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Inequality in America: Race, Poverty, and Fulfilling Democracy's Promise (Dilemmas in American Politics)
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2

Income and Wealth

> How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?
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> —Pope Francis, Evangelii Gaudium, November 26, 2013[1]

> Today, after four years of economic growth, corporate profits and stock prices have rarely been higher, and those at the top have never done better. But average wages have barely budged. Inequality has deepened. Upward mobility has stalled. The cold, hard fact is that even in the midst of recovery, too many Americans are working more than ever just to get by; let alone to get ahead. And too many still aren't working at all. So our job is to reverse these trends.
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> —President Barack Obama, State of the Union Address, January 28, 2014[2]

St. John's University education professor Allan Ornstein argues that "no country has taken the idea of equality more seriously than the United States," though he notes that "we are witnessing the rise of a new aristocratic class, based on wealth and power, far worse than the European model our Founding Fathers sought to curtail."[3] Americans largely accept the notion that capitalism will produce unequal outcomes with respect to income and wealth, but we prefer a more equal distribution than currently exists. Recently, a nationally representative sample of Americans was asked to (1) estimate the actual level of wealth inequality in the United States and (2) indicate preferences for ideal distribution of wealth. The researchers found that:

> Respondents vastly underestimated the actual level of wealth inequality in the United States, believing that the wealthiest quintile[4] held about 59% of the wealth when the actual number is closer to 84%. More interesting, respondents constructed ideal wealth distributions that were far more equitable than even their erroneously low estimates of actual distributions, reporting a desire for the top quintile to own just 32% of the wealth.[5]

The researchers also found that this preference existed across demographic groups (including expressed presidential vote choice from 2004): "All groups—even the wealthiest respondents—desired a more equal distribution of wealth than what they estimated the current United States level to be, and all groups also desired some inequality—even the poorest respondents."[6] Finally, and perhaps most interesting, all groups agreed that the way to move toward this ideal is through redistributing wealth from the top to the bottom three quintiles.

The disconnect between what Americans of all ideological backgrounds desire and the reality of inequality is striking and calls into question the effectiveness of our representative system. So why is this happening? One answer could be that our elected officials wish to make changes to bring the wealth gap more in line with what Americans want but are constrained by systemic forces that make such meaningful change possible. Another answer is that our elected officials, most of whom (at the federal level at least) are wealthier than the average American,[7] are trying to protect themselves and their elite friends and family members. More likely, though, as the researchers suggest, we generally are not aware that the gap is so large; we are optimistic about our chances of getting into higher quintiles; we are not clear about the causes of inequality; and we often do not make a connection between these beliefs and our public policy preferences.[8] In this chapter, we explore the statistical realities of income and wealth inequality, as well as the relationship between that inequality and race. We will focus on the various elements in American society that perpetuate economic inequality in an attempt to understand how the current gap has not only persisted but has been greatly expanded over the past generation or so.

Income

Economic inequality is customarily discussed in terms of two distinct but related concepts: income and wealth. Wealth is a person's (or household's) total worth (assets minus debt), while income is simply the amount of money a person (or household) earns in a year. We will explore wealth disparities below, but in this section we consider the differences in annual household income and the ability to provide for oneself or one's family as a result.

Income and Employment

For most Americans, income is tied to employment; we only get paid when we work. Of course, there are exceptions. Disabled and retired individuals can collect Social Security from the federal government. Unemployed workers can receive benefits for a limited period after losing a job. Some wealthy individuals have invested money and earn from dividends and interest. For the most part, though, income is related to work.

Work is related to a number of factors that we will consider in more detail in the chapters that follow (specifically, education opportunities and incarceration rates). Most recently, though, attention has been focused on the sluggish economy and the degree to which it has affected Americans in the workforce. With respect to recessions, it has been said that when America catches a cold, African Americans get the flu. That sentiment was clearly reflected in the recession that began with the housing crisis in 2008. Unemployment rates for October 2012 indicated a nationwide level of 7.9 percent (12.3 million persons), but a closer look reveals that the rate for whites (7.0 percent) was lower than for Hispanics (10.0 percent) or African Americans (14.3 percent, or double the rate for whites).[9] The gap has been even more pronounced among those with a college education. White unemployment among the college educated rose from 1.8 percent in 2007 to 3.9 percent in 2011, while black unemployment among the college educated spiked from 2.7 percent in 2007 to 7.0 percent in 2011.[10]

Unemployment naturally has an effect on earnings. Data from 2011 demonstrate a notable income gap between white, black, and Hispanic families. In that year, the median household income for whites was $52,214, while the median income for African Americans was $32,229, and for Hispanics, $38,624.[11] Those numbers reflect a fairly stable gap over the past two decades.[12]

The income gap is most pronounced among Hispanics and African Americans, but its growth is notable among all segments of the population. In 2009, the highest quintile of earners collected 50 percent of the total income in the United States. In contrast, the bottom three quintiles

combined brought in just 26.7 percent of the total income that year (with the second-highest quintile earning 23.3 percent).[13] There has been a steady increase in this trend over the past forty years, such that the top 5 percent of earners in 1970 pulled in 16.6 percent. That number was stable a decade later but rose to 18.5 percent in 1990 and to 22.1 percent in 2000. In 2011, the top 5 percent of households earned 21.5 percent of the total income.[14]

This shift can be analyzed in a variety of ways. One notable trend is that incomes in all ranges rose steadily (and relatively evenly) between the end of World War II and 1979. However, the top 20 percent of earners saw a 49 percent increase (including a 73 percent increase among the top 5 percent and a 224 percent increase among the top 1 percent) since the early 1980s while the bottom, second, middle, and fourth quintiles saw changes of 7 percent, 6 percent, 11 percent, and 23 percent, respectively.[15]

Gender is also related to income disparity. Much attention has been given to the wage gap in recent years, which stands today at about 23 percent. Put another way, women make an average of seventy-seven cents for every dollar a man makes in the United States.[16] The gap is largest for Latinas (39 percent compared to white men) and smallest for Asian American women (88 percent compared to white men). The gap for African American women is 70 percent.[17] About one-third of working women are heads of household in terms of earnings;[18] black women are most likely to be single heads of household (27.5 percent), compared to 9 percent of white women and 17.7 percent of Hispanic women,[19] and this responsibility is related to the decrease in African American women's labor force participation as compared to white women.[20]

On the opposite end of the spectrum, evidence of racial disparity is illustrated by an examination of the board members of America's top corporations. In 2010, white men comprised 72.9 percent of the board members at the largest one hundred companies and 77.6 percent of the largest five hundred companies in the United States. Nonwhite men held 10 percent of those seats, and white women held 13 percent.[21] It was not until 1999 that an African American became CEO of a Fortune 500 company, and there have been only thirteen; in July 2012, there were only six African American CEOs in such positions.[22] Women headed eighteen Fortune 500 companies in 2012,[23] the highest number in history.[24]

Further, there has been a tremendous shift in the ratio of CEO pay to the income of an average worker. Though the ratios found on bumper stickers and pro-union literature vary from 500 to 1 to 431 to 1 to 364 to 1 to 253 to 1,[25] the reality is complicated by the various types of compensation (besides monetary income) that CEOs receive. By one count, however, the ratio grew from 42 to 1 in 1980 to 107 to 1 in 1990 before spiking to its current levels in the last two decades.[26] In 2012, the median overall compensation of the top one hundred CEOs was $15.1 million, which represented a 16 percent rise from the previous year.[27] The monetary portion of these figures relates to gross income (before taxes). Since the United States has a progressive income tax structure (higher annual incomes relate to higher tax brackets), some of this income inequality will ostensibly be resolved once taxes are collected. As we see in the next section, though, it is not that simple.

Taxes

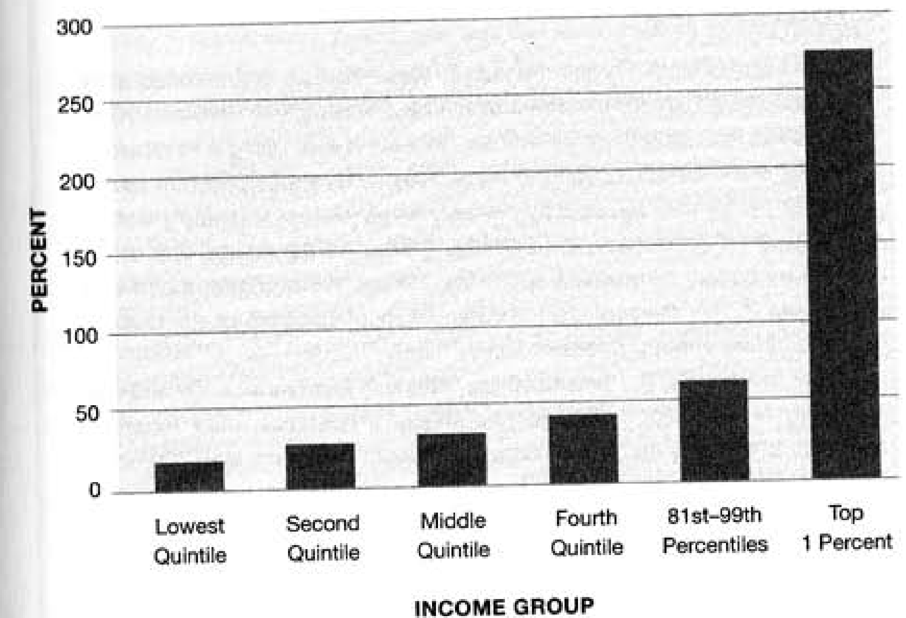
There is no denying that the US income tax code is tremendously complicated. It is full of complex rules and regulations that are designed to add fairness to the system. But "fair" is in the eye of the beholder and open to interpretation by Americans with differing ideological leanings. Those who earn a lot often complain that the so-called progressive tax structure punishes (and, more importantly, de-incentivizes) financial success, while those who earn less sometimes wish that a higher percentage of the nation's revenue would be paid by those who can most afford it. In sum, our tax code is a collection of deals and compromises between representatives who have different preferences (and who represent constituencies that have different preferences).

On the surface, the United States income tax system is progressive in that it appears to tax those who earn more at a higher rate than those who earn less. In 2012, the rate began with a base of 10 percent, with a married couple earning more than $17,400 paying a increasingly higher rate on the money they make over the first 10 percent—from 15 percent to 35 percent (for those earning more than $388,350).[28] The effective tax rates (which includes all forms of income tax, not just taxes on wages) for the highest earners have been reduced over the past forty years, from 66.4 percent after World War II to 47.7 percent in 1982 to 36.4 percent in the 1990s. The Bush tax cuts further reduced the top bracket to 32.4 percent.[29] However, before the

tax rate is applied, the taxable income amount can be reduced by a host of deductions that are disproportionately available to higher earners. A recent study found that more than half of all tax benefits went to the wealthiest 5 percent of taxpayers and that "the top 1 percent of taxpayers, those making more than $1 million, received an average $95,000 in assistance. . . . By contrast, the poorest taxpayers, including families making $50,000, received less than $500 in benefits."[30] The most widespread of these policies is the mortgage interest deduction, which allows for a reduction in taxable income related to money paid toward interest on a home mortgage. The more expensive the home, the larger the deduction. There are also deductions for contributions to retirement plans, and a flat 15 percent tax on income made from the sale of capital assets held for more than a year.[31] Mitt Romney, 2012 Republican candidate for president, revealed that he paid 14 percent in 2010 and 2011 (the only years for which he released returns during the campaign), even though he earned $13.7 million and $21.7 million in those years, respectively, because most of the income was from investments.[32] Warren Buffett, the multibillionaire, has famously quipped that his secretary pays a higher percentage of her annual income than he does as a result of these complicated regulations.[33] Figure 2.1 reveals that the growth in after-tax income from 1979 to 2007 advantaged the wealthiest Americans; clearly, the income tax structure is disproportionately benefiting those with the most income.

At the same time, other taxes that disproportionately affect those who are not wealthy have increased. These are called regressive taxes. For example, Social Security is funded by a flat payroll tax (12.9 percent in 2013), with half paid by the employee and the other half by the employer. Individuals pay only on the first $113,700 earned.[34] Those who earn more make no further contributions. That means that higher earners pay a smaller percentage of their overall income to help fund the program than lower earners. Sales taxes are applied by state and local governments to products and services. Everyone needs to buy food and necessities, so everyone, rich and poor, is subject to these taxes. But a 3 percent tax on milk or an 18 percent excise tax on gasoline (in addition to local gas taxes) will have a more significant impact on a working family's budget than on a millionaire's. So increases in regressive taxes to make up for revenue lost from providing income tax breaks to the wealthy can cause a significant burden for those who are already economically vulnerable.

FIGURE 2.1. Growth in Real After-Tax Income, 1979–2007



Source: United States Congressional Budget Office, "Trends in the Distribution of Income," 2011. http://www.cbo.gov/publication/42537.

On the other hand, a number of provisions in the US tax code provide tax breaks that benefit low earners disproportionately (such as the deductions for children, tuition, and government-backed low-interest student loans) or solely (such as the low-income housing tax credit and credit for rent paid). One such program, the Earned Income Tax Credit (EITC), was expanded between 1984 and 1996 to provide an incentive for single mothers to work.[35] The EITC benefits working families (particularly those with children) by providing a reduction in taxable earnings for families earning less than $50,000 (married with three children or more).[36] The mortgage interest deduction program also benefits Americans in a variety of income ranges. So, while it is not the case that the high earners are the sole beneficiaries of US tax policy, they benefit disproportionately, even though they represent a distinct numerical minority of citizens.

BOX 2.1. Representing: STEVE FORBES AND THE FLAT TAX

The publisher of *Forbes* magazine, Steve Forbes, championed a flat tax in his bids for president of the United States in 1996 and 2000, as well as in a 2005 book called *Flat Tax Revolution: Using a Postcard to Abolish the IRS*.[a] While some progressives worry that a program touted almost exclusively by wealthy conservatives will not ultimately benefit the neediest Americans, the underlying premise addresses one of the more egregious inequalities about the current tax structure: those who are able to hire tax professionals benefit most because of the complicated nature of the process.

For individuals, the proposed tax form has just twelve lines and can literally fit on a piece of paper the size of a postcard. After reporting wages and salary earned, a taxpayer deducts for adults ($13,200 each) and children ($4,000 each) in the household, calculates 17 percent of the remaining amount, and then earns an additional $1,000 deduction for each child under sixteen. The Earned Income Tax Credit (EITC) could also be claimed by those who qualify.[b]

While conservatives call the plan "simple, fair, and good for growth,"[c] progressives call it "a game of three-card monte that deliberately confuses the issues of simplicity, fairness, and the total tax burden on

(Continues)

Minimum Wage and the Poverty Line

In 1938, Congress set a federal minimum wage (at twenty-five cents per hour),[37] but it was not indexed to increase with inflation. As a result, there have been significant lags in the buying power of the dollar for minimum wage workers. The current federal minimum wage, set in 2009, is $7.25 per hour, though the highest level (in real dollars) was in 1968 ($10.04 in 2010 dollars).[38] Eighteen states and the District of Columbia have minimum wages higher than the federal level.[39] Individuals in occupations where tips are expected are not protected by minimum wage laws.

A full-time worker at the federal minimum wage will fall below the poverty line for a family of four. In 1968, a full-time minimum wage worker earned about 90 percent of the poverty level, but from the mid-1980s until Congress raised the minimum wage in 2006, full-time minimum wage

BOX 2.1. Representing: Steve Forbes and the Flat Tax (Continued)

society."[d] Nonetheless, it is an idea that has some intrinsic appeal to anyone who has filed a federal tax return. Because most of the wealthiest individuals pay others to compute their taxes, Forbes's proposal would likely generate significant mass appeal if elected officials ever took it seriously. Whether the result would be an increase in economic equality is unclear, but some scholars[e] have argued that it ought to be adopted in order to eliminate the complicated (often nearly invisible) benefits that the current system provides to those who need it least.

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[a] Steve Forbes, *Flat Tax Revolution: Using a Postcard to Abolish the IRS* (Washington DC: Regnery, 2005).

[b] Ibid., 73. Other versions of the plan do not include the additional deductions for children under 16 or the EITC. See Daniel Mitchell, "A Brief Guide to the Flat Tax," The Heritage Foundation, July 7, 2005. http://www.heritage.org/research/reports/2005/07/a-brief-guide-to-the-flat-tax.

[c] Mitchell, "A Brief Guide to the Flat Tax."

[d] Michael Kinsley, "Steve Forbes's Flat Tire," *Washington Post*, August 7, 2005, http://www.washingtonpost.com/wp-dyn/content/article/2005/08/05/AR2005080501490.html.

[e] Dorothy Brown, "Let's Kill the Progressive Tax Rate System," CNN.com, April 17, 2012, http://www.cnn.com/2012/04/17/opinion/brown-progressive-tax-rates/index.html.

workers with a family of four only earned between 50 percent and 60 percent of the federal poverty level.[40]

The poverty line (technically "poverty threshold") is not without its critics (those who think it is too low and those who think it is too high). The poverty threshold was developed in the 1960s and is based on the cost of food, under the assumption that a family of three or more spends about one-third of its income on food.[41] In 2012, the poverty threshold for an individual was $11,170; the threshold for a family of four was $23,050.[42] In 2010, the poverty rate in the United States was the highest since 1993, with 15.1 percent of individuals living in poverty. Twenty-seven percent of African Americans and 26.6 percent of Hispanics lived below the poverty threshold in 2010; less than 10 percent of non-Hispanic whites and 12.1 percent of Asians lived in poverty that year.[43] Once again, gender matters:

Poverty rates are highest for families headed by single women, particularly if they are black or Hispanic. In 2010, 31.6 percent of households headed by single women were poor, while 15.8 percent of households headed by single men and 6.2 percent of married-couple households lived in poverty.[44]

Poverty rates are even higher for single women of color. In 2010, the rate for Hispanic single mothers was 50.3 percent and the rate for African American single mothers was 47.1 percent, compared with a 32.7 percent rate for white single mothers. Three-fifths of poor single mothers were black or Latino.[45] Because women earn less than men, and because women of color are more likely to be heads of household, a portion of the racial gap in income is related to gender.

Children are also disproportionately affected by poverty. Though they are 24 percent of the population, they represent 36 percent of the poor.[46] Twenty-two percent of all American children live below the poverty threshold: 12.4 percent of white children, 38.2 percent of African American children, 35 percent of Hispanic children, and 13.6 percent of Asian children.[47]

As is always the case with statistics and classifications, there is disagreement about how to appropriately operationalize poverty. Those who argue that the existing formula sets the level too low point to the fact that income from federal programs (often referred to as welfare; see below) is not counted in this calculation.[48] Those who argue that the level is too high note that while the rationale for calculating based on food as one-third of a family budget might have been appropriate a half century ago, housing prices in particular (not to mention transportation and utility costs) have increased at a rate disproportionate to food.[49]

Similarly, there are competing ideas about whether raising the minimum wage would help relieve income inequality. By one calculation, if the minimum wage had risen proportionately with CEO compensation, it would be more than $23 per hour.[50] The wisdom of raising the minimum wage can be considered in terms of our shared American values (*should* the minimum wage rise at the same level as CEO compensation?), as well as in terms of more practical considerations. A *New York Times* editorial in March 2011 argued for a raise, noting that even with the 2009 increase, in real dollars, the minimum wage is still lower than it was thirty years ago.[51] In his 2014 State of the Union Address, President Obama called on Congress to raise the federal minimum wage to

$10.10 per hour.[52] Business groups who oppose raising the minimum wage argue that doing so would harm job creation, force layoffs, or lead to hours being cut back for those earning the minimum wage.[53] They note, for instance, that many minimum wage workers are not trying to support families—they have a second earner, have supplemental income (such as Social Security retirement for seniors working part-time), or are students. In combination with other government programs, advocates of this position feel as if there is enough of a safety net in place to protect low-wage workers and that the government should not meddle with the invisible hand of the economy.

Welfare

Many advanced democracies have expansive welfare states that are designed to provide a safety net so that no citizen falls into economic despair. Such societies are generally characterized by high tax rates and active central governments that are involved in many segments of the economy.[54] The United States has sponsored a number of programs over the years that are designed to provide such protections, but the scope and duration of those programs was dramatically reduced in the 1990s.

"Welfare" is a catchall term for government-funded and operated programs that provide different forms of financial assistance to those who need it. While various levels of assistance have been in place since colonial times, New Deal programs established during the Great Depression were more expansive than their predecessors. Many of these programs, such as unemployment compensation, Aid to Families with Dependent Children, and the program that we now know as Social Security are still in place.[55] Though not income per se, health care programs such as Medicare (for senior citizens) and Medicaid (for needy persons who are not seniors) provide additional assistance to offset costs associated with taking care of oneself and one's family.

There has been great debate in the United States about how much assistance should be provided to the needy and under what circumstances. These debates involve conflict of several core values to which Americans subscribe.[56] While Americans have a commitment to equality in a broad sense, we also have a commitment to individualism that has roots deep into our history. Further, the language used to discuss welfare in the 1980s was highly racialized, causing persistent inaccuracies in perceptions about whom these programs benefit and how much money is spent in this area.

Ronald Reagan's reference to a "welfare queen" in Chicago with "80 names, 30 addresses, 12 Social Security cards and is collecting veterans' benefits on four nonexisting deceased husbands" to the tune of $150,000 per year[57] created an enduring image of poverty in America that is characterized by undeserving African Americans who are cheating the system to get rich on the backs of hard-working (white) taxpayers. The story he told on the campaign trail in 1976 about Linda Taylor was likely an exaggeration,[58] but the retelling of the story suggested that she was typical. As a result, the welfare queen script came to dominate the imaginations of white Americans who were asked to consider reforms to the welfare system in the following decade.[59] As political scientist Martin Gilens notes:

> The connection between "poor" and "black" exists simply because African Americans account for a disproportionate number of poor people in the United States. Only one in ten white Americans falls below the official government poverty line, but three out of ten blacks are poor. Still, blacks are a small segment of the American population, and even though they are disproportionately poor, they comprise only a minority (currently about 27 percent) of all poor people.[60]

Gilens's study reveals that white respondents who viewed blacks as hard-working were much less willing to decrease welfare spending than those who viewed blacks as lazy.[61] In this way, it is very difficult to disentangle Americans' views of the poor generally with their perceptions of poor persons of color. Deservedness lies at the heart of welfare policy debates. In a political culture that values individualism and has a history that is deeply rooted in racial animosity toward African Americans in particular (and more recently Latinos), support for benefits to veterans, retired persons, and the physically disabled is more plentiful than support for the working poor, the homeless, or the mentally ill. Further, we must consider that Reagan chose to focus on a welfare queen, not a welfare king. The public disdain for the poor that is reflected in Gilens's study and that led to reforms in the 1990s is rooted in patriarchal views of personhood that marginalize women's voices and delegitimize their lived experiences.[62] In other words, Reagan's simplistic and atypical story resonated with Americans because of preexisting sexist and racist narratives that we hold in our subconscious.

The reality, of course, is much more complicated. Government "handouts" do not only go to the needy. So-called corporate welfare refers to tax incentives and subsidies for businesses.[63] Most Americans may not be aware of these policies, and even if they are, programs such as these are generally not lumped into the category of welfare. Though subsidies and tax breaks to corporations (even if they are profitable) are not income in the individual sense of the word, they help to make businesses successful, which sometimes translates into job creation (and thus income for workers) and often results in increases in wealth for top executives and major stockholders.

Wealth

While income is the amount of money a person or household earns in a year, wealth is the value of that person or household overall. Wealth is calculated by subtracting debt from assets, and in many ways it is a more accurate window into economic and racial inequality in America. While it is important to understand income gaps as part of the cycle of disadvantage (and advantage) in the United States,

> wealth signifies the command over financial resources that a family has accumulated over its lifetime along with resources that have been inherited across generations. Such resources, when combined with income, can create the opportunity to secure the "good life" in whatever form is needed—education, business, training, justice, health, comfort, and so on.[64]

Some Americans (both rich and poor) earn no income on an annual basis. In that respect, they are equal in terms of income even though their opportunities may be quite different. Further, wealth and income are not highly correlated, and there is great variation in wealth within income categories.[65] In this section, we will briefly consider some markers of wealth inequality before turning our attention to the systemic factors that reflect and perpetuate the growing gap between the wealthy and the poor in the United States.

Wealth Gap

While the income gap is large (and growing), the wealth gap is even more dramatic.[66] Median household wealth in the United States grew from $79,100 in 1989 to $126,400 in 2007 before falling dramatically to $77,300 in 2010.[67] Rather than accumulating wealth throughout a lifetime, a

sizable percentage of Americans struggle through their senior years, living primarily on Social Security. Nearly half of Americans die with less than $10,000 in assets.[68] The Pew Research Center produced a report based on data from the US Census Bureau[69] that found an increasing gap between the rich and poor in America that is more exaggerated when race is factored in. Specifically, the top 10 percent of US households now control 56 percent of the nation's wealth (up from 49 percent in 2005).[70] That increase, however, somewhat masks the reality that is faced by persons of color:

> The median wealth of white U.S. households in 2009 was $113,149, compared with $6,325 for Hispanics and $5,677 for blacks. . . . Those ratios, roughly 20 to 1 for blacks and 18 to 1 for Hispanics, far exceeded the low mark of 7 to 1 for both groups reached in 1995, when the nation's economic expansion lifted many low-income groups into the middle class. The white-black wealth gap is also the widest since the census began tracking such data in 1984, when the ratio was roughly 12 to 1.[71]

A similar report in 2010 found that nonhousing assets for white families are typically around $100,000 while African American families' assets averaged about $5,000, with 25 percent of black families having no assets at all.[72] Between 1984 and 2007, white families increased their median value from $22,000 to $100,000 (real dollars) while African American households had nearly imperceptible gains.[73, 74] That has resulted in a near tripling of the black-white wealth gap over the past twenty-five years (from a gap of $85,070 in 1984 to $235,500 in 2009).[75]

At this point, it should come as no surprise that gender is also relevant with respect to wealth, though it is much more difficult to measure since wealth is most often reported at the household, rather than individual, level. The data that are available center on nonmarried households and tend to show that

> women are less likely than men to own almost every type of asset. The median value of assets held by women is almost always lower than that of their male counterparts. A smaller percent of women own stocks, bonds, and other financial assets compared to men. Women are also less likely to hold retirement accounts and a woman's pension is typically smaller than a man's.[76]

When married couples divorce or when a spouse dies, women often face a disproportionate financial burden. If they were not in the labor force during marriage, they are disadvantaged when competing for positions with more experienced candidates. Children most often live with their mother after a separation or divorce, and men are not always willing or able to pay child support.[77] Women are also more likely than men to lose health insurance after a divorce,[78] which, as we will see later, can result in significant, even debilitating, financial strain. A woman whose husband dies tends to own only fifty-nine cents for every dollar of wealth that men have when a wife dies.[79] As we saw with income, because women of color are more likely to be heads of households, there is an interactive effect between race and gender, as well.

The very wealthiest Americans lost a lot during the Great Recession: "The 10 richest Americans lost a combined $39.2 billion" between September 2008 and September 2009 (which represents a 14 percent reduction).[80] One way to look at this, then, is to consider that the wealthiest were hit hardest by the housing crisis and resulting economic troubles. We must ask, though, how the day-to-day lives of those Americans were affected compared to the lives of the poorest Americans. Put another way, if given the choice, would we rather be one of those individuals who lost the most money, or an American living in poverty who either lost a low-wage job or had a harder time finding one as a result of the recession?[81]

Gifts and Inheritance

Some individuals get a head start on the road to financial security by having parents or other relatives with money. Whether gifts are made early in one's adult life or assets are left after a relative dies, being able to count on money that one has not personally earned can be a tremendous help. While many people who are wealthy have parents who were not as wealthy, most poorer Americans come from poor families and thus do not have the opportunity to get a head start in this way.[82, 83]

The racial gap with respect to inheritance is significant. While slavery and legal racial segregation seem to be in the distant past, when we consider the passing of wealth through generations, it becomes clear that African Americans who are alive today who trace their heritage to slaves have been systemically disadvantaged because accumulation of wealth was illegal or nearly impossible given the conditions in which their

ancestors lived. Researchers Gittelman and Wolff conclude that "African Americans would have gained significant ground relative to whites [between 1984 and 1994] if they had inherited similar amounts."[84] Similarly, Menchik and Jianakoplos estimate that white households are at least twice as likely to receive an inheritance and that "racial differences in inheritances can explain between 10 percent and 20 percent of the average racial difference in household wealth (in 1989)."[85] A windfall inheritance—even if it is modest—can help to offset existing debt, be invested in a major purchase (such as a home), or be put aside for an emergency or to plan for retirement. Because whites are, on average, able to count on inheritance or financial help from family members more than persons of color, their starting line is closer to the finish line (economic security).

Savings and Investments

Children are often encouraged to save their money for a rainy day. As adults, we are generally expected to have some sort of reserve in the event of a job loss, an illness, or some other unforeseen event that affects our earning. But savings and investment can only occur after basic needs (housing, food, utilities, school supplies, etc.) are satisfied. Savings of disposable income (money available after basic needs are met) dropped to just over 1 percent in 2001, which is much lower than the average rate of nearly 8 percent between 1959 and 2001.[86] In 2009 (during the Great Recession), savings increased to between 3 and 6 percent, but those rates were much lower for poorer Americans, as one might expect.[87]

As noted above, only one in four African Americans have any non-real estate assets (such as stocks, bonds, or mutual funds); only one in six Hispanics hold any of these types of assets. Less than half of black Americans and less than a third of Hispanic Americans reported having an individual retirement account in 2011. Further, 18 percent of African Americans and nearly one-third of Hispanics reported having no checking or savings account. Half of whites reported having some form of non-real estate assets, two-thirds have a retirement account (such as an IRA or 401[k]), and 95 percent had a checking or savings account.[88] As will become clear in Chapter 3, home ownership is a significant asset for many white Americans, but far fewer African Americans and Latinos own homes (and those who do have less equity than whites).[89]

BOX 2.2. *What Can I Do?:* COMMUNITY EDUCATION

Understanding personal finance is difficult for everyone, irrespective of educational background. Even those of us with advanced degrees have trouble making sense of tax forms, understanding the difference between an IRA and a 401(k), knowing what mutual fund to consider, and choosing a savings account or certificate of deposit. If you have a good grasp of these matters, you can be helpful to people in your local community. See if your college (or another local college) has a community program related to finance, or check with the library to see if it has programs designed to educate the public (often these pop up around tax time in March and April).

There are also a number of not-for-profit groups that offer this sort of assistance. Foundation Communities[a] in the Austin, Texas, area, for instance, sponsors a program, Community Tax Centers, that provides free income tax preparation help to low-income families in the area. Participants work with volunteers who have a detailed understanding of tax law and who, in turn, educate additional volunteers to give hands-on assistance. The Community Financial Education Foundation (CFEF) is a nationwide group whose mission is "to educate the American public and reach underserved communities by teaching meaningful financial life skills, encouraging positive financial behaviors, and providing access to outcome-based, educational resources over the long-term."[b] It works with volunteers and community partners to provide these services in a number of communities, as well as through online educational tools.

[a] www.foundcom.org

[b] www.communityfef.org

Credit and Debt

The ability to get credit—borrow money—both reflects wealth and determines one's ability to accumulate it. Automobile commercials frequently promise low (or no) finance charges for "well qualified" buyers—those whose high credit score and income are deemed sufficient by the lender. Of course, someone who fits that categorization will certainly *appreciate* a better deal on the car, but he or she probably does not *need* the better deal

nearly as much as someone who is not "well qualified" by those criteria. The person with less income or worse credit thus pays more for the car, which only contributes to his or her unsteady economic circumstances. Banks often charge fees on checking accounts that fail to maintain a minimum balance throughout the billing cycle, give stiff fines for overdrafts, and place restrictions on savings account withdrawals if there is not a minimum balance. While all of these practices can be justified from the perspective of the banks in terms of their ability to conduct business, there is a potential for very adverse effects on those with limited funds in their accounts.

Missing a payment or making a late payment can trigger a higher interest rate, which only exacerbates the problem for borrowers with financial uncertainty. (As detailed in Chapter 3, adjustable-rate mortgages can leave families in financial trouble even if bills are paid on time.) Missing payments or paying late, with the accumulation of late fees and interest, can harm credit scores or lead to bankruptcy.

Calculations of creditworthiness are complicated (sometimes including up to 100 variables),[90] but are essentially based on factors such as income, available existing credit, and history of repayment. Other factors such as zip code, marital status, and length of time at the present address may also be considered.[91] It is not difficult to understand how poorer Americans—those who live in less desirable zip codes, rent their homes, earn relatively low income, and so on—are disadvantaged by a system that is used by middle-class folks to increase their wealth. Credit scores do not affect only consumer financing or credit card applications. They are often used in determining whether a person is granted a lease for an apartment, rates for automobile and homeowner's insurance, and sometimes for evaluating candidates for employment.

Ability to secure conventional loans or access to credit, like other measures of economic inequality, are not unrelated to race. Because African Americans and Latinos are poorer on average than whites, there is a disproportionate tendency for persons of color to be victimized by predatory lending with respect to all aspects of consumerism.[92] Those who cannot secure traditional forms of credit often turn to riskier (and more costly) alternatives to stay afloat.[93]

Predatory Practices and Gambling

While gambling (betting on sporting events, at a casino, or through state-sanctioned lotteries) is available to and enjoyed by Americans from

all social and ethnic groups, there is a tendency for those who are the most needy to turn to these potentially quick sources of revenue. Problem gambling can be so debilitating because the more desperate people are, the more likely they are to gamble.

Type of gambling is related to income. For instance, while only 6 percent of individuals living in households with incomes under $30,000 per year gamble on sports, 17 percent of those living in households with incomes between $30,000 and $75,000 do.[94] In general, gambling is much more common among higher-income than lower-income Americans.[95] However, individuals who play the lottery and have household incomes of under $10,000 per year bet nearly three times as much on lotteries as those with incomes over $50,000 per year.[96]

More systematic than gaming, however, is the existence and persistence of predatory loan businesses that are disproportionately located in communities that are most likely to use them (i.e., poorer communities). Payday loan shops offer quick access to cash in exchange for a commitment to have the amount (and an interest fee) deducted from the customer's next paycheck. There is no credit check or lengthy application. One must generally produce a valid form of identification and proof of employment (with wages and pay date). Payday loans are mostly for small amounts (less than $300), but the fees range from $15 to $30 for each $100 borrowed,[97] an interest rate that exceeds that of most credit cards. Researcher Michael A. Stegman describes the market for such services:

> The core demand for payday loans originates from households with a poor credit history, but who also have checking accounts, steady employment, and an annual income under $50,000. . . . A 2001 survey of low-income families in Charlotte [North Carolina] . . . estimated that African Americans were about twice as likely to have borrowed from a payday lender in a two-year period as whites . . . , and that, after controlling for a wide range of socioeconomic characteristics, blacks were five times more likely than whites to take out multiple payday loans.[98]

Americans who lack access to traditional forms of credit may also turn to rent-to-own (RTO) establishments to furnish their homes and buy appliances or items such as televisions. RTO programs allow customers to pay a small amount on a regular basis (rent) and then have

a chance to buy (own) the item at the end of the contract. The majority of RTO customers earn less than $25,000 per year,[99] and those customers understand that they are going to end up paying more for the item than they would if they were able to pay cash outright.[100] *Consumer Reports* explains that customers are generally unaware, however, that they are paying what amounts to a 250 percent annual interest rate on some RTO transactions.[101]

Not everyone sees such systemic disadvantage as victimizing the poor, however. Historian Thomas Woods Jr. asks why poor Americans are not more responsible with money.[102] He suggests that Americans who cannot afford such luxuries as television sets should not purchase them or should save money so that they can purchase them later. He argues that consumers who pay RTO prices have "character flaws" that cause them to spend irresponsibly. Woods raises a valid point in terms of the wisdom of such purchases, but he is inattentive to the tremendous psychological pressure placed on all consumers—not just those who are economically disadvantaged—to appear to be in the middle class by, well, *consuming*. Each of us should practice frugality, spend wisely, and not live beyond our financial means. Those who have significant amounts of disposable income, however, can be financially irresponsible without life-altering consequences; those who do not, cannot. If we all had the same income, it would be difficult to argue with commentators such as Woods, who make reasonable points without considering the inherently unreasonable nature of the circumstances.

Such a position fits neatly within the myth of American meritocracy explained in the previous chapter: those who are able to access traditional methods of credit (and secure reasonable interest rates to borrow) are considered to be in such a position because of their wisdom, hard work, and perhaps some good luck. In exchange, they deserve to have beneficial terms for borrowing and spending, while poorer Americans do not, ostensibly because they have contributed to their own poverty. This individualistic view of inequality is convenient for those who have privilege because it removes any concerns about either the legitimacy of their own financial comfort or the responsibility to take action against a system that is flawed. As this chapter demonstrates, however, the convenient response is too simplistic to capture the reality of contemporary economic and racial inequality in the United States.

Representing the Poor

Thomas Woods's position is closest to that of most Americans: empathy for the poor does not run particularly high. In the abstract, most Americans believe that poverty is an important problem that is facing government,[103] but studies have also found

> that Americans believe there are multiple determinants of poverty but that individualistic or "internal" causes (e.g., lack of effort, being lazy, low in intelligence, being on drugs) tend to be more important than societal or "external" ones (e.g., being a victim of discrimination, low wages, being forced to attend bad schools).[104]

Further, polls have shown that an overwhelming majority of those who are doing well financially claim responsibility for their success, while less than half of those who believe they are doing poorly economically take responsibility for that condition.[105] Consider, then, the position of elected officials, who are responsible for responding to public opinion on policy issues as they seek to represent their constituents. If most Americans do not think that the system needs to be adjusted, then there will be little pressure on policymakers to make adjustments. Consequently, the belief that poorer Americans are largely responsible for their own financial condition has led to an unwillingness to address systemic barriers to greater equality. After all, if we do not believe it is broken, we will not try to fix it.

How race is related to wealth and poverty is a central theme of this book. Because of the way hegemonic power systems operate, the word "race" generally invokes images of persons of color in the minds of white Americans. When most people speak of "poverty and race," they assume that the conversation is about racial minorities. But poverty is widespread in the United States, and while it disproportionately affects communities of color, there are millions of poor whites, primarily living in rural areas, who are disadvantaged by systemic forces. Because our system of representation in the United States is primarily based on geography, and because housing patterns are influenced by economic circumstances, there are some dramatic differences in the constituencies of some representatives as opposed to others. While many elected officials represent diverse economic areas (US senators, for example, represent entire states, most of

which have both rich and poor families, and big city mayors often have very economically diverse constituencies), many others represent areas that are overwhelmingly wealthy or overwhelmingly poor. In the strictest sense, these representatives are responsible for giving voice to the poorest Americans in national and state legislatures, even (and especially) if other elected officials fail to do so. In attempting to understand the relationship between representation and inequality, we will consider the demographics of some of the poorest areas in the United States and the officials who are charged with representing them.

The poorest counties in the United States are in rural regions. In terms of median income, the three poorest counties (as well as four of the top ten and twenty-two of the top one hundred) are in Kentucky.[106] In terms of percentage of residents living below the poverty line, the poorest county in the United States is Ziebach County in South Dakota (more than 54 percent of households are below the poverty line).[107] The number of residents within a county vary greatly, so perhaps a more appropriate way to examine the representation of the economically disadvantaged in America is to consider congressional districts (each of which contain approximately 710,000 people).[108] Congressional districts contain more people than most counties but fewer than large cities, which results in members of the US House of Representatives representing relatively, but not entirely, homogeneous geographical areas.

The poorest congressional district in the contiguous United States is New York's Fifteenth, which has 38 percent of its residents (and 49 percent of children) living below the poverty line.[109] José Serrano, who is a Democrat (see Box 2.3), represents this district.[110] Kentucky's Fifth District, represented by Harold "Hal" Rogers, who is a Republican, is also among most impoverished congressional districts in the nation with 28.9 percent of its residents living below the poverty line.[111] While Serrano's district is distinctly urban (covering the South Bronx), Rogers's is rural. Serrano's district is 63 percent Hispanic and 36 percent African American; Rogers's district is 98 percent white. Of the ten poorest congressional districts, only Rogers's is majority white. Four are majority Hispanic (Arizona 4, California 30, New York 16, and Texas 28), three are majority black (Michigan 13, Michigan 14, and Mississippi 2), one is plurality Hispanic (Texas 30), and one is plurality black (Pennsylvania 1).[112] Nine of the districts are represented by Democrats. Four of the representatives of America's poorest congressional districts are Hispanic, four are African

American, and two are white. Nine of the representatives are men (Rep. Eddie Bernice Johnson of Texas's Thirtieth District is the exception to this current trend).

BOX 2.3. Representing: JOSÉ SERRANO and HAL ROGERS

US Representatives José Serrano (D-NY) and Hal Rogers (R-KY) have been elected to Congress from the two most impoverished districts in the United States. Serrano, who is Latino, represents the South Bronx, while Rogers, who is white, represents a rural area in southeastern Kentucky.

On his website,[a] Congressman Serrano offers a lengthy, detailed explanation about how his district fell into economic despair. According to Serrano, the current conditions are attributable to several factors: changes in rental policy beginning in the 1960s, regional economic downturns, the installation of the cross-Bronx expressway, cutting through the borough, and the resulting exodus of those residents who were able to move. Serrano responds to the interests of his Latino constituents by sponsoring legislation relevant to their needs, such as a bill that would allow judges to take children with citizenship into consideration when considering deportation against undocumented parents.[b]

Since 1981, Congressman Rogers has advocated for his constituents by attempting to attract jobs to his district and encouraging the community to work together. Through a number of initiatives, he encourages residents of southeastern Kentucky to resist drugs, support small businesses, and attract tourism to what he calls "one of the most beautiful regions of the country."[c] As chairman of the powerful Appropriations Committee, Congressman Rogers has helped oversee the use of taxpayer funds, which is consistent with his conservative philosophy.

Though they represent vastly different areas with respect to race, political orientation, and geography, Serrano and Rogers both serve as a voice for poorer Americans and use their influence to advocate for the issues that disproportionately affect those with minimal political influence.

[a]http://serrano.house.gov/our-district.

[b]Albor Ruiz, "Immigration Reform Needed to Stop Heartbreaking Separations," *New York Daily News*, July 6, 2011. http://articles.nydailynews.com/2011-07-06/local/29759431_1_citizen-children-immigration-status-immigration-laws.

[c]http://halrogers.house.gov/Biography/.

Leaving aside questions about voting behavior of constituents,[113] it is important to consider what this means at a policy level. All ten of these House members have constituents who are very poor but differ from one another in many ways. How might these representatives work together to consider policies that could help their citizens? Should they? If inequality is a result of individual shortcomings and behavioral elements, it is difficult to argue that there should be any governmental solutions to alleviate it. If, however, systemic factors contribute to and perpetuate economic and racial inequality, then it would seem that these officials, as well as others who represent large numbers of poor families, would have their sights set on advocating for meaningful change that will result in more opportunities for Americans who are suffering the most.

Summary

It is tempting to think of income as fluid (relating to securing a job, losing a job, getting a raise or a promotion, etc.) while wealth is more or less stable, growing over time (where possible). This characterization is inappropriate, though, as losses in income or an unexpected rise in expenses (due to an illness, a death in the family, etc.) can lead to a sudden and dramatic drop in wealth. According to sociologist Dalton Conley, "a significant proportion of individuals in the U.S. experience at least one drop in wealth."[114] Whites and African Americans have approximately the same number of drops (on average), but African Americans are more likely to have a greater drop.[115]

Researchers Shapiro, Meschede, and Sullivan argue that while America's racist past is certainly a driving factor behind the existence of the racial wealth gap,

> the four-fold increase in such a short time reflects policies, such as tax cuts on investment income and inheritances which benefit the wealthiest, and redistribute wealth and opportunities. Tax deductions for home mortgages, retirement accounts, and college savings all disproportionately benefit higher income families. At the same time, evidence from multiple sources demonstrates the powerful role of persistent discrimination in housing, credit, and labor markets.[116]

They note that persons of color pay more to access credit and are particularly susceptible to predatory lending in the mortgage industry. In

short, while there may be overt, individualized bigotry involved in shaping income and wealth inequality, such incidents cannot come close to explaining these larger trends. First, while income and wealth inequality are pronounced between whites and persons of color, there is a tremendous gap between the highest earning whites and all other whites, as well. Second, the policies that perpetuate and exacerbate these trends are ostensibly colorblind. That is, they are not infused with explicit advantages for whites or disadvantages for persons of color.

Taking a colorblind approach to policy within a racist systemic context cannot lead to increased equality. As Figure 2.2 indicates, there is a cycle of advantage and disadvantage that centers on three major elements of American life: jobs, education, and housing. To earn access to the middle class in the twenty-first century, a college degree is increasingly necessary. Gaining admission into and succeeding in college is more difficult if one does not have a rigorous education in high school (which begins in elementary school). Because most areas fund the local public school districts disproportionately through property tax revenues, the neighborhood in which one lives is strongly related to the quality of education that is available. Of course, most people live in the neighborhood they can afford, so having money in the first place is important. This can be thought of as a

FIGURE 2.2. Cycle of Advantage and Disadvantage

cycle of disadvantage, but it is also a cycle of advantage. That is, if one is disadvantaged, it is quite difficult to break the cycle and gain access to economic security (let alone prosperity). Conversely, those who are privileged to be in an advantageous position have numerous opportunities to avoid falling into economic despair.

The cycle is not a guarantee of success or failure. There are many Americans who started in poverty and became financially comfortable and even wealthy, and there are wealthy individuals who fall on hard times and are unable to recover. The idea, however, is that the starting line is not the same for everyone, and that far from simply being behind (as the foot race metaphor suggests), there are systemic obstacles that are difficult to overcome. Many ideas and programs have been designed to interrupt this cycle at various points. As will become clear in the following chapters, the reasons for its persistence are complicated and affected by other related elements (such as disparities in health and in the criminal justice system). Solutions are multifaceted and present opportunities and challenges for ordinary Americans to become involved and make a difference.

3

Housing

PERHAPS WE SHOULD BEGIN OUR EXPLORATION OF HOUSING inequality with some normative questions that can serve as a baseline. After all, we are interested in not only the *difference* in housing that exists in America, but the degree to which there is access to *sufficient* housing. Are Americans entitled to any housing at all? If so, what sort? Basic shelter (i.e., protection from the weather)? Security from harm? Is access to electricity a right? Plumbing? Internet? If so, is it enough to make sure that Americans are not denied these services? Should they be provided to those who cannot afford them? Does everyone have a right to live in a mansion? Does anyone? What about two mansions? Or ten? Should some Americans have two or three homes when others do not have even one? If not, would it be fair to prohibit wealthy individuals from buying additional homes? What if they rent them to those who cannot afford to buy? Should there be a limit on how much rent they can charge or how much they can raise it from lease to lease? Where do we draw the lines in the proverbial sand? What is reasonable to expect from a wealthy nation such as the United States, and how much should be left to the free market? It is hard to argue against the notion that access to shelter is a basic human right, but how is "shelter" defined, and to what lengths are we willing to go to protect all citizens' housing rights? Answers to these questions form the basis for guidelines to which policymakers must be attentive in a representative democracy. Simply considering them is the first step to providing a blueprint for how we want our leaders to act.

The Roots of Disadvantage

For most Americans, their home is their largest asset, though many Americans are unable to achieve homeownership at all, and many own homes in