

# Dēmos

A NETWORK FOR IDEAS & ACTION

## African Americans, Latinos and Economic Opportunity in the 21st Century

Jennifer Wheary

FUTURE  
MIDDLE  
CLASS  
SERIES



## Demos Board of Trustees

---

**Stephen Heintz, Board Chair**  
Rockefeller Brothers Fund

**Sara Horowitz**  
Working Today

**Miles Rapoport**  
President, Demos

**Benjamin Binswanger**  
Case Foundation

**Eric Liu**  
Author and Educator

**David Skaggs**  
Center for Democracy  
and Citizenship

**Robert Franklin**  
Emory University

**Arnie Miller**  
Issacson Miller

**Ernest Tollerson**  
New York City Partnership

**Jehmu Greene**  
Rock the Vote

**Spencer Overton**  
George Washington School of Law

**Ruth Wooden**  
Public Agenda

**Charles Halpern**  
Visiting Scholar, University of  
California Law School, Berkeley

**Wendy Puriefoy**  
Public Education Network

*Affiliations are listed for identification purposes only.*



## About Demos

---

Demos is a non-partisan, non-profit public policy research and advocacy organization. We are committed to a long-term effort to reframe and redesign policy and politics to meet the complex challenges of the 21st century. Through our work, we seek to build a society where America can achieve its highest democratic ideals—a nation where democracy is robust and inclusive, with high levels of electoral participation and civic engagement, and an economy where prosperity and opportunity are broadly shared and disparity is reduced.

Founded in 1999, Demos' work combines research with advocacy—melding the commitment to ideas of a think-tank with the organizing strategies of an advocacy group.

## About the Economic Opportunity Program at Demos

---

The Economic Opportunity Program addresses the widespread economic insecurity and declining opportunity that characterizes American society today. Our efforts focus on envisioning and ensuring the future middle class by promoting new ideas in the areas of higher education, income and asset-based policy. Our work examining the growth of personal debt among low- to middle-income households is indicative of the new challenges Americans face as they try to get by—let alone get ahead.

# Dēmos

A NETWORK FOR IDEAS & ACTION

## African Americans, Latinos and Economic Opportunity in the 21st Century

Jennifer Wheary

**FUTURE  
MIDDLE  
CLASS  
SERIES**



## Acknowledgments

---

The author would like to thank Cy Richardson at the National Urban League and Beatriz Ibarra and Eric Rodriguez at the National Council of La Raza for feedback on early drafts of this report.

## The Future Middle Class Series

---

*African Americans, Latinos and Economic Opportunity in the 21st Century* is the third in a series of Demos publications that look specifically at growing the middle class in the United States. Other reports in this series are *Millions to the Middle* and *Measuring the Middle*. *Millions to the Middle* traces how post-war public policies built part of the fabric of American life. *Measuring the Middle* suggests a new, more comprehensive way of looking at the middle class through a range of characteristics that combine to ensure financial security. Future Demos reports will continue to examine America's opportunity structure in the wake of demographic change, inequalities in access to higher education, and growing inequality.

## Disclaimer

---

The views expressed in this report do not necessarily reflect the views of the Demos Board of Trustees.

© 2006, Demos: A Network for Ideas and Action

Demos: A Network for Ideas and Action  
220 Fifth Avenue, 5th Floor  
New York, NY 10001  
212-633-1405 (p)  
212-633-2015 (f)  
[www.demos.org](http://www.demos.org)

# Contents

---

<b>Summary</b>	<b>I</b>
<b>Introduction</b>	<b>2</b>
The Impact of Discrimination on Growing the Middle Class	4
<b>Demographic Change</b>	<b>5</b>
<b>Trends in the African American and Latino Middle Classes</b>	<b>7</b>
Income	9
Assets	10
Net Worth and Ownership of Financial Products	10
Homeownership	12
Education	13
Forecasting the Impact of Demographic Change: A View from the State Level	15
Comparing Middle Class Security	16
<b>Policies to Grow the Middle Class</b>	<b>19</b>
Expanding Access to Higher Education	19
Boosting Homeownership and Savings	20
Closing the Gap Between Wages and the Cost of Living	21
Stopping Discriminatory Lending Practices	22
Reducing Personal Debt	22
<b>Conclusion</b>	<b>23</b>
<b>Notes</b>	<b>24</b>



## Summary

---

The United States faces major challenges in sustaining a strong middle class in the decades ahead. Rapidly changing, often volatile economic conditions are making it more difficult to enter the middle class—and stay there. Even as the bar to a middle class life is raised higher, economic opportunity is fading. As a result, the most rapidly growing groups in the U.S.—particularly African Americans and Latinos—face growing obstacles to entering, and staying in, America’s middle class.

The United States has a history of successfully incorporating individuals from divergent backgrounds and circumstances into the security and quality of life associated with being middle class. Public policy had a definitive hand in building America’s middle class in the years following World War II. This success enabled many, including Eastern and Southern European immigrants, to integrate more fully into American life and realize the American Dream. Educational attainment rose as the GI Bill and Higher Education Act of 1965 increased college access and affordability. Homeownership increased as government programs enabled more people to obtain home loans, made mortgage interest tax deductible, promoted suburban housing development and enacted reforms targeting discriminatory lending practices. Income and wealth grew as legislation raised the minimum wage to a historic high in 1968 and policy bolstered the economy, ensured a tight labor market and facilitated union organizing.

While these post-war policy efforts created an infrastructure of opportunity that lifted millions into the middle class, they did so in an uneven fashion. Anti-discrimination policies arrived late to the process of constructing the middle class and have been incomplete in their achievement. African Americans and Latinos, the two largest racial and ethnic groups in the country, have made strong economic progress since the late 1960s and early 1970s and now have a greater presence in the middle class than ever before. Yet the incorporation of these two groups into the American Dream is far from complete. Educational attainment, homeownership, income level and wealth are still significantly lower among African Americans and Latinos than among whites.

Meanwhile, America’s infrastructure of opportunity has begun to erode. The post-war emphasis on increasing educational attainment, homeownership and wages has given way to dramatic gaps between rich and poor—and stagnant, even declining, mobility.

The combination of persistent racial inequities and an eroding opportunity infrastructure raises questions about the ability of the fastest growing groups of Americans

**BETWEEN 2000 AND 2050, THE WHITE POPULATION WILL GROW 7 PERCENT, THE AFRICAN-AMERICAN POPULATION 71 PERCENT, AND THE LATINO POPULATION 188 PERCENT.**

to move into the middle class. Over the next five decades, the white population will grow 7 percent while the African American and Latino population will increase 129 percent. By 2050, African Americans and Latinos will make up about 40 percent of the United States population. With growth proceeding at a rate 18 times greater than the white population, African Americans and Latinos should constitute a large portion of the future middle class—but this end result is far from certain. In fact, since 1984, Latinos have actually lost ground on major indicators of motion toward the middle class. African Americans have gained ground in the last three decades, but only slightly and far less in comparison to initial gains experienced by whites in the post-war years. Even with past gains that helped open access to the middle class, dramatic disparities still exist between the economic circumstances of Latinos and African Americans and those of the white population. Add to this a universal evaporation of affordable health-care, declining real wages and skyrocketing education costs, and there is real cause for concern about our nation’s future.

Drawing on recommendations from a previous Demos report, *Millions to the Middle*, we advocate policies that reinforce educational and economic opportunity for all Americans as the building blocks of a representative middle class. Foremost among these efforts should be developing programs that make college affordable, that foster homeownership and asset building and that ensure that work pays a living wage. We also advocate addressing discriminatory lending practices head on as one way to attack America’s ongoing legacy of racial discrimination. We must bolster our existing opportunity infrastructure to prepare for the future middle class.

## Introduction

---

The ability to progress economically is part of the American Dream. Yet this ability is not solely governed by individual effort. In the years following World War II, government programs built an infrastructure of opportunity by making higher education and economic opportunity available to a larger group of people than ever before. The GI Bill made college possible for many veterans. The Higher Education Act of 1965 provided need-based aid for low-income students and helped close both class and race gaps in college enrollment. Federal housing policy and government-backed programs helped would-be homebuyers amass down payments, enabled more people to get mortgages, made mortgage interest tax deductible and encouraged suburban housing development. Labor and economic policies raised the minimum wage to a historic high in 1968, bolstered the economy, ensured a tight employment market, facilitated union organizing and helped grow incomes and build wealth.

Such post-World War II policies lifted millions into the middle-class and the financial security and ability to support families and save for the future that it represented. However, these efforts were imperfect and incomplete. They did not extend opportunity equally to all Americans and in some cases excluded nonwhite Americans by intent or implementation. As a result, the expansion of the middle class in the post-war years occurred at an uneven pace and was much stronger among whites than



among other groups. It took the Civil Rights Act, anti-discrimination reform in lending and education practices, anti-redlining measures and affirmative action to increase access to the middle class for the nonwhite population. As a result of these efforts, African Americans and Latinos now have a greater presence in the middle class than ever before. But educational attainment, homeownership, income and wealth are still significantly lower among these two groups than among whites.

After decades of post-war growth, the infrastructure of opportunity built between the 1940's and 1960's has begun to weaken. College is becoming less affordable and accessible. Housing and healthcare costs are rising sharply. Secure and good paying jobs with benefits are becoming scarcer. Financial industry deregulation has helped saddle Americans with heavy burdens of high-interest debt. All of these trends have made it increasingly difficult for Americans to enter and remain in the middle class.

The net result of these trends is stagnating mobility and rapidly growing inequality. More and more families remain stuck in the same income rut, unable to build wealth and improve their position through hard work and thrift. The ability of the bottom 20 to 40 percent of earners to move up to the next income quintile has declined steadily over the last few decades. Meanwhile, the ability of the highest earners to move even higher has increased.<sup>1</sup> Between 1979 and 2000 the incomes of households in the lowest fifth of earners grew by only 1 percent. In the same time frame, the incomes of households in the top fifth of earners grew by 70 percent, and those of the top 1 percent of earners grew by 184 percent.<sup>2</sup>

Current trends pose a serious threat to core American values about the importance of opportunity. These values include:

- *Work should be rewarded* and enable a secure life with basic protections against medical disasters or impoverished old age.
- *Self-improvement and upward mobility should be possible*, particularly by sending new generations to college.
- *Thrift and planning should be encouraged*, not just through help in owning a home and building savings, but also through protection of financial assets from usurious practices.
- *We are all in this together*, with those Americans who have achieved success pledging to ensure that the ladder of opportunity remains intact.

The growing betrayal of these values would be troubling under any circumstances. What is especially alarming, however, is that new obstacles to entering the middle class—and staying there—are growing at the same time that the United States is undergoing profound demographic changes that demand a commitment to shared economic opportunity. One-half of the U.S. population will be nonwhite by 2050. (Nonwhite is used in this report to refer to both individuals who are Latino and individuals who are non-Caucasian.) Between 2000 and 2050, the white population will grow 7 percent. In contrast, the African-American population will grow 71 percent, the Latino population will increase 188 percent and the Asian population will grow 213 percent.<sup>3</sup>

**IN 2002, QUALIFIED AFRICAN-AMERICAN AND LATINO APPLICANTS WERE ABOUT TWICE AS LIKELY AS WHITES TO BE REJECTED FOR MORTGAGES AND REFINANCE LOANS.**

While the Asian population will see the greatest percentage growth, this paper focuses on the trajectory of African Americans and Latinos into the middle class as a particularly important area for study and policy intervention. Data on the Asian population shows that in relation to economic opportunity this group has a much stronger position than African Americans and Latinos. Not only are Asian median incomes dramatically higher than African American and Latino incomes, they are in fact higher than white incomes.<sup>4</sup> Members of the Asian population are also significantly more likely than whites, African Americans or Latinos to hold a four-year college degree.<sup>5</sup>

**NEARLY ALL U.S. POPULATION  
GROWTH OVER THE NEXT  
FIVE DECADES WILL BE AMONG  
GROUPS WHO ARE NOT  
SOLIDLY ESTABLISHED WITHIN  
THE MIDDLE CLASS.**

Another reason to focus on the African American and Latino populations is that African Americans and Latinos are the largest racial and ethnic groups in the country today. This will continue to be case as both groups grow more dramatically than the white population and increase to 39 percent of the country. By size and growth rate, African Americans and Latinos should figure prominently in the future middle class. However, with vast disparities in economic opportunity still in place, and threats to past progress in plain evidence, it remains an open question whether this will be the case.

In fact, if current economic gaps hold or grow as is expected, there will be ramifications for the country as a whole. Projections suggest that within 15 years the gaps in opportunity experienced by African Americans and Latinos today will result in declining education and income levels that will affect the overall productivity and economy of the country.<sup>6</sup>

The U.S. has a history of successfully incorporating individuals from divergent backgrounds and circumstances into the American Dream. Between the late 19th and early 20th century, millions of immigrants speaking a wide range of different languages entered the U.S. Many of these immigrants, and their sons and daughters, became the post-war middle class. Today, and in the decades ahead, we face a similar challenge of creating an inclusive and expanding middle class, but one even larger in scope and set against the backdrop of seismic economic shifts that make it harder to succeed.

**THE IMPACT OF DISCRIMINATION ON GROWING THE MIDDLE CLASS**

In building the middle class of tomorrow, the United States must contend with a legacy of past discrimination that will structure patterns of wealth and opportunity well into the 21st century. After World War II, programs such as the GI Bill, subsidies for first-time home buyers and funding for suburban development enabled the movement of millions into the middle class. (For further discussion of policies and programs that helped build the modern middle class, see two previous Demos reports: *Millions to the Middle* and *Measuring the Middle*.) However, because of discriminatory practices in their implementation, large scale post-war investment in building the middle class overwhelmingly benefited the white population and proceeded in many cases to the detriment of other groups. Many programs conceived in theory to support all Americans were limited in practice to helping whites find and keep well-paying jobs, achieve economic security and build assets.<sup>7</sup> For example, many African Americans were prevented from taking advantage of the hallowed GI Bill because numerous all-white universities denied them admission and African American universities had a very limited

number of slots. For another example, low-cost loans for businesses were generally not extended to African American neighborhoods until anti-discrimination policies were enacted in the 1960s and 1970s.

Inequities were particularly pronounced in the area of housing. Many white families moved into secure middle-class status because of significant financial assets built on real estate gains. Most nonwhites were unable to share in these gains because of discriminatory practices that initially denied them low-interest government loans and barred them from investing in homes in booming suburban areas. These circumstances are part of the reason that even well-educated nonwhites today have a far lower net worth than their white counterparts. Much research now shows that financial assets are a linchpin of middle class security—providing a cushion against adversity and also giving the next generation a head start. (See below.) The lack of assets among nonwhites not only makes it harder for many families to secure a position in the middle class. It also affects the ability of their children, and their children’s children, to secure such a position in the coming decades.<sup>8</sup>

Moreover, discriminatory practices still persist in areas directly related to economic opportunity. Many very clear examples are found in the financial services industry. In 2002 qualified African Americans applying for mortgage and refinance loans were more than twice as likely as whites to be rejected—even when comparing individuals of the same income level. Latinos were nearly two times as likely to be rejected.<sup>9,10</sup> When it comes to auto loans, African Americans and Latinos are more likely than whites to be assessed a finance markup charge by lenders. Comparing individuals in similar credit categories who are charged finance markups, African Americans and Latinos pay charges that are nearly double those paid by whites.<sup>11</sup>

The policies discussed in this paper seek to strengthen access to the middle class by attacking structural problems that limit opportunity for all Americans, particularly those on the lower end of the income spectrum. Efforts to help all low- and moderate-income Americans enter the middle class can play an important role in improving the mobility of African Americans and Latinos who are starting out disproportionately behind. Such policies are not, however, a full remedy for bolstering access to the middle class for African Americans and Latinos. Therefore we also propose several steps to directly attack discriminatory lending practices.

## Demographic Change

---

The United States has entered a period of unprecedented demographic change, and this change will only accelerate in the coming decades. While much has been made of the looming retirement of the Baby Boomers, changes in the ethnic and racial composition of the U.S. population are equally profound. Census Bureau forecasts tell us that by 2050 39 percent of the population will be African American or Latino. Between 2000 and 2050, the white population will grow just 7 percent. In contrast, the African American population will grow 71 percent and the Latino population will grow 188 percent. Latinos are already the largest minority group in the U.S. and will continue to be so. By 2050 the number of Latinos in the U.S. will reach 103 million—that’s 24 percent of the population, or nearly one in four Americans.<sup>12</sup>

## Projected US Population, in Millions

	2000	2050
African American alone	35,818	61,361
Latino (of any race)	35,622	102,560
White	195,729	210,283
<b>Total</b>	<b>282,125</b>	<b>419,854</b>

Source: U.S. Census Bureau, 2004, "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin," Internet Release March 2004.

While growth of the Latino population will be a large part of population change over the next decades, the African American population is also projected to grow significantly to more than 60 million by 2050. Together, African Americans and Latinos currently make up one-quarter of the population. This will grow to nearly two-fifths of the population by mid-century.

## Projected US Population, Percentage By Group

	2000	2050
African American	12.7	14.6
Latino (of any race)	12.6	24.4
White	69.4	50.1

Source: U.S. Census Bureau, 2004, "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin."

Racial and ethnic diversity is already more prominent in the under 24 population. Among individuals 24 years of age or younger, 33 percent are African American or Latino. This will grow to 45 percent by 2050.

## African American and Latino US Population, Percentage by Age

	24 Years & Under
2000	33
2010	36
2020	39
2030	41
2040	43
2050	45

Source: U.S. Census Bureau, 2004, "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin"

The greater expansion of the African American and Latino populations is already underway. The Latino population grew by 4 percent between July 2003 and July 2004. The African American population grew by 1 percent. Meanwhile, the white population grew by only 0.3 percent. Latinos accounted for nearly one-half of national population

growth between July 2003 and July 2004. For the first time in the last two decades, more than half of Latino population growth came from births, rather than from immigration.<sup>13</sup>

Such demographic trends have ramifications for America's future as a middle class nation. Simply put, nearly all the U.S. population growth over the next five decades will be among groups who are not yet solidly established within the middle class and who face significant obstacles in climbing into the middle class in a postindustrial era.

## Trends in the African American and Latino Middle Classes

---

The question of how quickly African Americans and Latinos are moving into the middle class cuts to the heart of what kind of nation America will become in the 21st century. However, researchers and policymakers know far less about the rate of such progress than one might hope.

Much of the research on economic opportunity among African Americans has targeted the topics of poverty and income disparity. Discussions of the African American middle class have focused on sociological and political dynamics within the African American community rather than on trends in economic opportunity and what they suggest for the future.<sup>14</sup> The sociological and political dynamics that have been analyzed include the African American community's ongoing suspicion of government institutions and the impact of this distrust on civic engagement, tensions between members of the community who have moved up economically and those who have not, and the pressures middle class African Americans feel to straddle African American and white culture. Dynamics such as these hold implications for the transition of African Americans into the middle class. But in this paper we choose to focus on the uncovered territory of what current trends in economic opportunity suggest for the future.

Policy and market research organizations have provided more consistent data on an emerging Latino middle class.<sup>15</sup> These studies provide an interesting look at differences between recent Latino immigrants and second- and third generation Latinos. They also suggest that length of time in the country and level of assimilation are two factors that influence the likelihood of Latinos to enter into the middle class. These types of studies are laying the foundation for more consistent reporting and data on the long-term transition of Latinos, and more generally immigrants of all ethnicities, into the middle class.

When considering the progress African Americans and Latinos have made in entering the middle class, some measures show dramatic growth. Others show more modest gains. Below we review data relating to the growth of the African American and Latino middle classes from the post-war years to present times. Information sources, particularly Census data prior to 1980, are inconsistent regarding the measurement and definition of race and ethnicity. Here we review existing data from a range of sources and attempt to give evidence of broad trends despite such inconsistencies. We also use this data to illustrate the gaps that still exist between the white, African American and Latino populations.

While both age and immigration status influence disparities among these populations, the bulk of available data comparing economic well-being and stability among whites, African Americans and Latinos does not take age and immigration status into account. The median age of the Latino population is 26, for the African American population it is 30 and for whites it climbs to 38.<sup>16</sup> Forty percent of the Latino population and 6 percent of the African American population are foreign born. Only 4 percent of the white population is foreign born.<sup>17</sup> Younger individuals and individuals born outside of the U.S. are more likely to have lower income levels, less net worth and lower rates of homeownership than those whose age is higher and who are native born. The residency status of immigrants has a direct impact on whether or not individuals are able to even apply to attend public higher education institutions, let alone have access to the financial aid almost necessary to attend college.

Yet differences in income, assets and opportunity that are related to immigration status far from account for the disparities between whites, African Americans and Latinos overall. The available data that does control for age and immigration status indi-

cate that Latinos and African Americans have lower levels of attainment than whites of similar age and immigration status.<sup>18</sup>

Another data limitation in understanding African American and Latino access to the middle class is the fact that there is no consistent standard by which to measure movement toward the middle class. There is also no standard definition of what it means to be middle class. This makes it extremely difficult to evaluate access to and relative size of the middle class in any absolute sense. To address this limitation, Demos is developing a **Middle Class Security Index**. We introduced a preliminary index in a recent working

paper called *Measuring the Middle*. Though the Demos **Middle Class Security Index** is still a work in progress, we present it here to illustrate the dramatic differences between the security of whites, African Americans and Latinos in being middle class. (See box on pages 16 and 17.)

This index will be particularly important in providing insight into what influences the ability of African Americans and Latinos to become the future middle class. Our initial index is built on two assumptions: First, that being middle class means having a level of financial security; Second, that several factors combined, rather than a single characteristic, are necessary to ensure this security. In this paper, we highlight trends regarding several components of middle class security: income, assets and education. These are not the only measures incorporated in our initial index or the only factors needed to ensure financial security. We highlight them here because they are the areas where available data offer historical perspective on the progress African Americans and Latinos have made in moving toward the middle class.

Income, assets and education are interlinked. Gains in one area will in turn affect others. For example, gains in education will enable a group to seek better paid employment. This in turn will raise incomes, which contributes to greater assets and likelihood of homeownership. As we discuss in this paper, the gains of past generations result in opportunities for future generations, but it is not the case that gains in education and income translate to similar gains in assets and intergenerational wealth. In fact, as we will see, disparities between whites and nonwhites are most dramatic and most difficult to mitigate when it comes to assets.

**IN 2004, MEDIAN HOUSEHOLD  
INCOME WAS \$30,134 FOR  
AFRICAN AMERICANS AND \$34,241  
FOR LATINOS, WHILE MEDIAN  
INCOME FOR A WHITE  
HOUSEHOLD WAS \$48,977.**



## INCOME

Income range is a common criterion for assigning households to the middle class. Assuming that being in the \$35,000 to \$74,999 income range means being middle-class, 33 percent of American households are middle class. Twenty-eight percent of white households have incomes ranging between \$35,000 and \$74,999. For Latino households, this figure is 34 percent, and for African American households it stands at 30 percent. The lower percentage of white households in this moderate income range does not show that white households have lower incomes or are financially weaker than African American or Latino households. In fact, one of the things it suggests is that white households might be more likely to be above this income range (which is in fact the case).<sup>19</sup>

Income ranges tell part of the story of the growth of the middle class over time. In 1967, about 20 percent of African American households had a yearly income between \$35,000 and \$74,999 (in 2001 dollars). That grew to one in four by 1972, but climbed only 1 percentage point, to 26 percent, through 1992. Between 1992 and 2001, the figure grew to its present level of 30 percent. Judged strictly by this income criterion, the share of African Americans in the middle class has increased by more than 50 percent over the past several decades.

In 1972, the first year for which data is available, 31 percent of Latino households were in the \$35,000 to \$74,999 range (again, in 2001 dollars). By 1982, that figure had grown to 30 percent, where it remained through 1992. Between 1992 and 2001, the figure grew to its current level of 34 percent.<sup>20</sup>

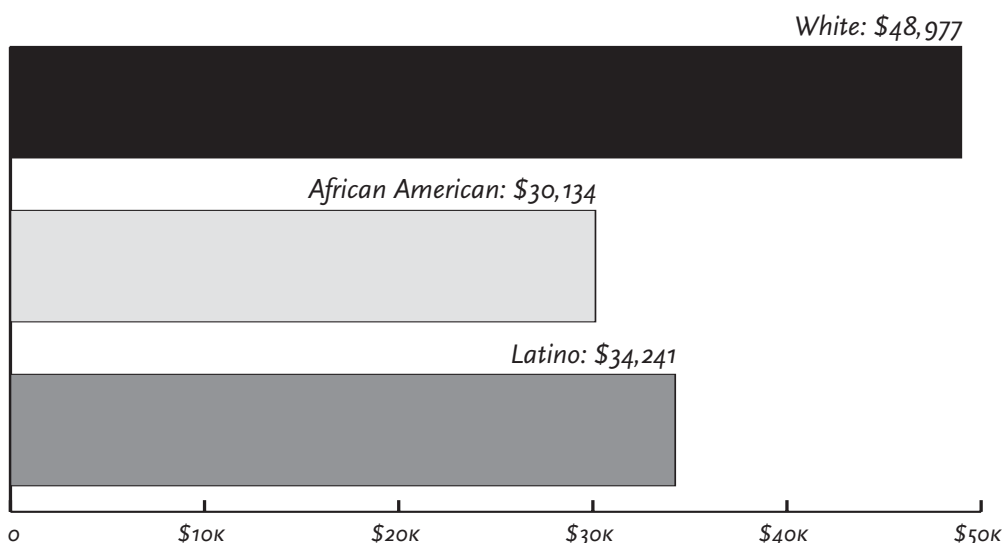
Despite decades of growth and movement toward the middle-income range, gaps between African American and white and between Latino and white incomes still loom large. In fact, these gaps have actually grown since the 1970s.

In addition, while all American families now work more hours per year, the number of hours that African American and Latino families work has grown more than the number of hours worked by white families. Between the late 1970s and 2000, the hours worked per year by the average white family grew by 11 percent. In the same time frame, the hours worked by the average African American family increased by 15 percent and the hours worked by the average Latino family increased by 14 percent. In 2000, middle-income African American families actually worked nearly 12 full-time weeks more than white families to maintain the same income level.<sup>21</sup>

Even with these extra hours and extra effort, African American and Latino incomes have remained significantly lower than white incomes over the past three decades. In 2004, the median income of an African American household was \$30,134 and the median income Latino household was \$34,241. During the same period, median income for a white household was \$48,977. For every dollar in median income earned by a white non-Latino household in 2004, an African American household earned 62 cents, and a Latino household earned 69 cents.<sup>22</sup> While African-American and Latino incomes have grown over the past decades, they are still significantly lower than white incomes. (See Figure 4.)

**HOME EQUITY IS ESTIMATED TO REPRESENT ABOUT TWO-THIRDS OF AFRICAN-AMERICAN HOMEOWNER WEALTH, BUT REPRESENTS ONLY ABOUT ONE-THIRD OF WHITE HOMEOWNER WEALTH. HOWEVER, THE WHITE POPULATION HAS SIGNIFICANTLY HIGHER WEALTH, IN TOTAL DOLLAR VALUE, TIED TO HOME EQUITY THAN OTHER GROUPS.**

**Figure 4: Median Household Income**



Source: U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2004*, August 2005.

### **ASSETS**

Because assets have what has been called a “transformative power” in transmitting financial stability and security across generations, they play a crucial role in helping people be secure in the middle class.<sup>23</sup> This transformative power gives current generations an important safety net and future generations a head start. A family with assets is better able to support children through college, to make a down payment on a house, to invest and to weather unpredictable economic circumstances, such as job loss or illness. In addition, some studies suggest that asset ownership leads people to develop attitudes that are commonly associated with being middle class, such as participating more in civic life and expecting that one’s children will go on to college.<sup>24</sup>

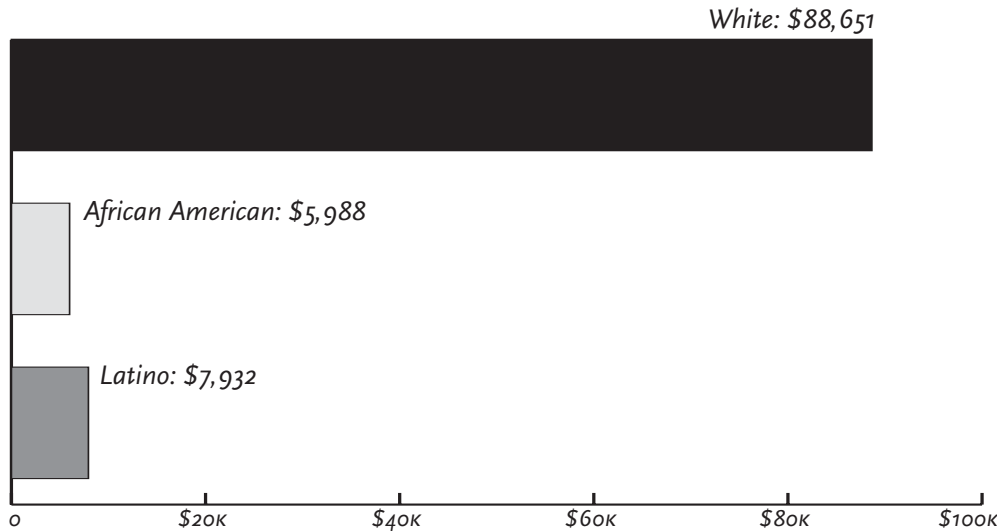
While asset ownership may well be the single most important determinant of middle class security, it also an area where African Americans and Latinos trail most badly behind whites. Even when comparing individuals of equal education and income levels, we see remarkably different levels of wealth. In fact, “the net worth of African American and Latino *college* graduates is similar to the net worth of white *high school* graduates, and the net worth of African American and Latino high school graduates is similar to the net worth of white high school dropouts.”<sup>25</sup> This deficit in assets among African Americans and Latinos is not just an immediate problem for those families trying now to gain a secure position in the middle class. It is also a challenge that will reverberate over the decades to come. This is because familial assets are transferred across generations and help determine life choices for children. In the absence of dramatic public policy initiatives, disadvantages in wealth that are present today are likely to still be present 50 years from now.

### **NET WORTH AND OWNERSHIP OF FINANCIAL PRODUCTS**

In 2002, the median net worth of Latino households was \$7,932. For African American households it was \$5,988, and for white households it was \$88,651. This translates to 9 and 7 cents of net worth for Latinos and African Americans, respectively, for every dollar of net worth held by white households.<sup>26</sup> (See Figure 5.)



**Figure 5: Median Household Net**



Source: Rakesh Kochhar, “The Wealth of Hispanic Households,” Pew Hispanic Center, 2004.

Looking at distribution of assets and investments, we see a similar pattern of disparity. Eighty-nine percent of those who reported interest income in 1998 were white. Only 5 percent were Latino, and slightly less than 7 percent were African American. Of persons who reported income from dividends in that same year, 93 percent were white, but only 3 percent were Latino, and only 4 percent were African American.<sup>27</sup> African Americans and Latinos are less likely than whites to own interest bearing assets, stocks, mutual funds, rental properties, or IRAs, Keoghs or 401Ks. Sixty-seven percent of whites hold interest earning assets at financial institutions. Only 42 percent of African Americans and 45 percent of Latinos do. Twenty-six percent of whites own an IRA or Keogh account. In contrast, only 7 percent of African Americans and 8 percent of Latinos own such accounts.<sup>28</sup>

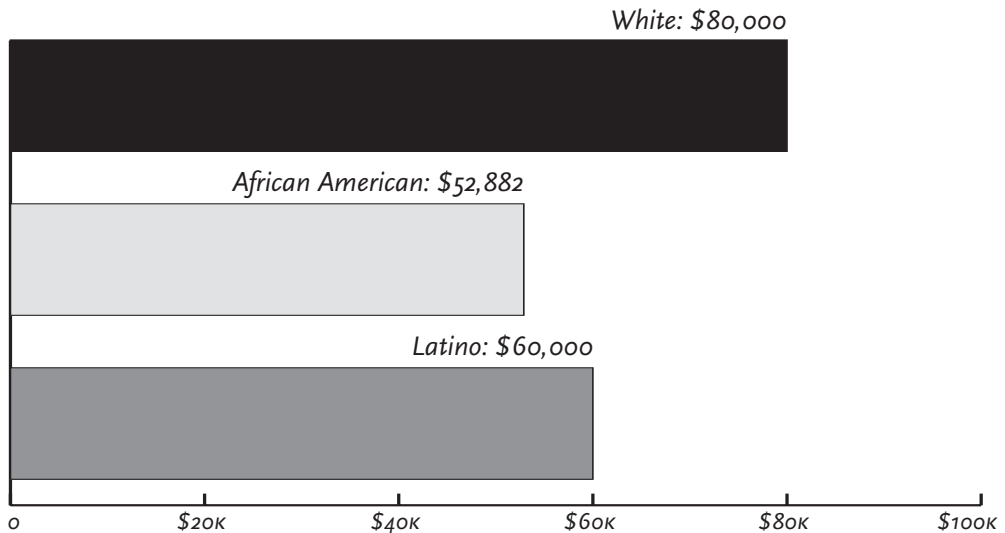
Among those individuals reaching age 65 over the next decade, the retirement resources (assets, pensions and Social Security benefits) of African Americans and Latinos are projected to be just a fraction of those of white retirees. In fact, the average African American or Latino retiree will have to survive on less than half of the economic resources of the average white retiree. The retirement resources of the average African American retiree are projected to be just 54 percent of the average white retiree. For the average Latino entering retirement, that figure drops even further to 44 percent.<sup>29</sup>

The retirement squeeze faced by African Americans and Latinos is an example of how a lack of assets can reverberate across generations. Elderly African Americans and Latinos without adequate savings are more likely to rely on their children for assistance. Young families seeking to get into the middle class, or stay there, may be forced to divert crucial resources to care for ailing parents—which in turn may mean not investing in home ownership or a child’s education. Such decisions further compromise long-term wealth building efforts. These pressures will likely intensify in the decades to come as the country sees a dramatic rise in the retirement age population.

## HOMEOWNERSHIP

Homeownership has traditionally been a leading sign of middle class status. It is also a particularly critical pathway to financial security for African Americans and Latinos as these Americans are far more dependent than whites on homeownership to facilitate asset accumulation. While property values are typically lower in nonwhite neighborhoods, home equity constitutes the majority of wealth for the subset of nonwhites who own their homes. Estimates suggest that two-thirds of the wealth of African American homeowners is tied to housing equity. In contrast, home equity represents only about a third of white homeowner wealth.<sup>30</sup> Despite its importance in building wealth for African Americans and Latinos, these groups have far less home equity than whites. Median net equity for white homeowners is \$80,000; for African American homeowners it is \$52,882 and for Latino homeowners it is \$60,000.<sup>31</sup> (See Figure 6.)

**Figure 6: Median Home Equity**



Source: Lauren Joy Krivo and Robert L. Kaufman, "Housing and Wealth Inequality: Racial-Ethnic Differences in Home Equity in the United States," *Demography*, 41 (3), August 2004, pgs. 585-605.

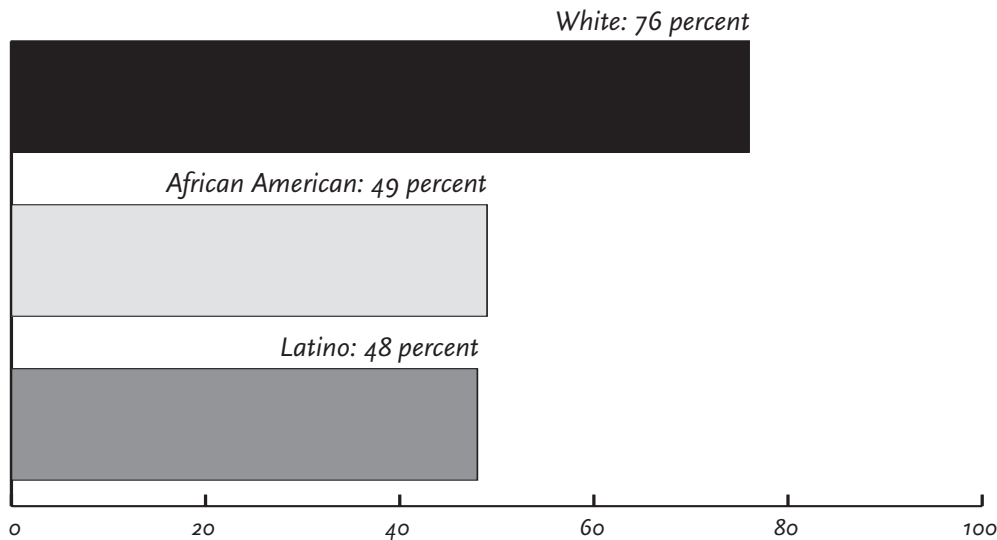
Housing provides a vivid example of how public policy influences entry into the middle class. Homeownership grew at a greater rate for whites than for nonwhites in the 1950s. This was due to financial incentives and subsidies that were more accessible to whites and discrimination that actively made it more difficult for nonwhites to acquire the financial services needed to own homes. It was only after the civil rights movement gave fast roots to anti-discrimination legislation in the 1960s, and consistent monitoring and legal enforcement of anti-redlining measures took hold in the 1970s, that nonwhite homeownership grew more than white homeownership.<sup>32</sup>

African American, Latino and white homeownership rates have grown at a similar pace since 1975. Between 1975 and 2004, African American homeownership increased by 12 percent, Latino homeownership increased by 10 percent and white homeownership increased by 11 percent.<sup>33</sup> However, the gap between the homeownership rates of African Americans and Latinos and that of whites has grown as well.

There was a 25 percentage point gap between the homeownership rates of African Americans and Latinos and that of whites in 1975. By 2004, that gap had increased to 27 percentage points between African Americans and whites and 28 percentage points between Latinos and whites.<sup>34</sup>

In 2004, 76 percent of whites owned their homes. At the same time, African American homeownership stood at 49 percent and Latino homeownership stood at 48 percent.<sup>35</sup> (See Figure 7.)

**Figure 7: Homeownership**



U.S. Census Bureau, *Housing Vacancies and Homeownership (CPS/HVS), Housing Vacancy Survey, Annual Statistics: 2004*.

Looking forward, African American and Latino households are projected to grow in number and size, making these groups a large source of potential housing consumers.<sup>36</sup> Yet, the rate at which these groups own their homes continues to be far below that of whites, and the signs of this changing are not encouraging. Gaps between white and Latino and white and African American homeownership have continued to grow, and ongoing discriminatory practices in the mortgage industry continue to erect barriers to African American and Latino homeownership. Without action to address these gaps and discriminatory practices, we must wonder what the repercussions on housing affordability, housing prices and sales, and overall market health will be in the near future.

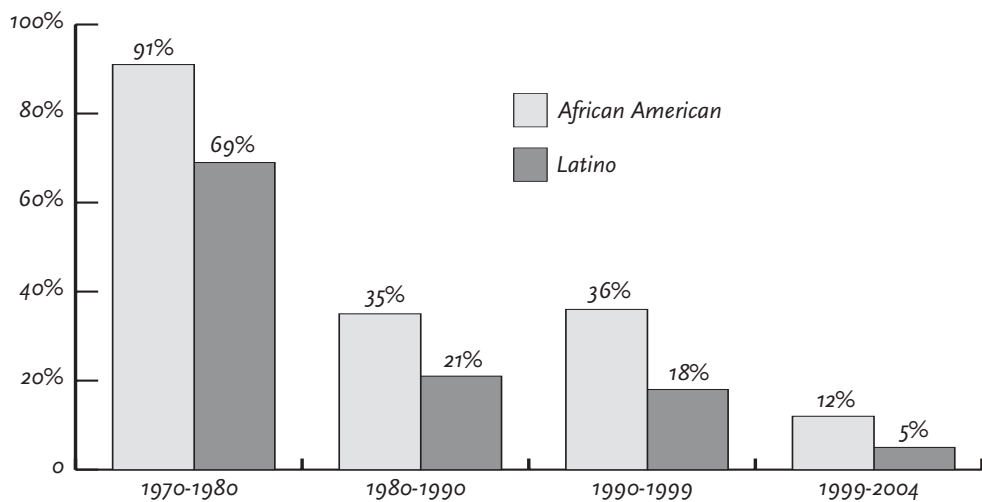
## **EDUCATION**

Increasingly, a college degree has become a minimum entry requirement to the middle class. In this area, African Americans and Latinos have made significant progress. The biggest gains were in the 1970s, thanks in large part to the Higher Education Act of 1965, which focused on ensuring college affordability for low income students, as well as addressing discrimination. In the 1980s and 1990s, however, educational progress for African Americans and Latinos slowed amid decreased funding for higher education by federal and state governments, a waning emphasis on aiding low and moderate income students, and growing ambivalence about affirmative action. Trends

suggest that we were much more successful in attacking the lower hanging fruit and massive structural issues governing educational inequality in the 1970s than we have been at addressing much more persistent and intractable forces such as disparate school funding and quality over the last 25 years.

The number of African American college graduates grew by 91 percent between 1970 and 1980. The number of Latino college graduates grew by 69 percent in the same time frame. Growth slowed to 35 percent for the African American population and 21 percent for the Latino population between 1980 and 1990. The slowdown continued between 1990 and 1999, when growth was 36 percent for the African American population and 18 percent for the Latino population. Growth between 1999 and 2004 slowed even further to 12 percent for African Americans and 5 percent for Latinos.<sup>37</sup> (See Figure 8.) While it is tempting to accept this declining growth as a natural evolution after several decades of dramatic progress, we must not be so shortsighted.

**Figure 8: Growth in Number of Four-Year College Graduates, 1970-2004**



Source: U.S. Census Bureau, *Statistical Abstract of the United States*, 2004.

Even though many barriers to higher education for Latinos and African Americans have been removed through anti-discrimination and affirmative action measures, practical barriers—perhaps much more intractable—still exist. Though segregation is in theory a thing of the past, the K-12 educational settings and experiences of white and African American and Latino students remain vastly separate. African American and Latino students, especially in our cities, are still much more likely to attend the nation's worst performing, least funded, most crowded and most violent schools. Unsurprisingly, students attending these schools are the least prepared for college.

African American and Latino students, particularly from low income families, who are able to overcome poorly performing schools and who set their sights on obtaining a college degree are still hurt by the fact that federal financial aid has not kept pace with an increase in the number of college applicants and with rising college costs. As a college education becomes increasingly essential to being middle class, pursuing that education is becoming less affordable. The cost of tuition and fees at an average

## Forecasting the Impact of Demographic Change: A View from the State Level

We need not look very far into the future to see the combined impact of growth in the African American and Latino populations and the disparities in opportunity experienced by these two groups. Projections show that unless a concerted effort is made to ensure parity of opportunity between these groups and whites, by 2020, we will have a population that is less educated and experiences lower per capita income. While these declines have consequences for the nation at large, ten states will feel the impact most strongly.

	By 2020 the white* population will grow by	By 2020 the combined African American and Latino population* will grow by	By 2020, the percentage of the overall population* with some college education will grow by	By 2020, the percentage of the overall population* with a Bachelor's degree will grow by	By 2020 per capita personal income+ will grow by
Arizona	5%	72%	-4%	-9%	-\$ 265
California	-1	62	-7	-7	-\$2,476
Colorado	2	60	-3	-6	-\$ 662
Connecticut	-4	57	-2	-4	-\$1,056
Massachusetts	-7	66	-3	-4	-\$ 1,138
Nevada	-3	76	-7	-9	\$ 221
New Mexico	5	53	-1	-11	-\$ 158
New York	-10	21	-2	-2	-\$ 1,182
Rhode Island	-3	78	-3	-5	-\$ 845
Texas	3	52	-4	-8	-\$ 955

\*Among working age adults between 25-64 years old

+In 2000 Dollars

Author's calculations based on data reported in Patrick J. Kelly, *As America Becomes More Diverse: The Impact of State Higher Education Inequality*, (National Center for Higher Education Management Systems, 2005).

four-year state college grew 56 percent between the 1983-1984 and 2003-2004 school years (using inflation-adjusted dollars).

Alarming, students from lower income families remain significantly less likely than students from higher income families to enroll in and finish four-year college degree programs. Likewise, African American and Latino students remain significantly less likely than white students to enroll in and finish four-year college degree programs. In fact, gaps in college enrollment by income and race are the same or larger than they were three decades ago.<sup>38</sup>

These gaps are influenced by the effect of immigration. About 65 percent of Latino and 11 percent of African American high school students come from immigrant fam-

## Comparing Middle Class Security

Researchers have traditionally assigned individuals to the middle class based on one or two characteristics such as income or occupation. Demos believes that we need to broaden this definition. Being middle class is more than having a certain income or a specific type of job. Being middle class instead refers to a way of life and a level of financial security and stability—the security and stability to do things such as support families, provide children with a quality education, assure intergenerational mobility, be cared for when we’re sick and retire in comfort. Today, ensuring this stability and security has grown more complex and cannot be guaranteed by only one characteristic.

Having a more comprehensive picture of the middle class is growing increasingly important because expansion of the middle class—arguably the great American project—has stalled in recent decades, while historic disparities between whites and nonwhites endure in many areas. Defining what most impacts American’s ability to enter and remain in the middle class will help us set priorities and balance supporting a record number of retirees, providing educational opportunity for a resurgent young population and promoting access to the middle class for the African American and Latino populations—groups who are projected to grow more rapidly than others but are starting out from a position of great economic inequality.

In the working paper *Measuring the Middle*, (available for download at [www.demos.org](http://www.demos.org)), we offer a preliminary Middle Class Security Index to fuel discussions about the best way to develop and employ a measure of middle class security. The Demos Middle Class Security Index is a tool to understand who is living in the middle class and how securely or insecurely that status is held. It is also a tool to identify what influences entry into, and slippage out of, the middle class.

Below we use our initial index to compare middle class security among whites, African Americans, and Latinos in 2000 and 1984. Our initial index, which uses data from the Census Bureau’s *Current Population Surveys* and *Surveys of Income and Program Participation*, is a work in progress. Its origin and limitations are discussed in the full *Measuring the Middle* working paper.

Demos’ initial Middle Class Security Index is a numerical score derived from summing the percentages of a population that exhibits the characteristics we see as crucial to middle class stability. A population enjoying a consistent degree of economic opportunity and financial stability across each category would have a perfect score of six. The difference between the scores below and six represents how far each group is from achieving full economic opportunity and financial stability.

### Middle Class Security in 2000

	Total Pop	White	African American	Latino
Homeownership	0.67	0.71	0.47	0.48
Households Owning Interest Bearing Accts	0.65	0.69	0.42	0.45
Households With Positive Net Worth	0.85	0.87	0.71	0.72
Households With Members Holding Four-Year College Degree	0.26	0.26	0.17	0.11
Household Income (\$35K or above) in 2000 dollars	0.58	0.61	0.43	0.48
Health Insurance (Persons)	0.74	0.77	0.59	0.48
<b>2000 Middle Class Security Index</b>	<b>3.8</b>	<b>3.9</b>	<b>2.8</b>	<b>2.7</b>

The Middle Class Security Index for the overall U.S. population in 2000 was 3.8 out of a possible six. The white population received a 3.9, while the African American population received a substantially lower 2.8 and the Latino

ilies.<sup>39</sup> With higher poverty rates, these students are more dependent on financial aid and hence more susceptible to decreasing aid opportunities than their non-immigrant counterparts. In addition, immigrant students with undocumented status pay substantially higher out-of-state tuition at public universities in most states, are rendered ineligible for any type of federal financial aid, and are unable to find legitimate “above the table” employment to save for or support themselves in attending college.<sup>40</sup>

Poor quality K-12 education and college preparation, declining college affordability, and immigration status all contribute to continuing dramatic gaps between white and African American and Latino educational attainment. Twenty-eight percent of the white population over age 25 holds a four-year college degree. Only 17 percent of the African-American population and 11 percent of the Latino population holds a four-year

population a lower still 2.7. None of these indices indicate sure footing for any group in terms of economic stability. The indices for each group also represent dramatic disparities between white and nonwhites.

The index can also be used to capture movement toward the middle class over time. Comparing 2000 to 1984, we see that the population overall has experienced a modest 0.1 gain in middle class security. The white and African American populations have seen a similar 0.1 modest gain. The Latino population actually saw a decrease of 0.1 between 1984 and 2000.

### Middle Class Security in 1984

	Total Pop	White	African American	Latino
Homeownership	0.64	0.67	0.44	0.40
Households Owning Interest Bearing Accts	0.72	0.75	0.44	0.51
Households With Positive Net Worth	0.89	0.92	0.70	0.76
Households With Members Holding Four-Year College Degree	0.19	0.20	0.10	0.08
Household Income (\$35K or above)—in 2000 dollars	0.52	0.54	0.31	0.40
Health Insurance (Persons)*	0.75	0.75	0.70	0.64
<b>1984 Middle Class Security Score</b>	<b>3.7</b>	<b>3.8</b>	<b>2.7</b>	<b>2.8</b>

\* Based on 1987 data due to report availability.

What influenced this movement (or lack thereof)? Each group has seen marked improvement in income, homeownership and education levels over the last two decades. African Americans have seen additional slight improvement in net worth. However, these gains have been offset by losses in ownership of interest-bearing accounts and health insurance coverage.

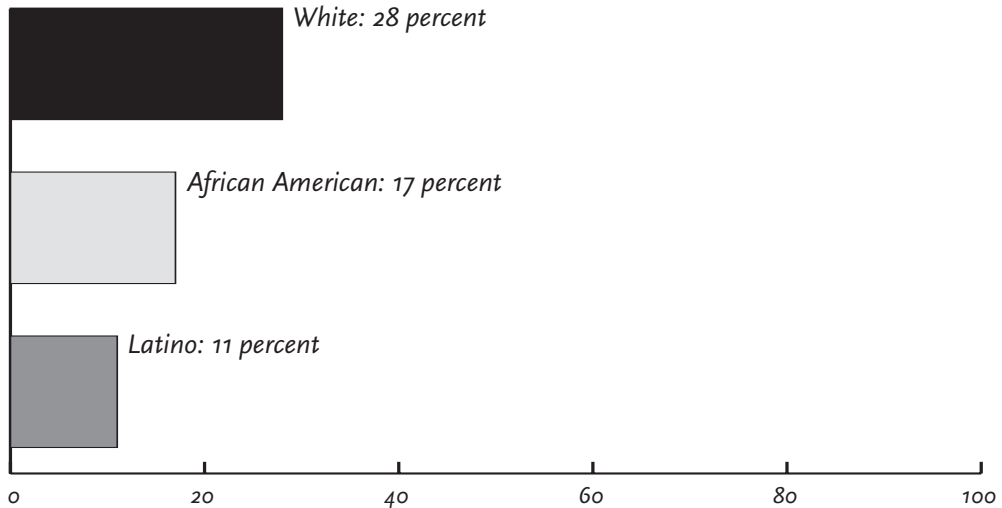
Declines in positive net worth for whites, Latinos and the population overall have also contributed to instability and slow growth in the middle class as represented in our index. During the time frame examined, the median age of the Latino population has decreased, meaning that this population has grown younger than the African American and white populations. Age and immigration status have likely contributed to a declining index for Latinos.

degree.<sup>41</sup> (See Figure 9.) African Americans are 24 percent and Latinos are 43 percent less likely than whites to enroll in college.<sup>42</sup>

Of those who enter college as full-time freshmen, only 46 percent of African Americans and 47 percent of Latinos graduate within six years.<sup>43</sup> Only 23 percent of Latinos and 30 percent of African Americans who enroll in college under any status finish by age 26. Overall, African Americans and Latinos who are enrolled in college are half as likely to graduate as whites.<sup>44</sup>

Current chasms between white and African American and white and Latino educational attainment spell trouble for the future of the country as a whole. Forecasts show that if current disparities remain, the overall percentage of the U.S. working age population (age 25-64) that has at least some college education will decline by about 2 percentage points within the next 15 years.<sup>45</sup> The cascading effects of this—a less prepared workforce, declining wages, a reduced tax base and less funding for the retirement of a record number of baby boomers—are not ones that we can afford. They would make it much harder for us to stay competitive in a global knowledge economy. They would also place the nation at a new level of financial risk as we struggle to meet the financial responsibilities of caring for a record number of retirees while the nation's earning ability and workforce preparedness decline.

**Figure 9: Four-Year College Graduates Among Adults Age 25 or Older, 2003**



Source: U.S. Census Bureau, *Educational Attainment in the United States: 2003*. Released June 2004.



# Policies to Grow the Middle Class

---

As the United States undergoes major demographic changes in the decades ahead, we must ensure that all Americans have an opportunity to join the middle class. This challenge is comparable to post-World War II efforts to expand the middle class. But the challenges today and the economic conditions are more daunting—while the stakes could hardly be higher. A failure to incorporate America’s most rapidly growing groups into tomorrow’s middle class would not just represent a profound betrayal of the core American values of opportunity and economic security, it would also jeopardize the nation’s economic competitiveness and civic cohesion. Neglecting these new facts about American life will guarantee that a past legacy of discrimination and disadvantage set along racial lines becomes a permanent social reality.

Data on African American and Latino incomes, assets and educational attainment, as well as the initial Demos Middle Class Security Index, show that the U.S faces a serious challenge in building the future middle class. There are major gaps between African American and Latinos and whites in access to the economic opportunity and security that support entry into the middle class. These disparities must be addressed by public policy if America hopes to retain its strength as a middle class nation and to prevent expansion of an already epidemical race-based inequality.

Public policy played a key role in the rise of America’s middle class during the post-war years. But many of those policies were flawed in their implementation and did not extend opportunity equally to all Americans. African Americans and Latinos were almost wholly left out of the investments that built America’s middle class. We cannot afford to be similarly shortsighted and exclusive when extending opportunity to future generations of Americans. Providing accessible routes to educational and economic opportunity for all is essential to ensuring a middle class that is fully representative of the rapidly changing U.S. population.

Below we propose a set of policy recommendations that aim to widen access to economic opportunity as well as combat ongoing discrimination. For specific detail on many of these recommendations, including cost projections, see the previously released Demos report *Millions to the Middle*.

## I. Expanding Access to Higher Education

Education is key to middle class security in a 21st century economy where most of the good, living-wage jobs require at least some college. America needs bold new efforts to increase access to higher education, particularly to four-year institutions.

Long before college enrollment or even college application, financial aid awareness can have a large impact on whether African American and Latino families, particularly those of lower incomes, consider college a viable option. For those African Americans and Latinos who are in school, financial pressures and fear of large student loan debt mean more part-time attendance, entry into the lowest cost schooling options—

**TWENTY-EIGHT PERCENT OF THE WHITE POPULATION OVER AGE 25 HOLDS A FOUR-YEAR COLLEGE DEGREE, COMPARED TO 17 PERCENT OF THE AFRICAN-AMERICAN POPULATION AND 11 PERCENT OF THE LATINO POPULATION. AFRICAN AMERICANS ARE 24 PERCENT AND LATINOS ARE 43 PERCENT LESS LIKELY THAN WHITES TO ENROLL IN COLLEGE.**

even if those options do not provide the best learning environment—and greater attrition when student loan indebtedness is too high.

Devoting resources to promote awareness of college options and to help lessen the financial burden of college attendance for African American and Latino students, whose familial incomes and assets are far below those of whites, is essential to increasing educational attainment among these two groups.

With 65 percent of Latino students and 11 percent of African American students coming from immigrant families, policies aimed at increasing higher education access for these groups must also address the additional barriers these students face.

- We propose the dramatic expansion of investments to give millions of young people a real chance at entering the middle class. These investments would focus on removing barriers that low- and moderate-income families face in paying for college. We also support legislation at the state and national level that guarantees in-state tuition to qualifying students, regardless of immigration status.
- We advocate providing each college-qualified student with a comprehensive and guaranteed federal student aid package that covers a percentage of the full-cost of college attendance—including tuition, fees, books, and room and board—based on the student’s family income. The aid package would be a mixture of grants, loans and work study with grants providing the bulk of aid for students from low- and moderate-income families.
- Federal student loans should be implemented through the Direct Student Loan Program, phasing out the Federal Family Education Loan Program (FFELP) which relies on private lenders and requires federal subsidies to ensure the lenders’ profitability. Switching to the Direct Loan Program will allow the loan system to offer income-contingent repayment options and eliminates the additional cost of providing subsidies to private lenders. Switching all federal loans to the Direct Loan Program will result in an estimated savings of over \$4.5 billion per year for the federal government.
- We must also ensure that families have early knowledge of the financial resources available to their children to attend college. Beginning in eighth grade, all students should receive an estimate of their potential college aid package using the average cost of attendance at public four-year institutions. Educating students and parents about the amount of student aid available will help increase the expectation that attending and completing college is a realistic goal.
- Lastly, in conjunction with supporting more effective financial aid options for eligible students, we also support legislation that allows public institutions to charge in-state tuition to all qualifying students, regardless of immigration status.

## **2. Boosting Homeownership and Savings**

The importance of wealth in ensuring economic security, a stable place in the middle class, and the educational and economic opportunity of future generations cannot be overstated. While homeownership rates among African Americans and Latinos are still significantly lower than among whites, home equity is still the largest part of African American and Latino wealth. Increasing homeownership among African Americans and Latinos remains essential to building wealth for future generations.

Policies must also focus on developing additional means of wealth to diversify assets for these groups. Latinos and African Americans are disproportionately large among the number of low-income working families trying to gain entry to the middle class. Expanding homeownership while also developing means to grow and protect additional, diversified assets will greatly assist these two groups in moving into and staying in the middle class. To achieve this, we propose the following:

- Create new incentives to increase the rate of homeownership for low-income working families within the next five years. These include matched savings accounts to help low-income families save for a down payment for a first home as well as tax incentives for low-income home buyers. While mortgage interest is currently tax deductible, nearly ninety percent of the mortgage interest deduction benefit accrues to tax filers with adjusted gross income over \$50,000. Wealthy homeowners are even able to deduct mortgage interest on a second residence. We propose making mortgage interest refundable, rather than just deductible, for families making under \$50,000 a year.
- Within ten years, provide each newborn child with an asset account endowed with \$6,000 at birth—money that will ensure that everyone has a better chance of becoming a middle-class asset-holder earlier in life.
- Expand matched savings accounts, such as Individual Development Accounts, to help working families weather a reduction of income and plan for the future.

### **3. Closing the Gap Between Wages and the Cost of Living**

Twenty-eight million American jobs provide no benefits and do not pay enough to keep a family of four living above the poverty level, set at \$19,350 in 2005.<sup>46</sup> More than one in four working families does not earn enough to survive financially. Nonwhite working families are twice as likely as white families to be low income.<sup>47</sup> African Americans and Latinos make up about a quarter of the population today, but represent one-third of American workers earning federal minimum wage or less.<sup>48</sup>

Millions of workers of all races who are putting in more hours of work than ever find themselves either unable to ascend to the middle class—or hard-pressed to stay there. Restoring the value of work will benefit all Americans and have a strong impact on the ability of African Americans and Latinos to enter and remain in the middle class.

Our plan to restore the value of work builds on two existing policies with bipartisan support—the minimum wage and the Earned Income Tax Credit.

- Ensure that anyone who works full time does not fall below the poverty line by phasing in an increase of the minimum wage to \$8.40 an hour by 2010, a level that will ensure that a full-time working parent with two children will not fall below the projected federal poverty line. In addition, index the new minimum wage to inflation so that workers' wages keep up with the cost of living.
- Replace the Earned Income Tax Credit with a more generous Working Families Tax Credit to assure by 2015 that full-time workers earn enough to provide minimally decent lives for themselves and their families. Create a Federal Office of Living Standards to assess the income needs of households in different parts of the U.S. and measure the true cost of living where they reside.

#### 4. Stopping Discriminatory Lending Practices

Nonwhite applicants are more likely to be turned down for loans than white applicants. When nonwhite applicants do receive loans, they frequently suffer from inflated interest rates and abusive terms and conditions. Such practices mean credit is less available or costs more for African Americans and Latinos than for whites. This has a significant impact on the ability of these groups to build wealth and develop assets through ventures such as launching small businesses and investing in real estate. The high cost of credit also increases the debt burden of African Americans and Latinos, turning even essential expenses such as a car to get to work into hardships.

Qualified African-American and Latino applicants are about twice as likely as whites to be rejected for mortgages and refinance loans.<sup>49</sup> Latinos are nearly two times as likely to be rejected. These disparities are found even when comparing individuals from the same income level.<sup>50</sup>

African Americans and Latinos have become special targets for brokers and lenders selling costly sub-prime home financing products. The Department of Housing and Urban Development has found that subprime loans are three times more likely in low income neighborhoods than in high-income neighborhoods and five times more likely in African American neighborhoods than in white neighborhoods.<sup>51</sup> African Americans and Latinos are more likely to pay higher interest rates and have less favorable loan terms than whites even when credit scores among the groups are held constant.<sup>52</sup> African Americans and Latinos are also more likely than whites to be assessed finance markup charges on auto loans. Comparing individuals in similar credit categories who are charged finance markups, African Americans and Latinos pay charges that are nearly double those paid by whites.<sup>53</sup>

We propose several remedies to address unfair lending practices.

- Develop clear guidelines about what constitutes a predatory loan and regularly audit the loan portfolios of financial firms against these criteria.
- Enhance the quality of Home Mortgage Disclosure Act data to enable more regular and comprehensive scrutiny of fairness in lending
- Require mortgage lenders to be fully transparent and disclose to applicants the range of products for which they are eligible based on credit score qualification.
- Require automotive lenders to disclose finance markup charges and dollar costs.
- Expand Community Reinvestment Act mandates to cover a broader range of institutions engaged in lending practices, especially those—such as pawnshops and retailers—not traditionally considered financial institutions.

#### 5. Reducing Personal Debt

High-interest loans and heavy credit card debt are large obstacles to the ability of African Americans and Latinos to enter and remain in the middle class. Between 1992 and 2001, average credit card debt increased 22 percent among African Americans and 20 percent among Latinos. Eighty-four percent of African American credit card holders carry a balance, and 75 percent of Latinos carry a credit card balance. In contrast, 50 percent of white cardholders carry a balance.<sup>54</sup>

We propose several remedies to help reduce debt burdens.

- Require card companies to provide a reasonable late-payment grace period to protect responsible debtors from being unduly penalized by a run-of-the-mill tardy payment. Limit rate increases to 10 percent above the card member's original rate.
- Ensure card companies are accountable to the original contract with the card member for all purchases up to any initiated change in terms. Any change to the annual percentage rate should be limited to future activity on the card.
- Require disclosure of the full costs of only paying the minimum payment, including the number of years and total dollars it will take to pay off the debt. Raise the minimum payment requirement to 5 percent of the total balance for new cardholders to curtail excessive debt loads and interest payments.

## Conclusion

---

America's demographic profile is undergoing rapid change. The African American and Latino populations are growing at a rate that far outpaces the white population, yet these two groups remain behind on key measures of financial security and economic opportunity. America has a history of investing in a thriving middle class, but this history has not benefited African Americans and Latinos to the same extent that it has benefited whites. Partly as a result, today's middle class is disproportionately white—far out of balance with the current and projected demographics of the country—and nonwhites face significant obstacles in climbing into the middle class. This reality is dramatically out of sync with where we as a nation need to go in the future. If today's trends continue unabated, the demographic makeup of the middle class will only grow more radically, and racially, skewed. Such divisions will compromise both America's economic competitiveness and its social cohesion.

This bleak future is far from inevitable. We can choose to invest in programs and policies that advance opportunity for African Americans and Latinos and secure the future middle class. These investments will not come cheap. And they must be made at the same time that another demographic trend—the retirement of the Baby Boomers—begins to severely limit the resources available to policymakers.

However, far from preventing the U.S. from making necessary investments, the aging of the population should be a catalyst for them. Without a strong, well-educated and prosperous future middle class in the 21st century, the United States will not generate enough national wealth to afford to meet its entitlement obligations to seniors and other critical public needs.

Our nation has a history of supporting the middle class through public policy that encourages economic opportunity and rewards hard work. We must build on that history as well as improve upon it. We can do this by renewing our focus on supporting a strong middle class and ensuring that our efforts are extended equally to all Americans. It is only through such efforts that we can make the American Dream fully inclusive. u

**AFRICAN AMERICANS AND LATINOS MAKE UP ABOUT A QUARTER OF THE POPULATION TODAY, BUT REPRESENT ONE-THIRD OF AMERICAN WORKERS EARNING FEDERAL MINIMUM WAGE OR LESS.**

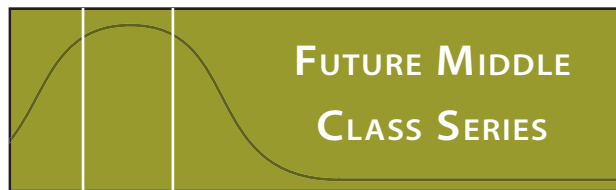


# Notes

1. Jared Bernstein, Heather Boushey, Elizabeth McNichol, and Robert Zahradnik, "Pulling Apart: A State-by-State Analysis of Income Trends," Economic Policy Institute, 2002. [http://www.epinet.org/studies/Pulling\\_Apart\\_2002.pdf](http://www.epinet.org/studies/Pulling_Apart_2002.pdf) See also *The Economist*, "Meritocracy in America," December 29, 2004 online edition.
2. Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/2005*, (Ithaca, NY: Cornell University Press, January 2005).
3. U.S. Census Bureau, *U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin*, March 2004. <http://www.census.gov/ipc/www/usinterimproj>
4. U.S. Census Bureau, *2005 Current Population Survey Annual Social and Economic Supplement*, August 2005. <http://www.census.gov/prod/2005pubs/p60-229.pdf>
5. U.S. Census Bureau, *Educational Attainment in the United States: 2003*, June 2004. <http://www.census.gov/prod/2004pubs/p20-550.pdf>
6. Patrick J. Kelly, *As America Becomes More Diverse: The Impact of State Higher Education Inequality*, (National Center for Higher Education Management Systems, 2005). <http://www.higheredinfo.org/raceethnicity/InequalityPaperNov2005.pdf>
7. For a discussion of ways in which post-war policies promoted the welfare of whites over other groups, see Michael K. Brown, *Race, Money and the American Welfare State*, (Ithaca, NY: Cornell University Press, 1999), Andrew Wiese, *Places of Their Own: African American Suburbanization in the Twentieth Century*, (Chicago: University of Chicago Press, 2003) and Ira Katznelson, *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America*, (New York: W. W. Norton & Company, 2005)
8. Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth, White Wealth: A New Perspective on Racial Inequality*, (New York: Routledge, 1997).
9. Association of Community Organizations for Reform Now (ACORN), *The Great Divide: Home Purchase Mortgage Lending Nationally and in 120 Metropolitan Areas*, (2004) and *Separate and Unequal 2004: Predatory Lending in America*, (Washington, DC, 2004).
10. National Community Reinvestment Coalition, *Fair Lending Disparities by Race, Income, and Gender in All Metropolitan Areas in America*, (Washington, DC, 2005)
11. Consumer Federation of America, *The Hidden Markup of Auto Loans: Consumer Costs of Dealer Kickbacks and Inflated Finance Charges*. (Washington, DC, 2004) <http://www.consumerfed.org/pdfs/autofi-report.pdf>
12. U.S. Census Bureau, *U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin*, March 2004. <http://www.census.gov/ipc/www/usinterimproj>
13. U.S. Census Bureau, "Hispanic Population Passes 40 Million, Census Bureau Reports," *U.S. Census Bureau News*, June 9, 2005. <http://www.census.gov/Press-Release/www/releases/archives/population/005164.html>
14. See, for example, Ellis Cose, *The Rage of a Privileged Class: Why Do Prosperous Blacks Still Have the Blues?*, (New York: Harper Perennial, 1992), Michael Dawson, *Behind the Mule: Race and Class in African American Politics*, (Princeton, NJ: Princeton University Press, 1995), Mary Pattillo-McCoy, *Black Picket Fences: Privilege and Peril Among the Black Middle Class*, (Chicago: University of Chicago Press, 2000), Karyn Lacy, *Negotiating Black Identities* (forthcoming from the University of California Press), and Michael Eric Dyson, *Is Bill Cosby Right?: Or Has the Black Middle Class Lost its Mind?*, (New York: Basic Civitas Books, 2005)
15. See, for example, work of the Hispanic Marketing and Communication Association (<http://www.hmca.org>), The Center for Immigration Studies (<http://www.cis.org/articles/2001/hispanicmc/toc.html>), the Pew Hispanic Center (<http://www.pewhispanic.org>), and the Tomas Rivera Policy Institute (<http://www.trpi.org>).
16. U.S. Bureau of the Census, *Resident Population Estimates of the U.S. by Race, Hispanic Origin*, May 2000.
17. U.S. Census Bureau, *The Foreign-Born Population: 2000*, December 2003. <http://www.census.gov/prod/2003pubs/c2kbr-34.pdf>
18. Minnesota Housing Finance Agency Emerging Markets Homeownership Initiative, *Emerging Market Homeownership Analysis by Age and Income: Census 2000 Data*. [http://www.mhfa.state.mn.us/homes/EMHI\\_Homeownership\\_Rates\\_Emerging\\_Markets\\_Populations.pdf](http://www.mhfa.state.mn.us/homes/EMHI_Homeownership_Rates_Emerging_Markets_Populations.pdf)
19. U.S. Census Bureau, "Selected Characteristics of Households, by Total Money Income in 2003," June 2004. [http://pubdb3.census.gov/macro/032004/hhinc/new01\\_000.htm](http://pubdb3.census.gov/macro/032004/hhinc/new01_000.htm)
20. U.S. Census Bureau, "Money Income in the United States: 2001," September 2002. <http://www.census.gov/prod/2002pubs/p60-218.pdf>
21. Lawrence Mishel, Jared Bernstein, and Heather Boushey, *The State of Working America 2002-03* (Ithaca, NY: Cornell University Press, 2003)
22. U.S. Census Bureau, *2005 Current Population Survey Annual Social and Economic Supplement*, August 2005. <http://www.census.gov/prod/2005pubs/p60-229.pdf>
23. Thomas M. Shapiro, *The Hidden Cost of Being African American*, (New York: Oxford University Press, 2003).
24. For background on the role of assets in securing economic opportunity see, in addition to Shapiro: Dalton Conley, *Being Black, Living in the Red: Race, Wealth, and Social Policy in America*, (Berkeley: University of California Press, 1999), Michael Sherraden, *Assets and the Poor: A New American Welfare Policy*, (Armonk, NY: M.E. Sharpe, 1991), and Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth, White Wealth: A New Perspective on Racial Inequality*, (New York: Routledge, 1997).
25. John Karl Scholz and Kara Levine, "U.S. Black-White Wealth Inequality", pgs. 895-929 in *Social Inequality*, Kathryn M. Neckerman, Editor, New York: Russell Sage Foundation, 2004, pg 898.
26. Rakesh Kochhar, "The Wealth of Hispanic Households," Pew Hispanic Center, October 18, 2004. <http://pewhispanic.org/files/reports/34.pdf>

27. National Council of La Raza, "Hispanic Retirement Factsheet," 2001. [http://www.ourfuture.org/issues\\_and\\_campaigns/socialsecurity/key\\_issues/people\\_of\\_color/readarticle55.cfm](http://www.ourfuture.org/issues_and_campaigns/socialsecurity/key_issues/people_of_color/readarticle55.cfm) Dividend income was measured for individuals who were 15 years of age and older
28. U.S. Census Bureau, *Asset Ownership Rates for Households, by Selected Characteristics: 2000*, January 2005. [http://www.census.gov/hhes/www/wealth/1998\\_2000/wlth00-2.html](http://www.census.gov/hhes/www/wealth/1998_2000/wlth00-2.html)
29. Marjorie Honig, "Minorities Face Retirement: Worklife Disparities Repeated?", International Longevity Center, New York: January 1999. Downloaded October 25, 2004. [http://www.ilcusa.org/\\_lib/pdf/publicationsminoritiesface.pdf](http://www.ilcusa.org/_lib/pdf/publicationsminoritiesface.pdf)
30. John Karl Scholz and Kara Levine, "U.S. Black-White Wealth Inequality", pgs. 895-929 in *Social Inequality*, Kathryn M. Neckerman, Editor, New York: Russell Sage Foundation, 2004., pg 917.
31. Lauren Joy Krivo and Robert L. Kaufman, "Housing and Wealth Inequality: Racial-Ethnic Differences in Home Equity in the United States," *Demography*, 41 (3), August 2004, pgs. 585-605.
32. George S. Masnick, *Home Ownership Trends and Racial Inequality In the United States in the 20th Century*, Joint Center for Housing Studies, Harvard University, February 2001. [http://www.jchs.harvard.edu/publications/homeownership/masnick\\_wor-4.pdf](http://www.jchs.harvard.edu/publications/homeownership/masnick_wor-4.pdf)
33. George S. Masnick, *Home Ownership Trends and Racial Inequality In the United States in the 20th Century*, Joint Center for Housing Studies, Harvard University, February 2001. Calculations are approximate based on the data presented from both the decennial Census and annual Current Population Surveys. [http://www.jchs.harvard.edu/publications/homeownership/masnick\\_wor-4.pdf](http://www.jchs.harvard.edu/publications/homeownership/masnick_wor-4.pdf), and U.S. Census Bureau, *Housing Vacancies and Homeownership (CPS/HVS)*, Housing Vacancy Survey, Annual Statistics: 2004, *Homeownership Rates by Race and Ethnicity of Householder: 1994 to 2004*, February, 2005. <http://www.census.gov/hhes/www/housing/hvs/annual04/anno4t2o.html>
34. George S. Masnick, *Home Ownership Trends and Racial Inequality In the United States in the 20th Century*
35. U.S. Census Bureau, *Housing Vacancies and Homeownership (CPS/HVS)*, Housing Vacancy Survey, Annual Statistics: 2004, Homeownership Rates by Race and Ethnicity of Householder: 1994 to 2004, February 2005. <http://www.census.gov/hhes/www/housing/hvs/annual04/anno4t2o.html>
36. Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing," 2005.
37. U.S. Census Bureau, *Statistical Abstract of the United States*, 2004.
38. Thomas R. Wolanin, ed. *Reauthorizing the Higher Education Act: Issues and Options* (Washington, DC: Institute for Higher Education Policy, 2003). <http://www.ihep.com/Pubs/PDF/ReAuthHEA.pdf>
39. U.S. Census Bureau, "Children of 'Baby Boomers' and Immigrants Boost School Enrollment to Equal All-Time High," March 2001. <http://www.census.gov/Press-Release/www/releases/archives/education/000322.html>
40. National Immigration Law Center, "Basic Facts about In-State Tuition for Undocumented Immigrant Students," July 2005. [http://www.nilc.org/immlawpolicy/DREAM/in-state\\_tuition\\_basicfacts\\_052405\\_rev.pdf](http://www.nilc.org/immlawpolicy/DREAM/in-state_tuition_basicfacts_052405_rev.pdf)
41. U.S. Census Bureau, *Educational Attainment in the United States: 2003*. Released June 2004. <http://www.census.gov/prod/2004pubs/p20-550.pdf>
42. U.S. Census Bureau, "Current Population Survey: October 2000," <http://www.census.gov/population/pop-profile/2000/chap08.pdf>
43. Kevin Carey, "A Matter of Degrees: Improving Graduation Rates in Four-Year Colleges and Universities" The Education Trust, May 2004. <http://www2.edtrust.org/NR/rdonlyres/11B4283F-104E-4511-BoCA-1D3023231157/0/highered.pdf>
44. Richard Fry, "Latino Youth Finishing College: The Role of Selective Pathways," Pew Hispanic Center, 2004. [http://www.pewhispanic.org/site/docs/pdf/The%20Role%20of%20Selective%20Pathways\\_formattedFINAL-06-23-04.pdf](http://www.pewhispanic.org/site/docs/pdf/The%20Role%20of%20Selective%20Pathways_formattedFINAL-06-23-04.pdf)
45. Patrick J. Kelly, *As America Becomes More Diverse: The Impact of State Higher Education Inequality* (National Center for Higher Education Management Systems, 2005). <http://www.higheredinfo.org/raceethnicity/InequalityPaperNov2005.pdf>
46. U.S. Department of Health and Human Services, "The 2005 HHS Poverty Guidelines," <http://aspe.hhs.gov/poverty/05poverty.shtml>.
47. Tom Waldron, Brandon Roberts, and Andrew Reamer, *Working Hard, Falling Short: America's Working Families and the Pursuit of Economic Security*, Working Poor Families Project, October 2004.
48. Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers: 2002," <http://www.bls.gov/cps/minwage2002tbls.htm>.
49. Association of Community Organizations for Reform Now (ACORN), *The Great Divide: Home Purchase Mortgage Lending Nationally and in 120 Metropolitan Areas* (2004) and *Separate and Unequal 2004: Predatory Lending in America*, (Washington, DC, 2004).
50. National Community Reinvestment Coalition, *Fair Lending Disparities by Race, Income, and Gender in All Metropolitan Areas in America* (Washington, DC, 2005)
51. Department of Housing and Urban Development, *Unequal Burden: Income and Racial Disparities in Subprime Lending in America*, 2002. <http://www.huduser.org/publications/fairhsg/unequal.html>
52. National Community Reinvestment Coalition, *Fair Lending Disparities by Race, Income, and Gender in All Metropolitan Areas in America*, (Washington, DC, 2005)
53. Consumer Federation of America, *The Hidden Markup of Auto Loans: Consumer Costs of Dealer Kickbacks and Inflated Finance Charges*. (Washington, DC, 2004) <http://www.consumerfed.org/pdfs/autofi-report.pdf>
54. Javier Silva and Rebecca Epstein, *Costly Credit: African Americans and Latinos in Debt*, Demos, (May 2005). <http://www.demos-usa.org/pubs/Costly%20Credit%20ofinal.pdf>

# Related Resources from Dēmos



## African Americans, Latinos and Economic Opportunity in the 21st Century

BY JENNIFER WHEARY

## Measuring the Middle: Assessing What It Takes to Be Middle Class

BY JENNIFER WHEARY

## Millions to the Middle: Three Strategies to Expand the Middle Class

BY DAVID CALLAHAN, TAMARA DRAUT & JAVIER SILVA

## Borrowing to Make Ends Meet Series



## Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s

BY TAMARA DRAUT & JAVIER SILVA

## Costly Credit: African Americans and Latinos in Debt

BY JAVIER SILVA

## House of Cards: Refinancing the American Dream

BY JAVIER SILVA

## Retiring in the Red: The Growth of Debt Among Older Americans

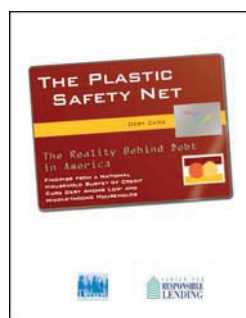
BY TAMARA DRAUT & HEATHER MCGHEE

## Generation Broke: The Growth of Debt Among Younger Americans

BY TAMARA DRAUT & JAVIER SILVA

## Home Insecurity: How Widespread Appraisal Fraud Puts Homeowners At Risk

BY DAVID CALLAHAN



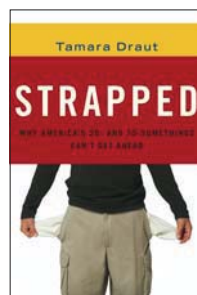
## The Plastic Safety Net: The Reality Behind Debt in America

BY DEMOS & THE CENTER FOR RESPONSIBLE LENDING

## Books

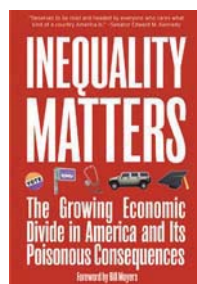
### STRAPPED: Why America's 20- and 30-Somethings Can't Get Ahead

BY TAMARA DRAUT



### Inequality Matters: The Growing Economic Divide in America and Its Poisonous Consequences

EDITED BY JAMES LARDNER & DAVID A. SMITH



Visit [www.demos.org](http://www.demos.org) to sign up for our monthly *Around the Kitchen Table* e-news-journal and download research reports, analysis and commentary from the Economic Opportunity Program.

**Contact:** Tamara Draut, Director, Economic Opportunity Program

*Email:* [tdraut@demos.org](mailto:tdraut@demos.org)

*Phone:* 212.633.1405





**Dēmos**  
A NETWORK FOR IDEAS & ACTION

220 FIFTH AVENUE  
5TH FLOOR  
NEW YORK, NY 10001

PHONE: 212.633.1405  
FAX: 212.633.2105  
WWW.DEMOS.ORG