FUTURE OF WORK COMMISSION

Convening 7
Working Session

March 12, 2020

Videoconference

ABOUT THE INSTITUTE FOR THE FUTURE (IFTF) AND ITS ROLE

The Institute for the Future (IFTF) is working with the California Labor Secretary and larger State Team to coordinate the work of the Commission. IFTF draws on its over 50 years of research and experience in convening discussions of urgent future issues to support the efforts of the Commission to build a strong vision for the future of work in the state. IFTF has been a leading voice in discussions about the future of work for the past decade, seeking positive visions for a workforce undergoing transformational change. As a facilitator of the Commission's work, it will help guide the convenings, helping establish the comprehensive understanding necessary to build a world-class workforce of the future. IFTF will draw on the work of its Equitable Futures Lab to frame these discussions of future jobs, skills, and labor policy in terms of creating an equitable economy where everyone has access to the basic assets and opportunities they need to thrive in the 21st century.

ABOUT IFTF

Institute for the Future is the world's leading futures organization. For over 50 years, businesses, governments, and social impact organizations have depended upon IFTF global forecasts, custom research, and foresight training to navigate complex change and develop world-ready strategies. IFTF methodologies and toolsets yield coherent views of transformative possibilities across all sectors that together support a more sustainable future. Institute for the Future is a registered 501(c)(3) nonprofit organization based in Palo Alto, California. **www.iftf.org**

The work of this Commission is supported in part by The James Irvine Foundation, the Ford Foundation, the Lumina Foundation, and Blue Shield of California Foundation.

For more information on the California Future of Work Commission, please contact
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*All materials printed in house at IFTF

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WORKING SESSION

The seventh convening of the Future of Work Commission takes place in the Mission District of San Francisco. The neighborhood reflects many of the economic and social challenges playing out in San Francisco and across California. Historically an immigrant, low-income neighborhood, the Mission has seen rapid economic development since the 1990s, driven largely by the tech boom. The success of this important California industry led to an influx of high-income residents, significantly driving up the cost of housing and displacing many longtime residents. The Mission has since been a focus of local and state policy to expand affordable housing for those who otherwise do not earn enough to live in the area. Today, the Mission has a mix of longtime, immigrant-owned small businesses and upscale commercial and residential development—a landscape of inequality and unaffordable housing alongside signals of California's capacity to generate remarkable economic success.

The convening will begin with a welcome and opening comments from Ivy Lee, a member of the San Francisco Community College Board, who was instrumental in making community college free to all residents.

The entire convening will be a working session with the Commissioners collectively developing and reviewing a set of recommendations to address the range of challenges it has articulated. Commissioners will review an initial set of recommendations curated by the Co-Chairs and provide input on further developing the recommendations. Commissioners will also report back to the full Commission on external stakeholder conversations in which they have participated since the last convening. A key goal of this convening will be to develop a set of recommendations leading to the final convening in April, where Commissioners will develop pathways to action and implementation of the recommendations.

This briefing packet includes supplemental background material on two topics that are important to the broader concerns of the Commission: (i) monopoly power and industry concentration; and (ii) racial wealth inequality.

DESIGN PRINCIPLES

The Commission collectively developed the following design principles to create and evaluate recommendations.

Bold: nothing should be excluded on the basis of political feasibility

Forward-Facing: let's not solve for the last war

Work-Adjacent: include work plus housing, transportation, living

Context-Sensitive: take into account implications across gender, race, age, geography

Coalition-Building: bring together multiple stakeholders

Portfolio-Based: easy/fast to hard/long-term

Scalable: achieve high impact

Agile and Iterative: can be prototyped and adapted as needed

Measurable: identify clear areas of potential impact

Actionable and Practical: grounded in real-world solutions that can be implemented

AGENDA

THURSDAY, MARCH 12TH, 2020

9:30am Arrive

10:00am **Welcome & Opening**

Ivy Lee, Board of Trustees, San Francisco City College

10:20pm **Commissioner Discussion**

Commissioners review recommendations and overall structure of the final report.

Moderated by Commission Co-Chairs: ***Mary Kay Henry,*** *and* ***James Manyika***

12:00pm Lunch

12:45pm **Reports from Commissioners' Stakeholder Conversations**

Facilitated by ***Lyn Jeffery***

1:35pm **Refine Candidate Recommendations**

Commissioners develop ideas for specific subset of candidate recommendations.

Facilitated by ***Lyn Jeffery***

3:00pm Break

3:15pm **Commissioner Discussion**

Moderated by Commission Co-Chairs: ***Mary Kay Henry,*** *and* ***James Manyika***

4:30pm **Public Comment**

NOTE: The Commission may not discuss or take action on any matter raised during the public comment session, except to decide whether to place the matter on the agenda of a future meeting (Government Code sections 11125, 1125.7(a)).

5:00pm Adjourn

WELCOME

WELCOME AND OPENING

IVY LEE

Board of Trustees, San Francisco City College

Ivy Lee is an elected member of the San Francisco City College Board of Trustees. She was instrumental in creating the Free City College program which established San Francisco's City College as the first free institution of higher learning in the U.S. As a legislative director at the San Francisco Board of Supervisors, she developed legislation to open opportunities to marginalized communities, such as the Fair Chance Act to remove unnecessary barriers to stable employment and housing for individuals with criminal convictions; legislation to fund affordable early care and education for all San Francisco families, including a wage increase for providers; and eviction protections to provide tenants with a chance to resolve petty nuisances with their landlords prior to any eviction action. Ivy is a civil rights attorney whose practice has focused on defending and advancing the rights of survivors of human trafficking, domestic violence and sexual assault. She previously directed the Immigrant Rights & Human Trafficking Project at Asian Pacific Islander Legal Outreach in San Francisco. She received her J.D. from New York University School of Law. She has served on the board of the Asian Women's Shelter, the North Bay Anti-Human Trafficking Task Force and was appointed to the California Alliance to Combat Trafficking and Slavery. She has also served as a commissioner on the San Francisco Immigrant Rights Commission and on the board of the American Immigration Lawyers Association.

COMMISSIONERS

ROY BAHAT

Venture Capitalist
Bloomberg Beta
@roybahat

Roy Bahat invests in the future of work as a venture capitalist, with a focus on machine intelligence. Prior to his life as a VC, Bahat founded start-ups, served as a corporate executive at News Corp., and worked in government in the office of New York City mayor Michael Bloomberg. As the head of Bloomberg Beta, an investment firm with 150 million dollars under management, Bahat and his team have invested in areas like automation, data, robotics, media, productivity tools, and many others. Fast Company named Bahat one of the Most Creative People in Business and noted "Bahat is a natural innovator ... one of the most candid people you'll ever meet (check out his LinkedIn profile)." He organized "Comeback Cities," where he leads groups of venture capitalists and members of Congress on bus tours to find the untapped beds of talent and entrepreneurship in America. He also co-chaired the Shift Commission on Work, Workers, and Technology, a partnership between Bloomberg and think-tank New America to look at automation and the future of work 10 to 20 years from now.

DOUG BLOCH

Political Director
Teamsters Joint Council 7
@TeamsterDoug

Doug Bloch has been political director at Teamsters Joint Council 7 since 2010. In this capacity, he works with over 100,000 Teamsters in Northern California, the Central Valley, and Northern Nevada in a variety of industries. He was the Port of Oakland campaign director for Change to Win from 2006 to 2010 and a senior research analyst at Service Employees International Union Local 1877 from 2004 to 2006. Mr. Bloch was statewide political director at the California Association of Community Organization for Reform Now (ACORN) from 2003 to 2004 and ran several ACORN regional offices, including Seattle and Oakland, from 1999 to 2003. He was an organizer at the Non-Governmental Organization Coordinating Committee for Northeast Thailand from 1999 to 2003.

DR. SORAYA M. COLEY

President
Cal Poly Pomona
@PresColeyCPP

Dr. Soraya M. Coley, a veteran administrator with more than 20 years of experience in higher education, became the sixth president of Cal Poly Pomona in January 2015. Coley transitioned to Cal Poly Pomona from Cal State Bakersfield, where she was the provost and vice president for academic affairs from 2005 to 2014. She also served as interim vice president for university advancement in 2011–12. Her experience includes serving as Cal State Fullerton's dean of the College of Human Development and Community Service, as administrative fellow, and professor and department chair for the human services department. She was the system-wide provost and vice president for academic affairs at Alliant International University, from 2001 to 2003. Coley earned a bachelor's in sociology from Lincoln University, a master's in social planning and social research from Bryn Mawr, and a doctoral degree in social planning and policy from Bryn Mawr. She is married to Ron Coley, Lt. Col. (Ret.) USMC, who after his military service, enjoyed a distinguished career in public service and higher education administration, including six years as Senior County Administrator in Orange County, California, and multiple senior positions at the University of California.

LLOYD DEAN

Chief Executive Officer
CommonSpirit Health
@LloydHDean

Lloyd Dean is chief executive officer of CommonSpirit Health, a newly created national health care system formed by Dignity Health and Catholic Health Initiatives. He is co-chair of the California Future Health Workforce Commission, chair of the Board of Directors for the Committee on Jobs in San Francisco, and a member of the McDonald's Board of Directors. Dean holds degrees in sociology and education from Western Michigan University and received an honorary Doctor of Humane Letters degree from the University of San Francisco. A strong advocate for health care reform, he has been actively engaged with President Obama and the White House Cabinet on healthcare issues.

COMMISSIONERS

JENNIFER GRANHOLM

Former Governor
State of Michigan
@JenGranholm

Jennifer Granholm served two terms as Michigan's 47th governor from 2003 to 2011, and was the Michigan Attorney General from 1998-2002. As Governor, Granholm led the state through a brutal economic downturn that resulted from the Great Recession and a meltdown in the automotive and manufacturing sectors. She worked relentlessly to diversify the state's economy, strengthen its auto industry, preserve the manufacturing sector, and add new, emerging sectors, such as clean energy, to Michigan's economic portfolio. After leaving office, Granholm served as an advisor to Pew Charitable Trusts' Clean Energy Program, where she led a national campaign for clean energy policies. She also hosted Current TV's political news analysis show "The War Room with Jennifer Granholm" and co-authored *A Governor's Story: The Fight for Jobs and America's Economic Future*, which tells how Michigan pioneered ways out of an economic storm and offers proven advice for a nation desperate to create jobs. Currently, Granholm is a contributor to CNN, a Senior Advisor to the progressive political groups Media Matters and American Bridge, is head of the sustainability practice at Ridge-Lane, and sits on numerous private sector and non-profit boards.

LANCE HASTINGS

President
California Manufacturers & Technology Association
@lance_hastings

Hastings has held several leadership roles at MillerCoors the past 15 years. He served most recently as Vice President of National Affairs for MillerCoors. Prior to that he served as Head of Regulatory & Tax Affairs for SABMiller. He also represented Miller Brewing Company and MillerCoors in Sacramento as Director of State Government Affairs, where he served on CMTA's Board of Directors. Before his long career as a manufacturing executive Hastings was the Vice President and Director of Government Relations from 1998 to 2003 at the California Grocers Association. Hastings also worked in the California State Legislature for almost a decade as a chief consultant, starting in 1989. Hastings has a Bachelors of Arts in Economics and a Minor in Government from California State University at Sacramento.

MARY KAY HENRY, CO-CHAIR

International President
Service Employees International Union (SEIU)
@MaryKayHenry

Mary Kay Henry is International President of the 2 million-member Service Employees International Union (SEIU), and her leadership is rooted in a deep-seated belief that when individuals join together they can make the impossible possible. Under her leadership, SEIU has won major victories to improve working families' lives by strengthening and uniting healthcare, property services, and public sector workers with other working people across the United States, Canada and Puerto Rico. In 2010, Mary Kay Henry became the first woman elected to lead SEIU, after more than 30 years of helping unite healthcare workers. By 2015, she was named one of the 100 most creative leaders by Fast Company magazine and was included in the top 50 visionaries reshaping American politics by Politico magazine for SEIU's innovative leadership in propelling the fight for living wages embodied in the historic movement known as the "Fight for $15." Henry believes that to better fulfill the promise of a just society America has always aspired to be, we must fight for justice on all fronts including defending the gains accomplished for access to affordable healthcare for all families under the Affordable Care Act, comprehensive immigration reform and a path to citizenship for all hardworking immigrant families, and safety and justice in all communities of color across the country.

CARLA JAVITS

President & CEO
Roberts Enterprise Development Fund (REDF)
@cjavitsredf

Carla Javits is President and CEO of REDF (The Roberts Enterprise Development Fund), a pioneering venture philanthropy galvanizing a national movement of social enterprises—purpose-driven, revenue-generating businesses that help people striving to overcome employment barriers get good jobs, keep those jobs, and build better lives. Through her stewardship, REDF has invested in 183 social enterprises in 26 states. These businesses have generated $755 million in revenue and employed 37,700 people—and counting. REDF's goal is to see 50,000 people employed by 2020, contributing their skills and talents to our communities and helping to build a stronger, more inclusive society.

SARU JAYARAMAN

President
ROC United & ROC Action

Director
Food Labor Research Center
@SaruJayaraman

Saru is the President of One Fair Wage, Co-Founder of the Restaurant Opportunities Centers United (ROC United), and Director of the Food Labor Research Center at the University of California, Berkeley. Saru is a graduate of Yale Law School and the Harvard Kennedy School of Government. She was profiled in the New York Times "Public Lives" section in 2005, named one of Crain's "40 Under 40" in 2008, was 1010 Wins' "Newsmaker of the Year" and New York Magazine's "Influentials" of New York City. She was listed in CNN's "Top10 Visionary Women" and recognized as a Champion of Change by the White House in 2014, and a James Beard Foundation Leadership Award in 2015. Saru authored *Behind the Kitchen Door* (2013), a national bestseller, and has appeared on CNN with Soledad O'Brien, Bill Moyers Journal on PBS, Melissa Harris Perry and UP with Chris Hayes on MSNBC, Real Time with Bill Maher on HBO, the Today Show, and NBC Nightly News with Brian Williams. Her most recent book is *Forked: A New Standard for American Dining* (2016). In 2019, she was named the San Francisco Chronicle Visionary of the Year.

TOM KALIL

Chief Innovation Officer
Schmidt Futures

Tom Kalil has been Chief Innovation Officer at Schmidt Futures since 2017. He was deputy director of the White House Office of Science and Technology Policy for President Obama from 2009 to 2017. Kalil was special assistant to the Chancellor for Science and Technology at the University of California, Berkeley from 2001 to 2008 and was chair of the Global Health Working Group for the Clinton Global Initiative in 2007 and 2008. He also served on the White House National Economic Council from 1993 to 2001 and from 2000 to 2001, was deputy assistant to President Clinton for technology and economic policy.

ASH KALRA

Assemblymember
California Assembly District 27
@Ash_Kalra

Assemblymember Ash Kalra was elected to represent the 27th California State Assembly District in 2016, and was appointed Chair of the Assembly Committee on Labor and Employment and sits on the Aging and Long Term Care, Education, Judiciary, Water, Parks, and Wildfire committees. Assemblymember Kalra has established himself as a leader on issues ranging from the environment and conservation, to criminal justice reform, health care sustainability, housing affordability, growing our transportation infrastructure, and expanding economic opportunity to all Californians. Previously, Kalra served as a San Jose City Councilmember, and as a deputy public defender in Santa Clara County. Kalra earned a Juris Doctor degree from the Georgetown University Law Center and is the first Indian-American to serve in the California Legislature.

COMMISSIONERS

STEPHANE KASRIEL

Former Chief Executive Officer
Upwork
@skasriel

Stephane Kasriel is the former CEO of Upwork. He led the company's product and engineering teams before ascending to become CEO, driving the company's innovation and growth through its IPO in 2018 and as a public company CEO for the following four quarters. Stephane has played key roles in organizations including the World Economic Forum, and his commentary has appeared in outlets including *Harvard Business Review*, CNBC and *Fortune*. He is passionate about helping the company fulfill its mission of creating economic opportunity so people have better lives. Prior to Upwork, Stephane was Global Head of PayPal Consumer Products, Global Head of PayPal Mobile Business Development and Managing Director of PayPal France, held leadership roles at pioneering companies including Fireclick, Work4, and Zong, and was a founder of Fireclick and iFeelGoods. Stephane holds an MBA from INSEAD, Master's from Stanford in Computer Science and a BS from Ecole Polytechnique in France.

FEI-FEI LI

Co-Director and Professor
Human-Centered AI Institute, Stanford University
@drfeifei

Dr. Fei-Fei Li is the inaugural Sequoia Professor in the Computer Science Department at Stanford University, and Co-Director of Stanford's Human-Centered AI Institute. She served as the Director of Stanford's AI Lab from 2013 to 2018. During her sabbatical from Stanford from January 2017 to September 2018, she was Vice President at Google and served as Chief Scientist of AI/ML at Google Cloud. Dr. Fei-Fei Li's main research areas are in machine learning, deep learning, computer vision and cognitive and computational neuroscience. She has published nearly 200 scientific articles in top-tier journals and conferences, including *Nature,* PNAS, *Journal of Neuroscience,* CVPR, ICCV, NIPS, ECCV, ICRA, IROS, RSS, IJCV, IEEE-PAMI, *New England Journal of Medicine,* etc. Dr. Li is the inventor of ImageNet and the ImageNet Challenge, a critical large-scale dataset and benchmarking effort that has contributed to the latest developments in deep learning and AI. In addition to her technical contributions, she is a national leading voice for advocating diversity in STEM and AI. She is co-founder and chairperson of the national non-profit AI4ALL aimed at increasing inclusion and diversity in AI education.

JAMES MANYIKA, CO-CHAIR

Senior Partner
McKinsey & Company

James Manyika is Senior Partner at McKinsey and Company and Director of the McKinsey Global Institute. He was appointed by President Obama as Vice Chair of the Global Development Council at the White House (2012–present), and by US secretaries of commerce to the Digital Economy Board of Advisors (2016) and the National Innovation Advisory Board (2011). He serves on several other boards, including the Council on Foreign Relations, Aspen Institute, and John D. and Catherine T. MacArthur Foundation. He is a non-resident Senior Fellow of Brookings Institution and a Fellow of DeepMind and the Royal Society of Arts. A Rhodes Scholar, he holds a BSc in Electrical Engineering from University of Zimbabwe, and an MSc, MA and DPhil from Oxford University in Robotics, Computation.

JOHN MARSHALL

Senior Capital Markets Analyst
United Food and Commercial Workers

John Marshall is a Senior Capital Markets Analyst with the United Food and Commercial Workers' (UFCW) Capital Stewardship Program. At the UFCW, Marshall conducts financial research on public and private companies and works closely with investors and analysts on corporate governance matters. For the past two years, Marshall has been the UFCW staff liaison to the AFL-CIO's Commission on the Future of Work and Unions. Marshall graduated from the University of California at Santa Cruz with a degree in American Studies, received his MBA from the UCLA Anderson School of Management and is a holder of the Chartered Financial Analyst (CFA) designation. Prior to joining the UFCW, Marshall was Research Director for the SEIU Capital Stewardship Program. He has also held positions at Ullico, Inc., SEIU Local 250, and UNITE HERE Local 2.

ART PULASKI

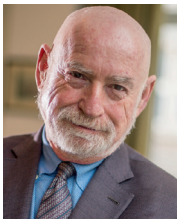
Executive Secretary-Treasurer
and Chief Officer
California Labor Federation
@ArtPulaski

Art Pulaski is the Executive Secretary-Treasurer and Chief Officer of the California Labor Federation. Since his election in 1996, Pulaski has reinvigorated grassroots activism in unions and championed support for new organizing. Under Pulaski's leadership, the California Labor Federation's achievements have included restoring daily overtime pay, raising the minimum wage, increasing benefits for injured and unemployed workers, creating collective bargaining opportunities for hundreds of thousands of public sector workers, and passing the nation's first comprehensive Paid Family Leave law. In 2010, the Federation led the successful campaign to ensure every California Democrat in Congress voted in favor of the landmark federal health care reform legislation. Pulaski has led the California labor movement in new strategies of political action and economic development. Since he took office at the California Labor Federation in 1996 the labor group has more than doubled in size.

MARIA S. SALINAS

President & CEO
Los Angeles Area Chamber of Commerce
@salinas_ms

Maria S. Salinas is the President & CEO of the Los Angeles Area Chamber of Commerce, the largest business association in Los Angeles County representing more than 1,600-member companies and serving the interests of more than 235,000 businesses across the Los Angeles region. Ms. Salinas took the helm of the organization in August of 2018 and became the first woman and Latina to lead the L.A. Area Chamber in its 130 year history. An accomplished business woman, entrepreneur, and a stalwart community leader, Ms. Salinas' business acumen and financial expertise provides her with the right experience to lead the Chamber. Ms. Salinas is a graduate of Loyola Marymount University (LMU), earning a Bachelor of Science in Accounting in 1987. She is currently Chair of the Board of Regents and member of the Board of Trustees at LMU, Board Chair of UnidosUS, and member of the founding Board of Directors of Kaiser Permanente School of Medicine. Over the years, she has served numerous esteemed civic and nonprofit organizations and has been recognized for her leadership and community service. Ms. Salinas lives in Pasadena, California, with her husband Raul, a prominent Los Angeles attorney, and their four sons.



PETER SCHWARTZ

Senior Vice President
of Strategic Planning
Salesforce
@peterschwartz2

Peter Schwartz is an internationally renowned futurist and business strategist, specializing in scenario planning and working with corporations, governments, and institutions to create alternative perspectives of the future and develop robust strategies for a changing and uncertain world. As Senior Vice President of Strategic Planning for Salesforce, he manages the organization's ongoing strategic conversation. Peter leads the Salesforce Futures LAB—a collaboration between strategic thinkers at Salesforce and its customers around provocative ideas on the future of business. Prior to joining Salesforce, Peter was co-founder and chairman of Global Business Network. He is the author of several works. His first book, *The Art of the Long View,* is considered a seminal publication on scenario planning. Peter has also served as a script consultant on the films "The Minority Report," "Deep Impact," "Sneakers," and "War Games." He received a B.S. in aeronautical engineering and astronautics from Rensselaer Polytechnic Institute in New York.

COMMISSIONERS

HENRY STERN

State Senator
California Senate District 27
@HenrySternCA

Senator Henry Stern was elected to represent the 27th California State Senate District in 2016. He chairs the Senate Natural Resources and Water Committee and formerly chaired the Elections and Constitutional Amendments Committee. Senator Henry Stern is a sixth-generation Californian and native of this district. He is a former environmental lawyer, lecturer, senior policy advisor and civics teacher. Senator Stern has lectured at UCLA and UC Berkeley, enjoys volunteering at his local Boys & Girls Club and is a member of the Santa Monica Mountains Conservancy Advisory Committee, the Jewish Federation, the American Jewish Committee, and the Truman National Security Project. He earned a Juris Doctor degree from the University of California, Berkeley School of Law.

MARIANA VITURRO

Deputy Director
National Domestic Workers Alliance (NDWA)

Mariana Viturro is the Deputy Director at the National Domestic Workers Alliance (NDWA), the leading organization working to build power, respect, and fair labor standards for the estimated two million nannies, housekeepers, and elderly caregivers in the United States. She started organizing in the San Francisco Bay Area in 1998. Mariana has been organizing with immigrant communities and communities of color for the last 15 years. Prior to NDWA, as the Co-director of St. Peter's Housing Committee, Mariana guided a programmatic transition from service provision to organizing and then facilitated the organizational merger with a sister organization resulting in the creation of Causa Justa::Just Cause. Since March 2011, she has used her strong operational and organizing skills and a commitment to creating a culture of support and accountability to NDWA.

BETTY T. YEE

Controller
State of California
@BettyYeeforCA

State Controller Betty T. Yee was elected in 2014, following two terms on the California Board of Equalization. Reelected as Controller in 2018, Ms. Yee is the 10th woman in California history to be elected to statewide office. As the state's chief fiscal officer, Ms. Yee chairs the Franchise Tax Board and is a member of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) Boards. These two boards have a combined portfolio of more than $570 billion. Ms. Yee also serves on the Ceres Board of Directors, a nonprofit working to mobilize many of the world's largest investors to advance global sustainability and take stronger action on climate change. Ms. Yee has more than 35 years of experience in public service, specializing in state and local finance and tax policy. Ms. Yee previously served with the California Department of Finance where she led the development of the Governor's Budget, negotiations with the Legislature and key budget stakeholders, and fiscal analyses of legislation. She previously served in senior staff positions for several fiscal and policy committees in both houses of the California State Legislature. Ms. Yee received her BA in sociology from the University of California, Berkeley, and holds a master's degree in public administration.

SUPPLEMENTAL MATERIALS

1. Suresh Naidu, Eric Posner, and Glen Weyl. "More and more companies have monopoly power over workers' wages. That's killing the economy." *Vox*. April 6, 2018.

2. *The Racial Wealth Gap: Why Policy Matters*. Demos and Institute for Assets & Social Policy. June 2016.

Vox

More and more companies have monopoly power over workers' wages. That's killing the economy.

The trend can explain slow growth, "missing" workers, and stagnant salaries.

By Suresh Naidu, Eric Posner, and Glen Weyl | Apr 6, 2018, 9:50am EDT

Rogelio V. Solis/AP Photo

THE BIG IDEA

Outside contributors' opinions and analysis of the most important issues in politics, science, and culture.

Our current economic expansion has lasted almost nine years, yet wages have hardly budged, especially for less skilled workers. Inflation-adjusted wages for the average worker **have risen only by 3 percent since the 1970s** — and have actually declined for the bottom fifth.

For a long time, the conventional wisdom was that wage growth had slowed because of rising competition from low-paid workers in foreign countries (globalization), as well as the replacement of workers with machinery, including robots (automation). But in recent years, economists have discovered another source: the growth of the labor market power of employers — namely, their power to dictate, and hence suppress, wages.

This new wisdom has displaced a longstanding assumption among economists that labor markets are competitive. In a competitive labor market, employers must vie for workers; they try to lure workers from other firms by offering them more generous compensation. As employers bid for workers, wages and benefits rise. An employer gains by hiring a worker whenever the worker's wage is less than the revenue the worker will generate for the employer; for this reason, the process of competition among employers for workers ought to result in workers receiving a substantial portion of the output they contribute to.

And as the economy grows over time — which has historically been the case in the United States — this dynamic should naturally lead to a steady increase in compensation for workers.

It turns out, however, that labor markets are often uncompetitive: Employers have the power to hold down wages by a host of methods and for numerous reasons. And new academic studies suggest the markets have been growing ever more uncompetitive over time.

The return of the "company town," in different form

The company town is a familiar historical example of a situation in which employers hold all the cards when it comes to setting wages. In the late 19th century, companies like Pullman, a manufacturer of sleeping cars for trains, established such towns adjacent to their factories, even providing housing and collecting rent. Since such towns had one employer, the workers couldn't leave for better pay without uprooting their families, which they tended not to want to do.

Few company towns exist today. Still, a variation of the company town effect exists in some regions, at least for certain occupations. A nurse or doctor who lives in a small town or rural area can choose only among a handful of medical institutions within driving distance of his or her home, for example.

And in many areas of rural America, the best jobs are in chicken processing plants, private prisons, agribusinesses, and other large-scale employers that dominate their local economies. Workers can either choose to take the jobs on offer or incur the turmoil of moving elsewhere. Companies can and do take advantage of this leverage.

Yet another source of labor market power are so-called noncompete agreements, which are far more prevalent than many Americans realize. These agreements prohibit workers who leave a job from working for a competitor of their former employer.

Almost a quarter of all workers **report** that their current employer or a former employer forced them to sign a noncompete clause. (Jimmy John's, the sandwich franchise, famously asked its "sandwich artists" to sign covenants forbidding them from taking jobs with Jimmy John's competitors.) Relatedly, Apple and several other high-tech firms were caught entering into collusive "no poach" agreements so they didn't have to worry about losing engineers to each other, and settled with the Justice Department.

But the practice continues in many sectors of the economy — including fast-food franchises. No-poaching agreements, like noncompete clauses, enhance employers' labor market power by depriving workers of the threat to quit if wages fall or stagnate.

There are other, more subtle, ways that employers gain labor market power. Different employers offer different working hours, leave policies, and workplace conditions, and workers tend to choose employers whose conditions suit their personal and family situations. If such an employer cuts wages, a worker may be unwilling to move to another employer that asks her to work different hours — or to be on call during "off" hours.

Developing a specific set of skills can be a double-edged sword too, opening doors yet limiting mobility. An expert welder working for the only manufacturer in town may not find it easy to leave that job and find an equally well-paying job (in, say, nursing) because the skill sets are so different.

The "match" problem is exacerbated by the time and energy that job searches demand; it can be hard to hold a job while also seeking a job. This factor, too, gives employers the power to hold down worker wages without fear of losing too many workers.

Unions and regulation once kept employers' labor market power in check

While employers have taken advantage of labor market power throughout modern economic history, a worldwide social movement at the end of the 19th century moderated the worst excesses. Workers organized labor unions, which enabled them to oppose employers' market power with the threat to shut down plants. A powerful legal regime was put in place that supported unions and protected workers with health, safety, minimum wage, and maximum-hour regulations.

Such laws, along with union rules, helped standardize work requirements, which made jobs more interchangeable and thereby allowed workers to more easily quit a workplace if the employer abused its power. These reforms helped spur broadly shared wage growth during the 30 years following World War II.

But the good times ended in the 1970s. Globalization, changes in workplace technology, and the rise of a more heterogeneous workforce put strains on unions. A conservative reaction to technocratic liberalism, led by Ronald Reagan and Margaret Thatcher, eroded support for labor and employment law. A wave of mergers produced larger corporations with even greater labor market power.

For a time, economists believed that labor markets were nonetheless competitive. But that conventional wisdom was vaporized by a series of empirical studies that suggest that labor market power is real and significant. A number of studies, **summarized here**, have found,

for example, that when wages fall by 1 percent, only about 2 to 3 percent of workers leave, at most.

If labor markets were really competitive, we might expect the figure to be closer to 9 or 10 percent. Other studies have found that employer concentration has been increasing over time and that this concentration is associated with lower wages across labor markets.

The costs of employer power

It is sometimes mistakenly thought that wage suppression, even as it hurts workers, at least benefits consumers, who pay lower prices for goods and services (since the cost of production is lower for companies). In fact, that's not the case: Employer market power, sometimes called "monopsony," harms economic growth and raises prices. (Monopsony is the concept of monopoly, or dominance of a market for a given good, applied to the "buy side" — namely, the inputs that firms purchase, including labor and materials.)

Monopsony harms growth and raises prices because it works much like monopoly: by reducing production. To increase its profits, the monopolist raises prices and thus lowers production (because fewer consumers are willing to pay these inflated prices).

Similarly, to raise *its* profits, a monopsonist lowers wages below the value of the workers to the employer. Because not all workers are willing to work at these depressed wages, monopsony leads some workers to quit.

Firms bear the loss in workers (and resulting lowered sales) in exchange for the higher profits made off the workers who do not quit. The resulting group of workers looking for jobs are what Marx called the "reserve army of the unemployed."

Employer labor market power thus reduces employment, raises prices, and depresses the economy. Those sound a lot like the harms that conservative economists have long attributed to excessive taxation. And that's no coincidence. Wage suppression is just like a tax: a tax on the labor of workers.

But unlike most taxes, the proceeds do not fund public services or redistribution that benefits the vulnerable. Instead, they fund corporate profits and cause the share of income accruing to workers to fall. (That share has fallen almost 10 percent in the US in the past decade). This fall in labor income and rise in profits have fueled the remarkable rise in the incomes of the top 1 percent of earners about which **so much has been written**.

To make matters worse, because the "monopsony tax" drives workers out of the labor force, it simultaneously *reduces* tax revenue and *increases* social welfare payouts to the unemployed and destitute.

This one phenomenon explains many of our economic woes

Thus far, however, all of this discussion has been purely theoretical. How much of the decline in labor's share, or the fall in employment, is attributable to the rise of monopsony or labor market power?

Answering this question precisely will take years of empirical research. But by combining standard economic models with recent evidence about the prevalence of monopsony power and other crucial economic parameters, we can get a back-of-the-envelope sense of the drag of the monopsony tax. (In a recent **working paper**, you can find a fuller account of our analysis and assumptions.) The answer, as you will see, is simple: *huge*.

Our focus is the degree of employer labor market power that prevails throughout the economy. To represent this phenomenon, we use a parameter that ranges from 0 (representing perfect competition in the labor market) to 1 (if there were only a single employer in the whole economy).

This parameter can be roughly thought of as the effective number of employment options a typical worker enjoys. If a worker has a very high number of options (if the number is closer to 0), then she will quit and take another job if her wages decline. If she doesn't (so the number is closer to 1), then she will stay in her job despite a wage decline — or exit the labor force altogether.

Figures 1 and 2, below, show the results of our analysis. At the left side of the figures, labor market power is zero: Labor markets are competitive, and workers have many options. As you move from left to right, labor market power increases to 1, where pure monopsony prevails and workers have only one reasonable option.

Most work in economics has assumed that employer labor market power is close to zero. But recent empirical work has suggested that, on average, labor market power ranges from 0.1 to 0.6, the shaded area.

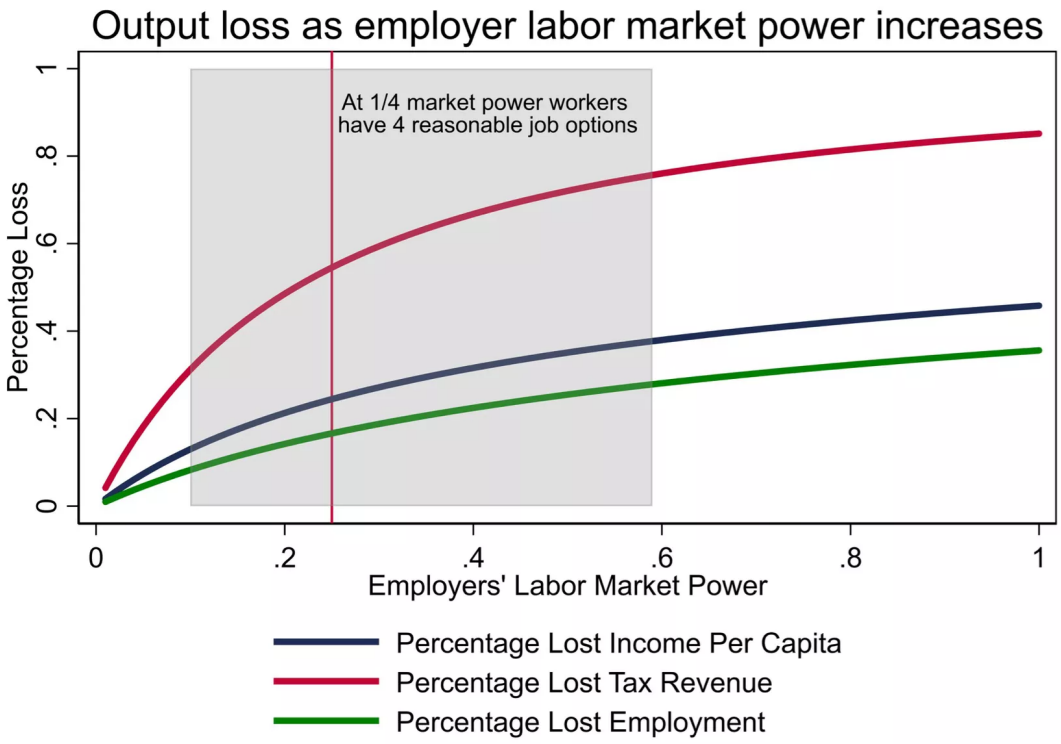


Figure 1: The graph shows how much output, government revenue, and employment fall as employers' labor-market power increases. On the X axis, 0 represents perfect competition; 1 represents total domination of employers, where each employee has only a single job offer. | Naidu, Posner, Weyl

You can see that in that range, economic output (the blue solid line) is considerably less than it would be if markets were competitive — from 8.5 percent less to as much as 26 percent less. That's a huge dead weight on economic output.

The crucial point here is how little the model of employer-employee relations needs to diverge from the assumption of perfect competition in order for there to be massive effects on the economy.

Where did that output go? Economic theory tells us that employers suppress wages by underemploying workers. The blue solid line in Figure 2 shows the extent of that wage suppression:*

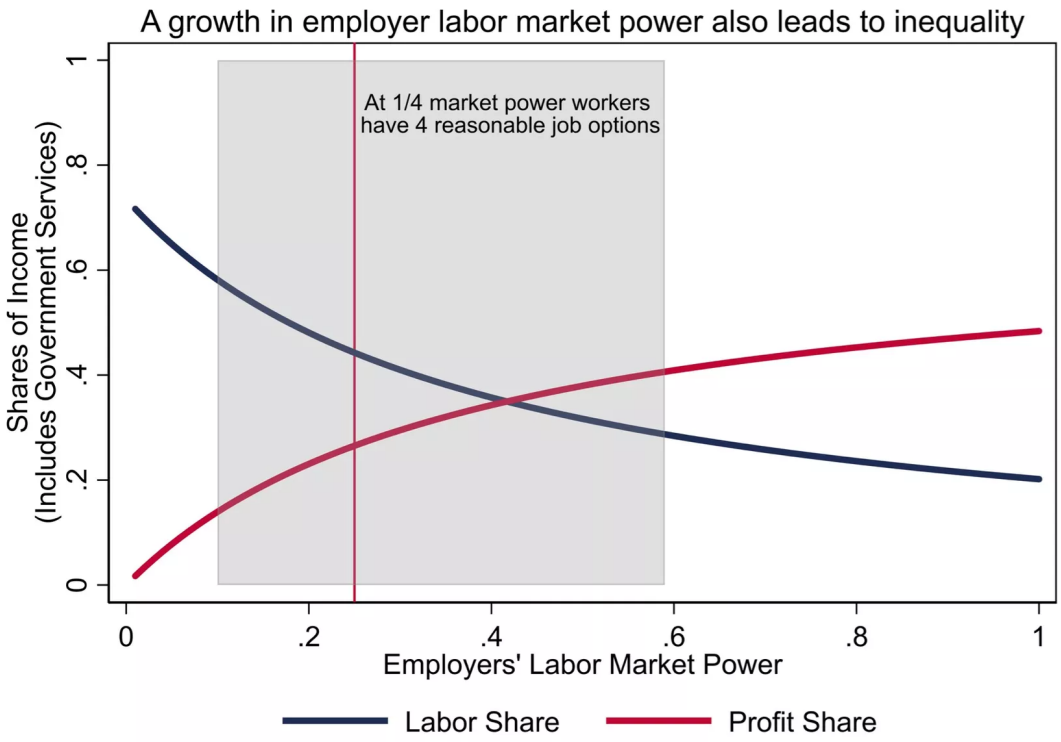


Figure 2: The graph shows how much income inequality increases as employer market share goes from 0 to 1. (0 represents perfect competition; 1 represents total domination by employers, where each employee has only a single job offer.) Inequality is reflected in the relative share of income going to labor and profit. | Naidu, Posner, Weyl

In **our working paper**, we take a first cut at estimating the effects of monopsony on both employment rates and wages. Employment, we calculate, is 5 to 18 percent less than it would be in a competitive market. (Here is Marx's reserve army of the unemployed.) This effect can explain all of the decline in employment rates among prime-age men observed by labor economists.

The results for wage rates are even more disturbing. Given the way our economy works historically, labor's share of economic output should be about 74 percent if labor markets were perfectly competitive. Because of employers' power to drive down wages, labor's share of economic output falls to somewhere between 51 and 64 percent. This transfer significantly increases income inequality.

To put this into more concrete terms, consider the market for nurses. The median wage for a nurse is about $68,000. Given what we know about the labor market power of medical institutions, the true competitive wage for a nurse would be at least $90,000, possibly as much as $200,000.

However, because most areas have few hospitals, they can suppress nurses' wages without worrying that nurses will move to a rival hospital. Some nurses will drop out of the labor market entirely, but the hospital still earns a greater profit by shrinking its operation and cutting wages dramatically.

For the labor market as a whole, the median annual compensation is $30,500. If markets were competitive, we estimate that this amount could rise to $41,000, and possibly to as much as $92,000.

If labor market power reduces employment and wages, then it must also reduce government's revenue from taxes. True, government will obtain more tax revenue from the *owners* of firms, who benefit from paying lower wages. But because tax rates on labor income are higher than on capital income, and because of the overall loss in output, our model finds that revenue falls as well. Our calculations suggest that revenue declines by 20 to 58 percent as a result of labor market power.

In sum, growing labor market power may well be a significant explanation of the host of maladies that have beset wealthy countries, notably the United States, in the past few decades: declining growth rates, falling labor share of corporate earnings, rising inequality, falling employment of prime-age men, and persistent and growing government fiscal deficits. It's remarkable how well labor market power alone can simultaneously explain all these trends.

Many conservative economists blame high taxes for these problems. But inordinately high taxes cannot explain these trends, because tax rates have been cut several times during this period. Nor can globalization and automation. Globalization and automation can help explain why inequality has increased but not why economic growth rates have stagnated: On the contrary, globalization and automation should have *increased* economic growth (by expanding markets and by reducing the cost of production), not reduced it.

The power corporations wield over labor markets is no longer a theoretical curiosity. We think it's clear it's a major source of our economic malaise. But what can be done about it?

The law already provides resources, but they're underused. First, workers can bring antitrust lawsuits against firms that obtain labor market power by merging and colluding. While federal antitrust authorities have historically given little attention to labor market power, that began to change during the Obama administration.

The Obama Justice Department began to crack down on no-poaching agreements, and Trump's Justice Department has begun criminal investigation of no-poaching agreements. Workers have enjoyed relatively few successes in antitrust actions, but as the economic wisdom grows, they should succeed more often.

Second, workers can organize, relying on union representation to help them counter their employers' labor market power. Indeed, the recent public teachers strikes in red states can be seen as bargaining tactics against the biggest monopsonist around: a Republican-controlled state government insistent on lowering public sector wages in order to deliver tax cuts. Competition for teacher labor is **limited by the few schools in most jurisdictions**, as well as credentialing differences across states, suggesting that unions can be a necessary counterweight even in the public sector.

Bringing back unions after decades of decline will take a major shift in both policy and popular opinion. That will likely not take place until the Democrats win power and, if recent history is any guide, not even then.

And, third, we can insist that governments expand and enforce traditional employment law protections — including minimum wage laws. Here, there's room for optimism. Many local jurisdictions, even deeply conservative ones, have raised the minimum wage in recent years, and several states have passed or are considering laws that restrict noncompetes.

Democrats have tried to place antitrust on the agenda. Last year, they announced a group of proposals in a document titled **A Better Deal**, which acknowledged the problem of corporate concentration and **called for** stronger antitrust laws, higher minimum wages, and more labor rights. So far, their proposals have gained little political traction. We suspect part of the problem is that the political groundwork for these proposals has not been established.

Americans are not inclined to blame large corporations for the ills of the economy the way they were back in the late 19th century when anti-monopoly social movements gained considerable support. But as research continues to map out the extent of the problem, we suspect this might change.

***CORRECTION, 4/12**: This passage originally misidentified the lines in Figures 1 and 2 that show economic output and wage suppression.

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IASP

The Racial Wealth Gap

Why Policy Matters

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DEMOS

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Demos is a public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy.

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The Institute on Assets and Social Policy (IASP) is dedicated to advancing economic opportunity, security and equity for individuals and families, particularly those left out of the economic mainstream. Our work is premised on the understanding that assets provide the tangible resources that help individuals move out of and stay out of poverty, as well as inspiring effective individual, community, state and national actions through the belief that security, stability, and upward mobility are indeed possible.

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EXECUTIVE SUMMARY

As the United States rapidly becomes both a more diverse and unequal nation, policymakers face the urgent challenge of confronting growing wealth gaps by race and ethnicity. To create a more equitable and secure future, we must shift away from public policies that fuel and exacerbate racial disparities in wealth. But which policies can truly begin to reduce our country's expanding racial divergences?

Until now there has been no systematic analysis of the types of public policies that offer the most potential for reducing the racial wealth gap. This paper pioneers a new tool, the Racial Wealth Audit™, and uses it to evaluate the impact of housing, education, and labor markets on the wealth gap between white, Black, and Latino households and assesses how far policies that equalize outcomes in these areas could go toward reducing the gap. Drawing on data from the nationally representative Survey of Income and Program Participation (SIPP) collected in 2011, the analysis tests how current racial disparities in wealth would be projected to change if key contributing factors to the racial wealth gap were equalized.

Main Findings:

- **The U.S. racial wealth gap is substantial and is driven by public policy decisions.** According to our analysis of the SIPP data, in 2011 the median white household had $111,146 in wealth holdings, compared to just $7,113 for the median Black household and $8,348 for the median Latino household. From the continuing impact of redlining on American homeownership to the retreat from desegregation in public education, public policy has shaped these disparities, leaving them impossible to overcome without racially-aware policy change.

- **Eliminating disparities in homeownership rates and returns would substantially reduce the racial wealth gap.** While 73 percent of white households owned their own homes in 2011, only 47 percent of Latinos and 45 percent of Blacks were homeowners. In addition, Black and Latino

homeowners saw less return in wealth on their investment in homeownership: for every $1 in wealth that accrues to median Black households as a result of homeownership, median white households accrue $1.34; meanwhile for every $1 in wealth that accrues to median Latino households as a result of homeownership, median white households accrue $1.54.

- **If public policy successfully eliminated racial disparities in homeownership rates**, so that Blacks and Latinos were as likely as white households to own their homes, median Black wealth would grow $32,113 and the wealth gap between Black and white households would shrink 31 percent. Median Latino wealth would grow $29,213 and the wealth gap with white households would shrink 28 percent.

- **If public policy successfully equalized the return on homeownership,** so that Blacks and Latinos saw the same financial gains as whites as a result of being homeowners, median Black wealth would grow $17,113 and the wealth gap between Black and white households would shrink 16 percent. Median Latino wealth would grow $41,652 and the wealth gap with white households would shrink 41 percent.

- **Eliminating disparities in college graduation and the return on a college degree would have a modest direct impact on the racial wealth gap.** In 2011, 34 percent of whites had completed four-year college degrees compared to just 20 percent of Blacks and 13 percent of Latinos. In addition, Black and Latino college graduates saw a lower return on their degrees than white graduates: for every $1 in wealth that accrues to median Black households associated with a college degree, median white households accrue $11.49. Meanwhile for every $1 in wealth that accrues to median Latino households associated with a college degree, median white households accrue $13.33.

- **If public policy successfully eliminated racial disparities in college graduation rates,** median Black wealth would grow $1,313 and the wealth gap between Black and white households would shrink 1 percent. Median Latino wealth would grow $3,528 and the wealth gap with white households would shrink 3 percent.

- **If public policy successfully equalized the return to college graduation,** median Black wealth would grow $10,786 and the wealth gap between Black and white households would shrink 10 percent. Median Latino wealth would grow $5,878 and the wealth gap with white households would shrink 6 percent.

- **Eliminating disparities in income—and even more so, the wealth return on income—would substantially reduce the racial wealth gap.** Yet in 2011, the median white household had an income of $50,400 a year compared to just $32,028 for Blacks and $36,840 for Latinos. Black and Latino households also see less of a return than white households on the income they earn: for every $1 in wealth that accrues to median Black households associated with a higher income, median white households accrue $4.06. Meanwhile, for every $1 in wealth that accrues to median Latino households associated with higher income, median white households accrue $5.37.

  - **If public policy successfully eliminated racial disparities in income,** median Black wealth would grow $11,488 and the wealth gap between Black and white households would shrink 11 percent. Median Latino wealth would grow $8,765 and the wealth gap with white households would shrink 9 percent.

  - **If public policy successfully equalized the return to income,** so that each additional dollar of income going to Black and Latino households was converted to wealth at the same rate as white households, median Black wealth would grow $44,963 and median Latino wealth would grow $51,552. This would shrink the wealth gap with white households by 43 and 50 percent respectively.

To effectively address the increasing inequality that is undermining Americans' economic security, we must first identify the key factors contributing to the problem and evaluate policy proposals that could affect current trends. The Racial Wealth Audit is designed to fill the void in our understanding of the factors contributing to the racial wealth gap and clarify our ability to reduce the gap through policy. This paper, which presents the first analyses using this new tool, will be followed by a series of policy briefs using the Racial Wealth Audit to analyze specific public policies and policy proposals.

INTRODUCTION

America is becoming both a more diverse nation and a more unequal one. Over the past four decades, wealth inequality has skyrocketed, with nearly half of all wealth accumulation since 1986 going to the top 0.1 percent of households. Today the portion of wealth shared by the bottom 90 percent of Americans is shrinking, while the top 1 percent controls 42 percent of the nation's wealth.[1] At the same time, an increasing share of the American population is made up of people of color, and wealth is starkly divided along racial lines: the typical Black household now possesses just 6 percent of the wealth owned by the typical white household and the typical Latino household owns only 8 percent of the wealth held by the typical white household.[2] These wealth disparities are rooted in historic injustices and carried forward by practices and policies that fail to reverse inequitable trends. As a result, racial wealth disparities, like wealth inequality overall, continue to grow.

Political thinkers increasingly recognize that rapidly growing inequality threatens economic stability and growth. But in a country where people of color will be a majority by mid-century, any successful push to reduce inequality must also address the structural racial inequities that hold back so many Americans. To create a more equitable future, we must confront the nation's growing racial wealth gap and the public policies that continue to fuel and exacerbate it.

Stratospheric riches on the scale of the wealthiest Americans will never be accessible to the vast majority. Yet access to some degree of wealth is critical for every family's economic security. Wealth functions as a financial safety net that enables families to deal with unexpected expenses and disruptions of income without accumulating large amounts of debt. At the same time, wealth can improve the prospects of the next generation through inheritances or gifts. Intergenerational transfers of wealth can play a pivotal role in helping to finance higher education, supply a down payment for a first home, or offer start-up capital for launching a new business.[3] Because households of color have less wealth today, Black and Latino young adults are far less likely than young white people to receive a large sum—or any money at all—from family members to make these investments in their future.[4] The result is that the racial wealth gap

perpetuates from generation to generation, with profound implications for the economic security and mobility of future generations.

The racial wealth gap is reinforced by federal policies that largely operate to increase wealth for those who already possess significant assets. The Corporation for Enterprise Development finds that more than half of the $400 billion provided annually in federal asset-building subsidies—policies intended to promote homeownership, retirement savings, economic investment and access to college—flow to the wealthiest 5 percent of taxpaying households.[5] Meanwhile, the bottom 60 percent of taxpayers receive only 4 percent of these benefits and the bottom 20 percent of taxpayers receive almost nothing. Black and Latino households are disproportionately among those receiving little or no benefit. Unless key policies are restructured, the racial wealth gap—and wealth inequality in general—will continue to grow.

In this paper, we assess the major factors contributing to the racial wealth gap, considering how public policies around housing, education, and labor markets impact the distribution of wealth by race and ethnicity. Each factor is evaluated using a new tool: the Racial Wealth Audit developed by the Institute on Assets and Social Policy (IASP) to assess the impact of public policy on the wealth gap between white and Black and Latino households with the aim of guiding policy development. The Racial Wealth Audit draws on a baseline of representative data discussed in this paper to provide an empirical foundation for existing wealth among groups and the major determinants of wealth accumulation. For more information on the primary data source–the Survey of Income and Program Participation (SIPP)—and the analysis techniques used in this study, please see the Appendix.

In this report, we briefly discuss the historic and policy roots of the wealth gap in each area and quantify the extent to which each policy area contributes to the current gap. Next, we look at the extent to which changes in housing, education, and labor market trends would affect the wealth gap—for example, the wealth impact of increasing the rate of Black and Latino homeownership to match white homeownership rates, and the impact of increasing the wealth returns that households of color receive as a result of homeownership to match white returns. We note policy ideas for reducing the racial wealth gap in each area.[6]

The greatest utility of the Racial Wealth Audit is evident in this policy analysis. From the starting position of existing disparities, the Audit predicts wealth increases or decreases for affected populations

according to the components of a proposed policy. The Audit uses the most conservative assumptions possible, avoiding overstating changes in the gap. Finally, the Audit provides insight into the impact of policies on the racial wealth gap within a discrete time period, such as 1 year or 5 years ahead.

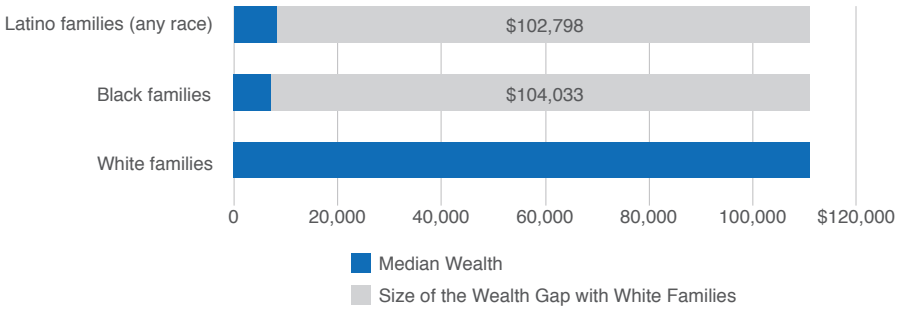
The Racial Wealth Audit is designed to fill the void in our understanding of the racial wealth gap and enhance our ability to reduce the gap through policy. It is an essential new measurement framework for assessment to facilitate informed decisions about the role of policy in asset-building, economic stability, and the racial wealth gap. Equally important, it can prevent the unintended side effects of policies that are not explicitly aimed at household wealth or financial disparities, yet contribute to worsening inequality. For more on the Racial Wealth Audit see IASP's 2014 paper, *The Racial Wealth Audit: Measuring How Policies Shape the Racial Wealth Gap.*

Defining the Racial Wealth Gap

In this report, we define the racial wealth gap as the absolute difference in wealth holdings between the median household among populations grouped by race or ethnicity. In the U.S. the racial wealth gap shows that the typical white household holds multiple times the wealth of Black and Latino households. Using the SIPP, we estimate that the median white household had $111,146 in wealth holdings in 2011, compared to $7,113 for the median Black household and $8,348 for the median Latino household.

In relative terms, Black households hold only 6 percent of the wealth owned by white households, which amounts to a total wealth gap of $104,033, and Latino households hold only 8 percent of the wealth owned by white households, a wealth gap of $102,798 (see Figure 1). In other words, a typical white family owns $15.63 for every $1 owned by a typical Black family, and $13.33 for every $1 owned by a typical Latino family.

Figure 1. Wealth Accumulation and Size of the Racial Wealth Gap, 2011



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Terminology

This report analyzes data on white, Black, and Latino households. The terms Black and white are used to refer to the representative respondents of a household who identified as non-Latino Black or white in the Survey of Income and Program Participation (SIPP). Latinos include everyone who identified as Hispanic or Latino and may be of any race.

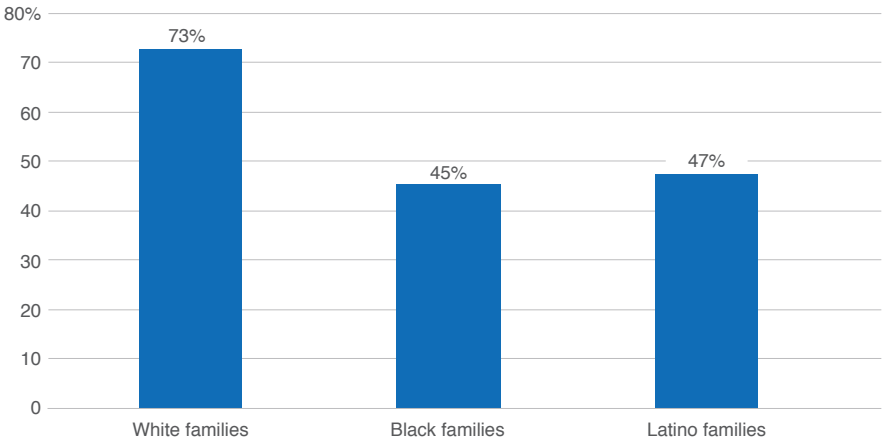
Throughout this report, we use the term "racial wealth gap" to refer to the absolute differences in wealth (assets minus debt)[7] between Black and white households as well as between Latino and white households. All dollar figures are in 2011 dollars.

HOW HOMEOWNERSHIP CONTRIBUTES TO THE RACIAL WEALTH GAP

For most families in the U.S., home equity marks the largest segment in their wealth portfolio; however, home ownership is unequally distributed by racial and ethnic lines. Disparities in homeownership rates (73 percent of whites as compared to 47 percent of Latinos and 45 percent of Blacks [see Figure 2]), typical home equity ($86,800 for white homeowners at the median as compared to $50,000 for Black homeowners and $48,000 for Latino homeowners)[8], and neighborhood values where whites and people of color live substantially contribute to the racial wealth gap. In addition, tracing the same households over 25 years revealed that the number of years a household owned their home explained 27 percent of the growing racial wealth gap.[9] Because white families are more likely to receive inheritances and other family assistance to put a down payment on a home, they are often able to start acquiring home equity many years earlier than Black and Latino families, offering a valuable head start on wealth-building.[10]

This section will explore the factors contributing to homeownership disparities in greater depth, and will analyze how equalizing rates of homeownership and returns to homeownership between whites, Blacks, and Latinos would each impact the racial wealth gap. We note that because the disparity in rates and returns to homeownership operate simultaneously to impair wealth building among

Figure 2. Homeownership Rates



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

households of color, policies that only address one aspect will not solve the entire portion of the racial wealth gap driven by homeownership.

Homeownership Policy Shapes the Wealth Gap

Lower homeownership rates among Blacks and Latinos have many roots, ranging from lasting legacies of past policies to disparate access to real estate ownership. The National Housing Act of 1934, for example, redlined entire Black neighborhoods, marking them as bad credit risks and effectively discouraging lending in these areas, even as Black home buyers continued to be excluded from white neighborhoods. While redlining was officially outlawed by the Fair Housing Act of 1968, its impact in the form of residential segregation patterns persists with households of color more likely to live in neighborhoods characterized by higher poverty rates, lower home values, and a declining infrastructure compared to neighborhoods inhabited predominantly by white residents.

Discriminatory lending practices persist to this day. When households of color access mortgages, they are more often underwritten by higher interest rates.[11] Mainstream lending institutions were deeply implicated in discriminatory lending: in 2012 Wells Fargo Bank admitted that they steered thousands of Black and Latino borrowers into subprime mortgages when non-Hispanic white borrowers with similar credit profiles received prime loans.[12] In addition, the proliferation of high-cost credit options such as payday lenders in many neighborhoods of color, combined with the scarcity of banks and credit unions, is another likely contributor to weak credit. The fact that Black and Latino families are more likely to have taken on subprime mortgages in recent years contributed significantly to the devastating impact of the housing collapse that began in 2006.

In addition to these longstanding homeownership and home equity disparities, the foreclosure crisis during the Great Recession of 2007-2008 dipped even further into families of color's housing wealth. While the median white family lost 16 percent of their wealth in the housing crash and Great Recession, Black families lost 53 percent and Latino families lost 66 percent.[13] Foreclosures both directly destroy housing wealth and have a lasting negative impact on credit, ensuring that mortgages and other loans will be offered on more costly terms in the future.

While homeownership plays a central part in building family wealth in the United States, the nation's public policies have system-

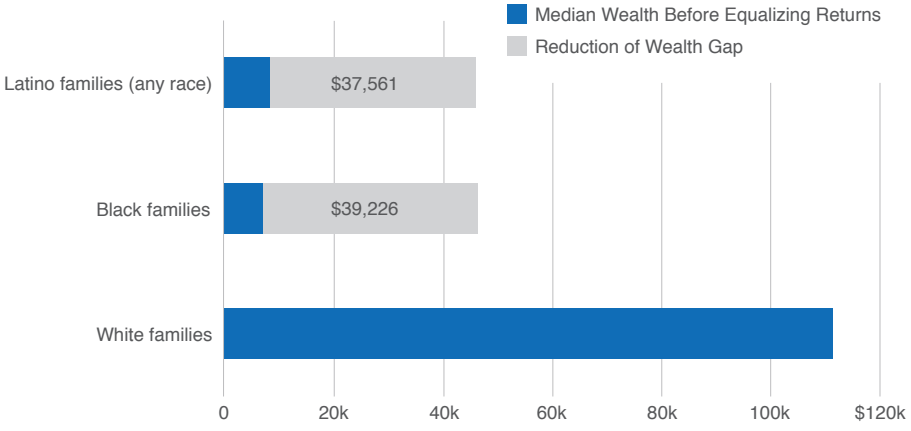
atically operated to shut Black and Latino families out of numerous opportunities to build housing wealth that benefitted white families. Today, Latinos and Blacks are less likely to own their homes and accrue less wealth, at the median, as a result of homeownership than white families. The next two sections use empirical estimates to explore impacts on the racial wealth gap if these disparities were eliminated.

How Equalizing Homeownership Rates Affects the Wealth Gap

We tested the effects of equalizing homeownership rates among white, Black, and Latino families on the racial wealth gap. Our model looks at wealth accumulation by race and ethnicity if the existing home owning population among Black and Latino households matched the 73 percent rate of white families. In other words, what if Black and Latino homeowners made up 73 percent of each of their respective population subgroups, without changing typical home values for whites or households of color? The model did not control for other characteristics that might distinguish homeowners from non-homeowners.

The results suggest that equalizing homeownership rates has substantial effects on the wealth accumulation of Black and Latino households. Median wealth among Black households rose from $7,113 to $39,226—adding $32,113 to the median Black household's wealth (see Figure 3). Median wealth among Latino households rose from $8,348 to $37,561—adding $29,213 to the median Latino household's wealth. Those numbers represent a 451 percent wealth increase for Black households, and a 350 percent wealth gain for Latino households.

Figure 3. Reduction of the Wealth Gap After Equalizing Homeownership Rates



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Equalizing Black and Latino homeownership rates with those of whites raises wealth among Black and Latino families, and substantially reduces the racial wealth gap. The wealth gap between white and Black families decreases by $32,113 to $71,920. This is a 31 percent reduction in the Black-white wealth gap. The wealth gap between white and Latino families decreases by $29,213 to $73,585, or a reduction of 28 percent (see Figure 4).

Figure 4. Changes in the Racial Wealth Gap if Rates of Homeownership Were Equalized

	Wealth Gap with White Families Before Equalizing Homeownership Rates	Wealth Gap with White Families After Equalizing Homeownership Rates	Change in the Racial Wealth Gap	Percent Change in the Racial Wealth Gap
Black families	$104,033	$71,920	-$32,113	-31%
Latino families (any race)	$102,798	$73,585	-$29,213	-28%

Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

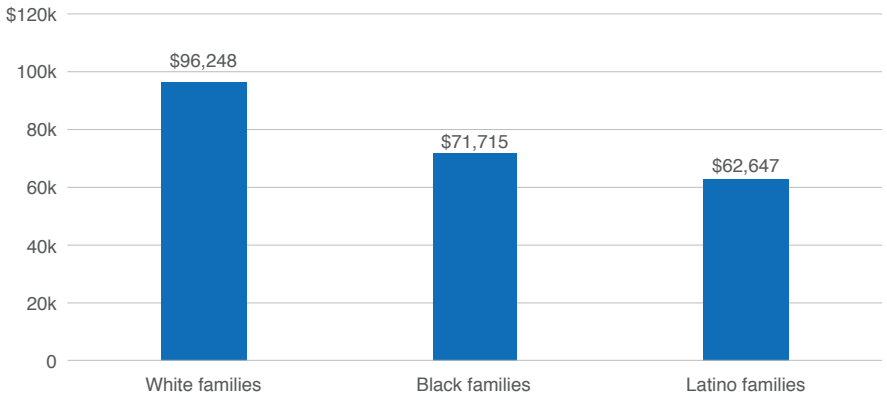
How Equalizing the Return to Homeownership Affects the Wealth Gap

We tested the effects on the racial wealth gap of changing the wealth return on homeownership to Black and Latino households to equalize the return to homeownership for white households. The first step in this model estimates the wealth returns to homeownership using a multivariate median regression model for the white population. That model estimates that white households benefit from a $96,248 return on with homeownership.

Using a similar model to estimate the wealth effects of homeownership on Black households, we find that the wealth returns to homeownership for Black households amount to $71,715—just 75 percent of the returns that accrue to white households (see Figure 5). This difference of $24,533 means that for every $1 in wealth that a Black family builds as a result of homeownership, white families accrue $1.34.[14] Meanwhile, the wealth returns to homeownership for Latino households amount to $62,647—just 65 percent of the returns that accrue to white households. This difference of $33,601 means that for every $1 in wealth that accrues to Latino families as a result of homeownership, white families accrue $1.54.

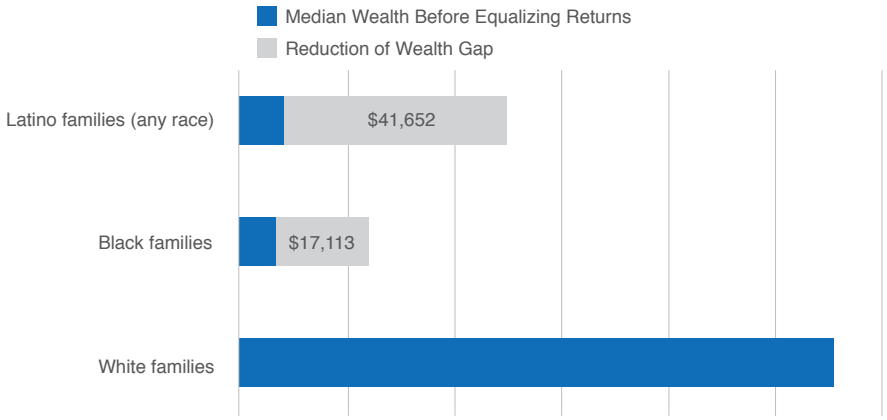
In order to construct a model that equalizes the returns to homeownership across groups, we assigned home equity at the rate accumulating to the median white household—$96,248—to Black and Latino households with home equity values less than that threshold.

Figure 5. Median Wealth Return to Homeownership



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Figure 6. Reduction of the Wealth Gap After Equalizing Homeownership Returns



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

This assignment raises Black and Latino wealth by the difference between their existing median equity and the white median.

As a result of equalizing the return to Black homeownership to the level of return that accrues to whites, Black families' median wealth grew by $17,113 to $24,226—a 241 percent increase in median Black household wealth (see Figure 6). As a result of equalizing the return to homeownership among Latinos to the level of return that accrues to whites, Latino families' median wealth grew by $41,652 to $50,000—a 499 percent increase in Latino median wealth.

Equalizing wealth returns to homeownership raised wealth among Black and Latino families while white wealth was held constant, significantly reducing the racial wealth gap. Equalizing the returns to homeownership reduces the wealth gap between white and Black families by $17,133 to $86,920. This is a 16 percent reduction in the Black-white wealth gap (see Figure 7). Meanwhile the wealth gap between white and Latino families decreases by $41,652 to $61,146—a reduction of 41 percent.

Figure 7. Changes in the Racial Wealth Gap if Returns on Homeownership Were Equalized

	Wealth Gap with White Families Before Equalizing Homeownership Returns	Wealth Gap with White Families After Equalizing Homeownership Returns	Change in the Racial Wealth Gap	Percent Change in the Racial Wealth Gap
Black families	$104,033	$86,920	-$17,113	-16%
Latino families (any race)	$102,798	$61,146	-$41,652	-41%

Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Homeownership Policies to Reduce the Wealth Gap

Positing Black and Latino homeownership rates and returns equal to those of white families helps to clarify the contours of the racial wealth gap, but it's quite different from having policy proposals that would actually accomplish these aims—or even approach them. Yet just as past and continuing policies have helped to shape the distribution of wealth in America today, policy change could alter the existing trends for better or worse. A bold, comprehensive approach would be required to move us towards the level of equality in homeownership modeled in our analyses; however, a number of policy efforts could bring us closer to expanding opportunities to build wealth through homeownership in the U.S. While far from a comprehensive list, here are three sample homeownership policies that could help to build housing wealth for people of color and shrink the racial wealth gap.

- **Stricter enforcement of housing anti-discrimination laws.** As noted above, residential segregation is a key reason that Black and Latino homeowners do not benefit from as great a rate of return on homeownership as their white counterparts. By limiting the residential market, segregation means that homes in predominantly Black and Latino neighborhoods accrue less value. Studies find that Black and Latino homebuyers still face barriers to purchasing homes in predominantly white areas.[15] Stricter enforcement of housing anti-discrimination laws would increase the ability of people of color to buy homes in higher-value neighborhoods, offering significant potential for reducing the racial wealth gap.

- **Authorizing Fannie Mae and Freddie Mac to reduce mortgage principal and make other loan modifications for struggling homeowners.** As we've seen, Black and Latino homeowners are more likely than white homeowners to have obtained subprime mortgages and to have homes at risk of foreclosure. A policy that enables these federally-chartered institutions to reduce mortgage principal and modify mortgage loans in other ways that make them more sustainable would help to protect the home equity wealth of Black and Latino homeowners, potentially reducing the racial wealth gap.

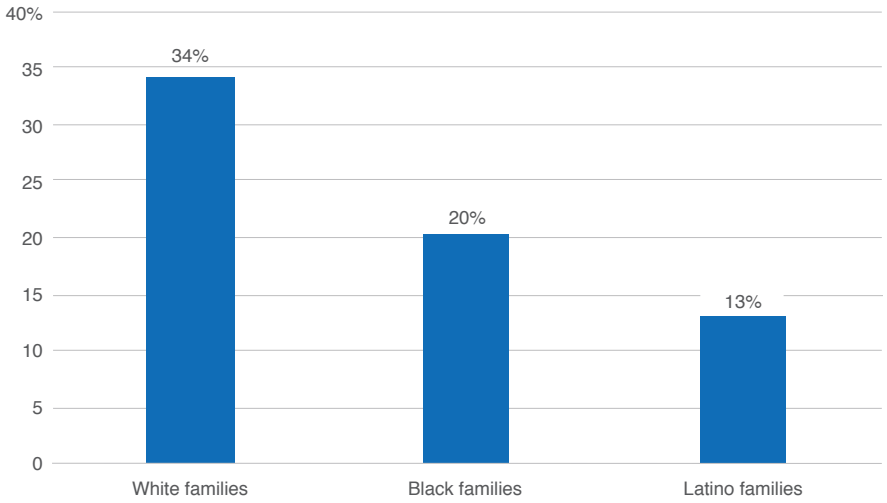
- **Lowering the cap on the mortgage interest tax deduction**. As we have seen, typical Black and Latino homeowners own homes of less value than typical white homeowners. As a result, Black and Latino households benefit less from the tax deduction, which allow homeowners to deduct the cost of interest paid on up to $1 million in mortgage debt. A variety of different caps have been recommended, including an Obama Administration proposal to cap deductions at 28 percent for high-income households, those earning more than $250,000. Such a policy could be helpful in reducing the racial wealth gap, particularly if the additional tax revenues were used to fund foreclosure prevention programs and first-time homebuyers' assistance programs, which are more likely to benefit Black and Latino households.

HOW EDUCATION CONTRIBUTES TO THE RACIAL WEALTH GAP

Attaining a college education has never been more important to a household's ability to thrive in the labor market, attain financial stability, and build wealth. Today, more students than ever before are entering 4-year colleges. However, despite rising college attendance rates among Black and Latino households, barriers to completing a degree have actually widened the college attainment gap between whites and people of color over the past decade. In 2011, 34 percent of whites completed a four-year college degree, compared to just 20 percent of Blacks and 13 percent of Latinos (see Figure 8).[16] One key barrier is the rapid growth in college costs, which forces households to take on significant debt in order to attend institutions of higher education—even in cases where students do not ultimately graduate. Gaps in college attainment by race and ethnicity also reflect other inequities in the K-12 education system and in household income.

In addition to attainment gaps, the returns to college education differ across racial and ethnic groups. At the median, a white family sees a return of $55,869 in wealth from completing a four-year college degree, while the median Black and Latino families attain just a small fraction of this return: $4,846 and $4,191 respectively. The returns to Black and Latino families are impacted by, among

Figure 8. Rates of College Graduation



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

other things, their greater need to take on debt to pay for college and their disparate experiences in the labor market after graduation. According to previous research from IASP, differences in college completion rates accounted for about 5 percent of the growth in the racial wealth gap over a 25 year period (1984-2011).

This section looks more closely at the factors contributing to disparities in higher education, and evaluates how equalizing rates of college completion (defined as graduating with a four-year degree) and returns to college completion between whites, Blacks, and Latinos would each impact the racial wealth gap.

Education Policy Shapes the Wealth Gap

Public policy decisions are critical to understanding why Latinos and Blacks are less likely to have completed a four-year college degree than whites, as well as why Latino and Black graduates build less wealth as a result of their degrees. Educational inequities have deep historical roots in policies that prohibited slaves from learning to read and the century of substandard "separate but equal" educational facilities that followed, leaving many students of color poorly prepared for college. These past educational inequities matter today because parents' educational level—as well as family incomes and wealth itself—significantly predict children's educational success across their lifetimes.[17] At the same time, contemporary policy choices, from the retreat from integration in K-12 education to the declining public support for affordable higher education, shape the educational opportunities available to youth of color who are more likely to need financial support for college, thereby contributing to the existing racial wealth gap.

Disparities in education begin early in the lives of children in the U.S. and current education policies often foster inequities. [18] The policy decision not to invest in quality preschool education for all young people sets the stage for racial disparities that persist throughout the educational system from K-12 to higher education. While quality K-12 education is essential for college readiness, residential segregation leaves many Black and Latino students, particularly those from low-income families, concentrated in low-quality, under-resourced schools. As policy has shifted away from efforts to integrate public education that prevailed after the Brown v. Board of Education Supreme Court decision in 1954, research has documented dramatic increases in segregation, with Black and Latino students increasingly attending the same schools.[19] Predominantly Black and Latino schools spend less per student than pre-

dominantly white schools, a disparity that is only partly accounted for by the different property-tax bases of school districts creating a highly unequal educational system across the country.[20]

Once students reach college, racial and ethnic disparities in family economic resources and the soaring costs of attending college mean that students of color often confront unsustainable expenses as they pursue higher education, leading to huge debt burdens and lower graduation rates. At public institutions, increasing tuition and fees are primarily a result of declining state support for higher education shifting a greater share of the costs to students.[21] As a result, Black and Latino students, with less family wealth than white students are more likely to struggle with higher costs, seek out less expensive schools, work excessive hours, reduce study time to work, and/or take on more student loan debt.[22]

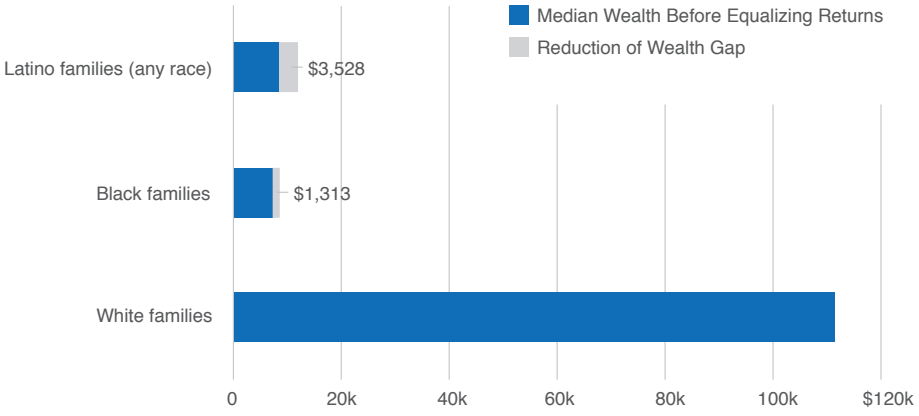
For young people who come from families without substantial wealth, education has long been seen as the pathway to greater opportunity and economic security. However rather than facilitating economic mobility, according to our analyses, current educational inequalities end up being a small, direct net contributor to the racial wealth gap. In addition, it is also likely influencing a number of other variables that shape unequal asset-building opportunities. The next two sections present our empirical analysis exploring how the racial wealth gap would change if educational disparities were reduced.

How Equalizing College Graduation Rates Affects the Wealth Gap

We tested the effects of equalizing college graduation rates among white, Black, and Latino families on the racial wealth gap. This test did not control for other characteristics that might distinguish those who finish college from those who do not. Instead, it looks at wealth accumulation by race and ethnicity if the proportion of Black and Latino households with a college degree matched the 34 percent college completion rate of whites.

Compared to the effects of changes in homeownership rates on the racial wealth gap, the effects of changing college attainment rates on household wealth for Black and Latino families are modest. Median wealth among Black households rises from $7,113 to $8,426—adding $1,313 to the median Black household's wealth (see Figure 9). Median wealth among Latino households rises from $8,348 to $11,876—adding $3,528 to the median Latino household's wealth. Those gains represent an 18 percent wealth increase for Black households, and a 42 percent wealth increase for Latino households.

Figure 9. Reduction of the Wealth Gap After Equalizing College Graduation Rates



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Figure 10. Changes in the Racial Wealth Gap if Rates of College Graduation Were Equalized

	Wealth Gap with White Families Before Equalizing Graduation Rates	Wealth Gap with White Families After Equalizing Graduation Rates	Change in the Racial Wealth Gap	Percent Change in the Racial Wealth Gap
Black families	$104,033	$102,720	-$1,313	-1%
Latino families (any race)	$102,798	$99,270	-$3,528	-3%

Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

The equalization of college graduation rates raised wealth among Black and Latino families while white wealth was held constant, modestly reducing the racial wealth gap. The wealth gap between white and Black families was reduced by $1,313, which amounts to just 1 percent of the racial wealth gap (see Figure 10). The wealth gap between white and Latino families was reduced by $3,528, a reduction of 3 percent.

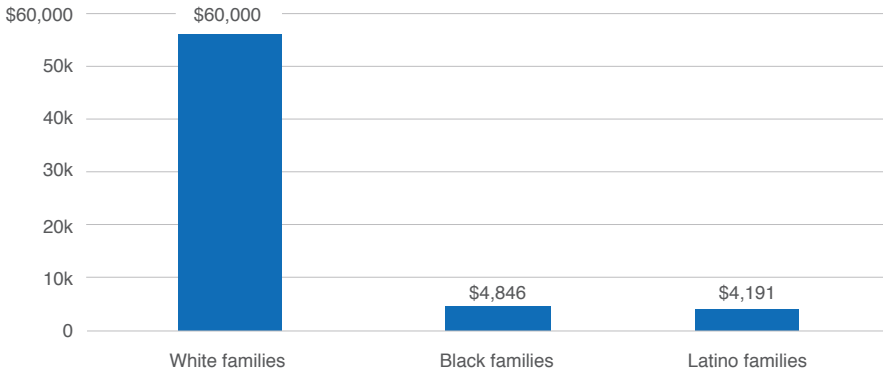
The fact that the reduction in the racial wealth gap from equalizing college graduation rates is small does not automatically imply that raising educational attainment is an ineffective means of closing the racial wealth gap. Instead, it suggests that matching the *current* levels of college degree attainment of white households—in which the benefits of a four-year college degree reach only about a third of households—is unlikely to substantially reduce the wealth gap.

How Equalizing the Return to College Graduation Affects the Wealth Gap

Next, we tested the effects on the racial wealth gap of changing the return on completing a four-year college degree for Black and Latino households to equal the return to graduation of white households. As seen above, the first step in this process estimates the wealth returns to a college degree using a multivariate median regression model for the white population. That model estimates that white households benefit from a wealth return of $55,869 associated with college graduation.

In analyzing the experiences of Black households, the wealth returns to a college education for Black households amount to just $4,846—only 9 percent of the returns that accrue to white households (see Figure 11). This difference of $51,023 means that for every $1 in wealth that accrues to Black families associated with a college degree at the median, white families accrue $11.49. Meanwhile, the wealth returns to a college education for Latino households amount to $4,191—just 8 percent of what accrues to white households. This difference of $51,678 means that for every $1 in wealth that accrues to Latino families from a college education, white families accrue $13.33.

Figure 11. Median Wealth Return to College Graduation



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

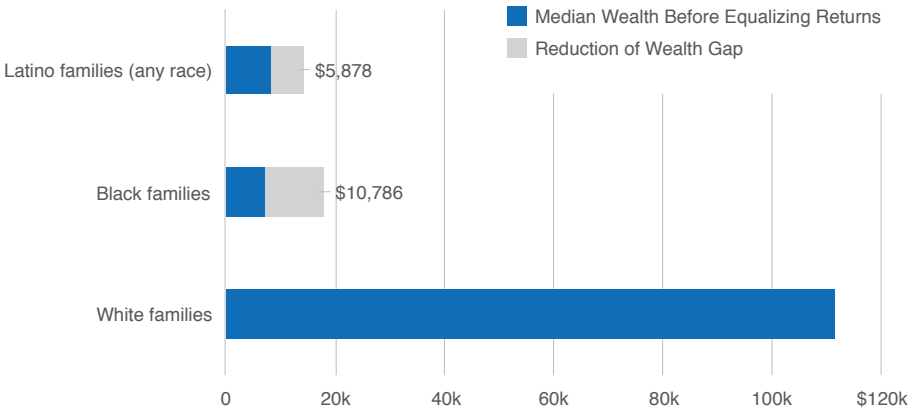
In order to construct a model equalizing the returns to a college education across groups, we assigned Black and Latino households that had completed college with a value of total wealth equal to the return to college graduation for the median white household: $55,869. Black and Latino college graduates who already had household wealth above this value did not have their wealth adjusted. This change does not alter the differential rates of college graduation and thus affects only a subset of the Black and Latino populations.

As a result of equalizing the return to a college education to the level of return accruing to whites, Black families' median wealth grows by $10,786 to $17,899—a 152 percent increase in Black household wealth (see Figure 12). As a result of equalizing the return to a college education to the level of return accruing to whites, Latino families' median wealth grows by $5,878 to $14,226—a 70 percent increase in Latino wealth.

The equalization of returns to a college education raises the medial level of wealth among Black and Latino families, while white median wealth remains constant, modestly reducing the racial wealth gap. Equalizing the returns to a college education reduces the wealth gap between white and Black families by $10,786 to $93,247. This is a 10 percent reduction in the Black-white wealth gap (see Figure 13). Meanwhile, the wealth gap between white and Latino families decreases by $5,878 to $96,920—a reduction of 6 percent.

One reason the reduction in the racial wealth gap is modest when the return to college education is equalized is because the affected households—the 20 percent of Blacks and 13 percent of Latinos that have attained a four-year college degree—is a relatively

Figure 12. Reduction of the Wealth Gap After Equalizing Returns to College Graduation



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

small proportion of the overall Black and Latino population. Raising college completion rates at the same time that the returns to a college degree increase would be expected to impact a greater number of households and to decrease the racial wealth gap more significantly.

Figure 13. Changes in Racial Wealth Gap if Returns on College Graduation Were Equalized

	Wealth Gap with White Families Before Equalizing Graduation Returns	Wealth Gap with White Families After Equalizing Graduation Returns	Change in the Racial Wealth Gap	Percent Change in the Racial Wealth Gap
Black families	$104,033	$93,247	-$10,786	-10%
Latino families (any race)	$102,798	$96,920	-$5,878	-6%

Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Education Policies to Reduce the Wealth Gap

Disparities in attaining a college education account for only a small portion of the racial wealth gap. Our findings suggest that increasing college completion rates among Black and Latino youth and improving their returns on a college degree would reduce the wealth gap only modestly at the median. Nevertheless, a number of promising education policies do show potential to make a difference in shrinking racial wealth disparities. The following sample policies are not a comprehensive list:

- **Invest in universal, high-quality preschool education.** Black and Latino children see some of the greatest benefits from attending preschool, but many three- and four-year-olds lack access to affordable early childhood education. Establishing universally-available public preschool as a growing number of cities are now doing has the potential to reduce the racial wealth gap by helping students of color to enter school better-prepared to learn.

- **Make K-12 education funding more equitable.** Black and Latino students are more likely to attend under-resourced schools with less experienced teachers and fewer advanced courses, leaving them less well-prepared for college than their white counterparts. Federal, state, and district funding systems could be improved to address disparities. At the federal level, Black and Latino students would benefit from

school funding formulas under Title I of the Elementary and Secondary *Education* Act that better target funding to schools with high concentrations of students in poverty. At the state level, funding systems that draw primarily on local property taxes could be re-envisioned, as they reflect residential segregation patterns along racial lines. Local governments also need to reconsider racialized patterns of funding distribution within school districts.

- **Recommit to racially integrated schools, colleges, and universities.** While recent Supreme Court decisions have made it difficult to promote the racial and ethnic integration of public schools, there is substantial evidence that de-segregation worked to reduce racial disparities and produce a sense of common educational fate among students of different racial and ethnic groups. Therefore, policies that promote racially and ethnically integrated schools have the potential to decrease racial and ethnic wealth disparities.

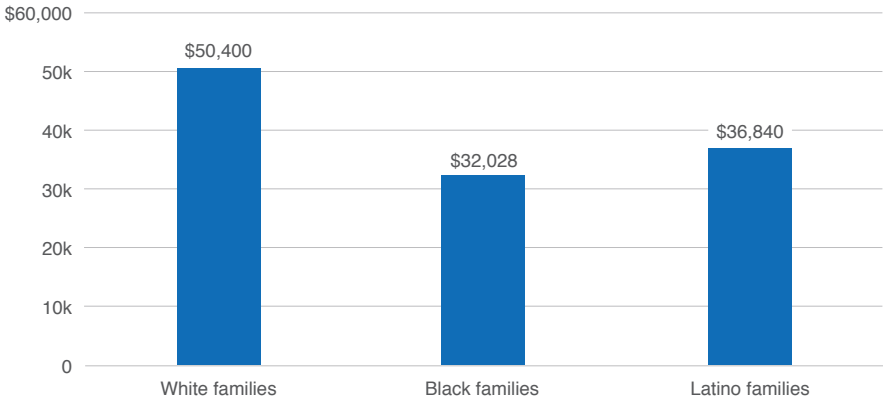
- **Establish an Affordable College Compact.** Greater state investment in public higher education would help to ensure that Black and Latino students can attend college without incurring debt or experiencing financial hardship. Lower college costs would enable more students of color to enroll in and complete college. At the same time, eliminating the need to take on debt would increase the return to a college degree. The federal government could encourage states to reinvest in higher education by offering higher education matching grants to states that commit to maintain minimum per-student funding levels, and could offer a greater match to states that commit to offering debt-free higher education for low- and moderate-income students. For additional detail on this proposal, see the Demos policy brief: *The Affordable College Compact: A Federal-State Partnership to Increase State Investment and Return to Debt-Free Public Higher Education.*

HOW LABOR MARKETS CONTRIBUTE TO THE RACIAL WEALTH GAP

American households derive much of their economic security from the labor market, with earned income, employer-provided health coverage, paid leave, and workplace retirement plans offering greater opportunities to build wealth for the employees who have access. The greater a household's income, for example, the more money household members have to save and invest. Meanwhile if an employer provides an affordable health insurance plan, employees often spend less than if they had to purchase their own coverage or risk incurring substantial medical expenses that can drain wealth. Pensions and 401(k)-type plans with an employer contribution offer a mechanism for employers to contribute directly to household wealth, adding to retirement savings. Yet labor markets are one of the primary drivers of the racial wealth gap, accounting for 20 percent of its growth in the last 25 years.[23] In addition, unemployment, which causes many families to draw on and deplete their assets, explains an additional 9 percent of the growth in the racial wealth gap.

Disparities in labor market outcomes arise from a variety of sources, including employment discrimination, lack of geographic access to jobs, and disparate social capital. Income disparities affect both current consumption and wealth building opportunities. Median Black and Latino families have lower incomes than white families: while the typical white family makes $50,400 a year, the typical Latino family makes just $36,840 and the typical Black family

Figure 14. Median Household Income



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

has an annual income of only $32,028 (see Figure 14).

In addition to lower incomes, Black and Latino families also see less of a wealth return on the incomes they earn—in effect, they are less able to translate each additional dollar of income into wealth. For each dollar in income white families earn, they see a return of $19.51, compared to a return of only $4.80 on each dollar for Black families and just $3.63 for Latino families. A number of labor market dynamics contribute to these disparities: Blacks and Latinos are less likely to have jobs that include core employer-provided benefits such as health coverage, a retirement plan, or paid time off. As a result, families of color have fewer opportunities to save because they must use their current income to deal with more of life's vicissitudes. Similarly, Black workers have higher rates of unemployment and longer average unemployment spells, which drains wealth and adds to labor market instability.

The following section will more closely consider the factors that contribute to disparities in labor market outcomes and assesses how equalizing family incomes and returns to income (the ability to translate a dollar of income into wealth) between whites, Blacks, and Latinos would impact the racial wealth gap.

Labor Market Policy Shapes the Wealth Gap

Racial and ethnic inequality in American labor markets was codified and maintained by law for much of U.S. history. It was not until the Civil Rights Act of 1964 that federal law prohibited job discrimination on the basis of race, color, religion, sex, and national origin. Yet public policy decisions—from the enduring exclusion of certain job categories to the protections of the Fair Labor Standards Act to immigration laws that inhibit workers from exercising their full rights in the workplace—continue to shape the U.S. labor market in ways that systematically disadvantage Blacks and Latinos, helping to explain why people of color bring in lower incomes and receive lower wealth returns than white families.

For most Americans, the vast majority of income comes from a paycheck. Black and Latino workers are not only paid less, but are also more likely to be employed in jobs that fail to offer key benefits such as health coverage, paid leave, or retirement plans. The disparity in benefits helps to explain why families of color accrue less of a return on each dollar of wealth earned than white families: Blacks and Latinos are more likely to pay for necessities like health care out-of-pocket and therefore, to have less to save and invest for the future. This also means that households of color are more

likely to miss out on the tax incentives and wealth-building vehicles provided by employer benefits

Why don't Black and Latino workers simply move into better-paying jobs? The lower rates of college degree completion discussed previously is one important factor. However, white workers with and without college degrees out-earn their Black and Latino counterparts with similar levels of education. The persistence of job discrimination is a critical part of the explanation for the lower incomes of Black and Latino workers. Here the problem is partly a failure of effective policy enforcement: employment discrimination on the basis of race or national origin has been illegal for decades, yet there is substantial research evidence that it endures, whether through overt bigotry or implicit bias.[24] In addition, since Americans lead largely segregated lives, whites disproportionately benefit from social networking advantages.[25] Because networks reproduce racial wealth inequalities, public policy interventions are required to disrupt this cycle.

For the Latino workforce in particular, immigration policy is a barrier to better jobs and higher incomes. While the nation's worker protection laws officially extend to all employees regardless of immigration status, in practice immigrant workers face barriers to exercising their rights in the workplace, resulting in lower earnings. Limited English, lack of familiarity with the U.S. labor market, and concern about immigration status may also encourage immigrant workers to remain in occupations and industries they are familiar with, even if these jobs pay less and offer fewer benefits.

With the exception of those who are already very wealthy, Americans need good jobs to build assets. Yet, policy choices have contributed to the segregation of labor markets, both reducing the incomes of Black and Latino workers compared to whites and reducing the ability of people of color to turn additional income gains into wealth. As a result, labor market disparities are one of the primary contributors to the racial wealth gap. The next two sections highlight our empirical analysis exploring how the racial wealth gap would change if incomes and returns on income were more equal.

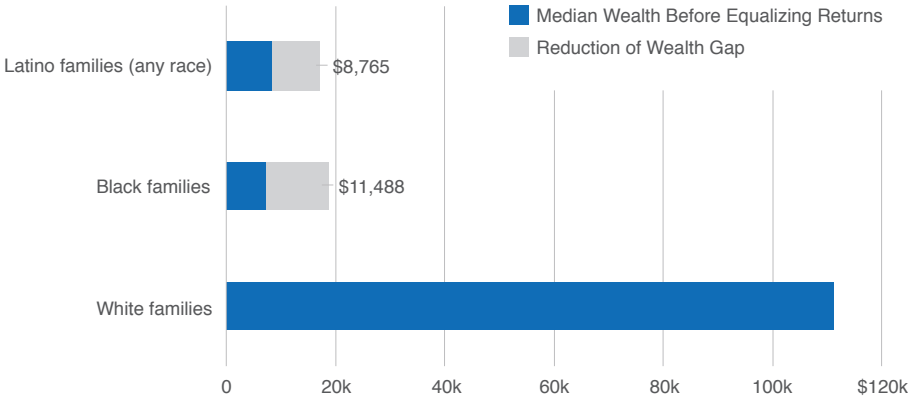
How Equalizing Incomes Affects the Wealth Gap

We tested the effects of eliminating income disparities among white, Black, and Latino families on the racial wealth gap by equalizing the patterns of household income distribution by race and ethnicity. In the current income distribution, white families are disproportionately likely to be at the top while Black and Latino

families are overrepresented among lower income households. For our analysis, we estimated the income distribution of the white population alone and identified the thresholds for each income decile (for example, the top ten percent of white households in terms of income, the next ten percent after that, and so on); we then assigned weights to the Black and Latino households that appear in each decile of the white distribution until those households represent 10 percent of the Black and Latino populations. This test did not control for other characteristics that might distinguish those in any particular decile. In other words, we shifted the number of estimated households across the income distribution such that whites, Blacks, and Latinos were represented across the income distribution in equal proportions to their presence in the overall population.

As a result of the redistribution, median wealth among Black households rises from $7,113 to $18,601—adding $11,488 to the median Black household's wealth (see Figure 15). Median wealth among Latino households rises from $8,348 to $17,113—adding $8,765 to the median Latino household's wealth. Those gains represent a 162 percent wealth gain for Black households, and a 105 percent wealth gain for Latino households.

Figure 15. Reduction of the Wealth Gap After Equalizing Incomes



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Equalizing Black and Latino incomes to match the white income distribution increases wealth among Black and Latino families who see higher incomes, while white wealth remains constant, modestly reducing the racial wealth gap. The wealth gap between white and Black families was decreases by $11,488, but leaves a remaining gap of $92,545. The change amounts to 11 percent of the racial wealth gap (see Figure 16). The wealth gap between white and Latino families decreases by $8,765, leaving a racial wealth gap of $94,033. The change in the racial wealth gap as a result of equalizing the income distribution is 9 percent.

Figure 16. Changes in the Racial Wealth Gap if Incomes Were Equalized

	Wealth Gap with White Families Before Equalizing Incomes	Wealth Gap with White Families After Equalizing Incomes	Change in the Racial Wealth Gap	Percent Change in the Racial Wealth Gap
Black families	$104,033	$92,545	-$11,488	-11%
Latino families (any race)	$102,798	$94,033	-$8,765	-9%

Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

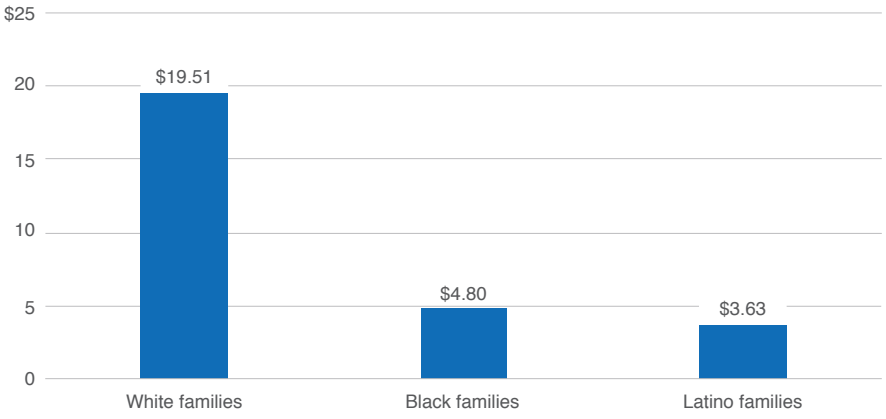
How Equalizing the Return to Income Affects the Wealth Gap

We also tested the effects of changing the return to an additional $1 of income for Black and Latino households to equal the return for white households. The first step in this model estimates the wealth returns to an additional $1 of income using a median regression model for the white population. That model estimates that white households experience a return of $19.51 in wealth on each additional dollar in income.

The wealth return to an additional dollar of income for Black households amount to $4.80—only 25 percent of the returns that accrue to white households. This means that for every dollar in wealth that accrues to Black families associated with higher incomes, a white family gets $4.06 (see Figure 17). Meanwhile, the wealth returns to an additional dollar of income for Latino households amount to $3.63—19 percent of the return for whites. This means that for every dollar in wealth that accrues to Latino families associated with higher incomes, a white family typically gets $5.37.

Improving Black families' return to an additional dollar of income to equal whites' returns increases Black families' wealth by $44,963 to a total of $52,076—a 632 percent increase in Black household wealth. Meanwhile, equalizing Latino families' returns to

Figure 17. Median Wealth Return to an Additional $1 of Income

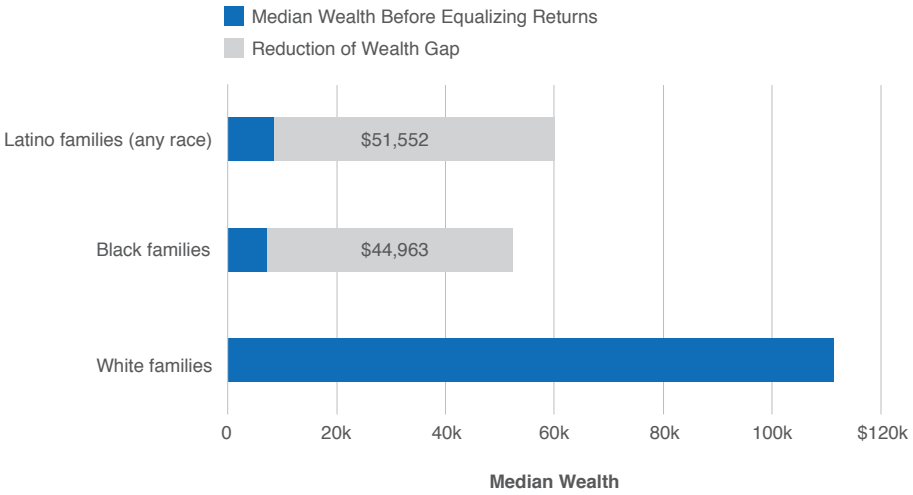


Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

an additional dollar of income boosts Latino wealth by $51,552 to a total of $59,900—a 618 percent increase in Latino household wealth.

Equalizing returns to an additional dollar of income raises wealth among Black and Latino families while white wealth remains constant, substantially reducing the racial wealth gap. Equalizing the returns to income reduces the wealth gap between white and Black families by $44,963 to a total of $59,070 (see Figure 18). This is a 43 percent reduction in the Black-white wealth gapv. Meanwhile, the wealth gap between white and Latino families is reduced by $51,552 to a total of $51,246—a reduction of 50 percent.

Figure 18. Reduction of the Wealth Gap After Equalizing Returns to Income



Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Figure 19. Changes in Racial Wealth Gap if Returns on Income Were Equalized

	Wealth Gap with White Families Before Equalizing Returns on Income	Wealth Gap with White Families After Equalizing Graduation Returns	Change in the Racial Wealth Gap	Percent Change in the Racial Wealth Gap
Black families	$104,033	$59,070	-$44,963	43%
Latino families (any race)	$102,798	$51,246	-$51,552	50%

Source: Survey of Income and Program Participation (SIPP), 2008 Panel Wave 10, 2011

Labor Market Policies to Reduce the Wealth Gap

The range of labor market policies that could boost job quality for Black and Latino workers—raising wages, improving benefits, and offering more opportunities for career advancement—is extensive, even before we consider measures to reduce unemployment and increase the ability to turn income into wealth. Below is a sample of three policies with the potential to shrink the racial wealth gap from income and labor market outcomes. The list is far from comprehensive.

- **Establish a direct federal job creation program.** Despite an improving economic outlook, Black unemployment remains high, and unemployment for Black teenagers is particularly widespread. A direct federal hiring program would put people back to work and employ workers to produce useful goods and services for the public's benefit, such as maintaining and upgrading infrastructure, and providing child care, elder care, and cultural enrichment. By targeting communities where joblessness is much higher than the national average, this policy could significantly reduce unemployment among Blacks, while raising incomes and reducing the racial wealth gap in the process.

- **Raise the minimum wage.** Black and Latino workers are disproportionately likely to be employed in positions that pay the minimum wage or just above and would benefit the most from an increase in the federal minimum wage.[26] With new research indicating that minimum wage increases have not reduced employment, a hike in the federal minimum wage from its current low rate of $7.25 would boost the incomes of many of the lowest paid Black and Latino workers and have the potential to decrease the racial wealth gap.

- **Make it easier for workers to form unions.** In earlier decades, white-dominated labor unions often acted to exclude Black and Latino workers from high-quality unionized jobs. Yet, today unionization rates are higher for Black workers than for white workers. Blacks and Latinos see greater wage premiums as a result of union membership than white workers and union membership does more to increase access to key employment benefits like health coverage and retirement plans for people of color than it does for whites.[27] Making it easier for workers to form and join unions could therefore be expected to boost pay and benefits for Black and Latino workers and decrease the racial wealth gap.

CONCLUSION

When it comes to tackling the racial wealth gap, policies matter tremendously. Simply increasing rates of Black and Latino achievement (whether it is homeownership, college graduation, or income parity) is not sufficient to fully eliminate the gaps in wealth between Black and Latino families and their white counterparts. In almost every case, equalizing the *returns* to any given achievement makes a greater difference for the racial wealth gap than eliminating disparities in home purchases, college graduation rates, or wages. The challenge is that improving the economic returns that households gain requires confronting and changing the deeply entrenched structures discussed throughout this paper— from residential segregation to jobs that lack the benefits that enable households to build assets. Policymakers must act both to remove barriers to access and achievement and also challenge the deeply-rooted structures that reproduce disproportionate advantages for white households.

Our results suggest that policies that successfully address disparities in homeownership rates and returns to income are likely to be the most effective in reducing the racial wealth gap. At the same time, policy details matter. As policymakers craft proposals and evaluate legislation, the Racial Wealth Audit will be a valuable tool for understanding how policy impacts one of the most pressing questions of our time—the nation's growing economic divergence along racial and ethnic lines.

METHODOLOGICAL APPENDIX

SIPP Data

The Racial Wealth Audit (RWA) analyses in this study utilize the Survey of Income and Program Participation (SIPP) 2008 Panel, Wave 10 from calendar year 2011. A nationally representative survey conducted by the Census Bureau, the SIPP includes rich information on survey participants' household income, demographic characteristics, and participation into and out of government social programs, such as 'Temporary Assistance for Needy Families' (TANF). The SIPP is a panel survey following the same households for 2.5 to four years; the first panel was started in 1968. Each panel includes a large number of rotating waves with a diverse range of sub-topics. Wave 10 of the 2008 panel was chosen for our analyses because it includes the most recent comprehensive data on household assets.

Reweighting Calculations: Adjusting Factor Ratios Between Two Groups

In order to model changes to the racial wealth gap under circumstances in which the rates of key wealth achievements are equalized by race and ethnicity, we shifted the distribution of households for each race/ethnicity subgroup using a reweighting technique in order to equalize the proportion households who have obtained a specific wealth asset, such as homeownership. In other words, in the case of homeownership, we increased the population weights of existing Black and Latino homeowners in the survey, such that they made up an equal portion of their respective subgroups as white homeowners make up among all whites. To present a simplified example, if the proportion of homeowners to renters among whites was 3/4, and 1/2 for Blacks, then this approach would reweight Blacks in the SIPP survey who own their homes from 1/2 to 3/4 of the entire Black sample population, and Black renters from 1/2 to 1/4 of the black sample population. Under this reweighted scenario, the ratio of Black homeowners to renters becomes equal to the existing current ratio of white homeowners to renters. This method keeps all other characteristics, including demographics within the Black homeowner population and Black renter population, respectively, constant. Since the reweighting technique does not apply any changes to the characteristics of the sample households in the

survey, but rather shifts the proportions of particular households present in the population estimates, the method only changes the share of the sub-populations within the full population sample.

The following equations depict the mathematical calculations used to develop new weights to adjust the homeownership rates of blacks to white levels:

Reweighting Calculations

	Ownership (Binary)	Total Group Size	Rate (=n/N)
Black	n1	N1	r1
White	n2	N2	r2

Step 1: If Black household is homeowner, assign weight = (n2/N2)*(N1/n1) = r2/r1 = w1
Step 2: If Black household is not homeowner, assign weight = ((N2-n2)/N2)*(N1/ (N1-n1)) = (1-r2)/(1-r1) = w2
Total weight among blacks = n1*w1+ (N2-n1)*w2 = N1

The technique outlined here to develop new weights to equalize rates of homeownership is applied to all three policy areas discussed in this report and for Blacks and Latinos. Because the SIPP household weights, which allow researchers to estimate all U.S. households, and our new weights are both probability weights, they can simply be multiplied to estimate the full U.S. population under the alternative scenarios we have envisioned in the three policy areas. For additional information on regression analysis with propensity scores, see 'Weighting Regressions by Propensity Scores.'[28]

Quantile Regression Estimates of Wealth Returns

For our estimates of differences in returns to homeownership, college education, and household income, we conducted quantile regression (QR) analysis at the 50th percentile, also known as median regression, to estimate typical wealth gains experienced by families who attain these achievements. Explanatory dummy variables within comprehensive multivariate median regression models captured predicted typical gains, or "returns," resulting from the realization of these key wealth factors at the median. Models were conducted separately among whites, Blacks, and Latinos in order to estimate differential returns to these assets experienced by whites and households of color.

The key difference between quantile regression and Ordinary Least Square (OLS) regression is that the former calculates the outcomes of specific distribution percentiles, while the latter calculates estimates based on distribution means. QR is particularly important in the case of statistical predictions for distributions that

are not normal, as it is the case with asset and wealth ownership. For example, an OLS regression model that calculates asset holding disparities between Blacks and whites will only predict averages (means) for both racial groups, thereby hiding important information about the within-group inequality. QR models solve this problem because they can be specified to different percentiles of the distribution, such as the median. In other words, they enable us to calculate predictions for wealth holdings among blacks and whites at every level of the distribution.

Until recently OLS has been the more dominant statistical approach because the calculations for quantile regressions were considered too tedious. However, strong increases in computing power over the last few decades make this argument less relevant today. Given that QR is a superior approach to explain relationships of variables that are highly skewed, as is the distribution of wealth in the United States, we used median regression, which allows us to predict the expected increase in wealth due to key factors at the median for white, Black and Latino households. While the regression models cannot provide causal associations, the returns to key factors represent an expected gain in wealth that is typically seen by households upon obtaining a particular asset.

ENDNOTES

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7. The variable used in this analysis from the SIPP is the net worth variable (**THHTNW),** a summation of all assets owned by a households minus unsecured debt. Assets incorporated into the wealth measure include: home equity, net equity in vehicles, real estate equity, business equity, interest earning assets, equity in stock and mutual funds, and retirement accounts, such as IRA, KEOGH, 401(k) and Thrift savings accounts.
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