

Racial Economic Inequality Amid the COVID-19 Crisis

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This policy essay is an essay from the author(s). As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in policy papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This policy paper is offered in that spirit. The author(s) did not receive financial support from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.

BROOKINGS

Introduction

COVID-19 confronts Americans with two crises: a public health crisis and an economic crisis. The two operate together, since the public health crisis has dramatically reduced economic activity and overall spending. Moreover, this crisis has broader distributional consequences than any economic event in recent memory, altering most aspects of how we live, work, and conduct business—and in truth, who will survive.

Across the economy and society, the distributional consequences of COVID-19 are uneven: the pandemic and its broader economic and health consequences are disproportionately impacting Black Americans.

The outsized challenges that Black Americans are facing are a reflection of the generally diminished economic position and health status that they faced prior to this crisis. Several pre-COVID-19 economic conditions—including lower levels of income and wealth, higher unemployment, and greater levels of food and housing insecurity—leave Black families with fewer buffers to absorb economic shocks and contribute to Black households' vulnerability to the COVID-19 economic crisis.

The interaction of those pre-COVID-19 economic and health disparities—including a higher rate of preexisting health conditions such as hypertension and lung disease—has contributed to higher COVID-19 mortality rates for Black Americans (e.g. Benitez, Courtemanche, and Yelowitz 2020; Weimers et al. 2020). According to the APM Research Lab, Black Americans continue to experience the highest overall actual COVID-19 mortality rates (80.4 per 100,000)—more than twice the rate of white Americans (35.9 per 100,000) or Asian Americans (33.1 per 100,000), who have the lowest COVID-19 mortality rates. In 2020 more Black Americans will die of COVID-19 than will succumb to diabetes, strokes, accidents, or pneumonia. In fact, COVID-19 is currently the third leading cause of death for Black Americans (APM Research Lab 2020).

Lower Wealth, Lower Income, and Weaker Labor Market Outcomes

Median net worth of white families is 10 times higher than that of Black families (McIntosh et al. 2020). Such racial wealth gaps are well-documented and attributable to historical discrimination and exclusion from education, housing, capital, and loanable funds markets. Importantly,

these gaps have widened over the second half of the 20th century.

Growth in the Black–white wage gap has accelerated in recent years, as evidenced by a more than 20 percent increase in the Black–white wage gap between 2000 and 2020 (Gould 2020; Wilson 2020). Wage earnings are the largest subcomponent of income, which represents the total ongoing flow of resources available to households independent of wealth, and in many instances contribute to wealth accumulation.

This wage gap in part reflects persistent racial differences in labor market outcomes. Black workers are more likely to work within the low-wage labor market (Chandra 2000; Gould and Wilson 2020; Hardy, Smeeding, and Ziliak 2018). In addition to lower average earnings, Black workers face work hours that are less predictable, along with harder-to-predict schedules (Schneider and Harknett 2019), and relatively unstable employment overall (Ziliak, Hardy, and Bollinger 2011). Black workers also disproportionately reside in states where the relatively low federal minimum wage is binding (Wilson 2019).

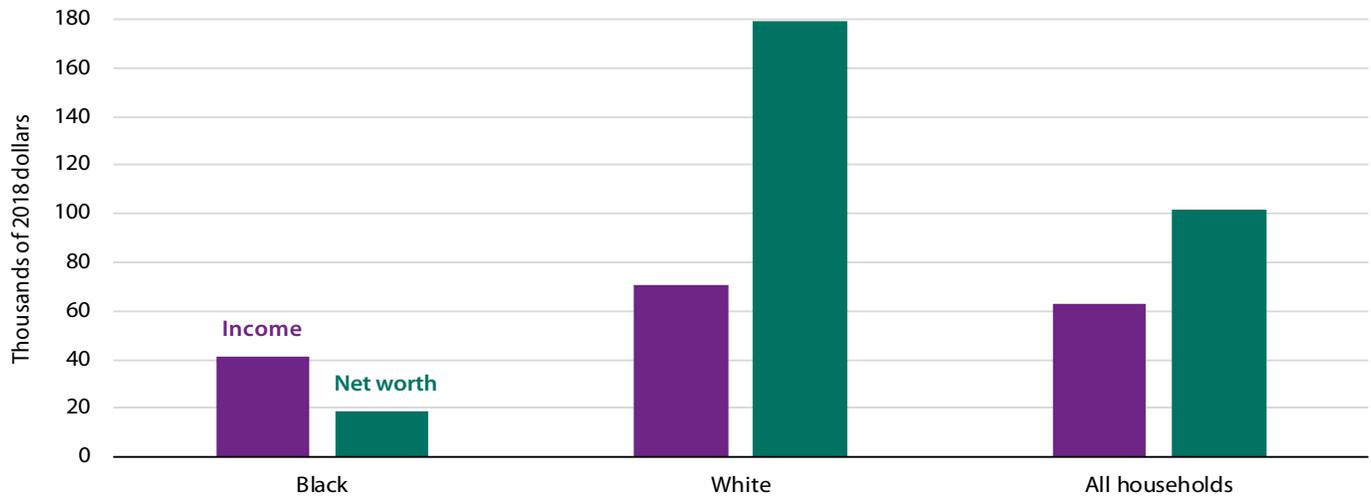
Moreover, Black workers have higher income volatility, driven in large part by higher joblessness and employment exits historically (Casey and Hardy 2018; Ziliak, Hardy, and Bollinger 2011). These racial earnings and employment gaps are strongly driven by labor market discrimination (e.g., Bertrand and Mullanaithan 2004; Holzer, Raphael, and Stoll 2006). Skills do not appear to close these gaps, either; Black Americans receive lower, albeit positive, returns to post-secondary education relative to other groups (Bartik and Hershbein 2018). Rather, these racial earnings and employment gaps are strongly driven by labor market discrimination (e.g. Bertrand and Mullanaithan 2004; Holzer, Raphael, and Stoll 2006).

As a result of those racial differences, the typical Black worker and family have lower earnings with which to absorb a large-scale economic shock such as the one brought on by COVID-19.

Black families, relative to other families, also generally lack the savings and wealth that provide a buffer in the event of job loss or unanticipated expense volatility—for example, to handle emergency medical expenses or transportation expenses (Darity and Mullen 2020; Emmons, Kent, and Ricketts 2018; Pfeffer and Killewald 2017). Recent research has shown that, even at the same income level as white households, Black households have more-severe and more-prolonged consumption declines for the same income shock (Ganong et al. 2020); this shows the vulnerability of Black households relative to other households in the face of economic disturbances (Board of Governors of the Federal Reserve System 2020). The consensus explanation for this

FIGURE 1.

Median Family Income and Net Worth in 2018, by Race



Source: Current Population Survey Annual Social and Economic Supplement (ASEC) 2019; Survey of Consumer Finances (SCF) 2016; authors' calculations.
 Note: Income data are from the 2019 ASEC, which measures income in 2018. Net worth data are from the 2016 SCF, adjusted for inflation to 2018 dollars.



greater intensity of economic shocks is the relative lack of wealth among Black households (Ganong et al. 2020; Maxwell and Solomon 2020).

Figure 1 shows Black–white income and wealth gaps in 2018. In the most recently available data, the median Black household’s income is approximately \$40,000, relative to the median white household’s income of approximately \$70,000. Median Black net worth is less than \$20,000, which is roughly 10 percent of white median net worth. Taken together, the package of economic resources available to Black families is far weaker and less capable of buffering against economic insecurity.

There are several historical factors behind the large and growing racial wealth gap. First, large wealth transfers in American history deliberately excluded Black Americans. These include the Homestead Act, Southern Homestead Act, GI Bill, Veterans Benefits, and other wealth transfers. Second, Black Americans faced intense discrimination in labor and credit markets, which not only blocked their access to wealth, but also diminished the value of assets they were able to secure, such as housing. Third, Black Americans were subject to wealth capture. There have been numerous instances wherein Black wealth was stolen, expropriated, and pillaged in racial attacks (Francis 2020); in addition, political intimidation left Black Americans prone to underinvest, given the strong disincentives imposed by a government apparatus historically permissive of, if not outright promoting, racial injustice and violence against Black Americans (e.g., Acharya, Blackwell, and Sen 2018; Darity and Mullen 2020). Fourth, housing policy deliberately limited the scope and scale of Black homeownership, the single greatest source of wealth. Fifth, Black Americans, historically and today, have much

lower rates of income mobility than white Americans. Finally, Black Americans generally received inferior public goods, limited investment in human capital, and insufficient legal protection.

We call attention to the case of homeownership. Among all racial groups, Black Americans are the least likely to be homeowners, and Black homeownership lags white homeownership considerably even after controlling for education, age, and geographic location (Choi et al. 2019). In fact, Black homeownership today is at a lower level than it was 30 years ago (Olsen 2018).

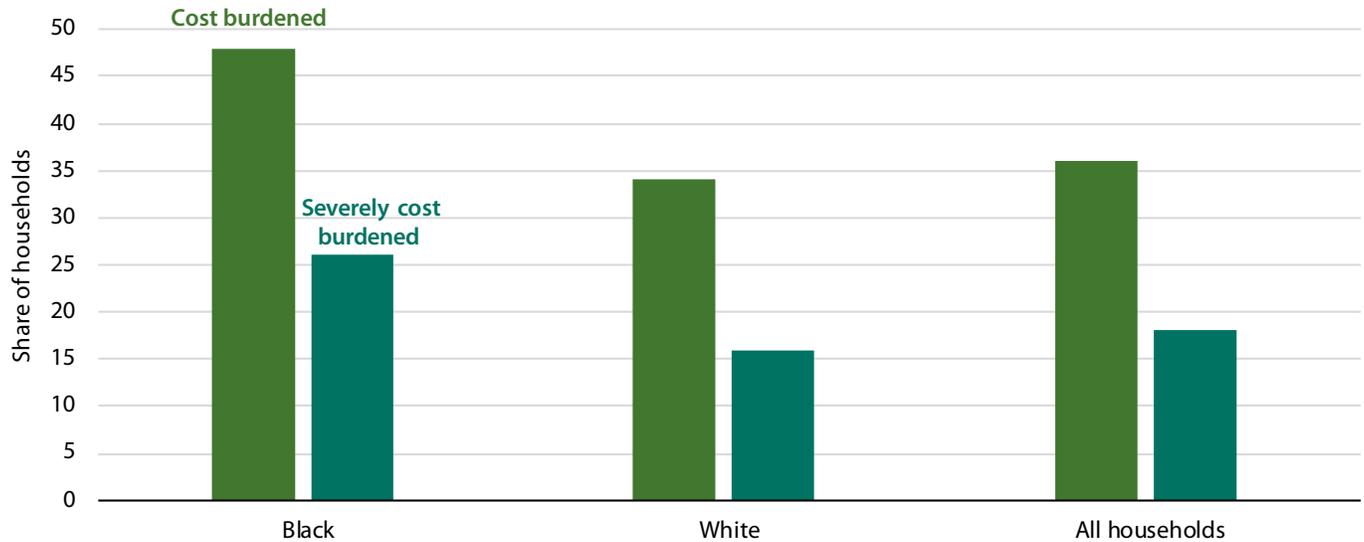
For the Black Americans that do own homes, research has shown that Black households pay significantly more in property taxes than other groups, on average more than 10 percent higher (Van Dam 2020; Wiltz 2020). This is due to the fact that although properties owned by Black Americans are generally less valuable than properties owned by others, the assessors systematically overstate the value of Black homes. And as Figure 2 shows, more Black households spend a greater share of their income on housing than do white households or the average household. This results in a higher cost of homeownership for Black households.

Convergence of the Economic and Public Health Crisis

The current context must be highlighted, since the already weaker economic position of Black workers is further worsened by the unprecedented economic shock along with a higher likelihood of Black Americans doing frontline,

FIGURE 2.

Share of Housing Cost Burdened Households in 2017, by Race



Source: American Housing Survey 2017; authors' calculations.

Note: "Cost burdened" is defined as households whose housing costs represent at least 30 percent of the household's income. "Severely cost burdened" is defined as households whose housing costs represent at least 50 percent of the household's income.

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essential work during the pandemic. Work in the low-wage employment sectors of America includes grocery store, retail, food services, and health-related fields. This is a particularly difficult convergence of circumstances: Black workers face a higher likelihood of exposure to COVID-19, and have fewer economic resources to potentially avoid the health risks associated with on-site employment where they are in direct contact with customers and coworkers (Gould and Wilson 2020).

Figure 3 shows the Black–white gap in employment in essential work. While there are more white workers doing essential work, Black and Hispanic workers are disproportionately likely to be essential workers.

In particular, Black Americans are more than twice as likely as the average worker to be employed in the health-care support service industry, which has been decimated by COVID-19 in assisted living facilities and nursing homes. Black Americans are also significantly overrepresented in the personal care and service and food preparation industries, which are disproportionately essential worker industries. Black Americans also comprise more than a quarter of the meatpacking industry's frontline workforce, which has seen several outbreaks of COVID-19. And, among those out of the labor force, the outbreak of the virus among the incarcerated has a disproportionate racial impact as well, given the overrepresentation of Black Americans in the prison population (Cox 2015).

In addition to this, Black Americans on average share their living quarters with more people—while only 48 percent of white households have three or more members, more than

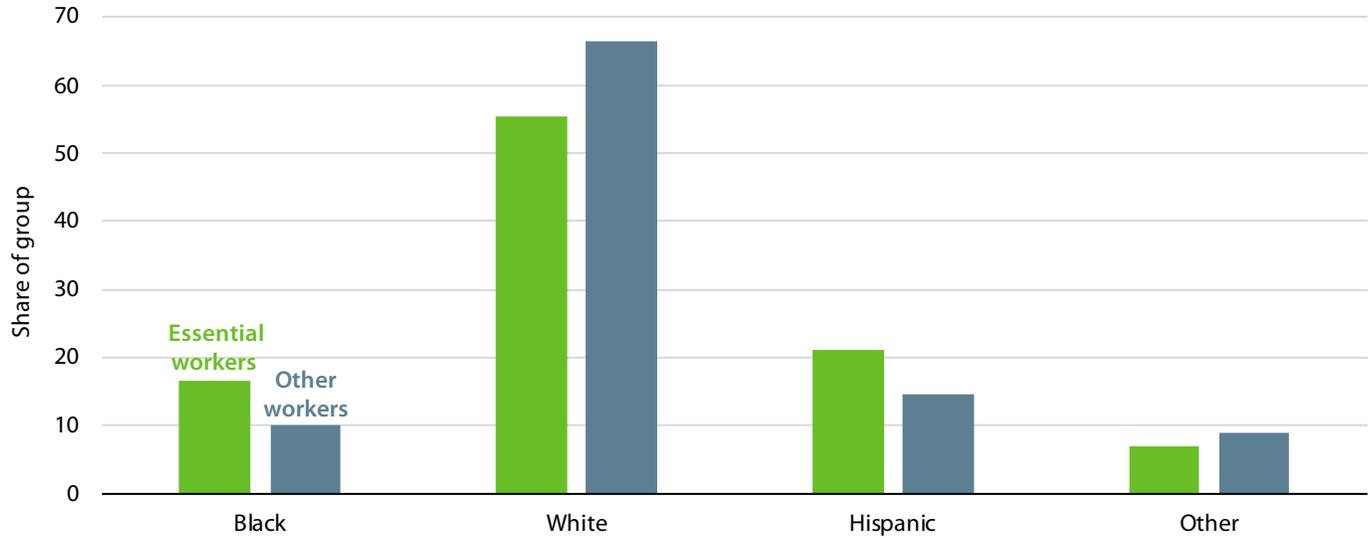
58 percent of Black households do (Pew Research Center 2013). This increases the scope for exposure to COVID-19 in living quarters for Black households. For nearly all of the health conditions that increase the likelihood of serious COVID-19 complications, Black Americans have higher rates of prevalence (Centers for Disease Control and Prevention [CDC] 2020). For example, Black Americans are more likely to have cancer (Simon 2019), to be obese, to have diabetes, and to have kidney disease relative to white Americans (National Institute of Diabetes and Digestive and Kidney Diseases 2014). Black Americans also have higher rates of lung disease than do white Americans (Kochanek et al. 2019), which is particularly pertinent for a respiratory illness such as COVID-19. Death rates among Black Americans due to diabetes, heart disease, kidney disease, and obesity are all higher than among white Americans (CDC 2018).

How Changes in the Safety Net and State Economic Relief Would Affect Black Households

The reduced demand and reduced economic activity related to COVID-19 ushered in large economic relief packages. These have had positive impacts, likely reducing poverty and improving economic well-being as a result; nonetheless, poverty will likely rise beyond levels observed during the Great Recession as the economic crisis continues without additional significant policy intervention (Parolin and Wimer 2020). For Black households affected by a pandemic-

FIGURE 3.

Essential Workers in 2020, by Race



Source: Nunn, O'Donnell, and Shambaugh 2020.

Note: Data are from the Current Population Survey for April 2020. Please see the appendix table in Nunn, O'Donnell, and Shambaugh (2020) for a detailed list of essential occupations.



related job loss, the policies proposed in the recent HEROES act would cut poverty rates by an estimated 50 percent (Giannarelli et al. 2020).

Given that Black Americans are overrepresented among the poor and near-poor (Heggeness and Hokayem 2014), they are more economically vulnerable during an economic crisis. This means that policy uncertainty surrounding the provision and extension of federal aid via transfer programs and social safety-net benefits—including federal unemployment compensation and food assistance—disproportionately affects Black households.

Federal enhancements to safety-net programs administered by state and local governments could yield substantial benefits for many Black Americans, supplementing lower incomes and the relatively lower benefits that many Black Americans receive. Prior to COVID-19, evidence pointed toward stark differences in the level of unemployment insurance benefits, cash assistance, employment security, and minimum wages by state—with the implication that many Black Americans were likely to receive relatively lower benefit levels due in part to residing in less-generous states (Bitler and Hoynes 2016; Edwards 2020; Floyd 2020; Hardy, Samudra, and Davis 2019; Parolin 2019; Wilson 2019). Separately, evidence also suggests that Black Americans face discrimination in the welfare system (e.g., Fording et al. 2007). Accordingly, federal economic relief can help to mitigate these pre-COVID gaps in safety-net generosity.

Federal aid to state governments would boost the aggregate economy, in part by helping to maintain public-sector employment—the largest labor market sector for Black

Americans (Pitts 2011). Such aid would also support state government safety-net programs as well as state government-funded nonprofits that provide food and housing assistance. In addition to providing aid to state residents facing financial hardship, supporting nonprofits would help buoy employment. Nonprofits represent 12 percent of the American workforce. Collectively, aid packages that retain government and nonprofit employment likely support the employment of many Black families.

Consequences of COVID-19 for Black Households

The unprecedented public health and economic shock of COVID-19—and the additional burden placed on family economic resources and health—will potentially worsen the already diminished long-run outcomes expected for Black households. Even prior to COVID-19, long-run outcomes were worsened by inequality in access to strong safety nets, along with low wealth, low and unstable incomes, and residency in high-poverty, segregated neighborhoods (e.g., Morrissey and Vinopal 2018).

In the current crisis, what is emerging is a very plausible link between COVID-19 and race, with economic status as an important—though incomplete—mechanism. New research shows that a 10-percentage-point increase in the number of Black residents within a zip code is linked to 9.2 more COVID-19 cases per 10,000 residents. Although a meaningful share of this neighborhood-level disparity in COVID-19 cases can be explained by income mobility and incarceration

rate differences, much of the disparity remains unexplained (Benitez, Courtemanche, and Yelowitz 2020).

Meanwhile, a relatively larger proportion of Black households, and the dependent children within these households, face food insecurity (U.S. Department of Agriculture [USDA] 2018) and housing instability (Greene and McCargo 2020). Figure 4 shows measures of food insecurity among all households and households with children from April to July 2020, and very low food security among children from June and July 2020. Food hardship is elevated over the past few months, as a result of job loss as well as the loss of subsidized school meal programs through the K–12 educational system. The increase in food insecurity has occurred even though pandemic food assistance benefits have reduced these hardships substantially (Bauer et al. 2020).

In the current economic environment, housing insecurity looms as a constant risk due to the potential for evictions and foreclosures. Between July 16 and 21, 2020, 12.5 percent of Americans were experiencing housing distress—meaning they were late on their rent or mortgage payments or their payments were deferred (Ricketts 2020). Housing distress among Black renter families is more acute, at 30 percent of Black renters compared to 15 percent of white renters. As such, expiring eviction bans and loan forgiveness agreements could exert additional pressure on many Black families.

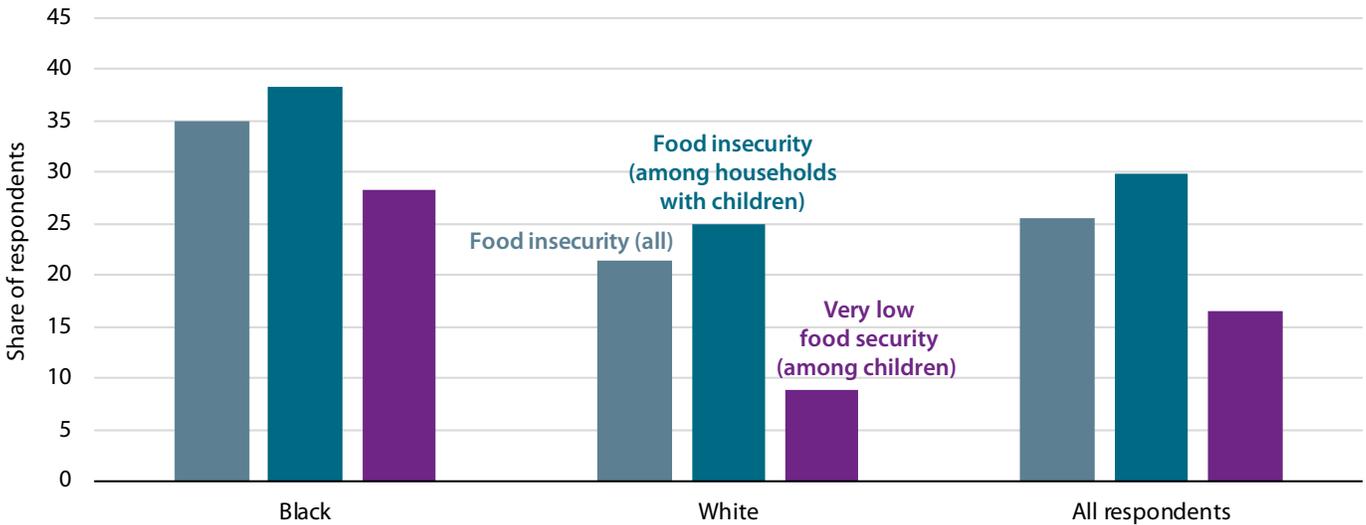
Importantly, Black Americans are twice as likely to rent their home as compared with their white counterparts (Brenson, Fulton, and Overton 2020). And, in the absence of continued federal aid or an accelerated economic rebound, as many as

one in five renters could face eviction by the end of September (McKay, Neumann, and Gilman 2020). Throughout July and August, evictions were already underway in many U.S. cities (Wiltz 2020). Much of this economic insecurity existed pre-COVID-19, and housing represents a primary form of financial distress (Ellen et al. 2020). Such forms of economic hardship have consequences for two generations as well, given that food insecurity (Alaimo et al. 2001) and housing instability (Brennan, Reed, and Sturtevant 2014; Hardy and Marcotte 2020) are both negatively associated with children’s educational performance and achievement.

STRESSES FOR BLACK FAMILIES WITH CHILDREN

Access to affordable and high-quality child care represents another challenge disproportionately affecting Black families. Child care promotes learning and socioemotional development during a child’s earliest years, and it facilitates parental labor force participation (Morrissey and Warner 2007). In the absence of access to high-quality child care, many workers must make difficult choices about whether and how they can ensure the safety and healthy development of their children during work hours. Child care was relatively less affordable for Black families prior to the pandemic, and they will now face additional supply constraints, given that many child-care centers have been closed in the interest of public health. Owing to the convergence of economic and public health considerations, this has adverse labor market consequences for Black families, since they make up a disproportionate share of the workers in the child-care sector—one that has lost a quarter of its jobs since the outset of the pandemic. Many essential workers without child-care

FIGURE 4.
Food Insecurity Rates during COVID-19, by Race



Source: Census Household Pulse Survey 2020; Schanzenbach and Tomch 2020; authors’ calculations.

alternatives will choose between a set of bad choices: return to work with unstable or unsafe care options for their children, or forgo work altogether (Sethi, Johnson-Staub, and Robbins 2020).

Disconnectedness from in-person education represents yet another mechanism that could disproportionately hurt socioeconomic outcomes of Black Americans in the long run. The potential racial and economic inequality emerging from the shift to online education, and the differential responses that affluent and white families are disproportionately able to make in response (e.g., at-home tutors and other supports), could exacerbate educational achievement gaps (Bueno 2020). As the pandemic exacerbates many forms of inequality, including educational inequality, there are documented economic gaps in online educational engagement and participation (Opportunity Insights 2020). Such challenges will also shape the experiences of Black Americans who pursue postsecondary credentials and degrees.

To the degree that educational activities are disrupted, it may be more difficult for many Black students to restart along planned educational pathways. This is especially true given that Black students' families typically face harsher economic conditions relative to their white counterparts. Lowered educational achievement and attainment could have substantial long-term negative consequences. Initial survey evidence points toward racial gaps in how COVID-19 has disrupted educational plans; Black and Hispanic students are more likely to have altered or terminated their post-secondary education plans (Strada Center for Consumer Insights 2020).

Stress levels for adults who are more likely situated in low-wage work with high levels of scheduling instability are generally higher, which leads to greater psychological distress, lowered sleep quality, and lower self-reported happiness (Schneider and Harknett 2019). The pandemic likely worsened these sources of stress in many workplaces. This has consequences for both the adults directly affected by these changing conditions, as well as for the children who are dealing with enormous challenges and then interacting with their parents within this new reality. Going forward, the disproportionate

amount of stress related to COVID-19 on Black households will continue to take a toll. Indeed, social scientists have previously documented that exposure to toxic levels of stress within a child's family and neighborhood environment could translate to longer-term developmental consequences (Evans and Wachs 2010; Ganzel and Morris 2011; Hardy, Hill, and Romich 2019; Shonkoff et al. 2012).

Conclusion

America's economic situation has substantially deteriorated since the onset of the COVID-19 crisis. Gross domestic product fell at an annualized rate of 32.9 percent from April to the end of June 2020, the largest decline on record (Bureau of Economic Analysis 2020). Families across race and ethnicity are feeling the pain, but Black Americans are generally in an even weaker position to absorb this economic adversity. Black families face a range of economic risks without the buffer from stable employment, adequate earnings, or sufficient savings and wealth accumulation.

Amid substantial economic and policy uncertainty, there is the potential for this crisis to have negative, long-term economic and educational consequences. COVID-19 has exposed and further highlighted existing racial inequality across economic and health status. As a result, these preexisting factors have left many Black families at greater risk to bear the consequences of this historic economic crisis. Inadequate additional federal economic relief—such as legislation that does not provide enough unemployment assistance and supplements to the safety net—potentially threatens the economic security of Black families (Brenson, Fulton, and Overton 2020).

Ultimately, robust, reliable fiscal policy responses to the crisis will help to reduce the negative impacts of the pandemic on families. If the economic and public health crisis continues at its current pace, many American families will require such assistance, including a disproportionate share of Black families.

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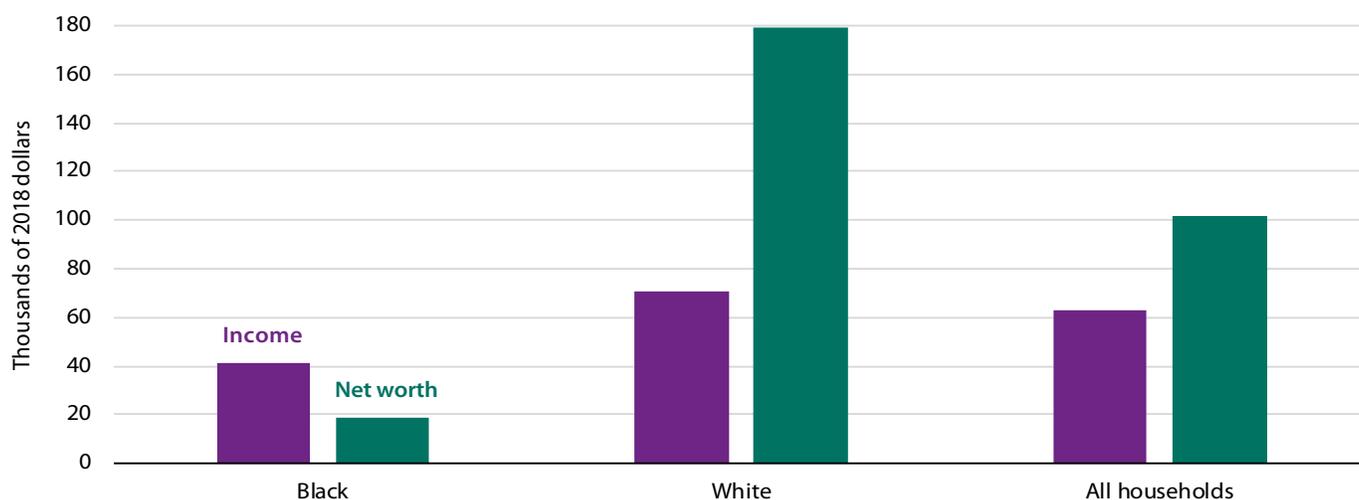
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FIGURE 1.

Median Family Income and Net Worth in 2018, by Race



Source: Current Population Survey Annual Social and Economic Supplement (ASEC) 2019; Survey of Consumer Finances (SCF) 2016; authors' calculations.
Note: Income data are from the 2019 ASEC, which measures income in 2018. Net worth data are from the 2016 SCF, adjusted for inflation to 2018 dollars.

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