POVERTY AND PROSPERITY: PROSPECTS FOR REDUCING RACIAL/ETHNIC ECONOMIC DISPARITIES IN THE UNITED STATES

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

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

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

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

In this paper, we revisit issues related to the relative economic status of racial and ethnic minorities in the United States after the "unforseen" long economic boom of the 1990s. We analyze

the same time series the Committee analyzed, but update the data through the end of the century, and we expand the analysis by focusing on the relative economic status of white non-Hispanics, black non-Hispanics and Hispanics[1]. We show how the economic boom of the 1990s with its low unemployment and inflation rates altered the relative economic status of the three largest sub-populations in the United States.

We document that there was much economic progress in the 1990s for all population subgroups--employment and incomes increased, poverty fell, and income inequality stopped rising. However, the gaps between whites and blacks and between whites and Hispanics remain so large that (borrowing the key phrase from the Committee) "barring unforseen events or changes in present conditions," economic parity remains decades in the future. The Committee's key policy implications remain as true to today as they were in the late 1980s and as true as they have been since the height of the Civil Rights struggles of the 1960s,

[1]The data for Hispanics presented here should be interpreted with caution because of the dramatic increase in Hispanic immigration over the past several decades. Immigrants have below-average education and, hence, lower levels of economic well-being. Our analysis utilizes annual data for the years from 1970 through 1999. However, the Census Bureau only began asking about an individual's nativity in 1994. Thus, we can not distinguish between trends for U.S.-born as compared to foreign-born Hispanics. It is likely that trends for the native-born are more favorable than the trends shown here for all Hispanics. See Smith (2001) for further discussion of the effects of immigration on measured economic well-being.

The Census Bureau interviews about 60,000 households per year. Until the late 1980s, the samples were not drawn in such a way as to produce statistically-reliable estimates of economic well-being for Asian-Americans, Native-Americans or for distinct sub-groups of Hispanics (e.g. Puerto Ricans). Economic well-being for more detailed race/ethnic groups and for persons classified by U.S.-born or foreign-born are available in the Decennial Censuses. However, the micro-data from the 2000 Census will not be available until 2003.

> Macroeconomic growth and reduced joblessness create favorable conditions, but they do not remove some crucial barriers that exist for blacks. Improvement depends also on active promotion and vigorous enforcement of antidiscrimination laws and administrative measures to reduce discrimination in employment, education and housing....Both the removal of barriers and compensatory programs are needed for full equality of opportunity (p. 29).

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

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

I. Trends in Economic Well-Being

Economic conditions in the United States in 1999 (the latest year for which data were

available when the paper was presented) were excellent. Inflation and unemployment were low (2.2 percent and 4.2 percent, respectively), and the budget was in surplus (about 2 percent of GDP). Wage rates, adjusted for inflation, increased as the labor market tightened in the 1990s; however, they remained below levels achieved a quarter century earlier. Average hourly earnings (in 1999 constant dollars) in private industry were $13.57 in December 1999, 6.4 percent above their December 1992 level, but still 7.5 percent below the December 1973 level, $14.61. A similar pattern holds for the official Census Bureau poverty rate (an absolute measure).[2] It fell from the mid- to the late1990s, but was about as high in 1999, 11.8 percent, as it had been in 1972, even though real per capita income almost doubled over this period.

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

We now review trends in the relative economic well-being of the three largest race/ethnic

[2] In 1999, the official poverty line was $16,895 for a family of four with two related children and about half that for one person living on her own. The Census reports pre-tax money income and thus does not include noncash income or tax credits and does not exclude taxes paid. The poverty line varies with family size and has been increased since the mid-1960s only to correct for inflation.

[3] Using a relative poverty measure (40 percent of each country's median adjusted disposable personal income), Smeeding, Rainwater and Burtless (2002), show that the U.S. rate in the late 1990s was the highest of 17 countries in the Luxembourg Income Study. Eleven of the seventeen had rates that were half or less than the U.S. rate.

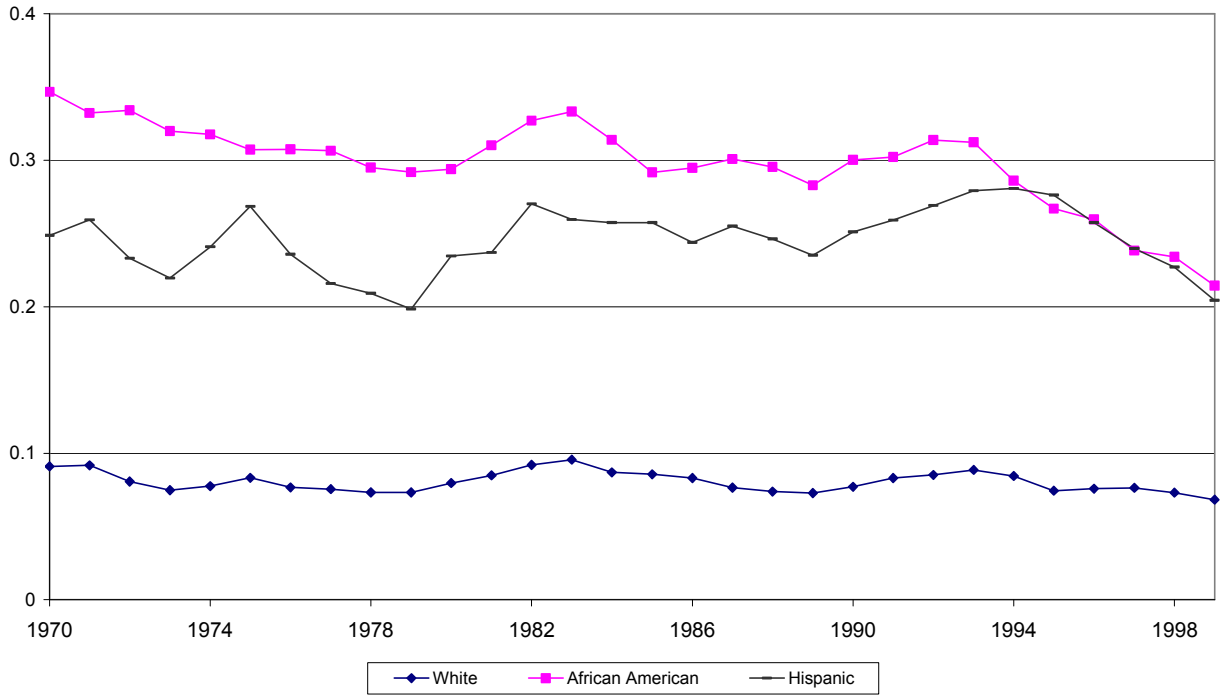
groups in the U.S., utilizing 30 years of data from the Census Bureau's annual Current Population Survey (CPS). The analysis begins in 1970, the first year that allows us to produce comparable time-series. The reader should note that the 1960s was a period of rapid economic growth for all persons and a period during which the economic status of African Americans relative to that of whites improved (Jaynes and Williams, eds., 1989). Thus, if we could have produced consistent time series for 1960 to 1999, they would have shown more relative progress for African Americans relative to whites and more absolute progress for all race/ethnic groups.

Trends in Poverty, Affluence, and Median Family Income

Figure 1 shows the trend in poverty from 1970 to 1999.[4] At the beginning of this period, poverty for African Americans was about 4 times that of whites (35 vs.9 percent in 1970); for Hispanics, about 3 times that of whites (25 vs. 9 percent). Poverty changed little for any of the groups between the early 1970s and the early 1990s. During the economic boom of the 1990s, the most rapid percentage reduction in poverty was a 32 percent drop for African Americans, from 31 to 21 percent, between 1992 and 1999; poverty declined by 26 percent for Hispanics, from 27 to 20 percent, and by 22 percent for whites, from 9 to 7 percent. The last time there was this much relative economic progress for minorities was during the economic boom of the 1960s. By 1999, the black

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

Figure 1
Percentage of Persons Living in Poverty, 1970-1999

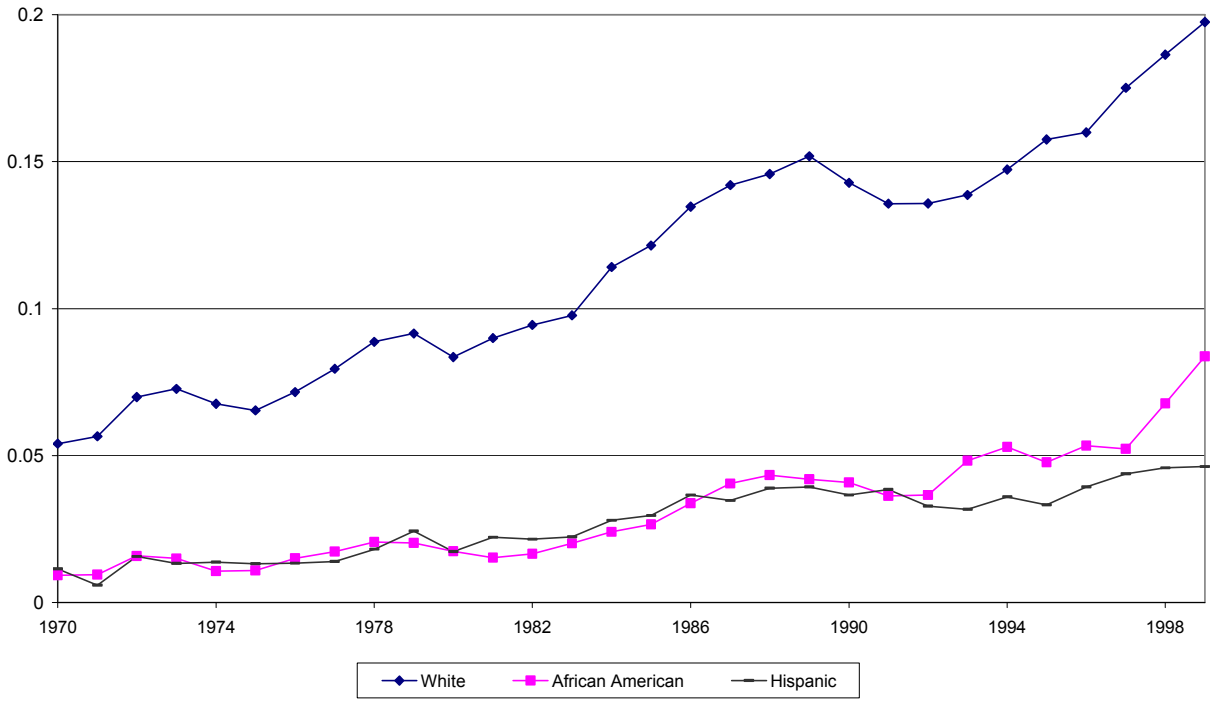


Note: The official U.S. poverty line for a family of four persons in 1999 was $17,029

and Latino poverty rates were about 3 times the rate for non-Hispanic whites and at about the level of the white poverty rate in the mid-1960s, a level that led President Johnson to declare War on Poverty.

Whereas the National Academy Committee was writing against a backdrop of economic pessimism, we offer an optimistic forecast for the poverty rate in the near future based on the positive economic experiences of the 1990s. Our projections are "too optimistic" for several reasons. First, we ignore the statistical fact that it becomes harder to achieve the same percentage reduction in poverty from economic growth as the poverty rate falls (Freeman, 2002). Second, we assume that the economy continues to grow at the rapid pace of 1992-1999 for another 14 years, even though a recession began in the U.S. in early 2001 and is expected to continue through most of 2002. Third,

Figure 2
Percentage of Persons Living in Affluence, 1970-1999



Note: Affluence is defined as family income at least 7 times the poverty line

we assume that the percentage reduction in poverty for each sub-group will continue at the rate of the 1992 to 1999 period, even though African American economic progress tends to rapid only when labor markets are very tight. Our resulting "estimate" is that the African American poverty rate in 2013, ceteris paribus, would fall to about 10 percent, the Hispanic rate to about 11 percent and the white rate to about 4 percent. This optimistic scenario reinforces the point that economic growth can substantially reduce poverty, but, on its own, will have a limited impact on closing the between-group gaps in poverty. As we discuss below, an effective policy for reducing majority/minority differences in economic status would be to close the educational attainment and labor force skills gaps between the groups.

Figure 2 shows a dramatic increase for all groups in the percentage of persons living in

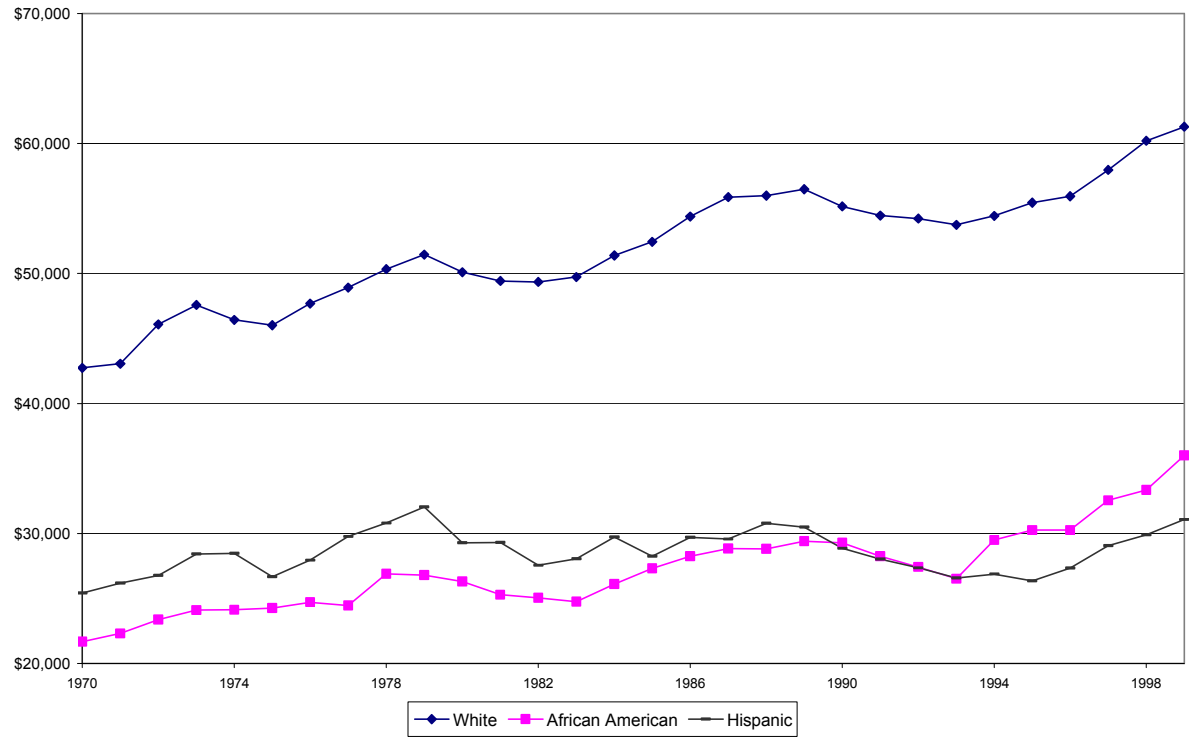
affluence, which we define persons residing in families that have annual incomes greater than seven times the official poverty line (see Danziger and Gottschalk, 1995 for a discussion of this measure). In 1999, a family of four persons was considered affluent if its annual money income from all family members was about $120,000 or more; median income for all families in 1999 was about $50,000.

Affluence has increased much more rapidly than poverty has fallen, reflecting the increased inequality of the past three decades. In 1970, 5 percent of whites were affluent, compared to only 1 percent each of African Americans and Hispanics. By 1999, 20 percent of whites were affluent, compared to 8 percent of African Americans and 5 percent of Hispanics. The rate of affluence for African Americans doubled during the economic boom of the 1990s, from 4 to 8 percent between 1992 and 1999. However, the extent of affluence for African Americans in 1999 was the same as that for whites in 1977; the rate for Hispanics in 1999, the same as the rate for whites in 1970. In 1999, for whites, there were about 3 times as many affluent persons as poor persons (20 vs. 7 percent); for blacks (8 vs. 21 percent) and Hispanics (5 vs. 20 percent), the number of affluent persons was only a small portion of the number of poor persons.

Figure 3 shows the trend in median family income adjusted for family size in constant 1999 dollars for the 1970-1999 period.[5] Incomes rose substantially up to 1973 for each group; then growth slowed. After the recessions of the late 1970s and early 1980s, median incomes were about the same

[5] Because a family with more members requires more income to attain the same level of economic well-being as a smaller household, we present size-adjusted medians in Figure 3. We first divide the income of each family by its poverty line to correct for differences in family size. Then we compute the median of this ratio and multiply it by the poverty line for a family of four containing two adults and two children. This corrects for both family size changes over time and differences in family size across each of the race/ethnic subgroups. The medians reported here differ from published Census Bureau medians which do not adjust for family size.

Figure 3
Median Family Income, 1970-1999
(1999 $)



in 1983 as they had been in 1973. After the economy recovered from the severe recession of the early 1980s, incomes grew for the rest of the 1980s, then declined during a mild recession in the early 1990s, and then increased substantially in the late 1990s.

Income growth for Hispanics has been slower than for the other groups. The median size-adjusted income for Hispanic families in 1992 ($27,353) was about the same as it had been in 1973 ($28,428); it grew by 14 percent for both African Americans(from $24,112 to $27,416) and whites (from $47,579 to $54,226) over these two decades. Between 1992 and 1999, median family income grew most rapidly, by 31 percent for African Americans (to $35,999); it rose by 13 percent for whites (to $61,284) and by 14 percent for Hispanics (to $31,062). As a result, the ratio of the African American median family income to the white median, which was .51 in both 1970 and 1992

increased to .59 by 1999; this ratio for Hispanics was .59 in 1970, .50 in 1992 and .51 in 1999. As with the other measures of economic status, the economic boom of the 1990s was particularly beneficial for African Americans, but large racial gaps remain.

We realize that racial/ethnic differences in family structure play an important role in determining family economic resources and hence account for some part of the economic disparities shown in Figures 1, 2 and 3 . For example, among all families the median income in 1999 was just over $53,000. For families headed by single mothers the median was less than $23,000. African Americans have the highest share of persons living in single-mother families at 29 percent, followed by Hispanics at 16 percent and whites at 7 percent. Thus, a comparison of racial/ethnic differences in median family income that adjusted for family structured differences (data not shown here), shows a higher ratio of median family income for African Americans relative to whites and higher ratio for the Hispanic median relative to that of whites (See Cancian and Reed, 2002, for a further discussion of family structure and poverty).

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

would have been more positive.

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

Labor Market Trends and Changes in Employment and Earnings

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

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

economy in the direction of lower real wages for the least-skilled workers and higher earnings inequality (For further discussion of labor market changes and their causes, see Danziger and Gottschalk, 1995, Chapters 6 and 7)..

Because African American and Hispanic workers have lower educational attainment than whites, the twist in the labor market against less-educated workers would have had a larger negative effect on the relative employment and earnings of minority workers, even if there were no changes in the propensity of employers to hire workers of different races.[6] For example, in 2000, among men between the ages of 25 and 54, only about 7 percent of white non-Hispanics, but 14 percent of African Americans and 41 percent of Hispanics had not completed a high school degree. If one defines the less-educated as having a high school degree or less, then about 40 percent of whites, 53 percent of African Americans and 70 percent of Hispanics were in this category in 2000.

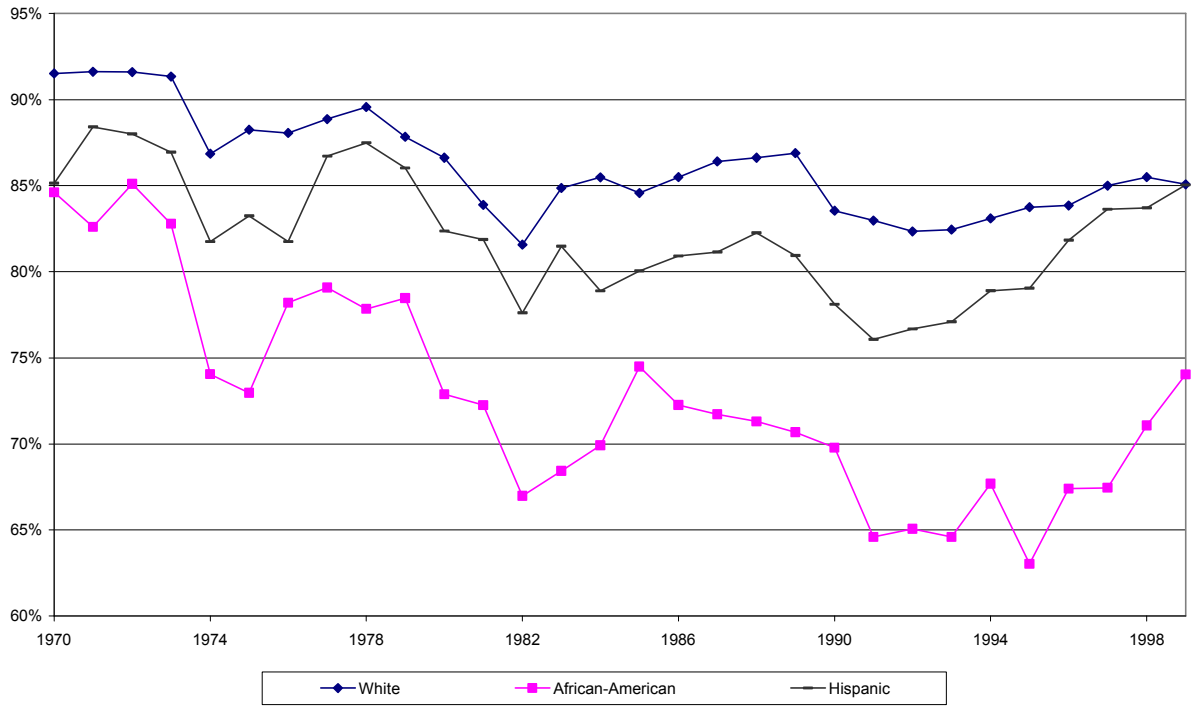
Figure 4 shows the percentage of males, between the ages of 25 and 54, with a high school degree or less, who held a job during the week before the March Current Population Survey.[7] In 1970, 92 percent of whites, and 85 percent of African Americans and Hispanics were not working. By 1992, this employment rate had fallen by 10 percentage points for whites (to 82 percent) by 8 points for Hispanics (to 77 percent), but by 20 percentage points for African Americans (to 65 percent).

William Julius William (1987, 1996) has written extensively about the disproportionate

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

[7] The data in Figures 4 through 7 are "age adjusted," that is, they were re-weighted to match the distribution of the total population in 2000. As a result, differential changes in age for the race/ethnic groups do not affect the trends.

Figure 4
Percentage of Males, ages 25-54,
with a High School Education or Less
with a Job Last Week,
1970-1999



effects of labor market changes from the early 1970s to the early 1990s on African American men. He recognizes the importance of the race-neutral, structural changes that have led to the declines in employment for all less-educated males (i.e., technological changes, globalization, etc.). But he incorporates other factors to explain the much larger employment decline for African American men than for whites and Hispanics. Wilson is critical of both conservative and liberal scholars. The former tend to assume that jobs are available to anyone who is willing to work and that the higher rate of black joblessness is due primarily to differences in motivation and cultural factors, expressed via attitudes and behaviors that are not conducive to employment in the changing labor market. Liberals, on the other hand, tend to assume that joblessness is due primarily to unequal opportunities in the public school system which limit the development of marketable skills and persisting prejudice

and discrimination in the housing and labor markets which make employment less accessible and less attainable for African Americans relative to whites and other ethnic groups.

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

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

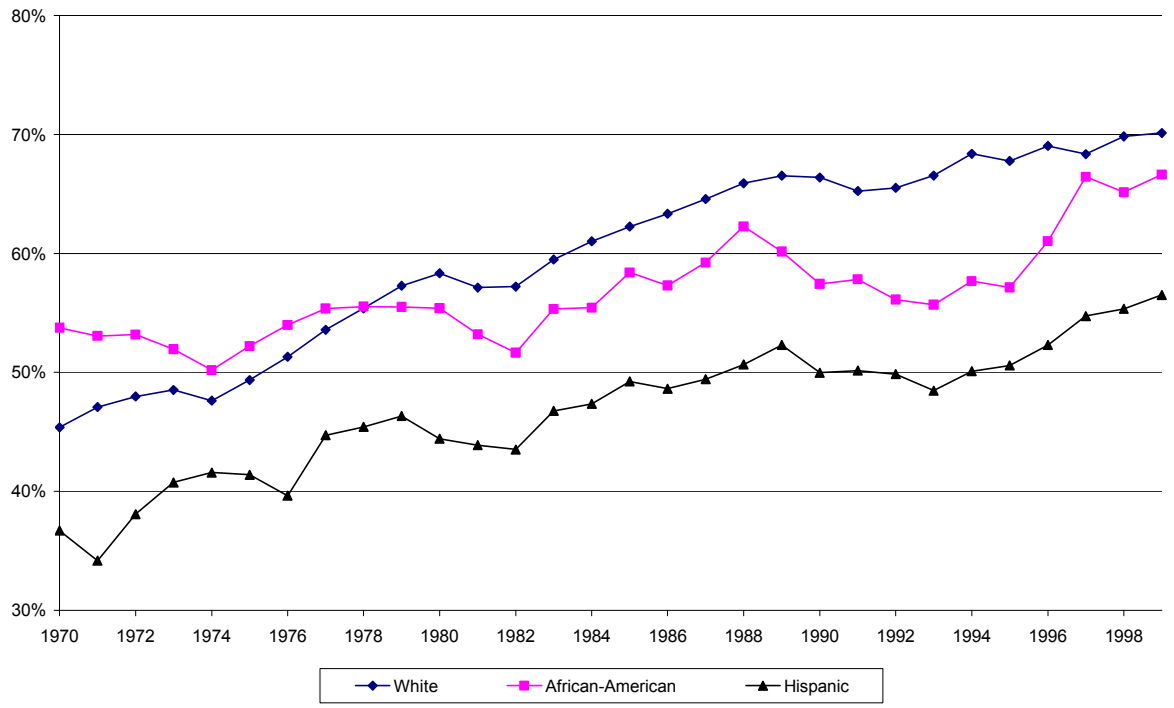
Regardless of which came first--the attitudes of residents and a lack of labor-force skills due to poor schooling opportunities or the employer's prejudices and concerns about worker honesty and dependability--the result is a high rate of joblessness and distrust. "Inner-city black men grow bitter and resentful in the face of their employment prospects and often manifest or express these feelings

in their harsh, often dehumanizing, low-wage work settings (1996, p. 144)." This leads employers to make "assumptions about the inner-city black workers in general and reach decisions based on those assumptions before they have had a chance to review systematically the qualifications of an individual applicant (1996, p. 137)." As a result, many qualified "black inner-city applicants are never given the chance to prove their qualifications on an individual level because they are systematically screened out by the selective recruitment process (1996, p. 137)."

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

Figure 5 plots the percentage of women, with a high school degree or less, between the ages of 25 and 54 who had a job in the survey week over the 1970-1999 period. A comparison of Figures 4 and 5 reveals that the trends for women differ dramatically from those for men (For greater detail on labor market trends among women by race/ethnicity, see Conrad, 2001). Whereas the percentage of less-educated men with a job fell between 1970 and 1999 by 6 percentage points for whites, 10 percentage points for African Americans and remained constant for Hispanics, employment for

Figure 5
Percentage of Females, ages 25-54,
with a High School Education or Less
with a Job Last Week,
1970-1999



women in this age/education group increased rapidly for all three groups. Employment increased by 25 percentage points for white women (from 45 to 70 percent), by 13 points for African American women (from 54 to 67 percent) and by 20 points for Hispanic women (from 37 to 57 percent). The gender gap in employment between white men and women in this education group fell from 47 percentage points in 1970 (92 vs.45 percent) to 15 points in 1999 (85 v 70 percent); for African Americans the gender gap fell from 21 to 7 points; for Hispanics, from 48 to 28 points. The increased employment of women is part of the reason why median family income grew over most of the past three decades even though inflation-adjust male earnings (discussed next) were declining (For a discussion of the contribution of women's earnings to family income, see Cancian and Reed, 2002).

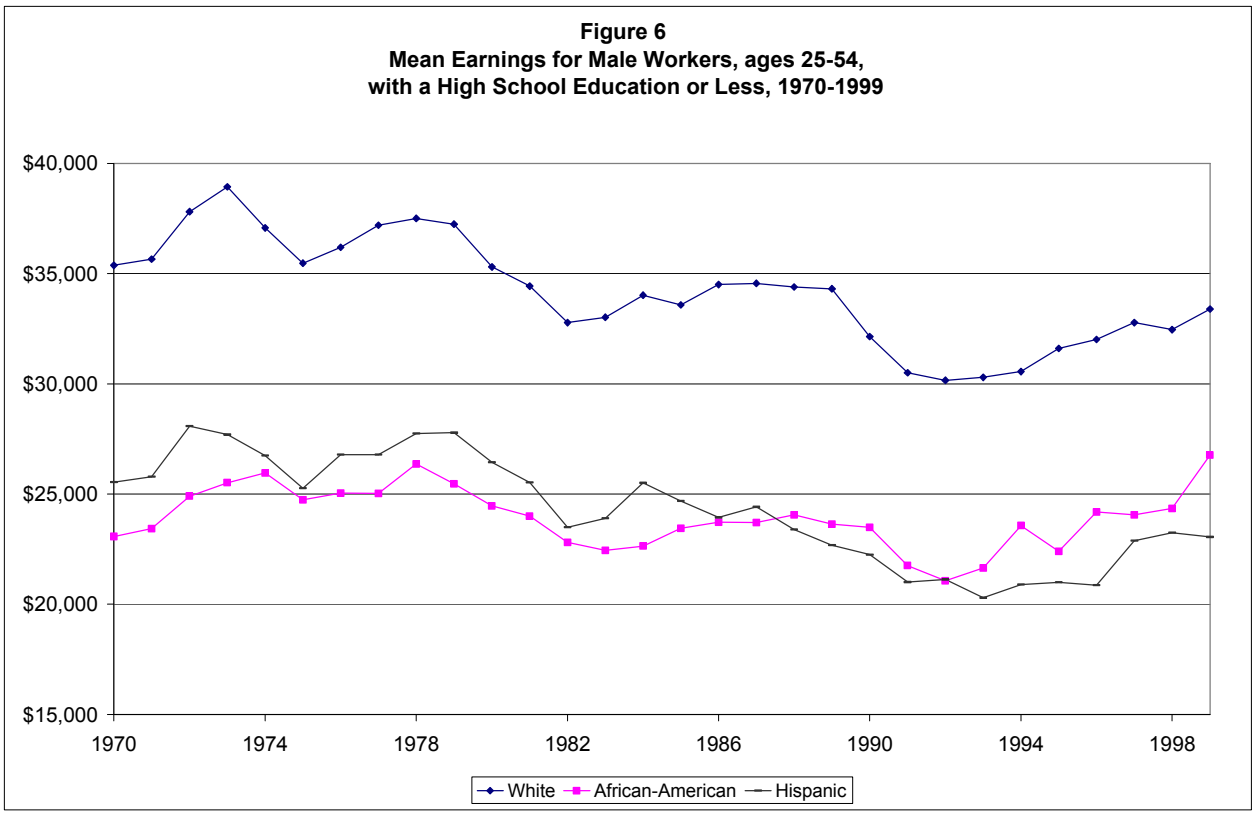
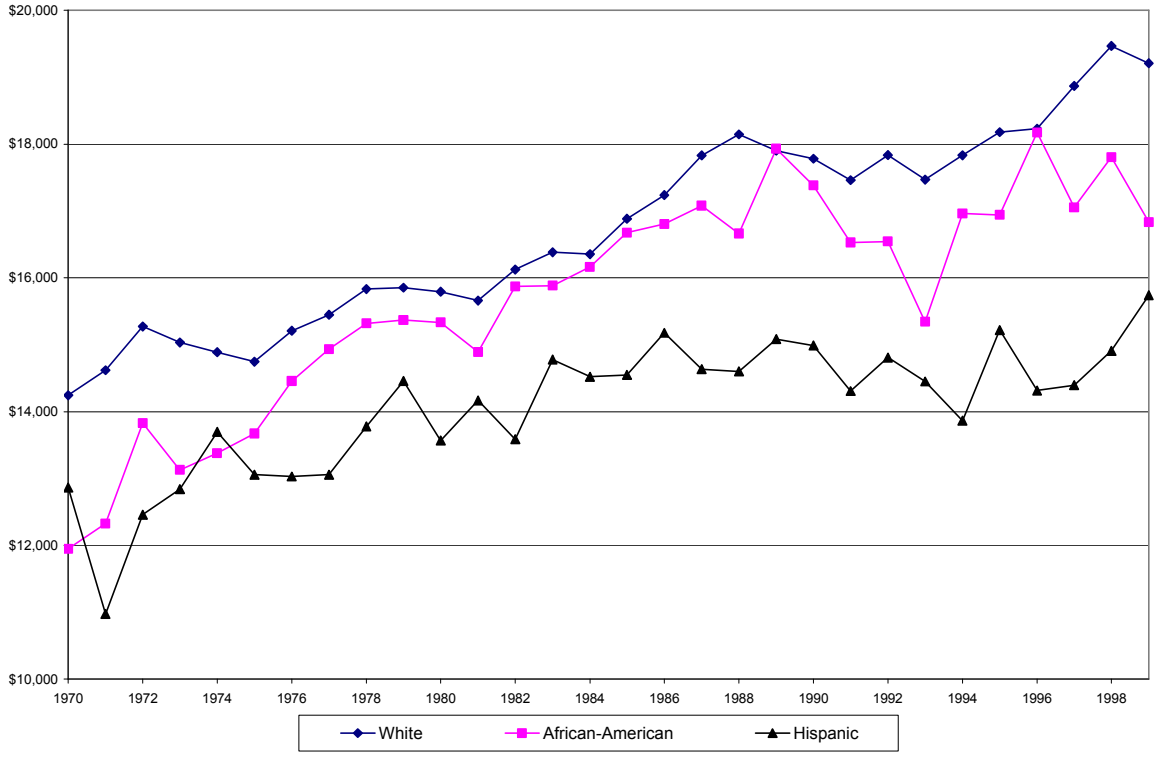


Figure 6 shows trends in real annual earnings for male workers between the ages of 25 and 54 who have a high school education or less; men who did not work at all during the year are not included in these calculations. The past three decades have been difficult ones for less-educated male workers of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

In 1970, the ratio of the mean earnings for minority men with a high school degree or less relative to those of similar white male workers was .65 for African Americans and .72 for Hispanics;

Figure 7
Mean Earnings for Female Workers, ages 25-54, with a High School Education or Less, 1970-1999



by 1999, it had increased to .80 for African Americans, but had fallen to .69 for Hispanics. Similar patterns are revealed when one compares earnings trends for male workers with higher education levels (data not show). However, the relative progress of African Americans would be less if one compared all men in this age/education category, instead of only men with earnings as is done in Figure 6, because of the lower employment rate of African American men discussed above.

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

women workers in this age/education class to those of similar white women was .88; the ratio for Hispanics was .82.

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

II. Beyond Economic Trends: Racism, Social Psychology and Identity

Economists tend to focus only on trends in relative economic well-being. However, sociologists and psychologists also call attention to the social psychological consequences of the racial/ethnic differences in income, employment and earnings that we have just reviewed. We focus in this section on four areas in which persisting racial inequalities affect life chances and lifestyles: (1) racial disparities in wealth, (2)perceptions of racial inequalities and emotional well-being, (3) the perceptions of racial discrimination and rational attitudes, and (4) the interrelationships among racial integration, parity, and harmony. Our analysis addresses African Americans and whites, as that has been the focus of most of the research on these topics.

Racial Disparities in Wealth

The current employment and annual income and earnings data presented above tend to under-estimate the extent of racial economic disparities in any year because they do not account for

differences in assets. For example, Oliver and Shapiro (1995) show that, in the late 1980s, white households had nearly twelve times the median net worth of Black households. In a recent update, they (Oliver and Shapiro, 2001) document that in 1994 the median net worth of whites had fallen to 8.6 times that of blacks--$52,994 vs. $6,127. Ever after they statistically control for differences in income, education, occupation, and family structure, the wealth of African Americans remained a small proportion of that of whites. Additionally, Oliver and Shapiro (2001) note that racial differences in holdings of financial assets, which are more-readily converted into cash during times of emergency than are other assets, are even greater–in 1994, the median white household held about $7,400 in net financial assets, whereas the median black household had only $100; and about three-fifths of black households compared to only about one-quarter of whites held zero dollars in net financial assets. Other analyses also suggest, that despite the economic boom of the 1990s, the racial wealth gap remains very large (Wolff, 1998; Panel Study of Income Dynamics, 2000).

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

Perceptions of Racial Inequalities and Emotional Well-Being

African American families not only have lower levels of wealth and economic security, but they also have low expectations about their prospects for attaining racial equality in economic well-being. In a national survey, Blendon, et al. (1995) reported that 46 percent of black adults believed that racial problems would not be solved in their children's lifetime; nearly one in four doubted that racial equality would ever be achieved. After the 1992 riots in Los Angeles, a New York Times/CBS News poll indicated that 65 percent of blacks expected that race riots would still be happening 25

years from that point (Smith and Seltzer, 2000). A recent poll of Californians found that, when asked to look ahead to 2020, 46 percent of blacks, compared to 36 percent of whites, responded that race and ethnic relations were more likely to get worse than to improve (Hajnal and Baldassare, 2001, p. 12).

Given the trends in income and employment discussed above, one might predict that economically disadvantaged African Americans would be more likely to be pessimistic about the future than their middle-class counterparts. The data indicate, however, that more affluent blacks express the most frustration with racial stratification (Cose, 1993; Essed, 1991; Feagin and Sikes, 1994; Jackson, et al., 1995). Those who are relatively well off seem more willing than poorer blacks to cite race as having played a role in unfair events that have occurred on the job and elsewhere, and less likely to attribute these events to lack of effort or some other personal attribute.

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

The psychological consequences of racial stratification are significant. Self-perceived experiences of racial discrimination are associated with increased psychiatric symptoms, clinical disorder, and lowered levels of subjective well-being (Broman 1997; Brown, et al., 1999; Landrine

and Klonoff, 1996; Thompson, 1996). For example, blacks who accept negative characterizations of blacks as a group tended to report higher levels of psychiatric symptoms and lower levels of well-being (Taylor, 1990; Taylor and Jackson,1990). Rumbaut (1994) found that the expectation of racial or ethnic discrimination in adulthood was linked to increased depressive symptoms and reduced self-esteem among Black adolescents. Brown et al. (2001) found that Black adolescents who worried about race relations or were pessimistic about progress toward racial harmony reported lower levels of happiness and diminished satisfaction with their lives. The frequency of discriminatory experiences and the persistence of racial inequalities undermine blacks' ability to protect their emotional health and to be optimistic.

Racial Discrimination and Racial Attitudes

Racial stratification has negative effects on racial/ethnic minorities regardless of their socio-economic status. For example, a large proportion of African Americans in recent surveys report discriminatory experiences, such as being embarrassed, harassed, ignored, fired, followed, ridiculed, singled-out, or otherwise assaulted because of their race or ethnic heritage (Essed, 1991; Landrine and Klonoff, 1996; Landrum-Brown, 1990; Sigelman and Welch, 1991). Even wealthy blacks report many experiences of racial discrimination, such as tokenism, racial slurs, marginalization, loyalty tests (Collins, 1997; Landrum-Brown, 1990; Jackson et al., 1995).

How might one interpret the continuing experiences of discrimination almost 40 years after the Civil Rights Act and against the background of modest improvements in the relative economic standing of African Americans? One explanation might be that whites may continue to discriminate or express racial hostility in interactions with members of minority groups because they perceive successful minorities as having taken jobs or positions in selective universities that they may previously have gotten. However, this does not seem to be the case--when whites and blacks in the

Detroit metropolitan area were asked in 1992, "Have you ever felt at any time in the past that you were refused a job because of your race or ethnicity?" only 7 percent of whites but 40 percent of African Americans responded "yes." (Farley, Danziger and Holzer, 2000, pp. 233-234).

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

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

Racial Integration, Racial Parity, or Racial Harmony

According to the 1996 General Social Survey (GSS), 65 percent of whites believed that conditions of blacks had improved in recent years, whereas only 36 percent of blacks concurred

(Smith and Seltzer, 2000). In part, perceptual estrangement between racial groups can be attributed to an ambiguous operational definition of the "problem" (Cose, 1993; Sigelman and Welch, 1991; Smith and Seltzer, 2000). That is, "What is the race problem? Do blacks and whites disagree about potential policy solutions because they conceive of the problem differently?"

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

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

Our intent in this section was to suggest that policy analysts and policy makers should pay attention to the social psychological consequences of racial disparities. Hochschild (1995) points out that even if measured racial gaps in economic well-being have narrowed over the past 40 years, that perceptions of this progress differ dramatically by race. She points out that, "African Americans

increasingly believe that racial discrimination is worsening and that it inhibits their race's ability to participate in the American dream; whites increasingly believe that discrimination is lessening and that blacks have the same chance to participate in the dream as whites (p. 56)" and that "Whites are angry that blacks refuse to see the fairness and openness of the system; blacks are angry that whites refuse to see the biases and blockages of the system (p. 68)." We now turn to a discussion of some public policy options that, if successful, might reduce perceived, as well as measured, racial differences in economic well-being.

III. A Policy Agenda to Reduce Racial/Ethnic Economic Disparities[8]

A realistic assessment of the future economic status of racial/ethnic minorities must confront several constraints imposed by the social and economic history of the United States. First, there are constraints linked to decisions made long ago about the location of plants, offices and residences. A large proportion of the nation's poor, especially poor racial/ethnic minorities, live in inner cities that have an older housing stock, are losing population, and have infrastructure and tax base problems[9]. In contrast, in the outer suburban ring, open land is still available for residential, commercial and industrial developments. Most population growth and most of the new jobs in recent decades have occurred in these mostly-white, higher-income areas. The combination of high levels of residential segregation and the concentration of minorities in the urban core and the deconcentration of employment adds a spatial component to socio-economic disparities and policies designed to reduce them (Wilson, 1986, 1997; Yinger, 1995, 2002).

Second, there is the industrial legacy. Many less-educated workers, especially racial and

[8]This section draws on chapter 9 in Farley, Danziger and Holzer (2000).

[9]These local infrastructure and tax base problems have more negative implications for the poor in the U.S. than the poor in other industrialized countries because of the greater extent of governmental de-centralization in the U.S.. For example, many public services, most importantly, primary and secondary education, are paid for by funds raised by state and local governments, as opposed, to the federal government.

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

The third constraint is continuing white distrust of blacks and black distrust of whites. Although racial attitudes improved after World War II and especially after the Civil Rights movement, such that almost everyone now endorses principles of equal opportunity, many whites still endorse the stereotypes that blacks tend to work less diligently than whites, tend to be less intelligent, and tend to harder to get along with (Farley, Danziger, and Holzer, 2000, chapter 8; Kluegel and Bobo, 2001; Bobo, 2001). And, discriminatory practices, especially in the housing market, continue to be widespread (Yinger, 2002).

The history of racial conflict and distrust helps explain why some employers are reluctant to hire black workers and why whites generally avoid neighborhoods with more than token numbers of black neighbors. African-Americans consistently report that the playing field is far from level, and that they expect discrimination when they search for jobs or buy a home. Many African Americans view the U. S. as a color-coded society, with whites holding most of the decision-making power and using it to favor other whites for good jobs and good homes. This racial distrust affects political and economic decisions, such as ones about the placement of bus routes and subway stops, funding for public schools, the placement of power plants, etc. Each race distrusts the other and tends to see a

zero-sum game in which advances for once race come at the expense of the other.

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

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

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

overturned in the courts and then eliminated. And, affirmative action is currently under attack; its future rests in decisions that the U.S. Supreme Court will render in the next few years.

While the economic boom of the 1990s was not expected by the authors of **A Common Destiny**, there have been no unforseen policy actions trying to reduce racial/ethnic disparities. President Clinton, in 1997, did attempt to begin a national conversation about race, but it seems to have had little lasting effect. The report that was produced by his task force, **America Becoming: Racial Trends and Their Consequences** (Smelser, Wilson and Mitchell, eds., 2001), in contrast to **A Common Destiny**, did not even offer any policy recommendations or provide a summary consensus of the volumes' chapters. Although the Clinton Administration supported many policy initiatives that would have raised the incomes of all of the poor, and hence disproportionately helped racial/ethnic minorities (such as additional increases in the minimum wage or the provision of national health insurance), it was unable to gain Congressional approval fro them.

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

economic status relative to that of whites.[10]

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

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

We would begin by trying to reverse the adverse effects of labor market changes by implementing policies that both enhance the skills of job-seekers, thereby increasing their employment prospects, and increase the demand for workers with moderate skills and for those who lack college training, thereby raising their earnings so that poverty is reduced. If these labor market policies were successful, poverty and unemployment would fall. Higher family incomes would

[10] Between December 2000 and March 2002, the civilian unemployment rate for all males 16 years of age and older increased from 3.5 to 5.0 percent for whites, from 5.8 to 7.3 percent for Hispanics, and from 7.5 to 10.7 percent for African Americans.

contribute to increased demand for housing and other goods, further stimulating economic activity. Increased employment and earnings would promote housing renovation and retail activity in poor areas, thus raising the local tax base and tax revenues.

Assume also that another set of policies, using these additional revenues, could be successfully put into place to upgrade the quality of urban public services, especially with regards to police protection, infrastructure and public schools. The resulting improvement might then discourage continuing flight of most whites and the black middle class from central cities. Given the reduced poverty, increased employment and improvement of public services, some suburban residents might even move back to the central cities, thereby reducing racial segregation and diminishing racial stereotypes.

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

Two additional public policy mechanisms for addressing the employment problems of racial/ethnic minorities are (a) enhanced anti-discrimination enforcement in the housing market (e.g., rental, sales and mortgage practices) to facilitate racial residential integration, and hence integration of

the local public schools, and (b) enhanced anti-discrimination enforcement in the labor market (e.g., employer recruiting, hiring, and promotion practices) to improve employment opportunities for minorities. Stepped-up enforcement of anti-discrimination laws, given the attitudes of whites discussed above, however, tend to exacerbate racial tensions and make it more difficult to gain acceptance for other needed public policies. This is one reason why Wilson (1996) proposed a "comprehensive race-neutral initiative to address economic and social inequality (p. 205)" that did not emphasize race-specific policies, such as affirmative action. The key components of Wilson's policy proposals have the same goals as ours--improvements of public schools to increase labor force skills and raise earnings, provision of public jobs of last resort to the persistently unemployed, etc.

As discussed earlier, the major source of economic problems for most less-educated workers are "race neutral" labor market changes that began in the early 1970s--especially the spread of labor-saving technological innovations and declines in the percentage of employment accounted for by manufacturing industries. These changes have reduced the employment and earnings prospects for the less-educated, especially African Americans, because their economic gains in the quarter century following World War II were largely based on high-wage manufacturing jobs. Responding to these labor market changes requires policies to (1) increase the rewards to work for low-skill workers; (2) to raise the educational attainment and skills of the young so that they will have higher wages when they enter the labor force; and (3) to provide public jobs of last resort for the most disadvantaged whom employers are not inclined to hire, even when unemployment rates are low.

What is missing are not good policy options, but the political will to take bold actions to confront the multiple economic and social problems relating to racial/ethnic disparities. Given political reality, we do not expect that describing some promising policies will lead to their adoption. These policy options tend to require a substantial infusion of public funds. Yet, as long as "no new

taxes" remains the dominant political mantra in the U.S., it is unlikely that these initiatives will soon be implemented. We group the policy options we favor into four categories--labor market supply-side strategies, mobility strategies, labor-market demand-side strategies, and anti-discrimination strategies–and highlight a single exemplary policy in each.

Labor Market Supply-side Strategies

Over the long run, improving educational attainment and labor market skills offer the best prospects for raising employment and earnings and closing racial/ethnic gaps in socio-economic status. In the late 1960s, if a young man graduated from high school, he had an excellent chance of finding a job that provided good wages and benefits. In the early 21st century, however, many high school graduates do not earn enough on their own to raise a family above the poverty line. It is critical that investments in young people be increased, with goals of reducing the high rates of school dropout in the inner city, raising the skills of high school graduates, and increasing enrollment of youth from low-income families in junior and four-year colleges.

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

Apart from finances, central-city school districts have been plagued by bureaucratic inefficiencies and other administrative impediments. Such schools would have great difficulty delivering the educational services needed to prepare their students for the demands of today's work

place even if they received additional funding. Although, there is agreement on the need to improve schools, there are few models for achieving success on a large scale. There are promising results in early education programs and after-school mentoring programs that have raised school performance and attendance, but these programs have been small and have operated outside of the public education system (Karoly, 2002).

Moving central city residents to the suburbs.

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

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

The Gautreaux program has documented such gains for both parents and children. The program resulted from a 1976 Supreme Court consent decree in a lawsuit brought by Chicago public housing residents against the U.S. Department of Housing and Urban Development. The residents charged that city and federal policies deliberately and unconstitutionally concentrated the black poor in public housing projects (see Rosenbaum, 1995). The settlement gave more than 5000 public housing residents and those on waiting lists in 1981 housing vouchers that they could use to rent units

outside of the projects, either in the city of Chicago or its suburbs.

Rosenbaum evaluated the program's "quasi-experimental design." That is, some former housing project residents used the subsidies to rent apartments in inner-city neighborhoods, while others rented in suburban neighborhoods where few minorities lived. He found modest gains in employment for the parents who moved from the projects to the suburbs compared to those who moved from the projects to other areas in the city of Chicago, but significant educational gains for the children. For example, 20 percent of the interviewed children who attended city schools dropped out before completing a high school degree, whereas only 5 percent of those attending suburban schools dropped out. And 54 percent of the suburban high school graduates enrolled in higher education, compared to only 21 percent of the city high school graduates.

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

Unfortunately, the program expansion to additional metro areas sought by the Clinton Administration was not passed by Congress, in part, because of vocal opposition from white suburban residents who objected to the prospects of even small numbers of poor and minority families moving

into their neighborhoods (Yinger, 1995, pp. 235-236). This is yet another example of the negative effects of hostile racial attitudes on public policies designed to break down the spatial concentration of poverty.

Labor Market Demand-Side Strategies.

Despite a robust economic boom in the 1990s, the employment prospects and earnings levels of less-educated workers remain tenuous. Through no fault of their own, they face much bleaker labor market prospects than did their counterparts in the years from the late 1940s through the early 1970s when the economy was booming for workers at all skill levels. Many of the poor want to work and are willing to take minimum wage jobs, but do not have the skills that firms now demand. Hence, we advocate experimentation with public service jobs of last resort (For further discussion, see, Danziger and Gottschalk, 1995, Chapter 8). Public service employment programs (PSE) have a long history in the United States, but have not been politically popular since the great depression of the 1930s. President Reagan terminated the last large PSE program when he eliminated the Comprehensive Employment and Training Act (CETA) in the early 1980s.

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

Graduated job ladders would provide rewards to workers who succeeded in the PSE position, but wages would be lower than the worker would receive in the private sector, thereby providing an incentive to take any available job. Employees who failed to meet performance standards would be dismissed. Those hired might be limited to a year to two years of PSE, after which time they should have acquired the experience and skills needed to get a private sector job.

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

Anti-Discrimination Strategies

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

The blatant types of racial discrimination widespread prior to the 1960s are now infrequent. Indeed, many employers note their commitment to non-discrimination in job advertisements, and most real estate broker's offices post statements about their dedication to equal opportunities. However, less obvious types of racial discrimination continue and contribute to persisting high levels of racial segregation.[11] Some brokers still will not show black and white home seekers the same housing, some underwriters still do not provide home insurance to units located in minority

[11] Segregation levels have fallen modestly in most urban areas over the last 40 years, but on average, remain higher when African Americans and whites are compared than they are for Hispanics and whites, or Asian Americans and whites.

neighborhoods, and some police officers stop drivers who are black much more frequently than those who are white.

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

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

IV. Summary

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

Although African American and Hispanic economic elites have emerged in the post-civil rights era, racial/ethnic economic disparities remain very large on all of the economic measures reviewed. The policies we propose, if successfully implemented, could reduce inequalities in

educational attainment, employment, occupational achievement and earnings. Without a comprehensive public policy strategy, however, it is likely that the divisions we have described will continue and, if macro- economic trends turn unfavorable, will worsen.

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