively), and the budget was in surplus (about 2 per cent of gross domestic product, or GDP). Wage rates, adjusted for inflation, increased as the labour market tightened in the 1990s; however, they remained below levels achieved a quarter of a century earlier. Average hourly earnings (in 1999 constant dollars) in private industry were \$13.57 in December 1999, 6.4 per cent above their December 1992 level, but still 7.5 per cent below the December 1973 level of \$14.61. A similar pattern holds for the official Census Bureau poverty rate (an absolute measure).<sup>2</sup> It fell from the mid- to the late 1990s, but was about as high in 1999, 11.8 per cent, as it had been in 1972, even though real per capita income almost doubled over this period.

Relative to most other advanced economies, the United States has a high median living standard and an unemployment rate that has been lower than elsewhere for most of the past 15 years. However, the US poverty rate (for all persons) remains much higher than that of most other industrialized countries.<sup>3</sup> The 1999 official poverty rates for blacks and Hispanics (23.6 and 22.8 per cent, respectively) were higher than the rate for whites four decades earlier (18.1 per cent in 1959).

We now review trends in the relative economic well-being of the three largest race/ethnic groups in the United States, utilizing 30 years of data from the Census Bureau's annual Current Population Survey (CPS). The analysis begins in 1970, the first year that allows us to produce

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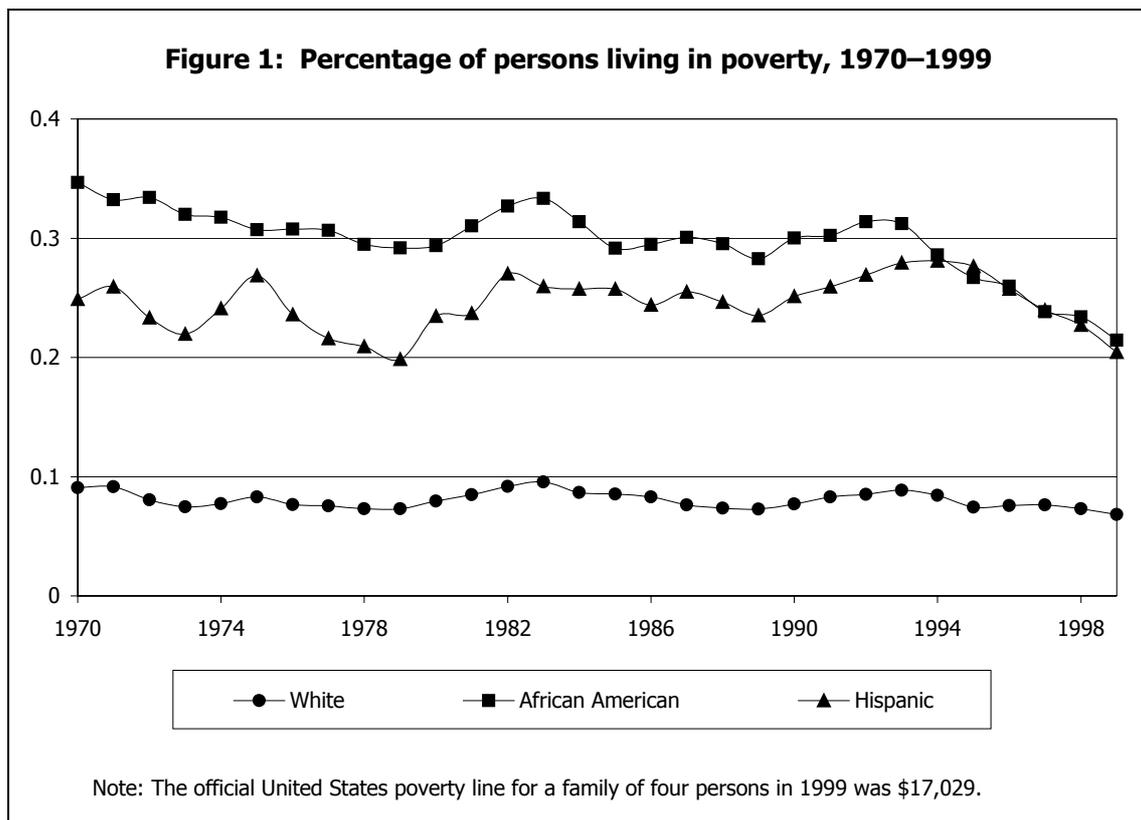
<sup>2</sup> In 1999, the official poverty line was \$17,029 for a family of four and about half that for persons living on their own. The census reports pre-tax money income and thus does not include non-cash income or tax credits and does not exclude taxes paid. The poverty line varies with family size and has been increased since the mid-1960s only to correct for inflation.

<sup>3</sup> Using a relative poverty measure (40 per cent of each country's median adjusted disposable personal income), Smeeding et al. (2002) show that the US rate in the late 1990s was the highest of the 17 countries in the Luxembourg Income Study. Eleven of the 17 had rates that were half or less than that of the United States.

comparable time series of annual data for these race/ethnic groups. It should be noted that the 1960s was a period of rapid economic growth for all persons in the United States and a period during which the economic status of African-Americans relative to that of whites improved (Jaynes and Williams 1989). Thus, if we could have produced consistent time series on economic well-being for 1960 to 1999, they would have shown more relative progress for African-Americans relative to whites and more absolute progress for all race/ethnic groups.

**Trends in poverty, affluence and median family income**

Figure 1 shows the trend in poverty from 1970 to 1999.<sup>4</sup> At the beginning of this period, poverty for African-Americans was about four times that of whites (35 versus 9 per cent in 1970) and for Hispanics, about three times that of whites (25 versus 9 per cent). Poverty changed little for all of these groups between the early 1970s and the early 1990s. During the economic recovery of the 1990s, the most rapid percentage reduction in poverty was a 32 per cent drop for African-Americans, from 31 to 21 per cent, between 1992 and 1999; poverty declined by 26 per cent for Hispanics, from 27 to 20 per cent, and by 22 per cent for whites, from 9 to 7 per cent. The last time there was as much relative economic progress for minorities was during the economic boom of the 1960s. By 1999, the black and Latino poverty rates were about three times the rate for non-Hispanic whites and at about the level of the white poverty rate in the mid-1960s, a level that led President Lyndon B. Johnson to declare the War on Poverty.

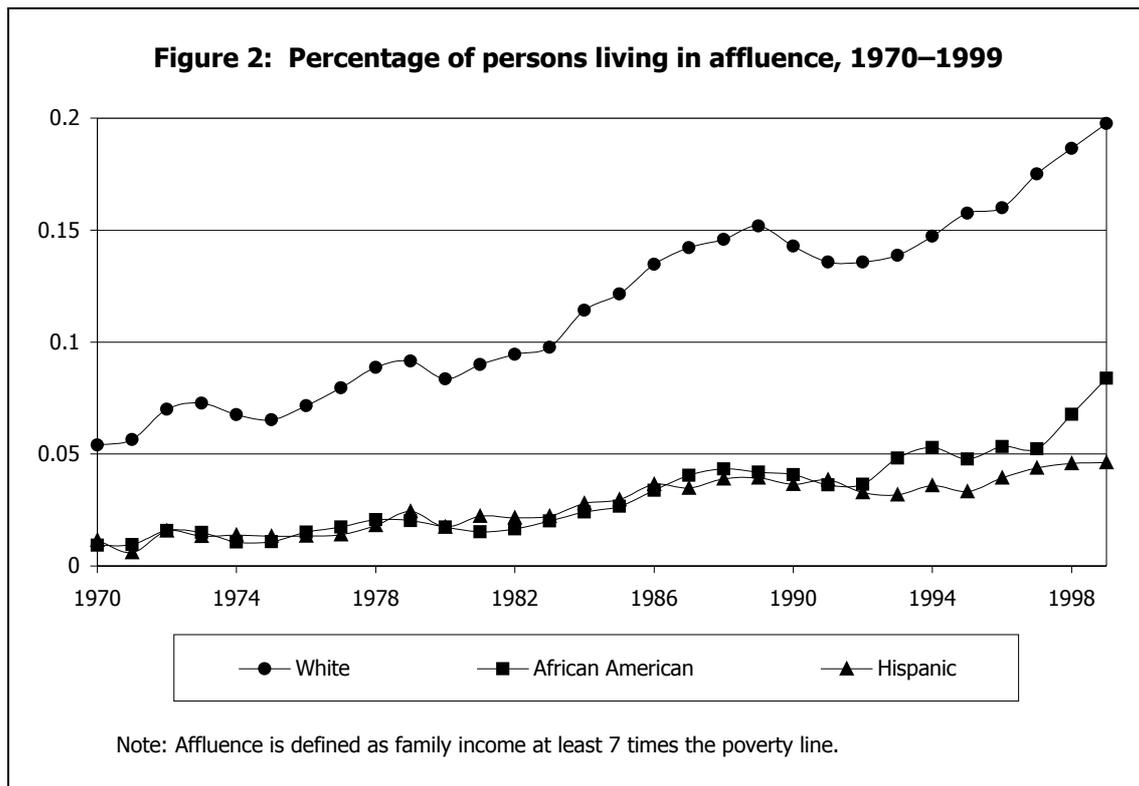


Whereas the Committee on the Status of Black Americans was writing against a backdrop of economic pessimism, we offer an optimistic projection for the poverty rate in the near future

<sup>4</sup> Our poverty rates, median family incomes and mean earnings differ from those published by the Census Bureau because we use a consistent consumer price index, the CPI-U-X1, to correct for inflation throughout the period. The census switched to this index in the early 1980s, but did not go back and recompute indicators such as poverty and median income, using this index for earlier years. Many economists believe that the official price index overstates inflation, and hence overstates poverty and understates growth in income and earnings. Our view is that these biases are relatively small. More importantly, they do not affect comparisons across racial/ethnic groups because the progress of each group would change by the same amount if an alternative price index were used.

based on the positive economic experiences of the 1990s. However, our projections are likely to be “too optimistic” for several reasons. First, we ignore the statistical fact that it becomes harder to achieve the same percentage reduction in poverty from economic growth as the poverty rate falls (Freeman 2002). Second, we assume that the economy will continue to grow at the rapid pace of 1992–1999 for another 14 years, even though the United States experienced a recession in 2001–2002 and had higher unemployment rates in 2001, 2002 and 2003 than in the late 1990s. Third, we assume that the percentage reduction in poverty for each subgroup will continue at the rate of the 1992 to 1999 period, even though African-American economic progress tends to be rapid only when labour markets are very tight. Our resulting “estimate” is that the African-American poverty rate in 2013, other things being equal, would fall to about 10 per cent, the Hispanic rate to about 11 per cent, and the white rate to about 4 per cent. This optimistic scenario reinforces the point that economic growth can substantially reduce the level of absolute poverty, but, on its own, will have a limited impact on closing the between-group gaps in poverty. As is discussed below, an effective policy for reducing majority/minority differences in economic status would be to close the educational attainment and labour force skills gaps between the groups.

Figure 2 shows a dramatic increase for all groups in the percentage of persons living in affluent conditions, which we define as persons residing in families that have annual incomes greater than seven times the official poverty line.<sup>5</sup> In 1999, a family of four persons was considered affluent if its annual money income from all family members was about \$120,000 or more; median income for all families in 1999 was about \$53,000.

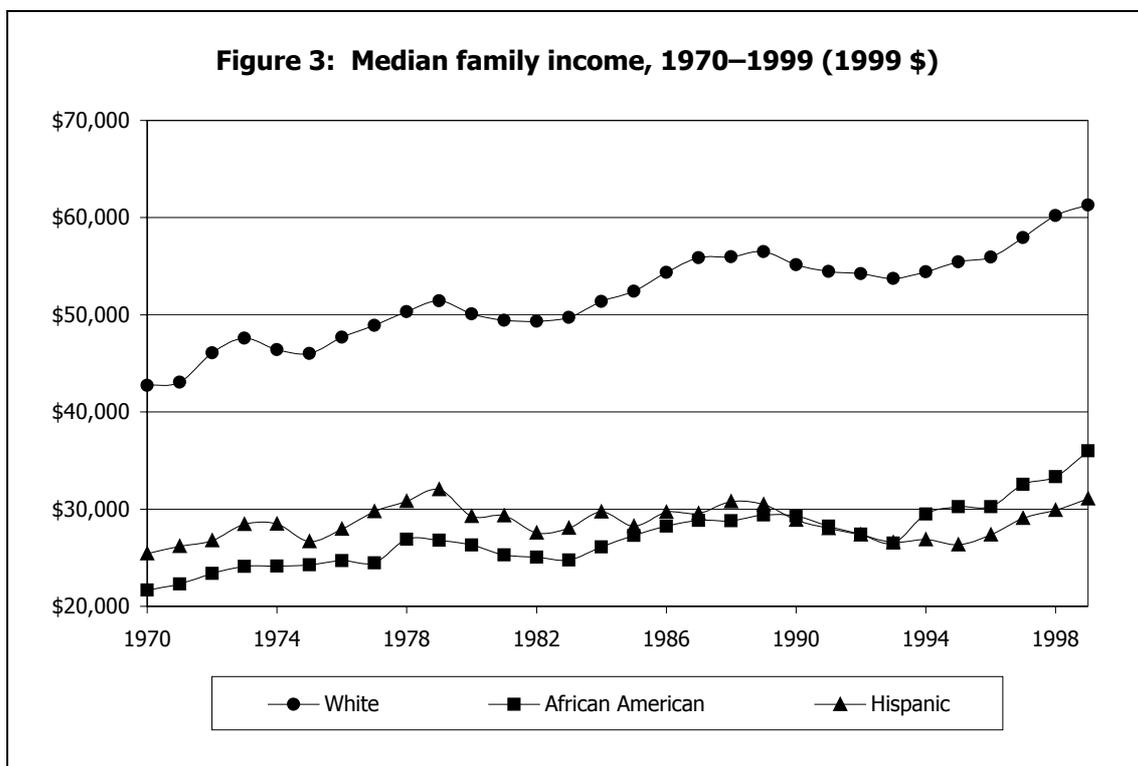


Affluence has increased much more rapidly than poverty has fallen, reflecting the increased family income inequality of the past three decades. In 1970, 5 per cent of whites were affluent, compared to only 1 per cent each of African-Americans and Hispanics. By 1999, 20 per cent of whites were affluent, compared to 8 per cent of African-Americans and 5 per cent of Hispanics.

<sup>5</sup> See Danziger and Gottschalk (1995) for a discussion of this measure.

The rate of affluence for African-Americans doubled during the rapid economic growth of the 1990s, from 4 to 8 per cent between 1992 and 1999. However, the extent of affluence for African-Americans in 1999 was the same as that for whites in 1977, and the rate for Hispanics in 1999 the same as the rate for whites in 1970. In 1999, for whites, there were about three times as many affluent persons as poor persons (20 versus 7 per cent); for blacks (8 versus 21 per cent) and Hispanics (5 versus 20 per cent); the number of affluent persons was only a small fraction of the number of poor persons.

Figure 3 shows the trend in median family income adjusted for family size in constant 1999 dollars for the 1970–1999 time period.<sup>6</sup> Incomes rose substantially up to 1973 for each group; then growth slowed. After the recessions of the late 1970s and early 1980s, median incomes were about the same in 1983 as they had been in 1973. After the economy recovered from the severe recession of the early 1980s, incomes grew for the rest of the 1980s, declined during a mild recession in the early 1990s, and then increased substantially in the late 1990s.



Income growth for Hispanics has been slower than for the other groups. The median size-adjusted income for Hispanic families in 1992 (\$27,353) was about the same as it had been in 1973 (\$28,428); it grew by 14 per cent for both African-Americans (from \$24,112 to \$27,416) and whites (from \$47,579 to \$54,226) over these two decades. Between 1992 and 1999, median family income grew most rapidly, by 31 per cent for African-Americans (to \$35,999); by 13 per cent for whites (to \$61,284) and by 14 per cent for Hispanics (to \$31,062). As a result, the ratio of the African-American median family income to the white median, which was 0.51 in both 1970 and 1992, increased to 0.59 by 1999; this ratio for Hispanics was 0.59 in 1970, 0.50 in 1992 and 0.51 in

<sup>6</sup> Because a family with more members requires more income to attain the same level of economic well-being as a smaller household, the medians in Figure 3 are adjusted for size. First, the income of each family is divided by the poverty line for a family of that size. Since the US poverty line increases with family size, this computation adjusts for family size differences. Then the median of this ratio is computed and multiplied by the poverty line for a family of four, containing two adults and two children. This corrects for both family size changes over time and differences in family size across each of the race/ethnic subgroups. The medians reported here differ from published Census Bureau medians, which do not adjust for family size.

1999. As with the other measures of economic status, the economic boom of the 1990s was particularly beneficial for African-Americans, but large racial gaps remain.

It is important to note that racial/ethnic differences in family structure play an important role in determining family economic resources and, hence, account for some part of the economic disparities shown in Figures 1, 2 and 3. For example, among all families the median income in 1999 was just over \$53,000. For families headed by single mothers, the median was less than \$23,000. African-Americans have the highest share of persons living in single-mother families, at 29 per cent, followed by Hispanics at 16 per cent and whites at 7 per cent. Thus, a comparison of racial/ethnic differences in median family income adjusted for family structure differences (data not given here), shows a higher ratio of median family income for African-Americans relative to whites and a higher ratio for the Hispanic median relative to that of whites.<sup>7</sup>

Part of the reason that the economic well-being of Hispanics has lagged behind that of both whites and African-Americans in recent years is increasing immigration (Smith 2001). In 1970, 29 per cent of Hispanics were foreign born; by 1999, the share that was foreign born had increased to 43 per cent. Because Hispanic immigrants tend to have low incomes when they arrive in the United States, in part because they have much lower educational attainment levels than the native-born population, an increase in their share contributed to a higher poverty rate and a lower level of median family income for Hispanics. For example, median family income for Hispanics in families with a US-born head of household was over \$38,000 in 1999; for those Hispanics in families headed by an immigrant, the median was less than \$28,000. Thus, if we had restricted our data analysis to native-born Hispanics, the white-Hispanic gap in any year would have been smaller and economic trends during the economic recovery of the 1990s would have been more positive.

Racial gaps in economic status stem from a number of factors. The next section focuses on changes in the functioning of the labour market over the past three decades and presents trends in employment and earnings for workers in each race/ethnic group, holding gender, age and education constant.

### ***Labour market trends and changes in employment and earnings***

The most important determinant of poverty, affluence and family income is how individuals fare in the labour market, since earnings are the largest component of family income for most families. Many economists agree that the main source of the stagnation in family incomes and earnings between the early 1970s and early 1990s was the difficulty less-skilled workers faced in a changing, globalizing labour market. In 1970, for example, the mean hourly wage for a full-time, white male worker between the ages of 25 and 54 who had at least a college degree was 56 per cent higher than the wage for similar men with a high school diploma or less. By 1999, the more educated group had an 82 per cent wage advantage.

There is some disagreement over the relative importance of various factors that have contributed to this rising skill differential. Labour-saving technological changes have simultaneously increased the demand for skilled workers who can operate sophisticated equipment, and reduced the demand for less-skilled workers, many of whom have been displaced by automation. Global competition has increased worldwide demand for the goods and services produced in the United States by skilled workers in high-tech industries and financial services. Less-skilled workers in US manufacturing industries increasingly compete with, and are displaced by, lower-paid production workers in developing countries. Immigration has increased the size of the low-wage workforce and the competition for the low-skilled jobs that remain in the United States. Moreover, institutional changes, such as the decline in the real value of the minimum

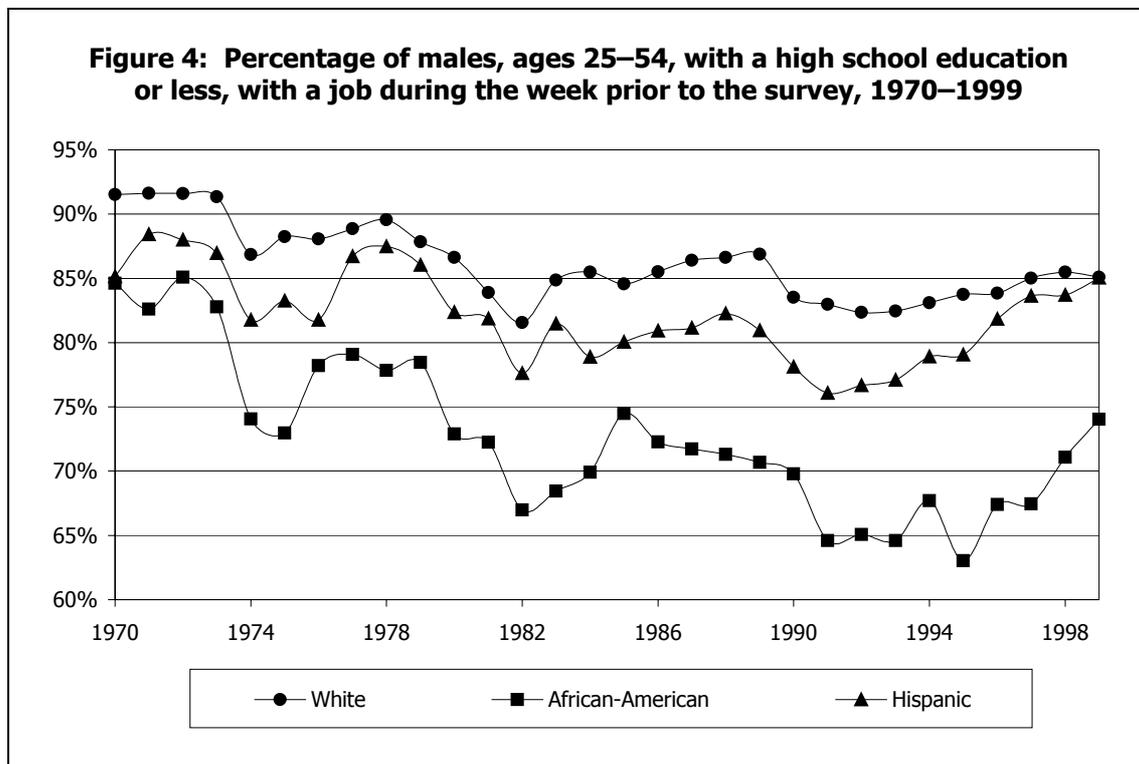
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<sup>7</sup> See Cancian and Reed (2002) for a further discussion of family structure and poverty.

wage and shrinking unionization rates, have also moved the economy in the direction of lower real wages for the least-skilled workers and higher earnings inequality.<sup>8</sup>

Because African-American and Hispanic workers have lower educational attainment levels than whites, the reduction in employer demand for less educated workers would have had a larger negative effect on the relative employment and earnings of minority workers, even if there were no changes in the propensity of employers to hire workers of different races.<sup>9</sup> For example, in 2000, among men between the ages of 25 and 54, only about 7 per cent of white non-Hispanics, but 14 per cent of African-Americans and 41 per cent of Hispanics, had not completed high school. If one defines the less educated as having a high school diploma or less, then about 40 per cent of whites, 53 per cent of African-Americans and 70 per cent of Hispanics were in this category in 2000.

Figure 4 shows the percentage of males between the ages of 25 and 54 with a high school diploma or less who held jobs during the week before the March Current Population Survey.<sup>10</sup> In 1970, 92 per cent of whites, and 85 per cent of African-Americans and Hispanics, were working. By 1992, this employment rate had fallen by 10 percentage points for whites (to 82 per cent), by 8 points for Hispanics (to 77 per cent), but by 20 percentage points for African-Americans (to 65 per cent).



William Julius Wilson (1987, 1996) has written extensively about the disproportionate effects of labour market changes from the early 1970s to the early 1990s on African-American men. He recognizes the importance of the race-neutral, structural changes that have led to the declines in employment for all less educated males (for example, technological changes and globalization),

<sup>8</sup> For further discussion of labour market changes and their causes, see Danziger and Gottschalk (1995, chapters 6 and 7).

<sup>9</sup> See Holzer (2001) and Smith (2001) for further discussion. Smith concludes, "Because minority workers' skills place them in the lower part of the wage distribution, increasing wage dispersion across skill levels will decrease their wages more than those of majority workers. The last 20 years were actually a time during which slowly evolving historical forces continued to close the wage gap of Black and White male workers. These forces were simply overwhelmed by the structural shift of rising wage dispersion" (p. 95).

<sup>10</sup> The data in Figures 4 through 7 are "age adjusted", that is, they were reweighted to match the distribution of the total population in 2000. As a result, differential changes in age for the race/ethnic groups do not affect the trends.

but he incorporates other factors to explain the much larger employment decline for African-American men than for whites and Hispanics. Wilson is critical of both conservative and liberal scholars. The former tend to assume that jobs are available to anyone who is willing to work and that the higher rate of black joblessness is due primarily to differences in motivation and cultural factors, expressed via attitudes and behaviours that are not conducive to employment in the changing labour market. Liberals, however, tend to assume that joblessness is due primarily to unequal opportunities in the public school system, which limit the development of marketable skills, and persisting prejudice and discrimination in the housing and labour markets, which make employment less accessible and less attainable for African-Americans relative to whites and other ethnic groups.

Wilson challenges both sides of the political spectrum. He writes that, "Although race is clearly a significant variable in the social outcomes of inner-city blacks" (1996:xiv), it is not the only factor; other factors include culture, social psychology and structural conditions. He does not deny the existence of negative "ghetto-related" behaviours that make some inner-city residents unattractive job applicants for some employers. Rather, his research on the lives of inner-city residents suggests that most adhere to mainstream values and behaviours. Many of those who deviate from the mainstream labour market are reacting primarily to their environment, especially their difficulty in finding jobs. The "decline in legitimate employment opportunities among inner-city residents has increased incentives to sell drugs" (1996:21), and the increase in crime and drug-dealing has further negative effects on the behaviour of other inner-city residents, especially the young who may "come to view the possession of weapons as necessary or desirable for self-protection, settling disputes, and gaining respect from peers and other individuals" (1996:21).

Wilson documents the fact that many employers develop negative attitudes about all inner-city residents and discourage black applicants from applying for available jobs by advertising only in selected neighbourhood and ethnic newspapers. Over 40 per cent of the firms in his sample did not advertise entry-level jobs in Chicago's major daily newspapers. Others reported that they did not recruit workers from the Chicago public high schools (they did recruit from Catholic schools), welfare programmes or state employment agencies.

Regardless of which came first—the attitudes of residents and a lack of labour-force skills due to poor schooling opportunities, or employer prejudices and concerns about worker honesty and dependability—the result is a high rate of joblessness and distrust. "Inner-city black men grow bitter and resentful in the face of their employment prospects and often manifest or express these feelings in their harsh, often dehumanizing, low-wage work settings" (Wilson 1996:144). This leads employers to make "assumptions about the inner-city black workers *in general* and reach decisions based on those assumptions before they have had a chance to review systematically the qualifications of an individual applicant" (1996:137). As a result, many qualified "black inner-city applicants are never given the chance to prove their qualifications on an individual level because they are systematically screened out by the selective recruitment process" (1996:137).

The "reappearance" of some jobs in the inner cities during the economic recovery of the 1990s led to increased employment for all men, including men with a high school diploma or less. The employment rate for this group for African-Americans and Hispanics increased by about 9 percentage points, compared to 3 percentage points for whites (see Figure 4). In 1999, about 85 per cent of these less-educated white and Hispanic men between the ages of 25 and 54 had a job in the week prior to the March survey, compared to 74 per cent for African-Americans. Again, one can conclude that economic growth is necessary for absolute and relative progress for minorities, but not sufficient to eliminate the black/white gap. The race-specific factors articulated by Wilson remain salient, as there was even a 5 percentage point employment gap in 1999 between white and African-American men with a college degree or more (95 versus 90 per cent; data for college graduates not given).

Figure 5 plots the percentage of women with a high school diploma or less between the ages of 25 and 54 who had a job in the survey week over the 1970–1999 period. A comparison of Figures 4 and 5 reveals that the trends for women differ dramatically from those for men.<sup>11</sup> Whereas the percentage of less-educated men with a job fell between 1970 and 1999 by 6 percentage points for whites, 10 percentage points for African-Americans and remained constant for Hispanics, employment for women in this age/education group increased rapidly for all three groups. Employment increased by 25 percentage points for white women (from 45 to 70 per cent), by 13 points for African-American women (from 54 to 67 per cent) and by 20 points for Hispanic women (from 37 to 57 per cent). The gender gap in employment between white men and women in this education group fell from 47 percentage points in 1970 (92 versus 45 per cent) to 15 points in 1999 (85 versus 70 per cent); for African-Americans the gender gap fell from 21 to 7 points; for Hispanics, from 48 to 28 points. The increased employment of women is part of the reason why median family income has grown over most of the past three decades even though inflation-adjusted male earnings (discussed next) were declining.<sup>12</sup>

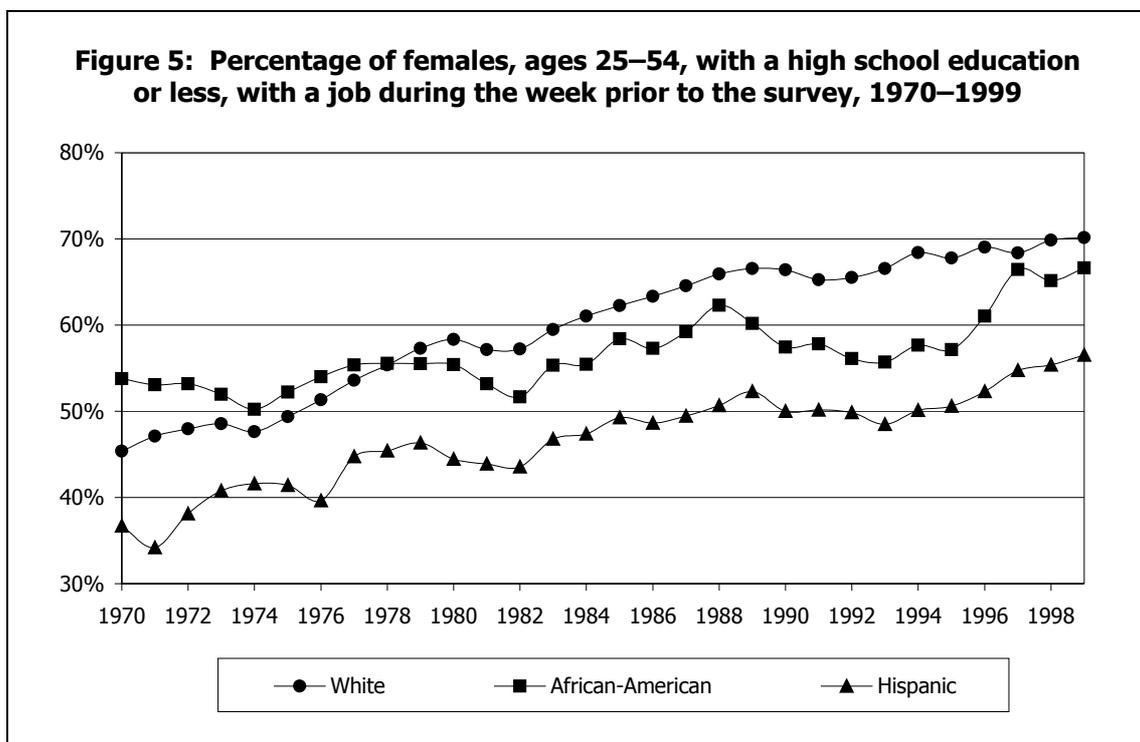
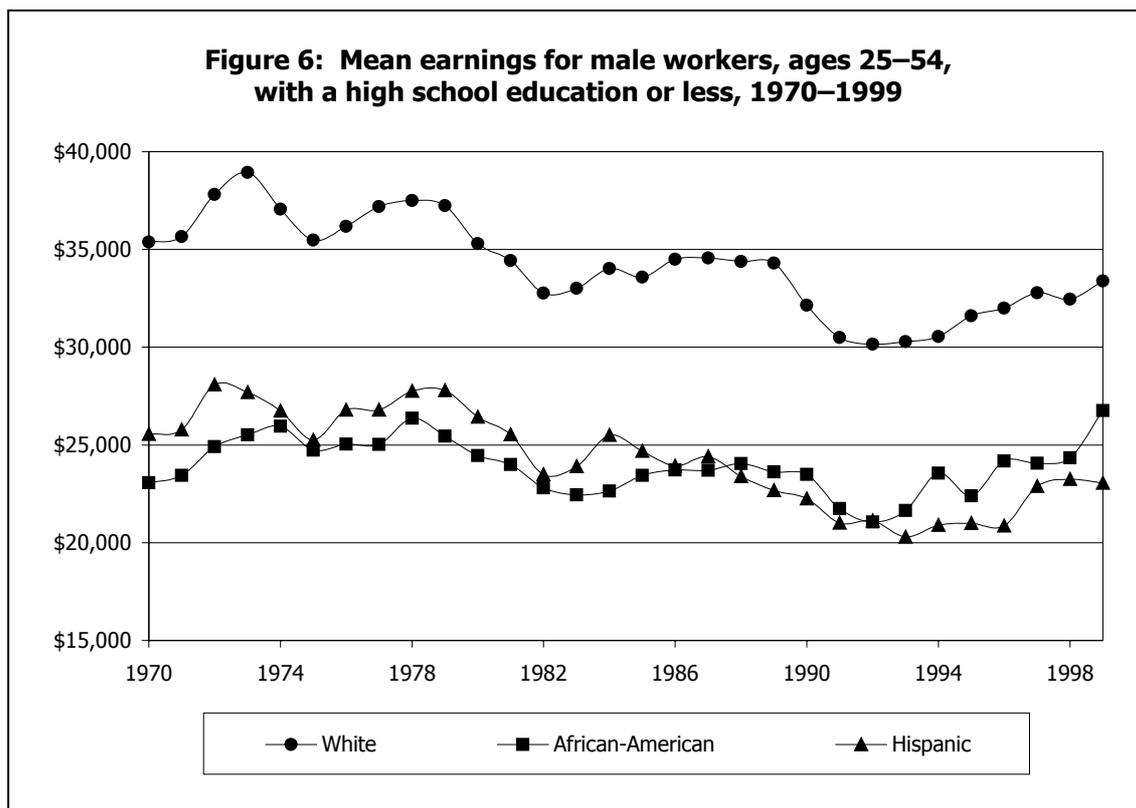


Figure 6 shows trends in real annual earnings for male workers between the ages of 25 and 54 who have a high school education or less; men who did not work at all during the year are not included in these calculations. The past three decades have been difficult ones for less-educated male workers of all race/ethnic groups. Real annual earnings were lower in 1999 than they were in 1970, falling in most of the years between 1973 and 1993 and then rising after that. Between 1973 and 1993 annual earnings fell by 22, 15 and 27 per cent, respectively for whites, African-Americans and Hispanics. Between 1993 and 1999, they rose by 10, 24 and 14 per cent respectively, with minorities having the more rapid gains in earnings. Mean real earnings (in constant 1999 dollars) were lower in 1999 than they were in 1970 for these less-educated white men (\$33,389 versus \$35,373) and for Hispanics (\$23,051 versus \$25,543), but were higher for African-Americans (\$26,761 versus \$23,070).

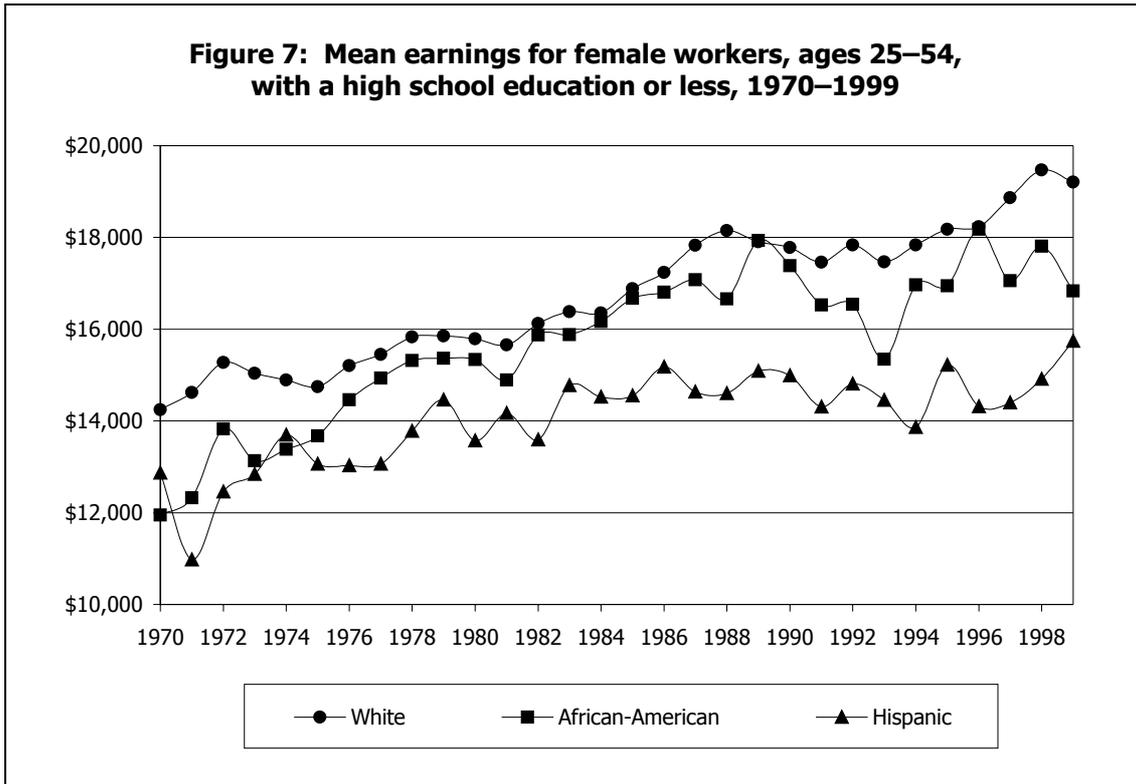
<sup>11</sup> For greater detail on labour market trends among women by race/ethnicity, see Conrad (2001).

<sup>12</sup> For a discussion of the contribution of women's earnings to family income, see Cancian and Reed (2002).



In 1970 the ratio of mean earnings for minority men with a high school diploma or less relative to those of similar white male workers was 0.65 for African-Americans and 0.72 for Hispanics; by 1999, it had increased to 0.80 for African-Americans, but had fallen to 0.69 for Hispanics. Similar patterns are revealed when earnings trends for male workers are compared with higher education levels (data not given). However, the relative progress of African-Americans would be considerably less if all men in this age/education category were compared, instead of only men with earnings, as is done in Figure 6, because of the lower employment rate of African-American men discussed above.

Figure 7 shows trends in mean annual earnings for female workers with a high school diploma or less. Again, the trend differs dramatically by gender—the real annual earnings of female workers increased steadily, whereas those for male workers declined. Earnings rose by 35 per cent between 1970 and 1999 for white working women (from \$14,245 to \$19,209), by 41 per cent for African-American working women (from \$11,950 to \$16,834), and by 22 per cent for Hispanic working women (from \$12,865 to \$15,742). In 1999, the ratio of the annual earnings of African-American women workers in this age/education class to those of similar white women was 0.88; the ratio for Hispanics was 0.82.



We have presented evidence on trends in five dimensions of economic well-being: poverty and affluence for all persons, median family income for all families, and the employment rate and annual inflation-adjusted mean earnings of working men and women between the ages of 25 and 54 with a high school diploma or less. In each dimension, there was substantial improvement during the economic recovery of the 1990s, both in terms of the absolute economic status of each group and in terms of the well-being of African-Americans relative to that of whites. However, large disparities remain that are unlikely to soon be substantially diminished by economic growth in and of itself. Finally, in some of these dimensions, particularly the employment rate and real earnings of male workers, there was little or no progress over the three decades analysed.

### **Beyond Economic Trends: Racism, Social Psychology and Identity**

Economists tend to focus only on trends in relative economic well-being. However, sociologists and psychologists also call attention to the social psychological consequences of the racial/ethnic differences in income, employment and earnings that have just been reviewed. This section focuses on four areas in which persisting racial inequalities affect life chances and lifestyles: (i) racial disparities in wealth; (ii) perceptions of racial inequalities and emotional well-being; (iii) the perceptions of racial discrimination and racial attitudes; and (iv) the interrelationships among racial integration, parity and harmony. Our analysis addresses African-Americans and whites, as that has been the focus of most of the research on these topics.

#### ***Racial disparities in wealth***

The current employment and annual income and earnings data presented above tend to underestimate the extent of racial economic disparities in any year because they do not account for differences in assets. For example, Oliver and Shapiro (1995) show that, in the late 1980s, white households had nearly 12 times the median net worth of black households. In a recent update, Oliver and Shapiro (2001) document that, in 1994, the median net worth of whites had fallen to 8.6 times that of blacks—\$52,994 versus \$6,127. Even after they statistically controlled for

differences in income, education, occupation and family structure, the wealth of African-Americans remained a small proportion of that of whites. Additionally, Oliver and Shapiro (2001) note that racial disparities in holdings of financial assets, which are more readily converted into cash during times of emergency than are other assets, are even greater – in 1994, the median white household possessed about \$7,400 in net financial assets, whereas the median black household had only \$100; and about three fifths of black households compared to only about one quarter of whites possessed zero dollars or less in net financial assets. Other analyses also suggest that despite the economic growth of the 1990s, the racial wealth gap remains very large (Wolff 1998; Panel Study of Income Dynamics 2000).

These asset differences mean that blacks and whites with the same income tend to have different levels of economic security. Oliver and Shapiro (1995:92) caution that wealth differences cause the “economic footing” of many blacks who have achieved middle-class incomes to remain “precarious”.

### ***Perceptions of racial inequality and emotional well-being***

African-American families not only have lower levels of wealth and economic security, but they also have low expectations about their prospects for attaining racial equality in economic well-being. In a national survey, Blendon et al. (1995) reported that 46 per cent of black adults believed that racial problems would not be solved in their children’s lifetime; nearly one in four doubted that racial equality would ever be achieved. After the 1992 race riots in Los Angeles, a New York Times/CBS News poll indicated that 65 per cent of blacks expected that race riots would still be occurring 25 years from that point (Smith and Seltzer 2000). A recent poll of Californians found that, when asked to look ahead to 2020, 46 per cent of blacks, compared to 36 per cent of whites, responded that race and ethnic relations were more likely to become worse than to improve (Hajnal and Baldassare 2001:12).

Given the trends in income and employment discussed above, one might predict that economically disadvantaged African-Americans would be more likely to be pessimistic about the future than their middle-class counterparts. The data indicate, however, that more affluent blacks express the most frustration with racial stratification.<sup>13</sup> Those who are relatively well off seem more willing than poorer blacks to cite race as having played a role in unfair events that have occurred on the job and elsewhere, and less likely to attribute these events to lack of effort or some other personal attribute.

According to Hochschild (1995), “Well-off African Americans see more racial discrimination than do poor blacks, see less decline in discrimination, expect less improvement in the future, and claim to have experienced more [discrimination] in their own lives” (p. 73). This is a reversal of historical patterns. For example, she cites several surveys that asked, “Do whites want to keep blacks down?” In 1966, 43 per cent of poor blacks and 29 per cent of middle-class blacks responded affirmatively. But by 1991, the percentage of poor blacks responding “yes” had declined by about half to 22 per cent, whereas for middle-class blacks the percentage responding affirmatively increased to 33 per cent. Thus, at the time of the Civil Rights movement, the black middle class was less likely to think that whites wanted to keep blacks down, while by the 1990s they were more likely to think so.

The psychological consequences of racial stratification are significant. Self-perceived experiences of racial discrimination are associated with increased psychiatric symptoms, clinical disorder, and lower levels of subjective well-being.<sup>14</sup> For example, blacks who accept negative characterizations of blacks as a group tended to report higher levels of psychiatric symptoms and lower levels of well-being (Taylor 1990; Taylor and Jackson 1990). Rumbaut (1994) found that the expectation of racial or ethnic discrimination in adulthood was linked to increased depressive symptoms and

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<sup>13</sup> Cose 1993; Essed 1991; Feagin and Sikes 1994; Jackson et al. 1995.

<sup>14</sup> Broman 1997; Brown et al. 1999; Landrine and Klonoff 1996; Thompson 1996.

reduced self-esteem among black adolescents. Brown et al. (2001) found that black adolescents who worried about race relations or were pessimistic about progress toward racial harmony reported lower levels of happiness and diminished satisfaction with their lives. The frequency of discriminatory experiences and the persistence of racial inequalities undermine the ability of blacks to protect their emotional health and to be optimistic.

### ***Racial discrimination and racial attitudes***

Racial stratification has negative effects on racial/ethnic minorities, regardless of their socioeconomic status. For example, in recent surveys, a large proportion of African-Americans reported discriminatory experiences, such as being embarrassed, harassed, ignored, fired, followed, ridiculed, singled out or otherwise assaulted because of their race or ethnic heritage.<sup>15</sup> Even wealthy blacks report many experiences of racial discrimination, such as tokenism, racial slurs, marginalization and loyalty tests.<sup>16</sup>

How might one interpret the continuing experiences of discrimination almost 40 years after the Civil Rights Act and against the background of modest improvements in the relative economic standing of African-Americans? One explanation might be that some whites may continue to discriminate or express racial hostility in interactions with members of minority groups because they perceive successful members of minority groups as having taken jobs or positions in selective universities, to which they believe they were entitled or better suited. However, this did not seem to be the case based on survey responses—when whites and blacks in the Detroit metropolitan area were asked in 1992, “Have you ever felt at any time in the past that you were refused a job because of your race or ethnicity?” Only 7 per cent of whites, but 40 per cent of African-Americans, responded affirmatively (Farley et al 2000: 233–234).

Even if they have not personally felt themselves to have experienced reverse discrimination, whites tend to be unsympathetic to affirmative action policies. A recent California poll found that only 27 per cent of whites, but 66 per cent of Latinos and 78 per cent of blacks, agreed that “affirmative action programs [should] be continued for the foreseeable future”, and that 46 per cent of whites, but only 21 per cent of Latinos and 13 per cent of blacks, “opposed employers and colleges using outreach programs to hire minority workers and find minority students” (Hajnal and Baldassare 2001:15).

In addition, whites are much less likely than racial/ethnic minorities to acknowledge that the extent of current discrimination has negative economic consequences. Kluegel and Bobo (2001) report the results of a mid-1990s survey conducted in four metropolitan areas. Respondents were asked, “In general, how much discrimination is there that hurts the chances of <specific group> to get good paying jobs? Do you think that there is a lot, some, only a little, or none at all?” In Atlanta, 46 per cent of whites chose “none” or “a little” when asked about African-Americans; in Boston, Detroit and Los Angeles, about one quarter of whites chose these categories. The modal response among blacks in these areas was “a lot”, with the percentages selecting this category ranging from 57 to 69 per cent. Whites in Boston and Los Angeles were also asked about discrimination against Hispanics, and 27 and 29 per cent, respectively, selected “none” or “a little”. In contrast, 49 per cent of Hispanics in Boston and 59 per cent in Los Angeles chose “a lot”.

### ***Racial integration, racial parity and racial harmony***

According to the 1996 General Social Survey (GSS), 65 per cent of whites believed that conditions for blacks had improved in recent years, whereas only 36 per cent of blacks concurred (Smith and Seltzer 2000). In part, perceptual estrangement between racial groups can be attributed to an ambiguous operational definition of the “problem”.<sup>17</sup> That is the fundamental ques-

<sup>15</sup> Essed 1991; Landrine and Klonoff 1996; Landrum-Brown 1990; Sigelman and Welch 1991.

<sup>16</sup> Collins 1997; Landrum-Brown 1990; Jackson et al. 1995.

<sup>17</sup> Cose 1993; Sigelman and Welch 1991; Smith and Seltzer 2000.

tion: "What is the race problem? And do blacks and whites disagree about potential policy solutions because they conceive of the problem differently?"

Small (1991) theorizes that three major facets define the contemporary race problem: racial integration, racial parity and racial harmony. Racial integration focuses on bringing members of each race into close proximity, based on the view that distance breeds ignorance, whereas contact breeds acceptance. Racial parity focuses on the goal of equalizing the distribution of outcomes for comparable whites and blacks in domains such as education, occupational status, incomes, life expectancy and infant mortality. Racial harmony reflects a situation in which antagonism is low and positive affect is high.

Progress along one of these dimensions does not guarantee progress along the others. For example, black children can be integrated into the same schools that white children attend, yet be tracked away from college-preparatory classes, with little effect on racial parity in college attendance. Blacks and whites can attend the same college classes, but have minimal social contact, with little affect on racial harmony. Similarly, an increase in the percentage of affluent African-Americans may have little affect on residential integration, given persisting housing market practices and the tendency of whites to move out of neighbourhoods once the black population increases beyond a certain low percentage (Farley et al. 2000, chapter 7).

Our intent in this section was to suggest that policy analysts and policy makers should pay attention to the social psychological consequences of racial disparities. Hochschild (1995) points out that even if measured racial gaps in economic well-being have narrowed over the past 40 years, perceptions of this progress differ dramatically by race. She asserts that, "African-Americans increasingly believe that racial discrimination is worsening and that it inhibits their race's ability to participate in the American dream; whites increasingly believe that discrimination is lessening and that blacks have the same chance to participate in the dream as whites" (p. 56), and that "Whites are angry that blacks refuse to see the fairness and openness of the system; blacks are angry that whites refuse to see the biases and blockages of the system" (p. 68).

We now turn to a discussion of some public policy options that, if successful, might reduce perceived, as well as measured, racial differences in economic well-being.

## **A Policy Agenda to Reduce Racial/Ethnic Economic Disparities<sup>18</sup>**

A realistic assessment of the future economic status of racial/ethnic minorities must confront several constraints imposed by the social and economic history of the United States. First, there are constraints linked to decisions made long ago about the location of plants, offices and residences. A large proportion of the nation's poor, especially poor racial/ethnic minorities, live in inner cities that have older housing stock, are losing population, and have infrastructure and tax base problems.<sup>19</sup> In contrast, in the outer suburban ring, open land is still available for residential, commercial and industrial development. Most population growth and most of the new jobs in recent decades have occurred in these mostly white, higher-income areas. The combination of high levels of residential segregation, the concentration of minorities in the urban core, and the deconcentration of employment adds a spatial component to socioeconomic disparities and policies designed to address these problems (Wilson 1987, 1996; Yinger 1995, 2002).

Second, there is the industrial legacy. Many less-educated workers, especially racial and ethnic minority men, attained middle-class incomes during the post-Second World War economic

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<sup>18</sup> This section draws on Chapter 9 in Farley, Danziger and Holzer (2000).

<sup>19</sup> These local infrastructure and tax base problems have more negative implications for the poor in the United States than the poor in other industrialized countries because of the greater extent of governmental decentralization in the United States. For example, many public services, most importantly, primary and secondary education, are paid for by funds raised by state and local governments, as opposed to the federal government.

boom by working in well-paid, unionized manufacturing jobs. Since the early 1970s, however, these jobs have disappeared at a rapid rate. American manufacturing has successfully restructured over the last 15 years primarily by becoming more skill-intensive and more capital-intensive. For example, by the early 1990s, there were more jobs in the temporary help industry than in the motor vehicles and equipment and steel industries combined (Danziger and Gottschalk 1995:147-148). Productivity in the latter industries increased rapidly enough that greater output could be produced with substantially fewer production workers.

The third constraint is continuing white distrust of blacks and black distrust of whites. Although racial attitudes improved after the Second World War, and especially after the Civil Rights Movement, to the extent that almost everyone now endorses principles of equal opportunity, many whites still maintain the stereotypes that blacks tend to work less diligently than whites, tend to be less intelligent, and tend to be harder to get along with.<sup>20</sup> Moreover, discriminatory practices, especially in the housing market, continue to be widespread (Yinger 2002).

The history of racial conflict and distrust helps explain why some employers are reluctant to hire black workers and why whites generally avoid neighbourhoods with more than token numbers of black neighbours. African-Americans consistently report that the playing field is far from level, and that they expect discrimination when they search for jobs or buy a home. Many African-Americans view the United States as a colour-coded society, with whites holding most of the decision-making power and using it to confer benefits on other whites with regard to good jobs and good homes. This racial distrust affects political and economic decisions, such as those related to the placement of bus routes and subway stops, funding for public schools, the placement of power plants and other related issues. Each race distrusts the other and tends to perceive a zero-sum game in which advances for one race are gained at the expense of the other.

In addition to historical constraints, the future of racial/ethnic disparities depends upon the nation's economic progress and changes in governmental policies, as well as on the basic civic values of Americans. As is documented above, a high rate of economic growth is crucial for improving the living standards of all citizens, especially those of racial and ethnic minorities. However, periods of robust economic growth and declining racial disparities have not been the norm. They occurred in the 1960s and the 1990s, but the years from the mid-1970s to the late 1980s were a period of slow economic growth during which some racial/ethnic economic disparities widened.

Unfortunately, there has been no counterpart to the economic prosperity of the 1990s in the realm of governmental policies. The economic boom of the 1960s was accompanied by a "policy boom" that substantially increased federal spending on a variety of social policies designed to reduce racial/ethnic and poor/non-poor disparities. In response to, and as part of, the War on Poverty and the Civil Rights Movement, there was a public and Congressional willingness to move the nation in the direction of equal opportunity in the hopes that equal outcomes would follow. The Office of Federal Contract Compliance and the Equal Employment Opportunities Commission pressured large employers to hire women and minority workers, and the federal courts upheld affirmative action programmes that sought to increase both employment and the occupational advancement of blacks and women.

In recent years, in contrast, government efforts in most areas of social policy, including enforcement of anti-discrimination efforts, are less vigorous than they were from the mid-1960s to the mid-1970s. Some programmes providing opportunities for minorities remain in place, but there has been a substantial reduction in the amount and scope of federal efforts, especially with regard to employment and training programmes for disadvantaged workers. Although there is still a set-aside of federal and some local construction funds to minority contractors, many similar programmes were overturned in the courts and then eliminated. Furthermore, affirmative action has been under legal attack in recent years.

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<sup>20</sup> Farley et al. 2000, ch. 8; Kluegel and Bobo 2001; Bobo 2001.

While the economic boom of the 1990s was not expected by the authors of *A Common Destiny* (Jaynes and Williams 1989), there have been no unforeseen policy actions attempting to reduce racial/ethnic disparities. In 1997, President William J. Clinton did attempt to begin a national conversation about race, but it seems to have had little effect. The report that was produced by his task force, *America Becoming: Racial Trends and Their Consequences* (Smelser et al. 2001), in contrast to *A Common Destiny*, did not offer policy recommendations or a summary consensus of views based upon the information provided. Although the Clinton administration supported many policy initiatives that would have raised the incomes of all of the poor, and hence would have disproportionately helped racial/ethnic minorities (such as additional increases in the minimum wage and provision of national health insurance), it was unable to gain Congressional approval for these measures.

In 2001, the Bush administration adopted as its highest priority a very large personal income tax cut that primarily benefited the highest-income families. As a result, it provided proportionately less tax relief to racial/ethnic minorities than to whites. Given the tax cuts, the fact that the economy slipped into recession in early 2001, and the increased spending on defence and domestic security in response to the attacks on the United States of 11 September 2001, the federal surplus quickly disappeared. This leaves the current administration and Congress, even if they had the political inclination to move forward, little financial flexibility to launch major policy initiatives designed to reduce poverty in general, or racial/ethnic disparities in particular. Recessions tend to increase the economic gap between African-Americans and other groups because their unemployment rates are more responsive to the business cycle. Thus, the data presented above may represent a peak in the economic status of African-Americans relative to that of whites.<sup>21</sup>

In the long run, there may be some prospects for a national public debate about racial/ethnic disparities. The population is more highly educated than ever, implying a greater understanding of the nation's confrontational racial history and of the country's overarching values and ideals. The nation is experiencing a dramatic racial/ethnic change as the Latino and Asian populations grow rapidly while the white and black populations grow slowly. Although it is now difficult to imagine widespread support for innovative civil rights laws or for affirmative action programmes, it may be possible for a future political leader with foresight to open a dialogue on what equal opportunity means and what must be done to facilitate the removal of barriers to opportunity. If such a dialogue were successful, race might lose some of its persisting importance as a determinant of economic status in the United States.

Against this background, we now put forward a few public policy proposals that could reduce economic and racial disparities. A major goal of such policies would be to generate positive interactions across a variety of policy domains. For example, consider the following scenario, in which a positive labour market trend leads to positive population flows and favourable changes in racial attitudes.

This scenario begins with attempts to reverse the adverse effects of labour market changes by implementing policies that enhance the skills of job seekers, thereby increasing their employment prospects and raising their earnings. If these labour market policies were successful, poverty and unemployment would fall. Higher family incomes would contribute to increased demand for housing and other goods, further stimulating economic activity. Increased employment and earnings would promote housing renovation and retail activity in poor areas, thus raising the local tax base and tax revenues.

Assume, also, that another set of policies, using these additional revenues, could be successfully put into place to upgrade the quality of urban public services, especially with regard to police protection, transportation infrastructure and public schools. The resulting improvement might

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<sup>21</sup> Between March 2000 and September 2003, the seasonally-adjusted civilian unemployment rate for all males 16 years of age and older increased from 3.3 to 5.5 per cent for whites, from 6.0 to 7.5 per cent for Hispanics, and from 7.2 to 12.3 per cent for African-Americans.

then discourage the continuing flight of most whites and the black middle class from central cities. Given the reduced poverty, increased employment and improvement of public services, some suburban residents might even move back to the central cities, thereby reducing racial segregation and diminishing racial stereotypes.

Of course, hopes for this kind of urban revival have been discussed for the past 40 years. And this hypothetical set of positive externalities is based upon many optimistic assumptions, the most important being favourable macroeconomic trends and the assumed implementation of successful labour market policies. Successful urban revitalization has been an elusive goal, with the policies that have been tried thus far yielding disappointing results (Ferguson 2002). When one compares almost any American suburb with its central city, one still finds a series of persisting areas of inequality and disparity: white/black; economically comfortable/poor; low unemployment/high unemployment; schools with strong reputations/schools with poor reputations; and low crime rates/high crime rates. We are not so naive as to think that the policy options we advocate could quickly eliminate these persistent divisions and disparities; but we do think they can be reduced.

Two additional public policy mechanisms for addressing the employment problems of racial/ethnic minorities are: (i) enhanced anti-discrimination enforcement in the housing market (particularly in rental, sales and mortgage practices) to facilitate residential integration and integration of the local public schools, and (ii) enhanced anti-discrimination enforcement in the labour market (for example, in recruiting, hiring, training and promotion practices) to improve employment and promotion opportunities for minorities.

However, given the attitudes of whites discussed above, improved enforcement of anti-discrimination laws may exacerbate racial tensions and make it yet more difficult to gain acceptance for other needed public policies. This is one reason why Wilson (1996) proposed a “comprehensive race-neutral initiative to address economic and social inequality” (p. 205) that did not emphasize race-specific policies, such as affirmative action. The key components of Wilson’s policy proposals have the same primary goals as the proposals advanced herein – improvement of public schools to increase labour force skills and raise the earnings of the next generation, policies to supplement the low earnings of today’s workers and the provision of public jobs of last resort to the persistently unemployed.

As discussed earlier, the major source of economic problems for the least educated workers were the “race-neutral” labour market changes that began in the early 1970s – especially the spread of labour-saving technological innovations and the reduction in the percentage of employment in manufacturing industries. These changes have reduced the employment and earnings prospects for the less-educated, especially African-Americans, because their economic gains in the quarter century following the Second World War were largely based upon high-wage manufacturing jobs. Responding to these labour market changes requires policies to (i) increase the rewards of working for low-skill workers; (ii) raise the educational attainment levels and skills of the young so that they will earn higher wages when they enter the labour force; and (iii) provide public jobs of last resort for the most disadvantaged whom employers are not inclined to hire, even when unemployment rates are low.

What is lacking is not a series of promising policy options, but the political will to take bold actions to confront the multiple economic and social problems relating to racial/ethnic disparities. Given current political realities, we do not expect that outlining a number of promising policies will lead to their adoption. These policy options tend to require a substantial infusion of public funds. As long as “no new taxes” remains the dominant political mantra in the United States, it is unlikely that these initiatives will be implemented any time soon.

We have grouped our preferred policy options into four categories: (i) labour market supply-side strategies; (ii) mobility strategies; (iii) labour-market demand-side strategies; and (iv) anti-discrimination strategies – and highlight a single exemplary policy for each category.

### ***Labour market supply-side strategies***

Over the long run, improvements in educational attainment levels and labour market skills offer the best prospects for raising employment and earnings and closing racial/ethnic gaps in socioeconomic status. If a young man graduated from high school in the late 1960s, he had an excellent chance of finding a job that provided good wages and benefits. In the early twenty-first century, however, many high school graduates do not earn enough on their own to raise or maintain a family above the poverty line. It is critical that investments in young people be increased, with goals of reducing the high rates of school dropouts in the inner city, raising the skills of high school graduates, and increasing enrolment of youth from low-income families in junior and four-year colleges.

Unfortunately, the skills, abilities and achievements needed to succeed in today's labour market are not being learned by low-income students in many troubled public schools, especially those schools that are highly segregated. Compared to suburban school districts, central city schools have older buildings that require more maintenance, enrol more disadvantaged students who require additional attention and services, and have difficulty recruiting and retaining qualified teachers. Thus, to achieve the same educational outcomes as suburban schools, central-city schools need greater revenues per student and higher-quality teachers.

Apart from finances, central-city school districts have been plagued by bureaucratic inefficiencies and other administrative impediments. Such schools would have great difficulty delivering the educational services needed to prepare their students for the demands of today's workplace even if they received additional funding. Although there is agreement on the need to improve schools, there are few models for achieving success on a large scale. There are promising results in early education programmes and after-school mentoring programmes that have raised school performance and attendance, but these programmes have been small and have operated outside of the public education system (Karoly 2002).

### ***Moving central-city residents to the suburbs***

Mobility strategies, like supply-side strategies, have been widely discussed for the past 40 years. And, as with public education reforms, there are fewer success stories than disappointments. One promising strategy is the concept of "opening up" the suburbs. Access to less skilled jobs, especially those in small firms and those located off of public transportation routes, would be increased if greater numbers of low-income, especially minority, central-city residents could obtain affordable housing in the suburbs.

Such residential relocation policies seek to raise employment and earnings prospects for two generations. Commuting costs are reduced, and information about and access to job vacancies increase for adults, including parents. If these programmes are successful, adults will have better labour market outcomes. However, even if earnings gains to parents are modest, the children will attend higher-quality suburban schools, with likely increases in both educational performance and attainment.

Consider the experience of participants in the Gautreaux programme, which resulted from a 1976 Supreme Court consent decree in a lawsuit brought by Chicago public housing residents against the US Department of Housing and Urban Development. The residents charged that city and federal policies deliberately and unconstitutionally concentrated the black poor in public housing projects (Rosenbaum 1995). The settlement gave more than 5,000 public housing residents and those on waiting lists in 1981 housing vouchers that they were able to use to rent units outside of the projects, either in the city of Chicago or its suburbs.

Rosenbaum evaluated the programme's "quasi-experimental design". Some former housing project residents used the subsidies to rent apartments in inner-city neighbourhoods, while others rented in suburban neighbourhoods where few minorities lived. He found modest gains in employment for the parents who moved from the projects to the suburbs compared to those

who moved from the projects to other areas in the city of Chicago, but found that there were significant educational gains for the children. For example, 20 per cent of the children interviewed who attended city schools dropped out before completing a high school diploma, whereas only 5 per cent of those attending suburban schools dropped out. And 54 per cent of the suburban high school graduates enrolled in higher education programmes, compared to only 21 per cent of the city high school graduates.

The Clinton administration implemented a 10-year demonstration programme modeled on the Gautreaux programme and designed to test the hypothesis that poor families are better off in a variety of economic and educational domains if they move out of neighbourhoods of concentrated poverty. The Moving to Opportunity (MTO) Program began operating in five metropolitan areas (Baltimore, Boston, Chicago, Los Angeles and New York) in the early 1990s. MTO aims to move low-income families with children from high-poverty areas (census tracts with a poverty rate of 40 per cent or more) to low-poverty areas (with rates of 10 per cent or less). It provides housing vouchers for participating families, as well as assistance in housing searches and counselling about housing options (Goering and Feins 1997). Early evaluations of MTO have been promising for both the parents and the children (Katz et al. 2001).

Unfortunately, the programme's expansion to additional metropolitan areas sought by the Clinton administration was not enacted by Congress, in part because of vocal opposition from white suburban residents who objected to the prospects of even small numbers of poor and minority families moving into their neighbourhoods (Yinger 1995:235–236). This is yet another example of the negative effects of hostile racial attitudes on public policies designed to break down the spatial concentration of poverty.

### ***Labour market demand-side strategies***

Despite the robust economic growth of the 1990s, the employment prospects and earnings levels of less-educated workers remain tenuous. Through no fault of their own, they face much bleaker labour market prospects than did their counterparts in the years from the late 1940s through the early 1970s, when the economy was booming for workers at all skill levels. Many of the poor want to work and are willing to take minimum-wage jobs, but do not have the skills that employers now demand. Hence, we advocate experimentation with public service jobs of last resort.<sup>22</sup> Public service employment (PSE) programmes have a long history in the United States, but have not been politically popular since the Great Depression of the 1930s. President Ronald Reagan terminated the last large PSE programme when he eliminated the Comprehensive Employment and Training Act (CETA) in the early 1980s.

We propose that the federal government subsidize transitional low-wage jobs of last resort to the poor, about three quarters of whom are members of racial/ethnic minorities. The federal government, for example, might pay 80 per cent of the total costs—but the positions would be administered by non-profit or community-based organizations or by local governmental agencies that would have to fund the remainder. The goal would be to have the workers perform tasks that are socially beneficial, but for which there is little effective labour demand. We envision workers providing labour-intensive public services that would be valued in poor communities and which are generally provided in more affluent communities—for example monitoring playgrounds, neighbourhood maintenance and assisting the elderly.

Graduated job ladders would provide rewards to workers who succeed in PSE positions, though wages would be lower than equivalent jobs in the private sector, thereby providing an incentive to take any available job. Employees who failed to meet performance standards would be dismissed. Those hired might be limited to one to two years of PSE, after which they would be expected to have acquired the experience and skills needed to find a private sector job.

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<sup>22</sup> For further discussion on this topic see Danziger and Gottschalk (1995, chapter 8).

The jobs would provide a social safety net to poor persons who want to work but cannot find a private sector or public sector job. Such programmes are particularly needed now because welfare reform has placed time limits on the cash social safety net and some welfare recipients, despite great pressure to do so, cannot find and/or maintain a job. (Danziger et al. 2000; Danziger 2002).

### ***Anti-discrimination strategies***

Although federal and state laws ban racial discrimination in all areas of public life, enforcement is difficult and often lax; hence, the playing field is still not level when it comes to race. Ironically, since the government has been reluctant to vigorously enforce the laws, there are opportunities for private organizations to conduct audits for racial/ethnic and gender discrimination in the labour and housing markets.

The blatant types of racial discrimination widespread prior to the 1960s are now less frequent. Indeed, many employers indicate a commitment to non-discrimination policies in job advertisements, and most real estate offices post statements about their ostensible commitment to equal opportunity in housing. However, less obvious types of racial discrimination continue and contribute to the persisting high levels of racial segregation.<sup>23</sup> Some brokers still will not show black and white home seekers the same housing, some underwriters still do not provide home insurance to units located in minority neighbourhoods, and some police officers stop drivers who are black much more frequently than those who are white.

The hiring patterns documented by recent employer surveys (for example, Holzer 1996) suggest that establishments located in the suburbs, particularly small enterprises serving mostly white customers, continue to prefer white applicants over African-Americans. Thus, enforcement of existing equal employment laws needs to be enhanced to ensure that all businesses are in compliance. Indeed, there is a complementarity between “mobility” policies designed to improve access of inner-city residents to suburban establishments, and anti-discrimination enforcement that ensures that applicants are treated fairly when they apply for jobs and housing.

One way to promote fair housing and fair employment practices is to conduct frequent audit studies under the auspices of civil rights and civic organizations. Employers and landlords would be less likely to discriminate if they thought an applicant might be a participant in an audit study, and that their discriminatory practices might be exposed in the press and/or subject them to lawsuits in the federal courts.

## **Conclusion**

Despite much progress over the past 40 years, the United States remains divided along racial and class lines. As one analyst of racial attitudes and race relations recently noted, “We have high ideals, but cannot agree on the depth of the remaining problem—we are open to integration, but in very limited terms and only in specific areas. There is political stagnation over some types of affirmative action, and persistent negative stereotyping of racial minorities; and a wide gulf in perceptions regarding the importance of racial discrimination remains” (Bobo 2001:294).

Although African-American and Hispanic economic elites have emerged in the post-civil rights era, racial/ethnic economic disparities remain very large for all of the economic measures reviewed. Our analysis documented that economic growth on its own is necessary, but not sufficient, for reducing these disparities. We also reviewed a series of policies that, if successfully implemented, could reduce inequalities in educational attainment, employment, occupational achievement and earnings.

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<sup>23</sup> Segregation levels have fallen modestly in most urban areas over the last 40 years, but on average remain higher when African-Americans and whites are compared than when whites are compared with Hispanics or Asian-Americans.

Unfortunately, given the recent policy choices made by various administrations, there is little reason to believe that major initiatives in these areas will be pursued. Thus, it is likely that the divisions we have described will continue and, if macroeconomic trends turn unfavourable, the situation could become even worse.

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