

# THE POVERTY AND INEQUALITY REPORT

## The Stanford Center on Poverty and Inequality

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**T**he Stanford Center on Poverty and Inequality (CPI) is a nonpartisan organization dedicated to monitoring trends in key poverty and inequality outcomes, understanding the sources of such trends, and developing science-based policy targeting those sources. We present here our fourth annual report examining the “state of the union” on poverty, inequality, and labor market outcomes. In this year’s report, we focus on racial and ethnic gaps in poverty and inequality, with the simple objective of describing the size of those gaps in 10 key domains (i.e., employment, poverty, safety net use, housing, education, incarceration, health, earnings, wealth, and mobility).

There are of course all manner of excellent studies that address each of these domains separately. This report provides an integrated analysis that brings together evidence across domains and thus allows for a more comprehensive assessment of where the country stands. In the absence of such integrated analysis, it is easy to default to piecemeal policy targeted to particular disparities, even when those disparities emanate from common causes and might be addressed in a more coordinated and powerful way. There is some virtue, then, in occasionally stepping back and asking whether the country’s piecemeal approach to policy is working.

What are the main descriptive findings coming out of our report? It would be difficult not to be concerned, first and foremost, by the profound inequalities that persist in many domains. This point may be illustrated, for example, by considering racial and ethnic disparities in homeownership, long viewed as the litmus test of social inclusion and an especially important commitment within the American Dream. We might well have hoped that, some eight decades after the New Deal’s expansion of home mortgages, the most important racial and ethnic inequalities in homeownership would have been largely resolved. The home-mortgage expansion, as Matthew Desmond nicely

lays out, in fact had quite the opposite effect. In 2014, a full 71 percent of white families lived in owner-occupied housing, as compared with 41 percent of black families and 45 percent of Hispanic families (see p. 16). This gap is *partly* attributable to the still-substantial wealth, income, and employment gaps among racial and ethnic groups. The prime-age employment ratio for black men, for example, was 11 percentage points lower (in January 2017) than the corresponding ratio for white men (see p. 6). There are likewise large racial and ethnic gaps in educational test scores, educational attainment, poverty, wealth, and much more.

This is not to gainsay the importance of declining disparities in many domains. The ongoing effort to reform the country's criminal justice system has, for example, yielded modest changes and may ultimately bring about truly transformative ones (see pp. 24–26). In 2015, 9.1 percent of young black men (ages 20–34) were incarcerated, a rate that is 5.7 times higher than that of young white men (1.6%). The corresponding disparity ratio in 2000 was as high as 7.7 (i.e., black incarceration rate: 11.5%; white incarceration rate: 1.5%). Although the racial gap in incarceration has thus only begun to decline, the changes have been larger in some of our other domains (see, especially, pp. 39–41).

In almost all domains, the gaps nonetheless remain substantial, indeed the rate of decline is sometimes slowing down or even stalling out. The earnings series provide a case in point: Between 1970 and 2010, the earnings gap between whites and blacks narrowed somewhat, but most of the decline was secured in the immediate aftermath of the Civil Rights Movement (see p. 32). At the end of the series, median earnings for black males were still 32 percent lower than median earnings for white males, a modest improvement of just 7 percentage points in four decades. Meanwhile, the median earnings gap between white and Hispanic males actually grew, from 29 percent to 42 percent. It also bears noting that much recent policy, such as anti-immigrant legislation, has had the effect of increasing rather than reducing inequality.

This evidence suggests that major institutional reforms, like the Civil Rights Movement, often do more disruptive work than the “gradualist processes” that we often bank on. It has been commonplace to emphasize such gradualist changes as (a) the diffusion of meritocratic and bureaucratic hiring practices, (b) the expansion of secondary and post-secondary schooling, or (c) the “weeding out” of firms that are uncompetitive by virtue of their inefficient tastes for discrimination. If gradualism of this sort ever worked, it seems that it has nearly reached its limits.

What would a more disruptive approach entail? There is growing evidence that a very substantial reduction in disparities could be secured by simply equalizing “starting conditions” across racial and ethnic groups. As both Sean Reardon (pp. 20–23) and Rucker Johnson (pp. 27–31) emphasize, much of the inequality that shows up later in the life course is due to the one-two punch of (a) profound disparities in family background (e.g., racial-ethnic differences in parental wealth, education, and income), and (b) profound disparities in neighborhood conditions (e.g., racial-ethnic differences in such neighborhood amenities as high-quality schooling, low crime rates, or the absence of environmental hazards). These very unequal starting conditions are of course then reinforced by subsequent exposure to educational, labor market, and criminal justice institutions that are riddled with discriminatory practices. Will it suffice, then, to eliminate disparities in starting conditions? Of course not. It is nonetheless especially attractive to cut off at the source those processes of cumulative advantage and disadvantage that convert smaller differences early in life to larger ones in adulthood.

The upshot is that, insofar as the country were ever to commit to fair competition among children of *all* racial and ethnic groups, substantial headway in reducing racial and ethnic inequalities could be made. Although some might label this “disruptive reform,” it in fact entails nothing more than a full-throated and authentic commitment to old-fashioned equal opportunity initiatives. ■