

STATE OF THE DREAM 2011

AUSTERITY FOR WHOM?



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State of the Dream 2011: AUSTERITY FOR WHOM?

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United for a Fair Economy is a national, independent, nonpartisan, 501(c)(3) nonprofit organization. UFE raises awareness that concentrated wealth and power undermine the economy, corrupt democracy, deepen the racial divide, and tear communities apart. We support and help build social movements for greater equality.

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This report is dedicated to the loving memory of Felice Yeskel, who passed away on January 11, 2011 after a long battle with cancer. Felice was a co-founder of United for a Fair Economy and co-director from 1995 to 2001. She went on to co-found and co-direct Class Action, and was a faculty member in the Social Justice Education Center at UMass-Amherst. Felice was an outstanding organizer and popular educator who inspired much of UFE's work, and she will be greatly missed.

State of the Dream 2011: AUSTERITY FOR WHOM?

Executive Summary

As a new wave of elected officials are sworn into office, many are vowing to make "austerity" a top priority for 2011. Austerity is described by Congressional Republicans as "tightening the belt" of government. In concrete terms, this means reducing public investments, cutting public benefits and rolling back government services. In this report, we ask: under such an austerity plan, who wins and who loses?

In 2009, months after President Obama was sworn in as the nation's first African American president, the Tea Party stormed onto the political scene. With the financial backing of the Koch brothers,¹ the movement gained energy and momentum through 2010, helping the Republican Party seize the House of Representatives. While the Tea Party's energy may be new, its policies are not. If implemented, they will continue a thirty-year trend that began in the 1970s when a political backlash began to widen the economic divide and retard America's progress toward racial equality.

After Blacks made significant economic gains in the 1950s and 1960s, progress began to stall in the 1970s. This trend is evident in a new time-series analysis of income data provided in this report. Four decades after the Civil Rights movement, Blacks still earn only 57 cents and Latinos earn 59 cents for each dollar of White median family income.² The contrast is even starker for net wealth; that is, the total value of investments, savings, homes and other property minus any debt. Blacks hold only 10 cents of net wealth and Latinos hold 12 cents for every dollar that Whites hold.³

Closing this vast economic divide was a core objective of Dr. Martin Luther King, Jr. and his supporters in the final years of his life. But the agenda of the Congressional Republicans today and their Tea Party allies threatens to take the country in the opposite direction. Behind the Republican agenda is a sinister logic. First, they use tax cuts to starve the federal government. Then they point to the deficits that their tax cuts helped create and claim that we cannot afford the programs most Americans need.

The GOP austerity program will ratchet down the standard of living for all working Americans, and ratchet up the racial economic divide.

- **While the unemployment rate for Blacks and Latinos remains at Depression levels, Republicans consistently block meaningful job creation proposals.** The official unemployment rate is 15.8 percent among Blacks and 13 percent among Latinos as of December 2010. The White unemployment rate is 8.5 percent.⁴ Including discouraged and under-employed workers would push these unemployment numbers up significantly.

Despite these facts, the GOP's Congressional leadership has consistently opposed broad-based stimulus and public job creation programs that have the best projected economic returns.⁵ While their stance hurts millions of unemployed and under-employed Americans, they drag down Black and Latino workers the farthest and fastest.

- **With fewer assets to fall back on in hard times, Black and Latino families rely more heavily on unemployment insurance, Social Security and public assistance in times of need.** For example, a new analysis shows that well over half of older Blacks (59.1 percent) and Latinos (64.8 percent) depend on Social Security for more than 80 percent of their family income, as compared to only 46 percent of Whites.⁶ Republican opposition to these programs pushes people of color who are struggling — and other low-wealth households — further down the economic ladder.
- **Blacks will be disproportionately affected by the attack on public sector workers.** New analysis in this report shows Blacks are 30 percent more likely than the overall workforce to work in public sector jobs as teachers, social workers, bus drivers, public health inspectors and other valuable roles, and they are 70 percent as likely to work for the federal government.⁷ Public sector jobs have also provided Black and Latino workers better opportunities for professional advancement. The GOP hostility toward government and government employees will, if translated into policy, have a devastating effect on Black and Latino workers, while eroding our nation's capacity to carry out the important work of the public sector.
- **Republican tax breaks disproportionately flow into the hands of high-income and high-wealth Whites.** The recent income tax extension heavily favors Whites, who are three times as likely as Blacks and 4.6 times as likely as Latinos to have annual incomes in excess of \$250,000, according to original analysis in this report.⁸ In the short term, the extension of Bush-era income tax cuts for households earning \$250,000 or more per year deprives the federal government of the necessary revenue to create jobs and revive the economy. In the longer term, these cuts will do even greater harm by widening racial income and wealth divides.
- **The Republican tax cut agenda rewards wealth for those who already have it, and limits opportunity for those who do not.** Recent efforts to weaken the estate tax will help to ensure that the wealth inequalities of generations past are carried forward indefinitely. Additionally, the preferential treatment of capital gains and dividend income further exacerbates the racial wealth divide by rewarding wealthy Whites with dramatically lower tax rates. Original analysis provided in this report shows that Blacks earn only 13 cents and Latinos earn eight cents for every dollar that Whites receive in dividend income.⁹ Similarly, Blacks have 12 cents and Latinos have 10 cents of unrealized capital gains for each dollar that Whites have.¹⁰

This report starts in Memphis on the eve of Dr. Martin Luther King's death. It builds on King's call for economic equality in a "second phase" of the Black Freedom Movement. Section 1 explains why progress has stalled in recent decades, opening the door for a new era of

growing inequality. Section 2 looks briefly at how inequality has played out within the Black and Latino communities at the point where class intersects with race. Section 3 analyzes the racial impact of Congressional Republicans' economic agenda, documenting how the proposed policies will retard progress toward closing the racial economic divide. Section 4 explores positive policy directions that can begin to close the racial wealth divide and promote economic justice for all Americans.

While this report focuses on the negative policy implications of the GOP agenda on Blacks and Latinos, we also hold out hope for greater progress in the years ahead. History has demonstrated — as with the great Civil Rights victories of the 1960s — that when Americans come together across lines of race and class to forge a new and equitable path, we can achieve positive and lasting change. More than 40 years after Dr. King was assassinated, we must continue the cause of his life and ensure that his belief that “the arc of the moral universe is long, but it bends toward justice” is proven true.

Consistent Terminology

This report draws from various sources, each of which uses different naming conventions for Black, Latino and White populations. For the sake of consistency, we use the terms Black when referring to Black, non-Hispanic, White when referring to White, non-Hispanic and Latino when referring to Hispanic.

Limits of Latino Data

Much of this report focuses on the experience of Blacks, in part because of the availability of long-term data. The Census Bureau's Historic Income Tables for Blacks dates back to 1947. By comparison, the Census Bureau only began collecting income data on Latinos in 1973. We have reported on Latinos to the extent permitted by the available data. Because of data limitations, we do not report on the economic well-being of other communities.

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Key Facts

Snapshot of the Racial Divide

1. Employment and Income

- The unemployment rate is 15.8 percent for Blacks, 13 percent for Latinos and 8.5 percent for Whites (p. 20).
- New Data! While Blacks gained five cents to each White dollar of median family income from 1947 to 1977, they gained only one cent in the 32 years since (p. 8).
- New Data! Blacks earn 57 cents and Latinos earn 59 cents to each dollar of White median *family* income. The corresponding figures for median *household* income are 60 cents and 70 cents (p. 12).
- New Data! Amidst the Great Recession, those among the bottom 20 percent of income earners experienced ten times the losses (an eight percent income drop) of those among the top five percent of income-earners (a 0.8 percent income drop) (p. 10).
- New Data! Mirroring the national trend of the last 30 years, income growth within the Black and Latino communities has overwhelmingly gone to the top 20 percent, and more specifically, the top five percent of Blacks and Latinos (p. 12).

2. Wealth and Assets

- Blacks hold 10 cents and Latinos hold 12 cents of net wealth for every dollar of net wealth Whites hold (p. 15).
- New Data! Blacks are 2.7 times as likely as Whites to have zero or negative net worth. Latinos are two times as likely as Whites to have zero or negative net worth (p. 15).
- New Data! The likelihood of Blacks having net wealth of \$500,000 or more is only one-third the likelihood of Whites. Latinos are only two-fifths as likely as Whites to have net worth of \$500,000 or more (p. 16).

Evaluating the Republican Agenda

1. High-end tax cuts flow overwhelmingly to Whites

- The two-year tax cut package passed in December will cost \$850 billion over two years. Forty percent of the tax cuts will go to the top five percent of income earners. Twenty-five percent will go to the top one percent (p. 14).
- New Data! Whites are three times more likely than Blacks and 4.6 times more likely than Latinos to

have incomes of \$250,000 or more, and thus Whites receive a disproportionate benefit from the top-tier income tax cuts (p. 15).

- **New Data!** Special tax breaks for investment income flow overwhelmingly to Whites. Blacks earn 13 cents and Latinos earn eight cents to each dollar of White dividend income. Blacks have 12 cents and Latinos have 10 cents of unrealized capital gains to each dollar that Whites have (p. 17).
- **New Data!** Whites are 11 times more likely than Blacks and Latinos to have net wealth of \$5 million or more, the qualifying threshold to pay the estate tax under the 2011–2012 law (p. 18).

2. The attack on the public sector through pay freezes, furloughs, layoffs and proposed cuts is an attack on Black workers

- **New Data!** Blacks are 1.3 times as likely to work in public sector jobs than the general work force. That factor is 1.7 for federal employment, 1.3 for state employment and 1.2 for local government employment. (p. 22).
- **New Data!** In the professional and business services sector, Black males earn only 57 cents to each dollar of White male earnings. By comparison, Black males earn 80 cents to each dollar of White male earnings in the public administration sector. This trend of greater parity is also true for Black females, Latino males and females and White females (p. 24).

3. Cuts to social safety nets hit Blacks and Latinos hardest

- Due to pre-existing wealth disparities, Blacks and Latinos depend on unemployment insurance in times of crisis more often than Whites. 16.4 percent of White households lack enough net worth to subsist for three months at the poverty level without income while 41.7 percent of Blacks and 37.4 percent of Latinos are in that position. (p. 19).
- **New Data!** Among retirement-age seniors, 60 percent of Blacks and 65 percent of Latinos rely on Social Security for more than 80 percent of their income, while only 46 percent of Whites do (p. 18).
- Without Social Security, 53 percent of older Blacks and 49 percent of older Latinos would be in poverty, compared to an elderly poverty rate of 20 percent for both Blacks and Latinos with Social Security (p. 18).

4. Republican obstruction of real job creation hurts Blacks and Latinos who face higher unemployment rates

- The Republican agenda does little to stimulate the economy and create much-needed jobs. Making the Bush income tax cuts permanent will yield only 29 cents in economic stimulus for each dollar of federal revenue (p. 20).
- Republicans have opposed the very measures that are most likely to create jobs and stimulate the economy. Extending unemployment benefits yields \$1.64 in economic stimulus for each dollar spent by the federal government. Federal aid to states produces \$1.36 and increased spending on public infrastructures yields \$1.59 in economic stimulus per dollar (p. 21).

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Section One: Historical Context

With Selma, Alabama, and the voting rights bill, one era of our struggle came to an end and a new era came into being. Now our struggle is for genuine equality, which means economic equality. For we know that it isn't enough to integrate lunch counters. What does it profit a man to be able to eat at an integrated lunch counter if he doesn't earn enough money to buy a cup of coffee and a hamburger?

— Dr. Martin Luther King, Jr., addressing 25,000 supporters of the Memphis Sanitation Workers Strike, March 18, 1968¹¹

The United States of America stood at a crossroads in 1968 when Martin Luther King came to Memphis. The hope and energy of the civil rights movement were colliding with a worsening economic reality. Manufacturing, the nation's blue-collar opportunity engine, was starting to slow. A political backlash against Civil Rights victories was taking shape. Vietnam war spending was draining the programs of social uplift that the Black and White working poor urgently needed to reach full equality.

In Memphis, Mayor Henry Loeb was balancing the city's budget by squeezing city workers, provoking the sanitation strike. The Black sanitation workers got \$1.70 an hour for long, backbreaking and sometimes deadly work. Many needed food stamps to survive even though they held full time jobs.

"[I]t is a crime for people to live in this rich nation and receive starvation wages," King told his audience that night, but the problem went beyond Memphis. "[T]his is our plight as a people all over America... [W]e are living as a people in a literal depression... [T]he problem is not only unemployment [but it is] making wages so low that they cannot begin to function in the mainstream of the economic life of our nation."¹²

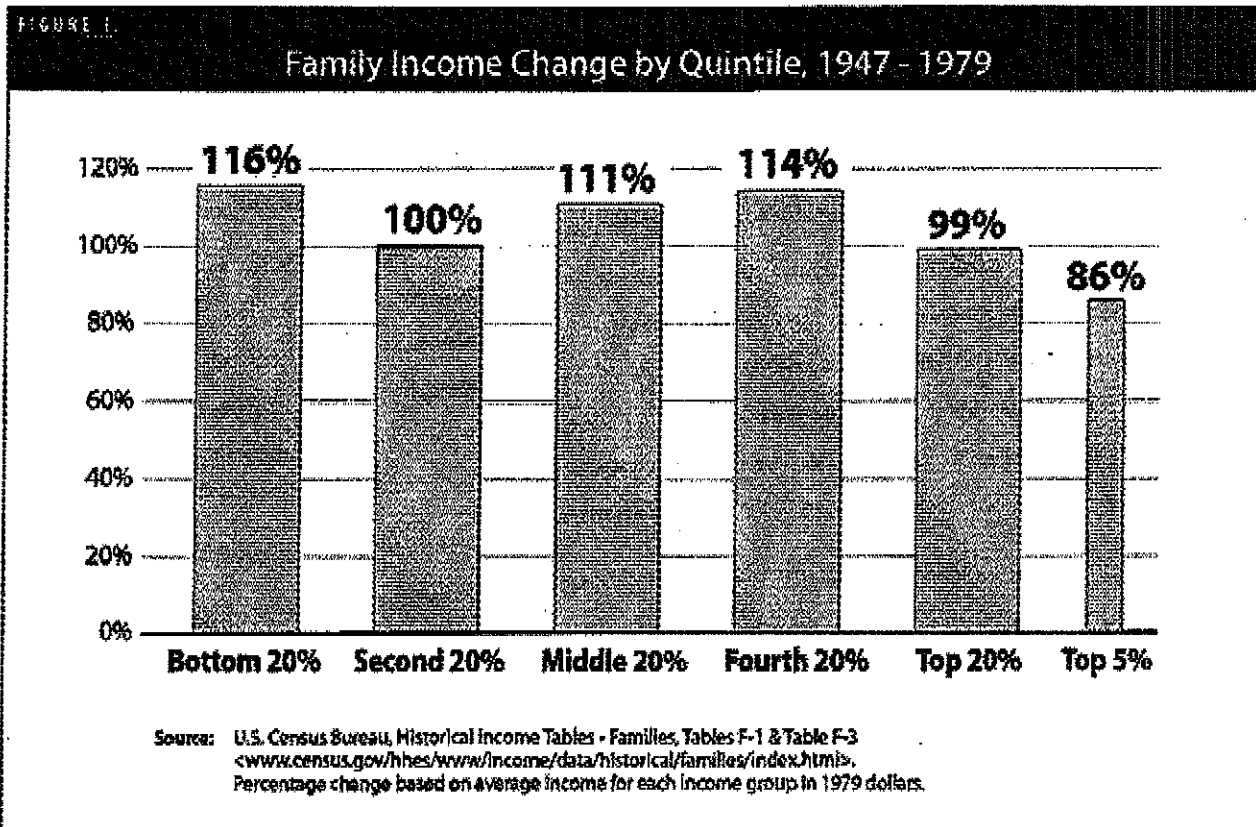
How was such poverty and exploitation possible in a nation that was experiencing the broadest expansion of opportunity in its history?

Government and the Creation of White and Black Wealth

Since our nation's founding, government has had an important role in the creation and distribution of wealth. The U.S. government made public investments — such as the development of ports, canals and roads — with broad public benefits. Unfortunately, it also enabled the creation of wealth for some at the expense of others, as with the enforcement of legalized slavery and the forcible seizure of land from Native Americans for the benefit of White settlers.

From the 1930s through the 1960s, government programs expanded income and wealth across all income classes, but often excluded people of color.

Massive public investments at the end of World War II fueled a broad-based economic expansion as median family income grew by 112 percent from 1947 to 1979.¹³ Incomes grew across the board, creating a strong and vibrant middle class that included unionized blue-collar workers along with white-collar professionals. During this period, those at the bottom experienced even greater income gains



than those at the top (see Figure 1).

The public investments that helped drive this expansion include the construction of the interstate highway system, the emerging aerospace industry, and home mortgage subsidies that helped build the suburbs. Washington also invested in people with the GI Bill, which allowed returning veterans to attend college and buy a home. Labor laws and minimum wage laws put a floor under working families. A very progressive federal tax system with top tax rates in the 80 to 90 percent range primed the economic expansion.

However, these federal actions at times left millions of people out.

- The National Labor Relations Act of 1935 (which protected the right to organize) and the Fair Labor Standards Act of 1938 (which established the minimum wage and overtime pay) excluded domestic workers and farm workers, who were largely Black and Latino. Without basic labor law protections, they were less able to defend their rights on the job and to bargain for living wages.¹⁴
- Domestic and farm workers were also excluded from coverage under the Social Security Act, which made them likelier to live their senior years in poverty and die in debt, rather than to pass wealth on to their children.¹⁵
- The GI Bill applied to veterans of all races, but White veterans received a disproportionate benefit because segregation and discrimination prevented Black veterans from taking full advantage of the education and housing programs in the GI Bill.¹⁶
- The Federal Housing Authority (FHA), which made home loans affordable for White Americans, encouraged banks to redline Black

neighborhoods. As a consequence it was nearly impossible for Blacks to secure home loans under the FHA program, hence excluding them from homes, jobs and business opportunities in the rapidly growing suburbs.¹⁷

Despite these and other hurdles, Blacks shared in the robust economic growth of the day. The average Black family saw its income rise by 135 percent from 1947 to 1979, compared to growth of 112 percent for the average White family during this same period.¹⁸ When measured in dollars, however, the average Black family saw only \$18,311 in income growth as compared to \$29,760 for Whites.¹⁹

Black workers advanced because economic growth made employers more willing to hire workers of any race, while strong unions and labor laws made it harder for them to discriminate on a racial basis. Other factors contributed to this growth, including the Second Great Migration from 1941 to 1970, when nearly five million Blacks moved from the rural South to Northern cities to work in the expanding industrial economy.²⁰ The civil rights struggle was also at its peak during these years. Finally, progressive taxation and minimum wage laws, to the extent that Blacks were covered, helped ensure that prosperity was more broadly shared.

The Civil Rights Movement, Economic Rights and Backlash

In the 1950s and 1960s the Civil Rights movement won political freedoms for Blacks that had long been guaranteed to Whites. However, those victories did not change the fundamental economic order. Whites still owned an overwhelming share of the nation's assets and commanded the top positions in major business enterprises. And as the 1960s proceeded, disturbing economic trends started to slow the industrial economy that was creating a prosperous Black working class. Dr. King passionately expressed this frustration in the last few

The Civil Rights movement won political freedoms for Blacks that had long been guaranteed to Whites. However, those victories did not change the fundamental economic order.

years of his life as he encouraged a movement to address a broader agenda for economic justice.

"Now we are dealing with issues that cannot be solved without the nation spending billions of dollars, and undergoing a radical redistribution of economic power," King told 600 Alabamians on February 15, 1968 as he worked to organize a Poor People's Campaign for economic justice.²¹

Nowhere was the clash between expanding political rights and contracting economic rights clearer than in Memphis. The mechanization of cotton production was pushing Mississippi Delta sharecroppers and farmers into Memphis for work. Blocked from other jobs, the Memphis sanitation workers stuck to backbreaking, low-paying work that kept 40 percent of them below the poverty level and qualified many of their families for welfare.²²

The federal government could have offset these trends, and for a brief time it seemed it would. Lyndon Johnson declared the War on Poverty in 1964 with the passage of the Economic Opportunity Act. But the program was never allowed to reach its full potential.

"A few years ago there was a shining moment in that struggle," said King at Riverside Church on April 4, 1967. "It seemed as if there was a real promise of hope for the poor — both black and white — through the poverty program. There were

experiments, hopes, new beginnings. Then came the buildup in Vietnam... and I knew that America would never invest the necessary funds or energies in rehabilitation of its poor so long as adventures like Vietnam continued to draw men and skills and money like some demonic destructive suction tube."²³

King threw himself into organizing a Poor People's Campaign that sought to abolish poverty through government action. This "second phase" of the movement would campaign for economic and social justice as well as civil rights.²⁴ Then, in the flash of a muzzle, King's life was taken on April 14, 1968.

Even before his assassination, a political backlash to the Civil Rights gains and the public role in lifting working-class Blacks was taking shape. As described by Nancy Naples, "The perception by the white middle class that it was footing the bill for ever-

increasing services to the poor led to diminished support for welfare state programs, especially those that targeted specific groups and neighborhoods. Many whites viewed Great Society programs as supporting the economic and social needs of low-income urban minorities; they lost sympathy, especially as the economy declined during the 1970s."²⁵

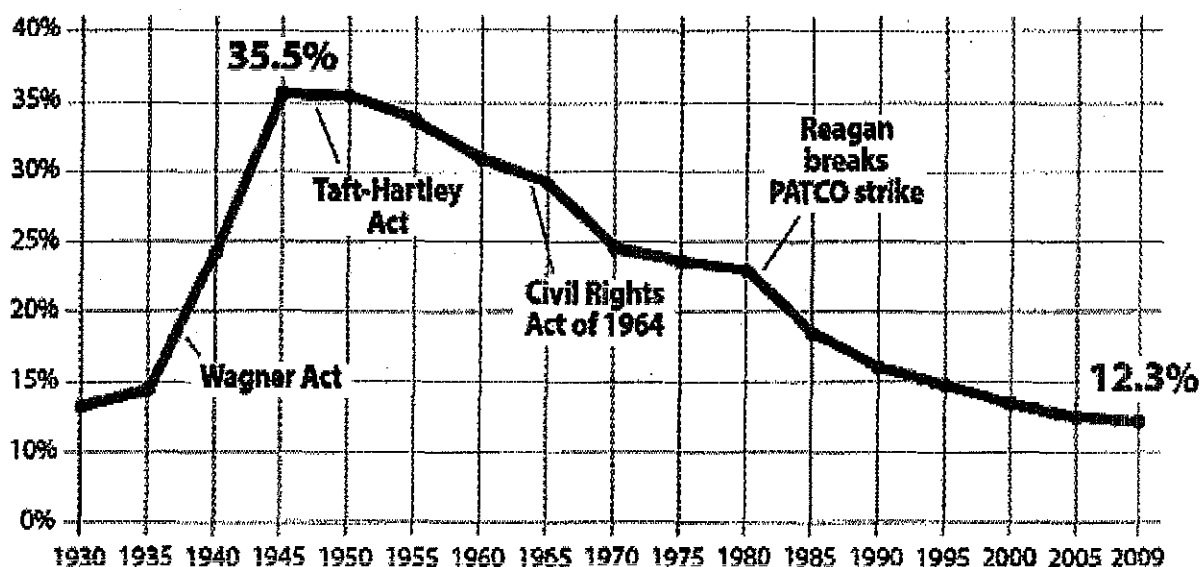
Yanking Up the Ladders of Opportunity

The political freedoms Blacks won during the Civil Rights era did not translate into sustained economic gains. As the economy worsened and public spending was diverted to the war in Vietnam, public programs, worker protections and progressive taxes that made the shared prosperity of the earlier generation possible fell under increasing attack.

King described the backlash in the opening pages of *Where We Go From Here?: Chaos Or Community*. In

FIGURE 2:

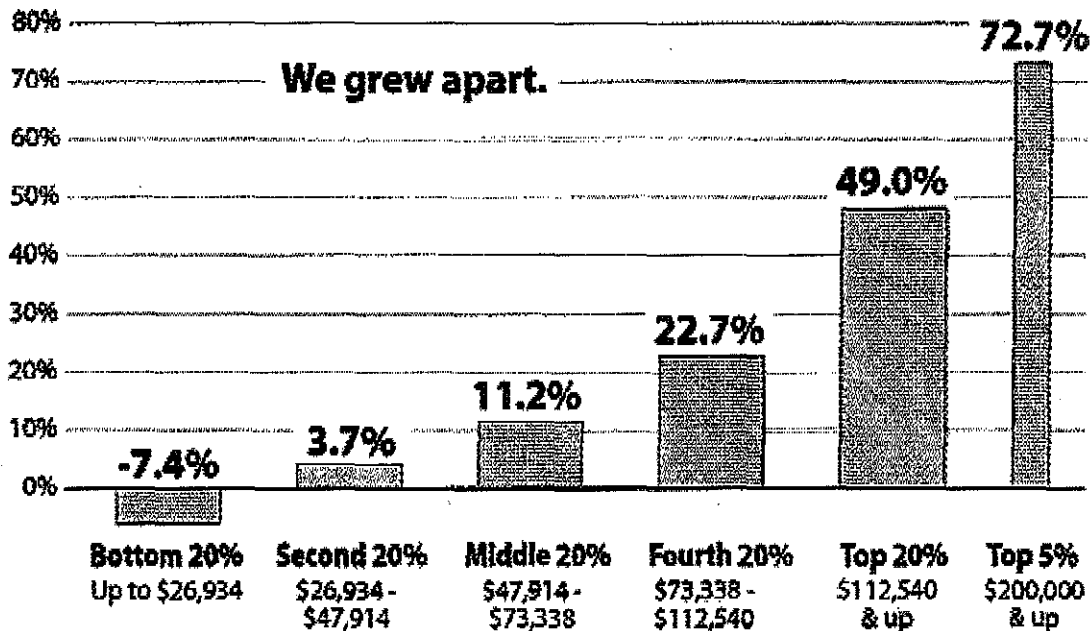
Power of Labor in Decline: Percent of Workers in a Union, 1930 - 2009



Sources: 1930 to 2000: Cornell University ILR School, "Union Membership Trends in the United States" by Gerald Mayer, August 2004
http://digitalcommons.ilr.cornell.edu/key_workplace/174/.
 2005 & 2009: U.S. Bureau of Labor Statistics <www.bls.gov/chs/tables.htm>.

FIGURE 1:

Family Income Change by Quintile, 1979 - 2009



Source: U.S. Census Bureau, Historical Income Tables, Tables F-1 & F-3. Income ranges are in 2009 dollars.
www.census.gov/hhes/www/income/data/historical/families/index.html

1966, a year after Congress passed the Voting Rights Act, civil rights leaders who witnessed its signing "were leading marchers in the suburbs of Chicago amid a rain of rocks and bottles, among burning automobiles, to the thunder of jeering thousands, many of them waving Nazi flags... The white backlash had become an emotional electoral issue." King's first explanation for the racial backlash of the mid-1960s was that White people were unwilling to change the status quo: "The practical cost of change for the nation up to this point has been cheap... The real cost lies ahead. The stiffening of white resistance is a recognition of that fact."²⁶

Business leaders who saw their profits and authority shrinking from the mid-1960s to the late 1970s added to the backlash. Lawyers who thought the National Labor Relations Board was infringing on management's rights to control the work site, and corporate chiefs who decided to roll back unions

and rising wages, formed the Business Roundtable and started making the U.S. Chamber of Commerce into an advocate for business' interests. In addition to attacking unions, they identified their main enemies as government intervention, regulation and "a rising wave of entitlement" in which the "have-nots are gaining steadily more political power to distribute the wealth downward."²⁷

The ideological arm of the backlash shared many of the same targets. After conservative icon Barry Goldwater's 1964 presidential defeat, young

The political freedoms Blacks won during the Civil Rights era did not translate into sustained economic gains.

conservatives carefully assembled political and media strategies to gain power, including coded and not-so-coded appeals to White voters' racial resentment.²⁸ Today's neoconservatives and the Tea Party are using the tools developed then.

A New Age of Inequality

The backlash of the 1970s helped to catapult Ronald Reagan into the oval office in 1980. Reagan came in with a clear anti-government agenda, which consisted of deregulation, reining in the public sector and cutting taxes for those at the very top. In those goals, he succeeded. The top marginal income tax rate was cut from 70 percent to 28 percent during Reagan's presidency.²⁹ The assault on the public sector, public sector workers and the unions who represented them was no less dramatic, including the firing of 11,000 air traffic controllers by Reagan in 1981.³⁰

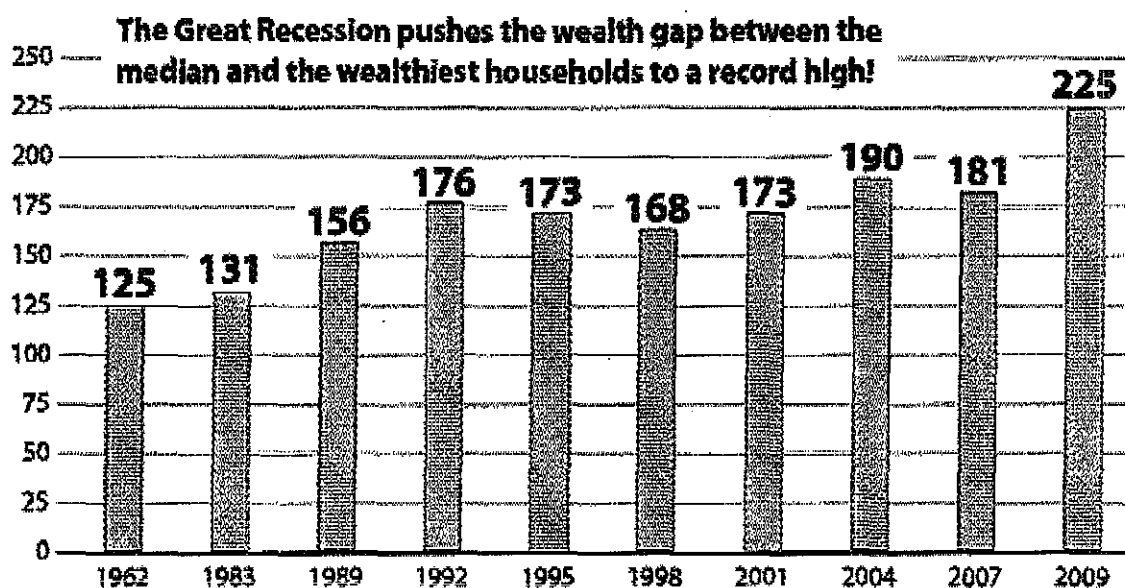
Reagan's trickle-down tax policies, deregulation and the assault on the public sector became dominant Republican themes of government for the next thirty years. Even President Clinton, though he did increase the top marginal tax rate slightly, was largely a party to the same general approach. He signed NAFTA in 1993, despite strong union opposition, and enacted "welfare reform" through the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

The consequences of this ideological and policy framework have helped fuel vast inequalities. Since the late 1970s, America has grown apart. Income growth has overwhelmingly gone to those at the very top, while those at the bottom have lost ground (See Figure 3).

The unequal growth of the past few decades has led to the worst income inequalities since the late

FIGURE 4:

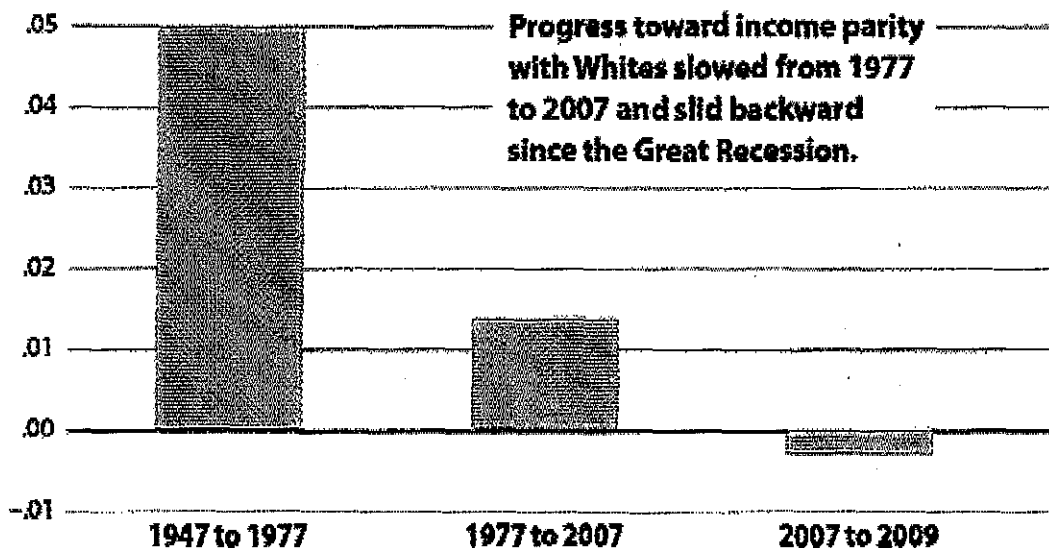
Ratio between Wealthiest One Percent and Median Household Wealth



Source: "State of Working America Preview: The Rich Get Richer," Economic Policy Institute, last modified December 22, 2010, <www.epi.org/economic_snapshots/entry/the_rich_get_richer>.

FIGURE 5:

Gains in Median Black Income v. Median White Income



Source: U.S. Census Bureau, Historical Income Tables, Table F-5 <www.census.gov/hhes/www/income/data/historical/families/index.html>. See Appendix for further explanation of racial data.

1920s, just before the Great Depression. In 2008, the top 10 percent of families took home over 48 percent of all income. Over 20 percent of total income flowed to the top one percent alone.³¹

At the same time, wealth has grown more concentrated at the very top. Net wealth is the total value of one's assets (homes, cars, savings, real estate, stocks and other investments) less one's debt. Households in the wealthiest one percent now control 225 times the net wealth of the median household (see Figure 4).³²

The top-heavy growth of the past three decades has deepened the racial economic divide. Blacks and Latinos are over-represented among low earners who received the least income gains and under-represented among top earners who took home the greatest shares of national income. Only two percent of Blacks and 1.7 percent of Latinos earn

Note to 2010 State of the Dream report readers: In order to provide a long-term picture of what has happened in the struggle to achieve income parity, we used the Census Bureau data for "families," which dates back to 1947. Based on median "household" income, as used in the 2010 State of the Dream report, Blacks earned 60 cents and Latinos earned 70 cents to each dollar of White income in 2009.³⁶

\$100,000 or more, as compared to 5.7 percent of Whites. At the other end, 33.8 percent of Blacks and 37.3 percent of Latinos earn less than \$10,000, as compared to 25.4 percent of Whites.³³

After experiencing significant gains relative to Whites in the post-World War II period, Blacks'

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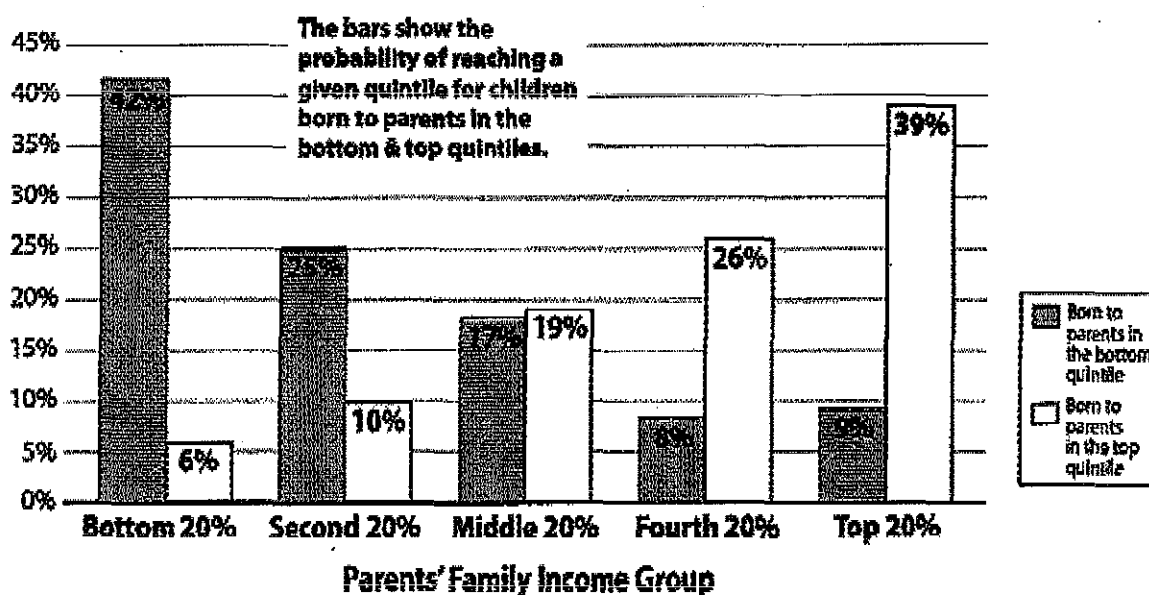
progress toward income parity stalled as the age of inequality took hold. In 1947, Blacks earned 51 cents to each dollar of White median family income. By 1977, Blacks were earning 56 cents to each dollar in White income, a gain of five cents. Most of those gains were made in the 1960s.³⁴

Then, as the backlash took hold, progress slowed — and stopped. By 2007, Blacks earned slightly over 57 cents (57.4¢) to each White dollar, a gain of just over one penny in thirty years. Two years later, as the Great Recession set in, Blacks lost a half-cent, ending at 57 cents to each White dollar of median family income.³⁵ Comparable long-term data for Latinos is not available.

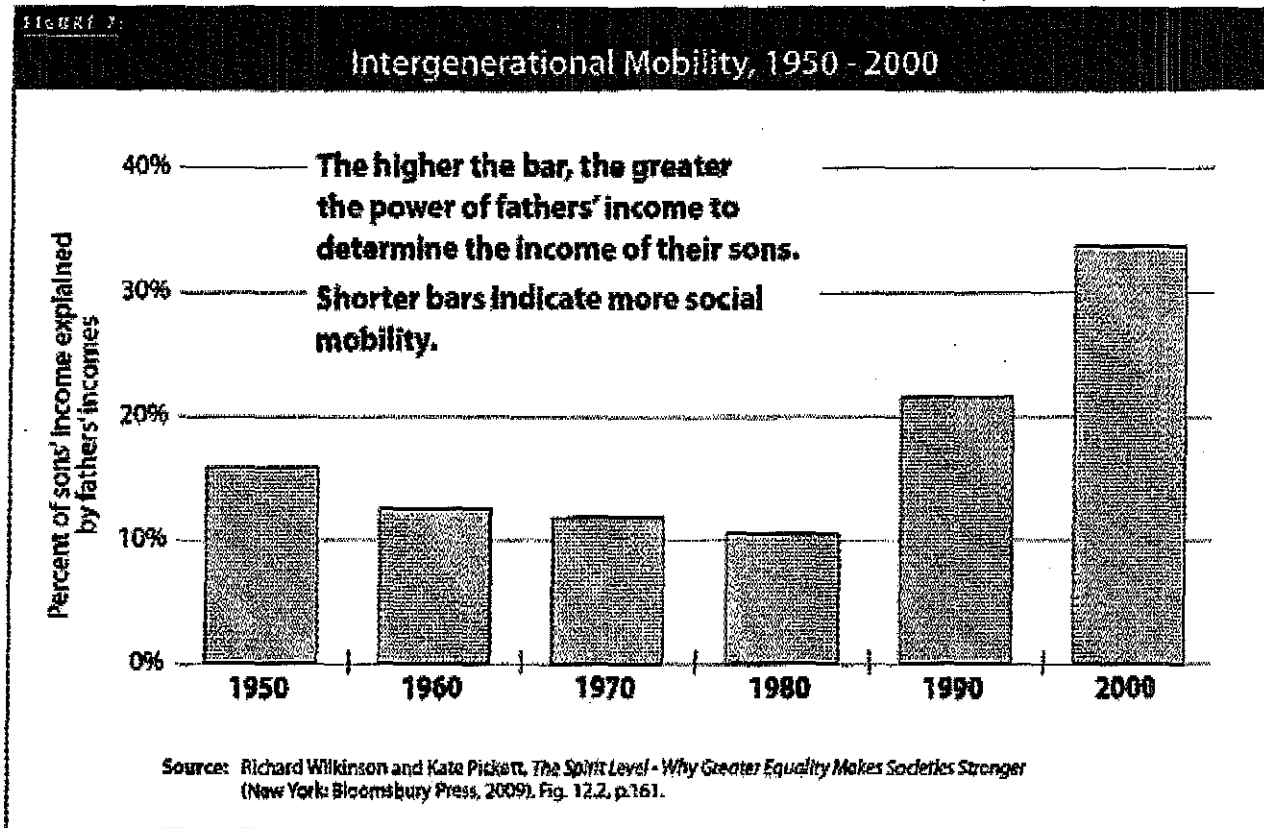
The growing inequality of the past three decades has had implications for all Americans. There is a strong connection between inequality and a host of social ills. Comparisons of developed nations around the world, as well as states within the U.S., show that higher levels of inequality lead to greater physical and mental health problems, increased drug abuse, higher incarceration rates, rising obesity and a breakdown of trust.³⁷

FIGURE 6:

Mobility of Children Born to Parents in the Bottom & Top Quintiles



Source: Julia B. Isaacs, Isabel V. Sawhill, and Ron Maskins, *Getting Ahead or Losing Ground: Economic Mobility in America* (2008). The Economic Mobility Project, The Brookings Institute, 2008, p.19 <www.brookings.edu/reports/2008/02_economic_mobility_sawhill_isaacs>.



Social mobility also deteriorates as inequality increases. That is, the ability of children to advance significantly past the economic circumstances of their parents declines as inequality rises.³⁸ Long a part of the American narrative is the idea of meritocracy — that a person can rise or fall based on their own merit and hard work. Data shows, however, that over half of Americans are essentially stuck in the “station in life” into which they were born.

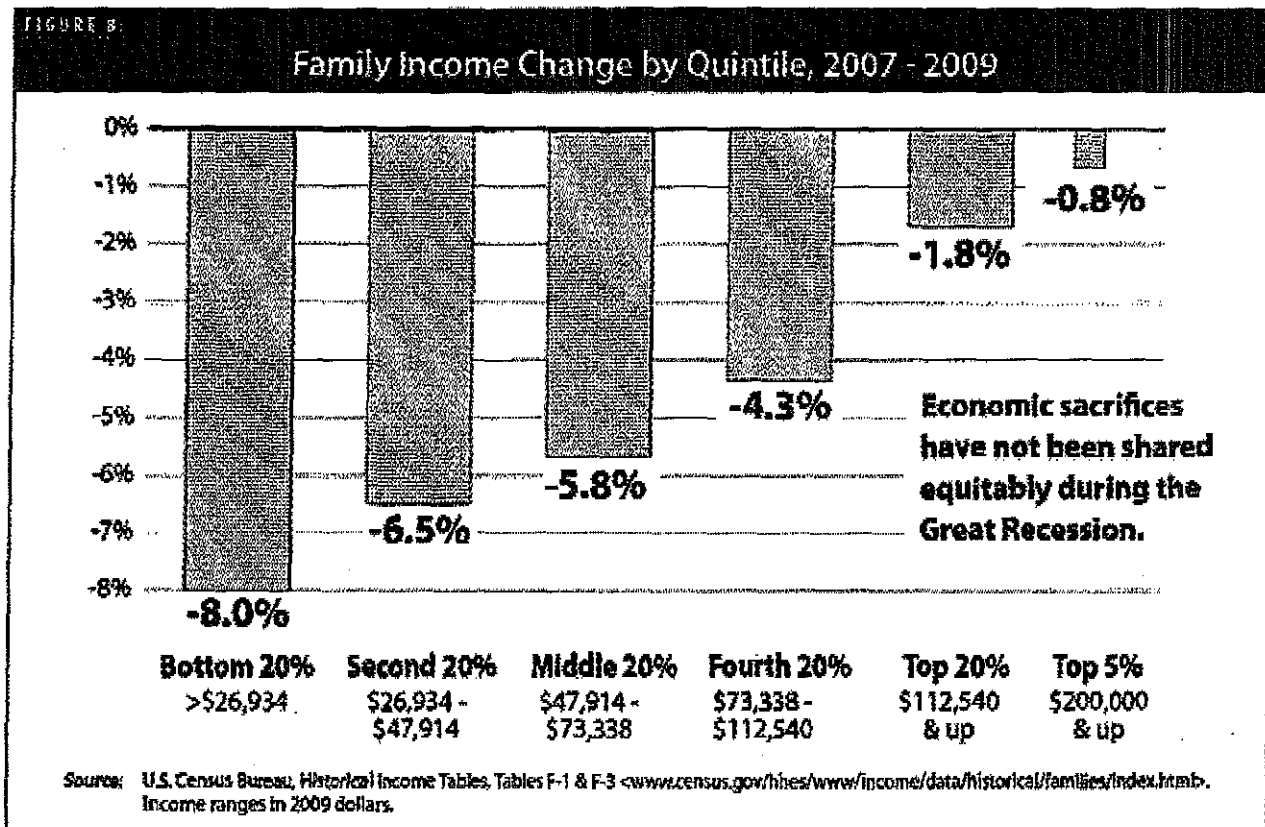
Figure 6 maps the incomes of adults who were born in the bottom 20 percent and top 20 percent of income-earners, or quintiles. Forty-two percent of those born in the bottom quintile remain in the bottom quintile. Sixty-seven percent either remain in the same quintile or move only one quintile over. At the other end, 65 percent of those born in the top quintile remain in or near the top. One’s

“station in life” as a child is a primary determinant of where one will be as an adult.

Figure 7 shows that, as inequality has increased in recent decades, an son’s income as an adult is far more likely to be determined by his father’s “station in life.” The erosion of social mobility limits the ability of young Blacks and Latinos, who on average begin their economic lives poorer than Whites, to make significant progress in closing the economic divide.

The Great Recession

Extremely concentrated wealth, widespread indebtedness and financial deregulation converged in 2008 to contribute the worst economic crisis since the 1930s. Government policies — including the financial sector bailout and the insufficient economic stimulus package — ensured that



the working majority paid the most for a steep economic downturn caused by America's wealthiest. Every major income group experienced a decline in income over the past two years, but middle and low-income families were hit the hardest (See Figure 8).

As Wall Street recovered in 2009, business profits rebounded. That year, the 25 top hedge fund

managers took home one billion dollars apiece on average.³⁹ Meanwhile, the basic unemployment rate hovered near ten percent, while real unemployment and under-employment rates reached Depression levels at the bottom of the economic spectrum, where Black and Latino workers are concentrated.⁴⁰

Section Two: Inequality Within Black and Latino Communities

The curse of poverty has no justification in our age... The time has come for us to civilize ourselves by the total, direct and immediate abolition of poverty

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

Over the past several years, Americans have seen the emergence of a new class of extraordinarily affluent Blacks, including Oprah Winfrey and Robert L. Johnson, the owner of BET Holdings. And the election of Barack Obama as President of the United States has challenged a historic achievement barrier for African-Americans and other people of color. The existence of this new class of elite Blacks has caused many in the news media and elsewhere to wrongly declare that the United States is now a post-racial society. What these observers are seeing is a new Black elite that sits at the apex of another highly unequal pyramid — the one within communities of color.

Note to Reader

While one may be tempted to compare the income quintiles in Figures 9 and 10 to those in Figure 3, this would be misleading, because the average Black or Latino family earns significantly less than the average household in general. Nonetheless, an examination of income growth within Black and Latino communities can provide significant insights into the growing inequality of the past 30 years.

Like the national income growth trends, gains in both Black and Latino communities have gone disproportionately to those at the very top. Black and Latino communities are growing apart.

Over the last 30 years, the overwhelming share of income growth within the Black community went to the top 20 percent of families, with the top five percent receiving particularly large shares (see Figure 9). The vast majority of Blacks saw minimal gains; some even lost ground.⁴¹ Had economic growth been evenly shared, 80 percent of Blacks would have seen substantially higher income growth.⁴²

The bottom 20 percent of Blacks, those earning less than \$16,114,⁴³ saw a decrease in their earning power, despite already living under poverty conditions. This trend, coupled with increased economic segregation as middle-class families moved out of poor communities, has created areas of concentrated poverty where opportunities are few.

The concentration of poverty has profound effects on those who live poor communities. Those in poverty have to deal not only with their own poverty but also with the poverty of others in their community. It hinders access to employment, and contributes to poor health. It exposes children to

Those in poverty have to deal not only with their own poverty but also with the poverty of others in their community.

high rates of crime and violence, to low quality foods and to some of the worst performing schools.⁴⁴ Additionally, living in an impoverished neighborhood increases the likelihood that a child of any race will move down the income ladder.⁴⁵

At the other end of the spectrum, we have a new — though very small — class of very wealthy and high-income Blacks. In addition to notable examples such as Oprah Winfrey, there are Black CEOs heading major corporations like American Express, Xerox and Aetna.⁴⁶ While their success is cause for celebration, focusing too much attention

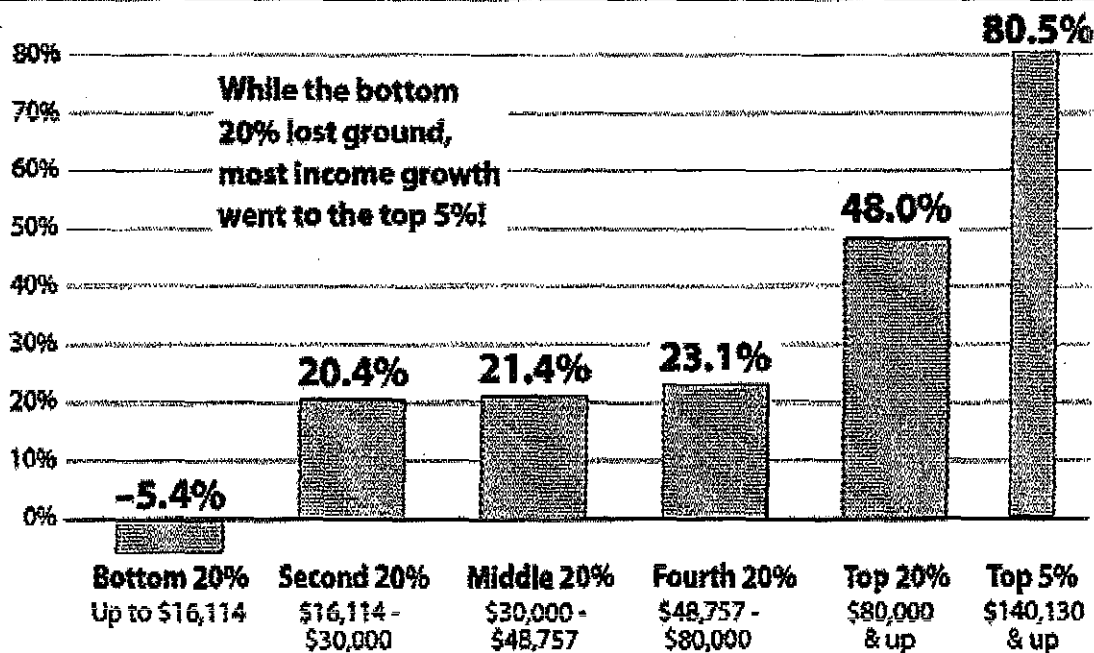
on this successful but extremely small group can be misleading. The average Black family still earns only 57 cents to each dollar of White income.

In the middle of these two extremes lies the Black middle class, including teachers, professionals, mechanics, medical technicians, engineers and others. However, Black workers who have achieved middle class status when measured by income have on average, significantly fewer assets (net wealth) to fall back on in times of crisis than their White counterparts. Without sufficient wealth to draw from, economically challenging periods such as an illness or long-term unemployment can cause rapid descent of a Black family from their precarious middle-class status.

Of the scant income growth Latinos have experienced in the last 30 years, almost all of it went to those at the top. The bottom 40 percent

FIGURE 9

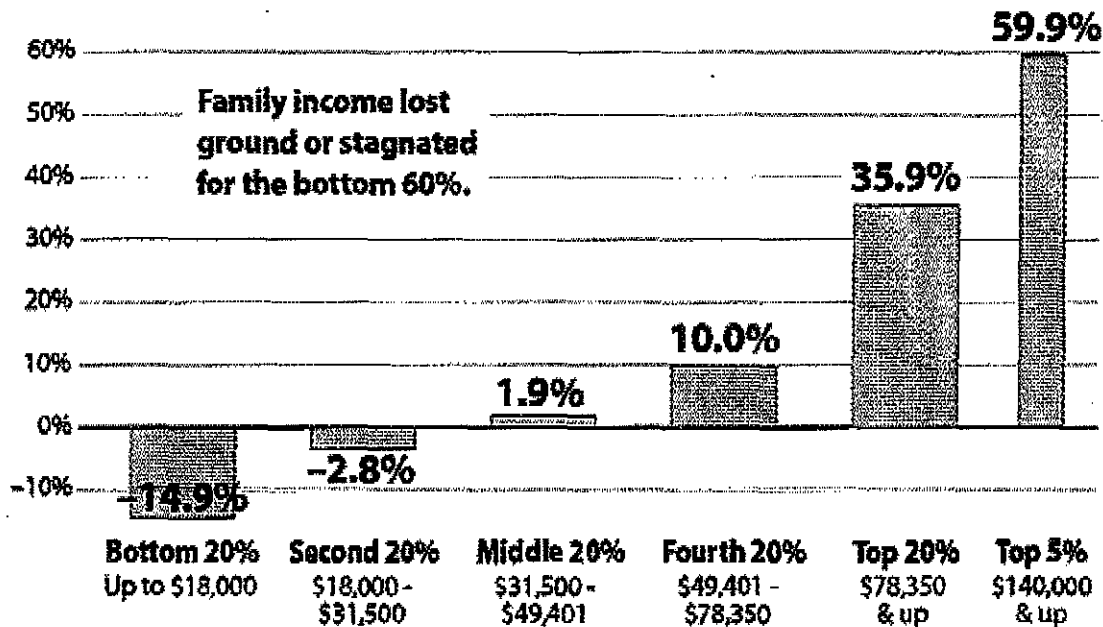
Black Family Income Change by Quintile, 1979 - 2009



Source: U.S. Census Bureau, Historical Income Tables, Tables F-1 & F-3B <www.census.gov/hhes/www/income/data/historical/families/index.html>. Income ranges in 2009 dollars.

FIGURE 10:

Latino Family Income Change by Quintile, 1979-2009



Source: U.S. Census Bureau, Historical Income Tables, Tables F-1 & F-3 <www.census.gov/hhes/www/income/data/historical/families/index.html>. Income ranges in 2009 dollars.

of Latinos had negative income gains over the last 30 years, while the middle 20 percent barely maintained their income level (see Figure 10). The influx of new Latino immigrants, who are more likely to enter the workforce at low-pay, entry-level positions in agriculture, construction and service sector jobs, may have pushed down average Latino income and contributed to the already unequal growth with which many Latinos were coping.

The average income growth for all Latinos during this period was only 17 percent.⁴⁷ If that income growth been shared evenly across income groups however, then today 80 percent of Latinos would be in notably better economic positions.

While Black and Latino communities have exhibited patterns of unequal growth that mirror the national trend, absolute inequality is higher within Black and Latino communities than within White communities. This is evident in Gini coefficients, a common measure of income and wealth inequality around the world.⁴⁸

In short, Blacks and Latinos are not monolithic groups. There is significant variance of economic well-being within both communities, along with challenges of growing economic segregation and class structures within both populations. Nevertheless, both Black and Latino communities continue to share their immensely unequal relationship to the larger White community.

Section Three: The Republican Agenda and the Race Divide

The majority of white Americans consider themselves sincerely committed to justice for the Negro. They believe that American society is essentially hospitable to fair play and to steady growth toward a middle-class Utopia embodying racial harmony. But unfortunately this is a fantasy of self-deception and comfortable vanity.

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

Four decades after Memphis, the nation stands before a crossroads strikingly similar to that of the late 1960s, when Dr. King's life was taken. Automation and outsourcing have thrown millions of workers out of steady jobs. Millions earn so little that even with full-time jobs, they struggle to make ends meet. The deepest economic crisis since the 1930s has raised the Black and Latino unemployment rates to Depression levels. Wars halfway around the world consume government resources, and renewed attacks on government budgets and public sector employees threaten to destroy one of the few places in the economy where Black workers have won a strong foothold.

The path we choose today will have enormous long-term consequences for all Americans regardless of race. The incoming Republican majority in

The incoming Republican majority in the House of Representatives and their Tea Party base want to lead the nation down a path that will exacerbate existing inequalities and deepen the racial economic divide.

the House of Representatives and their Tea Party base want to lead the nation down a path that will exacerbate existing inequalities and deepen the racial economic divide. An analysis of Republican policy priorities to shrink government and cut taxes for the richest taxpayers shows that their agenda will disproportionately and adversely impact Black and Latino families.

GOP Objective #1: Cut Taxes for the Wealthy

Tax breaks for the very wealthy have been a top priority for anti-government Republicans since before the Reagan years. In December 2010, Congressional Republicans blocked unemployment benefits for millions of Americans until an agreement was reached to extend tax breaks for the very wealthy. Besides extending the Bush tax cuts for the wealthiest three percent, Republicans succeeded in their quest to maintain the top tax rate for capital gains and dividends at historically low levels and to further weaken the federal estate tax, which applies only to multi-million dollar estates.

The total tax package negotiated by the Obama Administration and Congressional leadership will cost \$850 billion, of which nearly 40 percent will go to the top five percent of households. The top one percent alone will receive 25 percent of the total

Key Terms Defined

Capital gains are the appreciated value of assets. For example, if someone buys \$100,000 in stocks, then sells them five years later for \$150,000, the capital gains on that is \$50,000. That gain is called **"unrealized" capital gains** until it is sold, at which point they become capital gains income. **Dividends** are direct income payouts to shareholders of stocks and mutual funds.

package.⁴⁹ The price of the tax cuts is in addition to the \$2.5 trillion cost of the 2001 and 2003 Bush tax cuts, over half of which went to the top five percent of income earners.⁵⁰

The top-tier income tax cuts will flow overwhelmingly to wealthy Whites, who are three

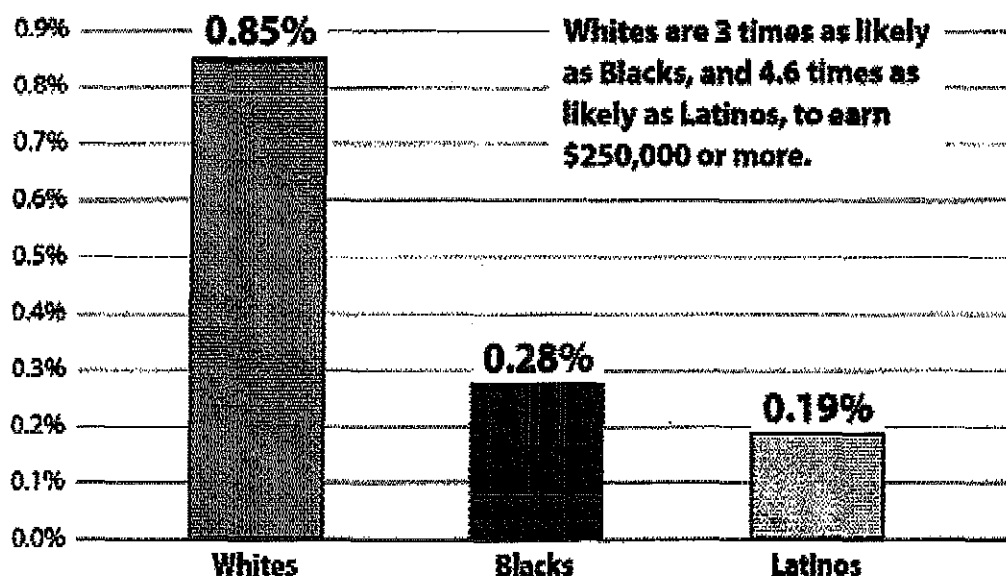
times more likely than Blacks and 4.6 times more likely than Latinos to have incomes in excess of \$250,000.⁵¹

The preferential treatment of wealth in our tax system causes historical racism to become deeply embedded in our economy. Blacks earn 57 cents and Latinos earn 59 cents for each dollar of White income.⁵² By comparison, Blacks hold only 10 cents of net wealth and Latinos hold 12 cents of net wealth for every dollar that Whites hold.⁵³ Wealth disparities are much greater than income disparities in part because wealth is transferred from generation to generation through gifts and inheritance. As a result, the inequities and injustices of the past are inherited by each subsequent generation.

Blacks are 2.7 times more likely than Whites to have zero or negative net worth. At the other end of the

FIGURE 11:

Percent of Individuals, 18 and over, Earning \$250,000 or More



Source: Original analysis of mean dividend income provided by Lifonomics using Survey of Income and Program Participation (SIPP) data, combining 5 waves (Dec. 2008 through April 2010), filtering for individuals 18 or over, resident population of the United States (excluding persons living in institutions and military barracks).

spectrum, Blacks' chances of having net wealth of \$500,000 or more is only one-third that of Whites. Latinos are two times more likely to have zero or negative net worth and two-fifths as likely to have net worth of \$500,000 or more than Whites (See Figure 12). Whites on the other hand are over-represented among the top wealth holders.⁵⁴

Investment income earned from wealth holdings flows disproportionately to Whites and to wealthy Whites in particular. The two-year extension of the Bush tax cuts maintained the top tax rate for dividend and capital gains income at 15 percent, while the top tax rate for income earned through employment is 35 percent.

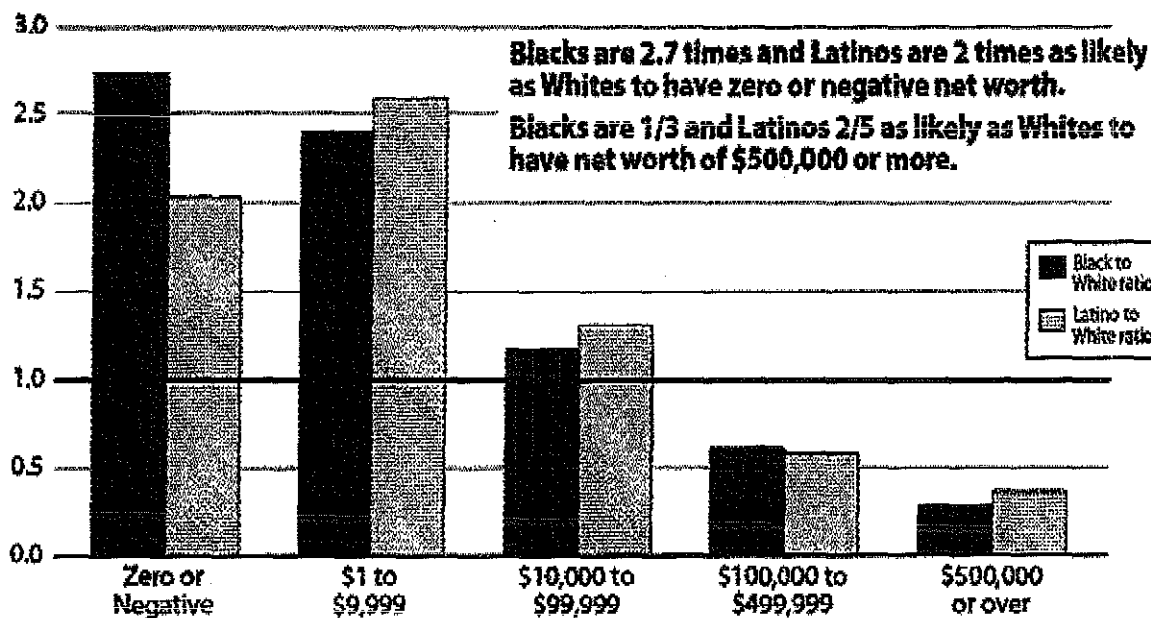
Those at the very top of our economy — the vast majority of whom are White — receive the bulk of their income from “unearned income” such

Wealth disparities are much greater than income disparities in part because wealth is transferred from generation to generation through gifts and inheritance. As a result, the inequities and injustices of the past are inherited by each subsequent generation.

as capital gains and dividends. The preferential treatment of capital gains and dividend income is a major reason that the richest 400 Americans pay an average effective tax rate of only 17 percent.⁵⁵

FIGURE 12:

Relative Representation Among Wealth-Holding Groups



Source: Original analysis, using weighted percent of group by race, of net worth data from Federal Reserve Board, 2007 Survey of Consumer Finances, "Full Public Data Set," Last updated June 11, 2009 <www.federalreserve.gov/Pubs/OSS/oss2/2007/scf2007data.html>.

The two-tiered tax system produces an inherent racial bias. Blacks earn only 13 cents and Latinos earn eight cents for every dollar that Whites receive in dividend income. As a result, Whites receive eight times the benefit that Blacks and 13 times the benefit that Latinos receive from the dividend tax break.⁵⁶

The special tax treatment of capital gains also overwhelmingly benefits Whites. Blacks have 12 cents and Latinos have 10 cents of unrealized capital gains for each dollar that Whites have.⁵⁷ When cashed out or sold, unrealized capital gains become capital gains income flowing overwhelmingly to wealthy Whites at extremely low tax rates.

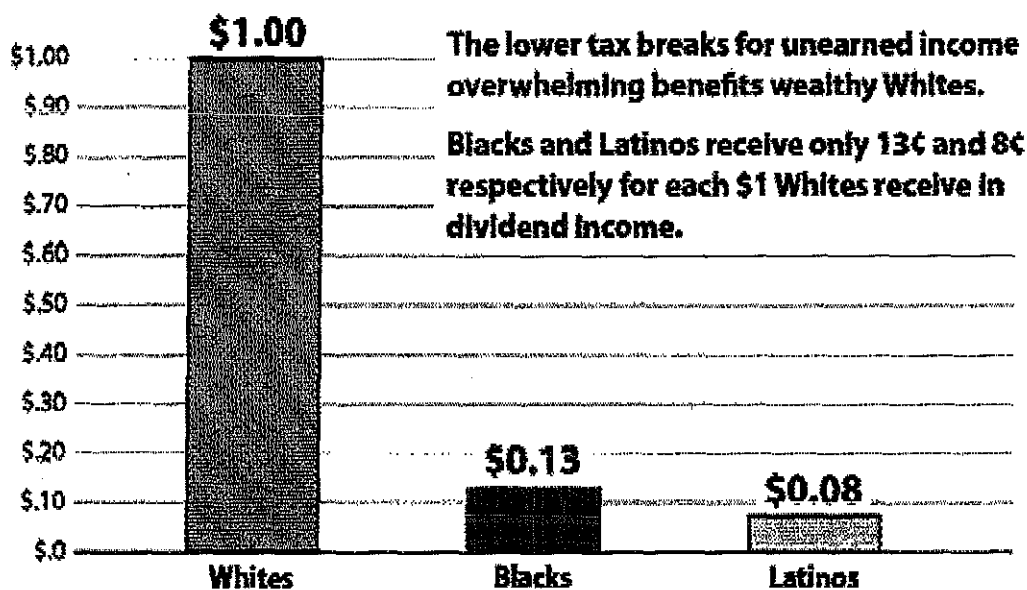
The most controversial provision of the tax cut package passed in December 2010 was the weakening of the federal estate tax. President

The special tax treatment of capital gains also overwhelmingly benefits Whites. Blacks have 12 cents and Latinos have 10 cents of unrealized capital gains for each dollar that Whites have.

Obama acceded to Republican demands to raise the exemption to \$5 million (\$10 million for married couples) and reduce the tax rate to 35 percent. Efforts by many Democrats in the House of Representatives, the Congressional Black Caucus and advocates for racial and economic justice to restore the 2009 estate tax level fell short as the Obama-GOP package was pushed through Congress by leadership in both parties with no room for negotiation.

FIGURE 13:

Value of Dividend Income of Blacks & Latinos Compared to Whites, 2008



Source: Original analysis of mean dividend income provided by Litinomics using Survey of Income and Program Participation (SIPP) data, combining 5 waves (Dec. 2008 through April 2010), filtering for individuals 18 or over, resident population of the United States (excluding persons living in institutions and military barracks).

The estate tax is an important tool for reining in concentrated wealth and the corrupting influence that it has on our political, social and economic systems. Additionally, Whites are 11 times more likely to have net wealth of over \$5 million than Blacks and Latinos combined, enough to qualify for the estate tax at the new 2011–2012 level.⁵⁸ Further weakening the estate tax, as advocated by Republicans who remain committed to its repeal, will help ensure that the inequalities of the past are carried forward to each new generation.

GOP Objective #2: Shred the Safety Nets

Even modest assets provide a cushion for families during medical emergencies, periods of unemployment or simply retirement. Blacks and Latinos, who generally have lower levels of wealth, depend more on social insurance and public assistance for that cushion. The Republican agenda

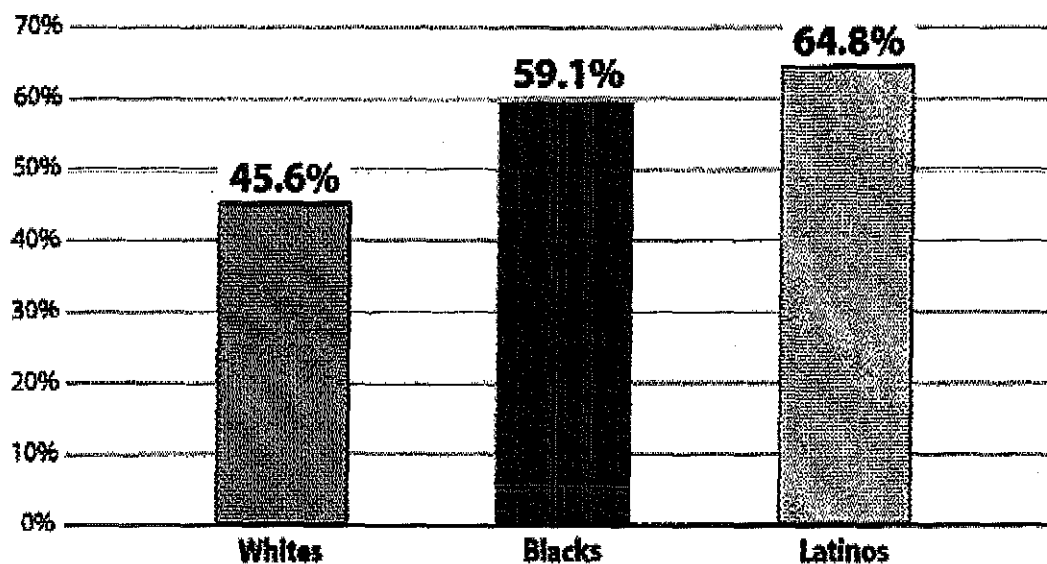
for Social Security, unemployment insurance and public welfare programs will have a pronounced racial impact.

Social Security

Older Whites are more likely to have significant income sources other than Social Security to rely on in their retirement years. Nearly 60 percent (59.1 percent) of older Blacks and almost 65 percent (64.8 percent) of Latinos depend on Social Security for more than 80 percent of their income, while only 45.6 percent of retirement age Whites rely on Social Security as heavily.⁵⁹ Thanks to the effectiveness of Social Security, the poverty rate for retirement age Blacks and Latinos has declined to about 20 percent. Without Social Security, 53 percent of older Blacks and 49 percent of older Latinos would be in poverty.⁶⁰

FIGURE 14:

Percent of Seniors Reliant on Social Security for More than 80% of Income, by Race



Sources: UFE analysis of data from Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, and Rebecca Vick, *Integrated Public Use Microdata Series, Current Population Survey: Version 3.0* (Machine-readable database), University of Minnesota, 2010 <<http://cps.ipums.org/cps/index.shtml>>.

The erosion of Social Security has been a Republican goal for years. Representative Paul Ryan (R-WI) is now serving as chairman of the House Budget Committee. In his new role, we can expect even more assaults on Social Security, including raising the retirement age and reducing benefits as proposed in Ryan's "Road Map."

Any attempt to weaken Social Security will hurt the country as a whole and increase poverty among the elderly. Black and Latino communities would be particularly devastated by cuts to this critical social insurance program.

Unemployment Insurance

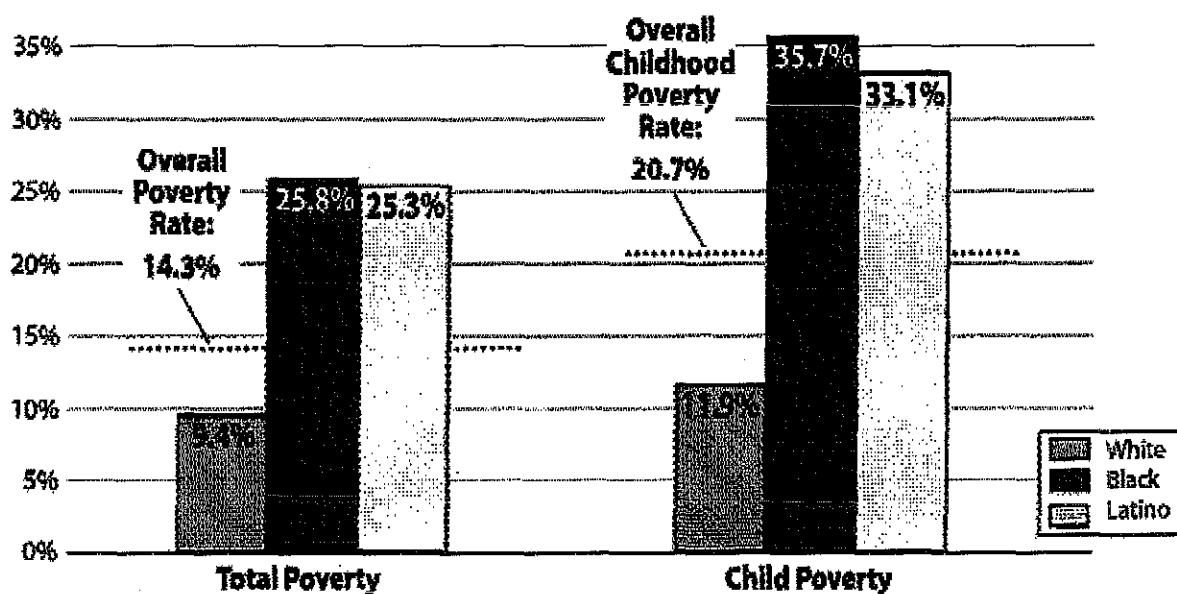
Asset poverty — the lack of net wealth regardless of income — means that Blacks and Latinos have fewer alternatives to unemployment insurance than White households in the event of job loss. In

2006, 16.4 percent of White households did not have enough net worth to subsist for three months at the poverty level without income, while 41.7 percent of Blacks and 37.4 percent of Latinos were in that position.⁶¹ Asset poor families that lose employment income experience sharp drops in food consumption, declining health and mortality levels, increased marital conflict and often a loss of health care coverage.⁶²

Black workers are also more than twice as likely as White workers to stay unemployed for at least 52 weeks.⁶³ In the last Congress, Republicans led repeated efforts to block unemployment insurance extensions during the worst employment crisis since the 1930s. The newly elected Congress will be faced with the decision of whether to extend unemployment benefits again, and their decision will have sharp racial consequences.

FIGURE 13:

Poverty Rate by Race, 2010



Source: Christian E. Weller, "Economic Snapshot for December 2010," Briefing Paper, Center for American Progress, last updated December 13, 2010 <www.americanprogress.org/issues/2010/12/econsnap1210.html>.

Public Assistance

Whites comprise the great majority of those on public assistance or welfare. However, on a per capita basis, Blacks are four times more likely than Whites to receive public assistance, Supplemental Security Income (SSI), or food stamps.⁶⁴ While Congressional Republicans have not set specific spending targets for public assistance, cutting welfare programs has been at the top of the Republican agenda for decades.

The poverty rates for Blacks and Latinos are more than twice that of Whites, and childhood poverty rates for Black and Latinos are more than three times that of White children.⁶⁵ Cutting public assistance programs will worsen economic inequalities throughout the country, and would be a direct assault on Black and Latino communities that are already plagued by poverty.

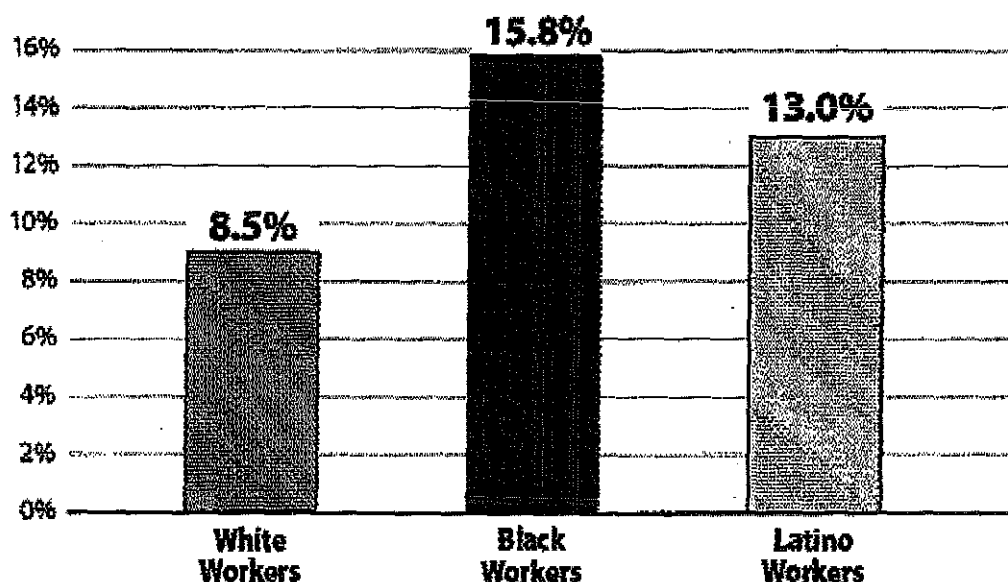
GOP Objective #3: Oppose Stimulus Funding and Public Investments

The national unemployment rate is currently 9.4 percent, without including discouraged and underemployed workers. There are significant disparities when examined by race. The unemployment rates for Blacks and Latinos are 15.8 percent and 13 percent, respectively. With White unemployment presently at 8.5 percent, Blacks are 1.9 times and Latinos are 1.5 times more likely than Whites to be out of work.⁶⁶

Republicans have argued that tax breaks will create jobs and stimulate the economy. However, there is evidence that shows tax cuts do very little of either. Making the Bush income tax cuts permanent would yield only 29 cents in economic stimulus for each dollar of lost federal revenue. The economy would not fare much better with a permanent extension

FIGURE 15:

Unemployment Rate by Race, in December 2010



Source: "The Employment Situation - December 2010," Bureau of Labor Statistics, U.S. Department of Labor news release, Washington, D.C., January 7, 2011 <www.bls.gov/news.release/emp/sit.nr0.htm>.

Blacks are 1.9 times and Latinos are 1.5 times more likely than Whites to be out of work.

of the Bush dividend and capital gains cuts, which would provide only 37 cents of stimulus for each dollar of lost revenue (see Figure 17).

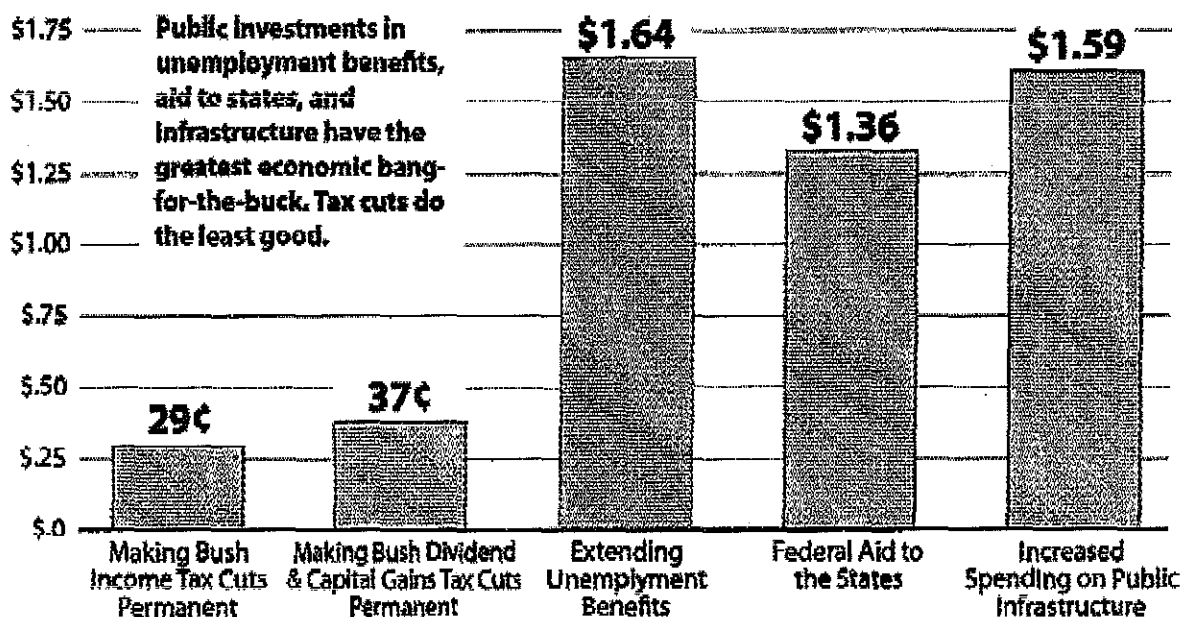
On the other hand, extending unemployment benefits, which Republicans have repeatedly blocked over the last year, would yield \$1.64 in economic stimulus for each dollar the federal government spends. On average, federal aid to states produces \$1.36 and increased spending on public infrastructures yields \$1.59 in economic stimulus for each dollar spent.⁶⁷ Despite this overwhelming

evidence, Congressional Republicans appear unable to see past their ideological blinders and continue to advance the same tax cuts, trickle-down and small government policies that they have supported for years.

Nearly two years ago, Congressional Republicans fought to prevent the passage of the American Recovery and Reinvestment Act (the "stimulus bill"). When they failed to stop the bill, they worked to keep it small and divert as much of it to tax breaks as they were able.⁶⁸ Members of the Congressional Black Caucus, other key Democrats and advocacy groups have been calling for additional stimulus funding that more effectively targets communities with the highest rates of unemployment and foreclosures, many of which are Black and Latino. However, Congressional

FIGURE 17:

Economic Stimulus for each Federal Dollar Spent



Source: Mark M. Zandi, "Assessing the Macro Economic Impact of Fiscal Stimulus 2008," Moody's Economy.com, 2008.
www.economy.com/mark-zandi/documents/assessing-the-impact-of-the-fiscal-stimulus.pdf

Republicans have remained staunchly opposed to any additional stimulus funding. Some Republican Governors have even rejected federal stimulus funds for building high-speed rail in their states.⁶⁹

GOP Objective #4: "Shrink" Government and Attack Public Sector Workers

The incoming Congressional Republicans and their Tea Party allies have made their agenda to shrink government and downsize the public sector workforce clear. Laced into their critique of government is often an open hostility toward public sector employees. Republicans have distorted the facts to create the impression that public sector workers are over-paid bureaucrats. However, when education level is taken into account, public sector workers earn less than their private sector counterparts.⁷⁰

Federal and state budget shortfalls are being used to justify large-scale cuts in the public sector workforce. In the two years prior to September 2009, more than 110,000 state and local jobs were lost, including 40,000 teachers and 4,000 uniformed police officers and fire fighters.⁷¹ More cuts are expected in the year ahead.

- At the state level, 40 states are already projecting budget gaps for the coming year totaling \$113 billion. Once all state budget estimates have been prepared, total deficits will likely exceed \$140 billion. These projected deficits compound the effect of the deficits that states faced in both 2009 (\$110 billion) and 2010 (\$191 billion).⁷²
- The American Recovery and Reinvestment Act provided \$158 billion in state aid over the 2009–2011 fiscal years,⁷³ but little remains to offset expected state budget shortfalls. The new Republican majority in the House of Representatives has already expressed its opposition to any additional federal aid to the states.

- With the exception of Vermont, state governments cannot run deficits. As a result, states across the nation have been forced to institute large-scale layoffs of public employees, along with furloughs and pay freezes for many who remain.⁷⁴ New Jersey and Tennessee, for example, each eliminated over 2,000 state positions in their fiscal year 2011 budgets.⁷⁵
- Many cities and local governments are making the same shortsighted decisions. Recently, Newark, New Jersey adopted a City budget that includes 850 layoffs of City employees.⁷⁶ Over the last two years, the Los Angeles school system alone has laid off about 2,700 employees.⁷⁷

With increased attention to the federal deficit and hard-line Republicans calling for deep budget cuts, we may see large-scale layoffs at the federal level as well. Layoffs and pay freezes of public sector employees will be particularly challenging for Black and Latino workers. Blacks are more likely to be employed in public sector jobs than the general workforce (see Figure 18). Public sector jobs have offered significantly clearer paths for advancement than have private sector jobs for both Blacks and Latinos.

Blacks are 30 percent times more likely than the general workforce to hold public sector jobs. When compared to the general workforce, Blacks are 70 percent more likely to be federal employees, 30 percent more likely to be state employees and 20 percent more likely to be local government

Layoffs and pay freezes of public sector employees will be particularly challenging for Black and Latino workers.

The Republican attack on public sector employees equates to an attack on Black and Latino workers. Government employment is one of the few places where civil service protections have broken the glass ceiling for workers of color.

employees.⁷⁸ Latinos are under-represented in public sector jobs.

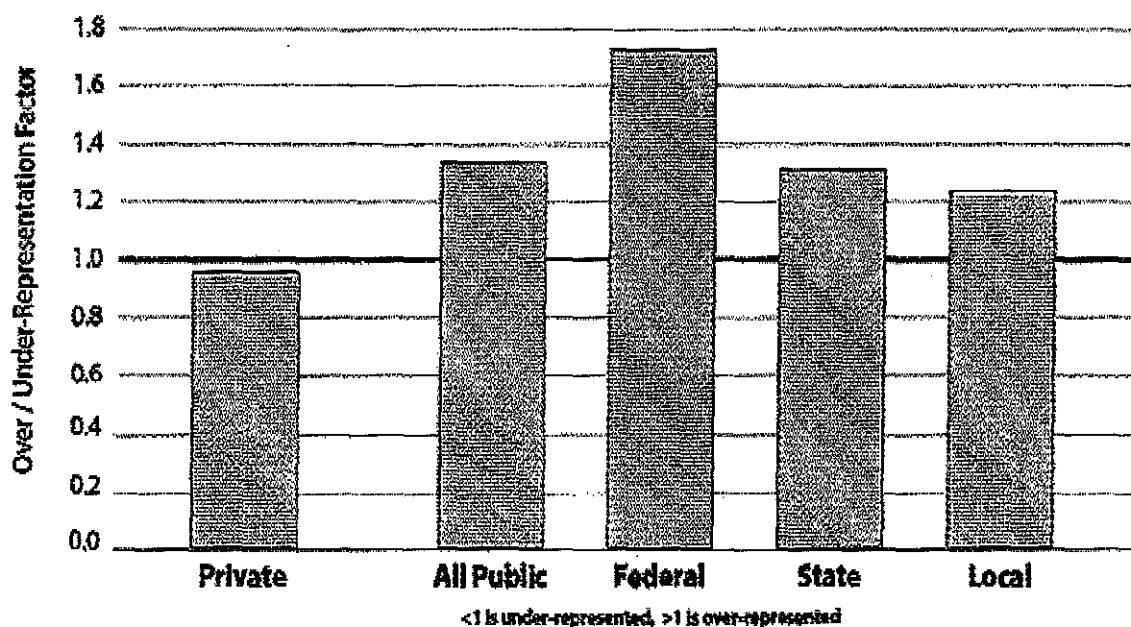
While public sector jobs pay less than the private sector once education differences are factored in,⁷⁹ public sector employment offers better opportunities

for Blacks and Latinos to advance professionally and to achieve greater economic parity with their White counterparts. Unlike the private sector, where White men continue to dominate top-level positions, the "glass ceiling" for upward advancement in the public sector tends not to be as impenetrable. This can be attributed in part to higher levels of union representation in the public workforce,⁸⁰ and to civil service protections that help to ensure that hiring and promotions are merit-based. Blacks and Latinos have made greater progress toward the attainment of top-level positions in public administration than in the private sector.⁸¹

The median hourly wage of Black and Latino workers in the public sector is closer to the median hourly wage of White males in the public sector than it is in the private sector. In the professional

FIGURE 18:

Representation of Blacks to Overall Workforce in Public & Private Sector, 2005-2009

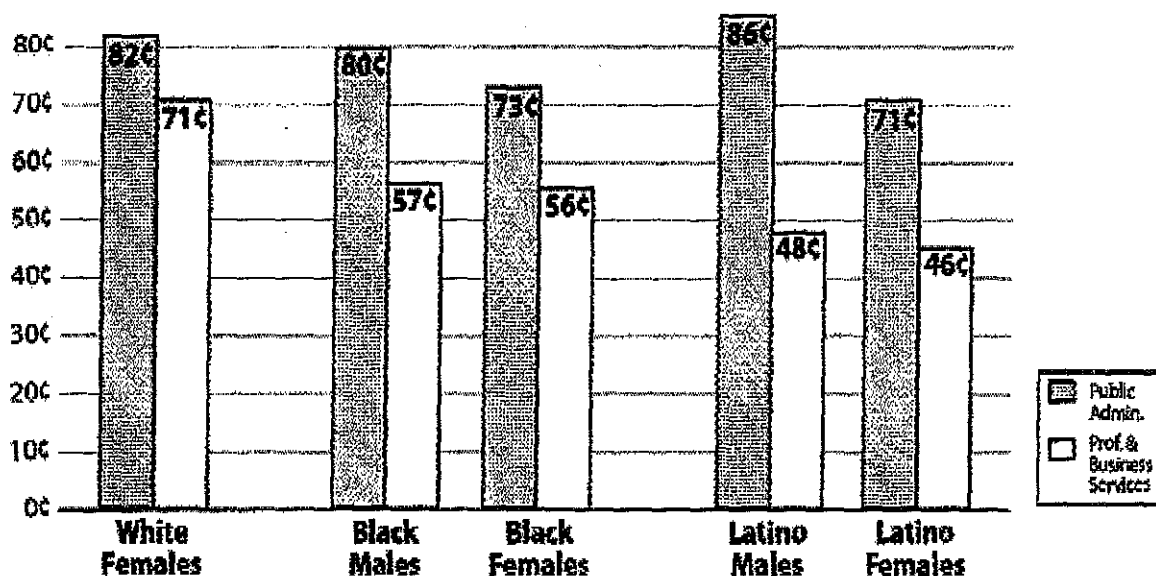


Source: Unpublished Center for Economic and Policy Research analysis of the Current Population Survey Outgoing Rotation Group, 5-year average ending 2009.

FIGURE 19:

Ratio of Median Hourly Wage by Race & Gender to Hourly Wage of White Males

Blacks and Latinos have made substantially more progress at achieving parity within public administration jobs than in the professional and business services sector.



Source: Sylvia Allegretto and Steven Pitts, "The State of Black Workers before the Great Recession," Labor Center, University of California, Berkeley, 2010, p. 6 <http://laborcenter.berkeley.edu/blackworkers/blackworkers_pre recession10.pdf>.

and business services sector, Black males earn 57 cents to each dollar of White male earnings. By comparison, Black males earn 80 cents to each dollar of White male earnings in the public administration sector.⁸² This trend of greater parity in public administration jobs also is also true for Black females, Latinas, Latinos and White females (See Figure 19).

The layoffs, furloughs and pay freezes taking place at the federal, state and local levels will have a disproportionate impact on Blacks who are overrepresented in public sector job market. Assuming federal layoffs are shared proportionally across races, they will more deeply affect Black workers.

The Republican attack on public sector employees equates to an attack on Black and Latino workers. Government employment is one of the few places where civil service protections have broken the glass ceiling for workers of color. The implementation of austerity and government-shrinking measures, as proposed by Republican leadership, will place roadblocks on this path to professional advancement for people of color, while also reducing the nation's capacity to meet its broadly shared objectives.

Section Four: Changing Course

A Policy Prescription for Closing the Racial Divide

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

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

The Tea Party helped conservatives achieve significant electoral victories last November. Now, the austerity policies that Congressional Republicans are pushing in the wake of those victories will have profound negative consequences for the economy as a whole and for Black and Latino communities in particular.

Rejecting the GOP austerity agenda is critical to the dream of racial economic equality. But policy makers should set their sights on more than the mere rejection of bad policies. The dire state of the economy and the severity and persistence of the racial economic divide require positive action. We must honor the legacy of Dr. King by enacting policies that can help to narrow the racial economic divide and bring the opportunity for prosperity to all Americans.

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A New Jobs Program for America

The passage of the American Recovery and Reinvestment Act in 2009 helped to prevent unemployment from escalating further, but more remains to be done. As of December 2010, the official unemployment rate was 15.8 percent for Blacks, 13 percent for Latinos and 8.5 percent for Whites.⁸³ It will be years before unemployment rates return to their pre-recession levels. In the meantime, without an effective policy approach, families will continue to struggle, homes will continue to be lost to foreclosure and the progress of a younger generation will continue to be stunted.

It is imperative that the federal government direct substantial resources toward ending the Great Recession. A program that will move the nation beyond a jobless recovery must be established. Such a "Marshall Plan for the United States" or "Works Progress Administration for the 21st Century" should:

- Use public funds for direct creation of jobs that will make long-overdue improvements to the nation's infrastructure and provide economic opportunities to its people. It should not be turned into a package of tax breaks disguised as a jobs creation measure — a policy approach that has failed to date.

- Target job creation dollars toward communities experiencing the greatest difficulties as a result of the Great Recession. Such a strategy — sometimes referred to as targeted universalism — looks to focus spending on geographical areas with the highest unemployment and long-term unemployment rates, which disproportionately includes Black and Latino communities. This approach is distinct from and preferable to the more commonly implemented colorblind, broad-spectrum or shovel-ready approaches.
- Rebuild, develop and maintain the public infrastructure on which all Americans rely. This will strengthen the economy and provide the foundation for generations of sustained growth. The American Society of Civil Engineers estimated in 2009 that over the next five years, the United States needs to invest \$1.1 trillion more than it is currently spending to bring the nation's infrastructure up to a good condition.⁸⁴
- Take essential steps toward the development of an ecologically sustainable, clean energy economy that will also help bring about energy independence for the United States. The Apollo Alliance estimates that this work will require an investment of \$500 billion over ten years. This investment will have a substantial multiplier effect, spurring new business and job creation.⁸⁵
- Invest in the people. Government investments in education, health and other human services after World War II helped create the healthy, well-trained and productive workforce that made possible the largest economic expansion in U.S. history. Reinvesting public dollars in higher education, for example, could once again lead to a shift away from the fee-for-service educational model. Historically, this has been a barrier that has prevented many working class Americans from attending college, and placed those who did in deep financial debt.

Protect Public Employees and Provide Additional Federal Aid to the States

Public employees, a disproportionate share of whom are Black, perform valuable functions for society. They are police officers, educators, food safety inspectors, firefighters, judges, social workers, postal carriers and much more. They comprise over 15 percent of all workers in the U.S.⁸⁶

However, Republicans have been pointing to the federal deficit — caused almost entirely by tax cuts, the wars in Iraq and Afghanistan and the Great Recession⁸⁷ — as a rationale for making deeper cuts to the public sector. This strategy, unfortunately, is shortsighted and fails to address the roots of the crisis.

The federal government should provide an additional round of federal aid to the states to help avoid further layoffs of state workers. States are unable to engage in stimulative, counter-cyclical deficit spending as the federal government can. States can and should, however, work to supplement federal aid with progressive tax reforms.

Black and Latino families typically have less of a financial cushion to fall back on during periods of economic strain. A strong public safety net is key to leveling the economic landscape and establishing a shared level of protection for Americans of any race.

Strengthen Social Safety Nets

The historical nature of wealth inequality has led to Blacks and Latinos having a fraction of the net wealth of Whites. Therefore, Black and Latino families typically have less of a financial cushion to fall back on during periods of economic strain. A strong public safety net is key to establishing a shared level of protection for Americans of any race.

Additionally, unlike tax breaks for the wealthy, Social Security, unemployment insurance and public assistance are all important forms of economic stimulus. Most of the capital that funds those programs is spent, or re-injected into the economy, which increases demand and helps to create more jobs.⁸⁸ Safety net programs also help to reduce longer-term costs. Poor health, under-education and delinquency, for example, create a drag on the economy because of the heavy time and financial costs associated with addressing those problems. Private enterprises are also forced to absorb both financial and productivity losses.

Restore the Progressive Tax System

In order to adequately fund essential government services, fund the programs necessary for economic recovery, reduce extreme economic inequality and help close the racial economic divide, progressivity and fairness must be restored to the tax system. Tax cuts — specifically those that reward wealth over work — disproportionately benefit wealthy Whites and exacerbate the racial wealth divide.

- The Bush income tax cuts for top earners must be eliminated. In addition, a new income tax bracket — with a rate of 50 percent or more — should be established for those with annual incomes of \$5 million dollars or more. Because the current top bracket applies to annual incomes over \$387,050,⁸⁹ our income tax system makes little distinction between someone who earns \$500,000 and someone who earns \$50 million a year.

Tax cuts — specifically those that reward wealth over work — disproportionately benefit wealthy Whites and exacerbate the racial wealth divide.

- Investment or “unearned” income (e.g., capital gains and dividends) should be taxed at the same rate as the earned or employment income on which most Americans pay taxes, as also recommended by the deficit reduction commission.⁹⁰ In addition to raising needed revenue, it is important to restore fairness by creating parity between income earned from wealth and income earned from work.
- The federal estate tax must be strengthened. A lower exemption of \$2 million (\$4 million for married couples) with a graduated tax rate that levies more from exceptionally large estates would make the estate tax a more significant revenue source and reduce economic inequality and racial disparities.

Redirecting Unproductive Federal Spending

In order to create broad and equitable economic growth, unproductive federal spending must be stopped and redirected toward programs of social uplift. The Pentagon budget now consumes 58 percent of all federal discretionary spending.⁹¹ The deficit reduction commission made several questionable recommendations but did recognize the need to curb military spending and has included recommendations to this effect in its report.⁹²

Given the limitations of an already strained federal budget, government spending should be focused on efforts that provide the largest economic returns in

both the short and long terms. Military spending is important for creating jobs and as economic stimulus. Investments in clean energy, education, health care or even personal tax cuts would all yield many more jobs per billion dollars spent.⁹³

Cutting military spending should not include reducing healthcare benefits or pensions for veterans or salaries for active-duty personnel. Billions of dollars in federal revenue could be made available by bringing an end to the war in Afghanistan, completing withdrawal from Iraq, closing overseas military bases and trimming Navy battle groups and Air Force wings.

The available funds could be used to train more workers domestically, provide extended unemployment insurance when needed and shield communities affected by the closure of weapons factories. Reductions in weapons manufacturing could be replaced by infrastructure manufacturing that will better serve American communities today and for generations to come.

Strengthen Unions and the Right of Workers to Organize

Unions played an important role in the prosperity of the post-war boom. While automation and deindustrialization are part of the story of the weakening of the blue-collar middle class, there was nothing inherently good about the manufacturing jobs they destroyed. Unions turned dirty, dangerous and low-paying manufacturing jobs into well-paying jobs that adequately provided for families. Unions can do the same today for low-paying service sector jobs.

Federal and state governments should actively support workers' rights on the job, including the

right to form a union and bargain collectively with their employers. Workers with rights and unions help to maintain more equitable growth. As prosperity is more broadly shared, the prospect of closing the racial wealth divide will greatly improve.

Federal and state legislators and officials can:

- Increase funding for the U.S. Department of Labor (DOL). After years of cuts, the DOL has only 1,000 officers enforcing wage and hour laws for the country's 120 million workers.⁹⁴
- Stop arresting immigrant workers in workplace raids, and devote more resources to the enforcement of wage and hour laws to prevent employers from using immigrant labor to undercut wages and working conditions for all workers.
- Pass the Employee Free Choice Act and give workers the right to form unions by simple majority instead of making them go through employer-gamed National Labor Relations Board elections.
- Punish employers swiftly and severely when they illegally fire, intimidate, or otherwise interfere with workers who are trying to form unions.
- Repeal state "right to work" laws instead of extending them to more states.
- Negotiate solutions to the public pension-funding crisis with public employee unions instead of attacking them, curtailing their collective bargaining rights and trying to balance the state and local fiscal crises on their backs.

Conclusion

Many policy proposals exist that can help to close the racial wealth divide. Renewed commitments to affirmative action and measures to stem the tremendous loss of wealth in communities of color due to foreclosures, as explored in previous State of the Dream reports, remain essential to reducing racial economic inequality.

It will take resolve and persistence from lawmakers and advocates for racial justice to withstand the onslaught of the Republican austerity agenda.

Martin Luther King's dream of racial equality will not be achieved easily. More than 40 years after his murder, the movement for greater economic justice that he sought to launch must maintain the strength to work together toward meaningful policy changes to foster greater equality and close the vast racial divides that have plagued our nation from the very beginning.

**And I've seen the promised land. I may not get there with you.
But I want you to know tonight, that we, as a people will get to
the promised land.**

— Dr. Martin Luther King, Jr., in his final sermon delivered the day before he was assassinated. Memphis, Tennessee April 3, 1968

Appendix

Analysis of the Census Bureau's Historic Income Tables

Choice of Families as Basis

The time-series income data analyzed in this report is based on the Census Bureau category for "families." The reason we chose to use "families" as opposed to "households" is that the data set for "families" goes back to 1947 while the data for "households" only goes back to 1967. Thus, families provided a more consistent, long-term data set.

Long-Term Income Data by Race

The Census Bureau changed its definitions for race periodically through the years, most notably in 1972 and 2002. The following assumptions were made in order to provide the most consistent long-term data set.

In 2002, the Census Bureau added categories for multiracial populations, along with corresponding categories for "White alone" and "Black alone." Because the purpose of this report is to examine differences along race lines, the starting point for 2007 and 2009 is the non-multiracial datasets, including White alone non-Hispanic, Black alone (non-Hispanic where available) and Hispanic.

For our mid-term data points, 1977 and 1979, we used White non-Hispanic, Black (non-Hispanic where available) and Hispanic.

Beginning in 1972, the Census Bureau added the category for "Hispanic," and corresponding categories for "White, non-Hispanic" and in some cases, "Black, non-Hispanic." For our earliest data points, 1947 and 1949, the original Census categories of "White" and "Black" were used. The Latino population in the 1940s was substantially smaller than it is today. As a result, while some Latinos were included in the 1947/49 data for Whites, it was sufficiently small so as not to have a substantial impact on the overall analysis.

Current Dollars

All long-term income comparisons are expressed in 2009 dollars.

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Additional United for a Fair Economy Resources

Print Publications

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

State of the Dream Reports - Since 2004, UFE's annual report on race has tracked our progress on Martin Luther King, Jr.'s elusive dream of racial economic inequality. All of the previous reports are available to download for free. The *State of the Dream 2008: Foreclosed* report examined the details of the foreclosure crisis that led up to the Great Recession. The *State of the Dream 2009: The Silent Depression* report demonstrated that as the national economy entered a recession, communities of color were already in an economic depression. The *State of the Dream 2010: Drained - Jobless and Foreclosed in Communities of Color* looked at economic recovery efforts and the ongoing foreclosure crisis. Download the reports at: <http://www.faireconomy.org/dream>.

Workshops

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

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

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

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

Advance Praise for *State of the Dream 2011: Austerity for Whom?*

United For A Fair Economy has once again published a report that will be an invaluable resource to those concerned about racial and economic inequality. *State of the Dream 2011* reveals the important political crossroads at which the nation has arrived. As we celebrate the life and legacy of Dr. Martin Luther King Jr., we must commit ourselves to the social and economic agenda that Dr. King knew was required to right the wrongs of the past and create a more inclusive and just society in the present. *State of the Dream 2011* stands proudly in the economic spirit Dr. King laid forth.

– *Dedrick Muhammad, Senior Director of Economic Programs at the National Association for the Advancement of Colored People*

In this time when the economy is 'recovering' but working people and people of color are seeing few of the benefits, this *State of Dream 2011* report is vitally important. The vision of Dr. Martin Luther King reminds us that we are our brother's (and sister's) keeper and a society cannot be considered prosperous when the gap between the haves and the have-nots is widening and the labor of workers is devalued. As the report documents, inequality is rising in this country and the agenda of the Right will both accelerate this trend and weaken the capacity of the government to tend to the needs of our people.

– *Steven C. Pitts, Labor Specialist for the Center for Labor Research and Education at the Institute for Research on Labor and Employment, University of California-Berkeley*

