



# Race and the Great Recession

How the economic downturn has differentially affected residents of Illinois

# Race and the Great Recession

By Cedric Herring

The United States has had five major recessions since 1980. We know that even during periods of economic growth and expansion, the unemployment rates for African-Americans and Latinos are consistently higher than are those for whites. But during periods of economic downturn, the gaps between whites and other groups increase even more. The data in Figure 1 suggest that during times of national economic hardship, African-Americans and Latinos experience a disproportionate increase in unemployment. For example, as of October 2009 the official African-American unemployment rate of 15.7 percent was more than 65 percent higher than that of whites at 9.5 percent. Latinos had an unemployment rate of 13.1 percent.<sup>1</sup> And when we factor in the *underemployed* (i.e., the broad group of people who have been unable to find full-time work and are either working part-time or not at all) and those who no longer search for employment and

thus are not included in unemployment statistics, the gaps between black (23.8 percent), Latino (25.1 percent) and white (14.2 percent) are even greater.

Currently, the United States is experiencing one of the worst economic crises since the Great Depression. The economy is negatively affecting the bottom line of many businesses<sup>2</sup> and unemployment rates for all groups have increased. However, rates for African-Americans and Latinos are much higher than for whites. We can also note from Figure 1 that the high-water mark of 8.6 percent for annual unemployment among whites was still lower than the *lowest* unemployment rates for African-Americans in all but three years since 1980.

During periods of economic decline, we expect to see an increase in competition for middle-class jobs, and a disproportionate firing of racial minorities and women.

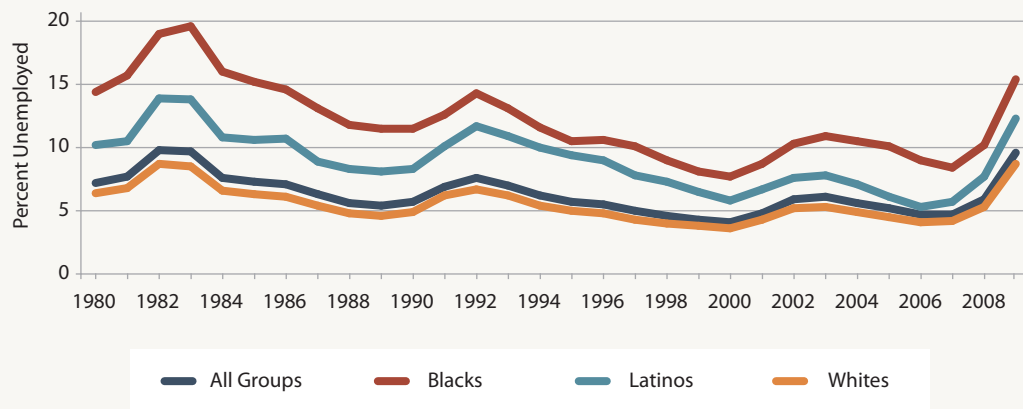


<sup>1</sup> U.S. Bureau of Labor Statistics, 2009.

<sup>2</sup> World Bank, 2009.

*During times of national economic hardship, African-Americans and Latinos experience a disproportionate increase in unemployment.*

Figure 1  
Unemployment Rates by Race and Ethnicity 1980-2009



Source: Data retrieved from the Current Populations Survey Labor Force Statistics Database



<sup>3</sup> *State of the Dream*, page iii. United for a Fair Economy, 2009. [http://www.faireconomy.org/files/pdf/state\\_of\\_dream\\_2009.pdf](http://www.faireconomy.org/files/pdf/state_of_dream_2009.pdf)

*It could be argued that African-Americans and Latinos are in the midst of an economic depression.*

Also, although all people worry about their economic well-being and security during economic downturns, the consequences of the economic crisis are not evenly distributed. This chapter examines how in Illinois, as well as the rest of the nation, the Great Recession is taking its toll disproportionately on Americans of color.

When the economy is growing, Americans of color are more likely to be unemployed, homeless, hungry, without health care, incarcerated, and concentrated in educational institutions that are under-funded. During the Great Recession, people of color have fared even worse as many of them have fallen through holes in the social safety net. Looking at the racial and ethnic gaps, we see that such patterns are not simply due to chance. They are rooted in public policy decisions that leave people of color facing greater barriers to success on many fronts. The end results are distressing, not just for them, but for our state as a whole. Fortunately, there are policies that can be put in place to help bring about economic growth and, at the same time, help redress some of the disparities in who bears the brunt of our current economic woes.

**From Recession to Depression?**

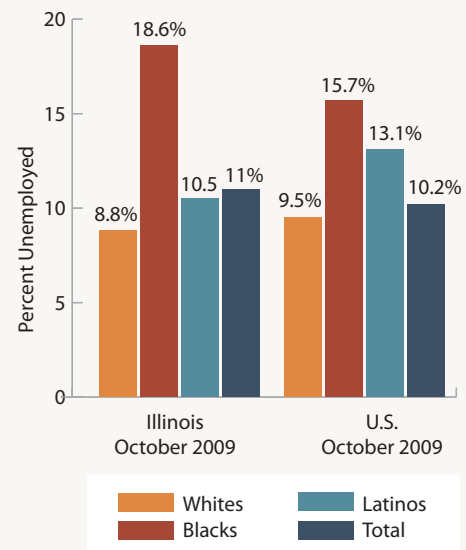
A recession is a slowing of the economy for an extended period, and the unemployment rate is a key indicator of economic well being. Long periods of high unemployment indicate economic weakness and distress.

In December 2008, the National Bureau of Economic Research announced that the U.S. had been in a recession since December 2007. For many Americans of color, the economic downturn has been more severe than a recession. Indeed, it has been argued that Americans of color are already experiencing “a silent economic depression that, in terms of unemployment, equals or exceeds the Great Depression of 1929.”<sup>3</sup>

A depression is characterized by its length and abnormal increases in unemployment, scant availability of credit, shrinking output and investment, high bankruptcy rates, and reduced amounts of trade and commerce. By all these criteria, it could be argued that African-Americans and Latinos are in the midst of an economic depression.

The Great Recession has increased unemployment rates for all racial and ethnic groups. An estimated 8.1 million jobs have been lost since the start of the recession in December 2007. But because higher unemployment rates for people of color relative to those for whites are an enduring part of the U.S. economy, people of color normally face such catastrophic “recession levels” of unemployment. As mentioned above, in October 2009 the nationwide unemployment rate was 9.5 percent for whites, 15.7 percent for blacks, and 13.1 percent for

**Figure 2**  
**Unemployment Rates in the U.S. and Illinois by Race/Ethnicity, September and October, 2009**



Source: Estimates based on the Census Bureau and Bureau of Labor Statistics' October 2009 Current Population Survey.

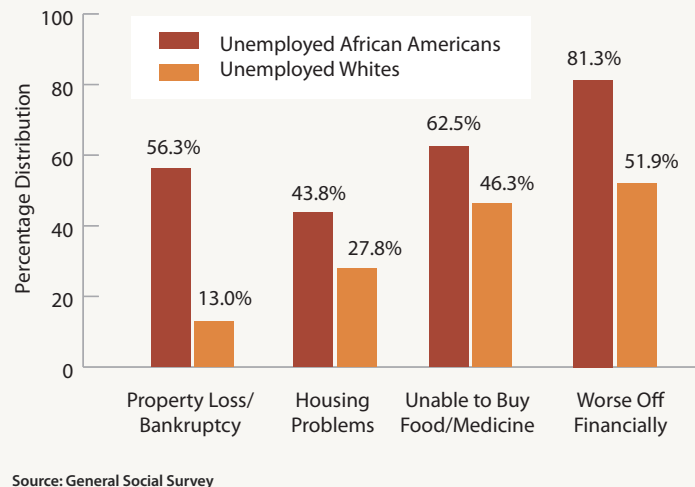
Latinos. As Figure 2 shows, the overall unemployment rate in Illinois was 11 percent in October 2009. Based on estimates from the Current Population Survey, the unemployment rate was 8.8 percent for whites, 18.6 percent for blacks, and 10.5 percent for Latinos.

The Great Recession has a human toll that goes beyond unemployment. Jobless people cannot fully contribute to the economy as taxpayers or as consumers. Indeed, among those without jobs, it is often difficult to meet basic economic needs. In 2007, 13 million U.S. households experienced “food insecurity” or difficulty providing enough food for all family members. More than 4 million families faced a more severe disruption in the normal diet for some members.<sup>4</sup> These numbers will almost certainly have increased through 2009 as unemployment has risen and incomes have fallen.

Again, there are some substantial racial differences in the relationship between employment status and various economic hardships. For example, jobless African-Americans were more likely than their white counterparts to report that they could not afford to pay for needed food and medicine. Figure 3 shows that, according to data from the General Social Survey, 56 percent of jobless African-Americans reported bankruptcies or property losses compared with 13 percent of jobless whites. Among whites, 28 percent of the jobless experienced housing problems. In comparison, 44 percent of jobless African-Americans reported housing difficulties. Similarly, the results also show that 52 percent of unemployed whites said that they are worse off financially. This compares with 81 percent of unemployed African-Americans who report that they are worse off financially.

According to a U.S. Foreclosure Market Report, nearly one million foreclosure filings – default notices, scheduled auctions and bank repossessions – were reported in

Figure 3  
Percentage Distribution of Experiences with Economic and Personal Hardships Among the Unemployed by Race



Source: General Social Survey

the third quarter of 2009. This represented about one in every 130 housing units and more than a 20 percent increase over the same period in 2008. It was the highest quarterly foreclosure rate since such data have been collected. Bank repossessions increased by more than 20 percent from the second quarter to the third quarter. The foreclosure crisis has brought black and Latino homeownership rates down to levels before the homeownership boom of the past decade. According to a study by the Applied Research Center, “high-cost loans were marketed in aggressive, sometimes predatory ways to poor communities of color. They were frequently sold through direct broker solicitation and were characterized by higher interest rates.”<sup>5</sup> Often, these were adjustable rate loans that start off with lower “teaser” rates and then balloon when they include high fees, prepayment penalties, and climbing interest rates.

In Illinois, about one in every 140 housing units was foreclosed in the third quarter of 2009. This represented an increase of more than 30 percent and placed Illinois 10th in the nation. Residents of Illinois also experienced a 15.6 percent increase in food stamp

<sup>4</sup> Nord et al., 2008.

<sup>5</sup> Applied Research Center, 2009, page 37.

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usage from 2008 to 2009. Using similar economic indicators, the Kaiser Family Foundation placed Illinois 20th in the nation on its index of state distress for 2009.

### Poverty

The poverty line is the minimum level of income deemed necessary to achieve an

adequate standard of living. In the United States, the “poverty threshold” is set by the government to estimate the number of people in poverty nationwide. The basic idea is that government estimates the amount of money needed to purchase those goods and services commonly taken for granted by members of mainstream society. The 2008-2009 poverty threshold can be found in Table 1.

**Table 1**  
**U.S. Poverty Thresholds for Families of Various Sizes, 2008-2009**

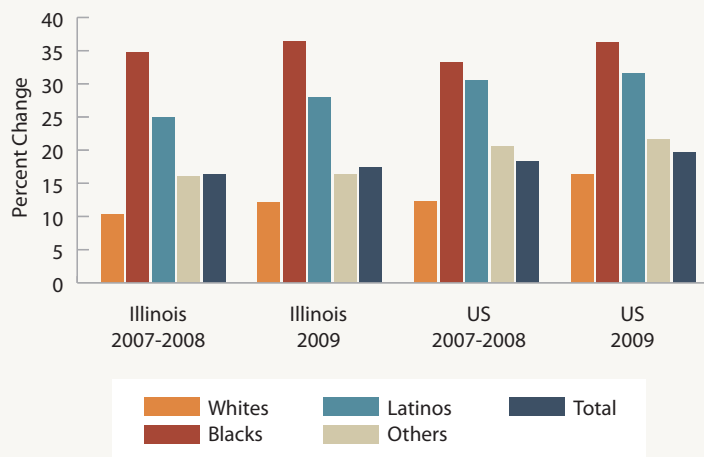
Persons in Family Unit	48 Contiguous States and D.C.	Alaska	Hawaii
1	\$10,830	\$13,530	\$12,460
2	\$14,570	\$18,210	\$16,760
3	\$18,310	\$22,890	\$21,060
4	\$22,050	\$27,570	\$25,360
5	\$25,790	\$32,250	\$29,660
6	\$29,530	\$36,930	\$38,260
7	\$33,270	\$41,610	\$42,560
8	\$37,010	\$46,290	\$40,940
For each additional person, add	\$3,740	\$4,680	\$4,300

Source: *Federal Register*, Vol. 74, No. 14, January 23, 2009, pp. 4199-4201

Figure 4 shows changes in the poverty rates for various racial and ethnic groups in Illinois and for the United States from 2007-2009. This table shows that during the Great Recession poverty levels increased for all groups in Illinois and in the nation. In 2007-2008 in Illinois, 10 percent of whites, 35 percent of blacks, and 25 percent of Latinos lived below the poverty threshold. Estimates based on data from the 2009 Current Population Survey suggest that in Illinois, 12 percent of whites, 36 percent of blacks, and 28 percent of Latinos were living below the poverty line.

Nationwide, the poverty rates for whites increased from 12 percent to 16 percent. For blacks, there was an increase from 33 percent to 36 percent. And for Latinos, the poverty rate increased from 21 percent to 22 percent.

**Figure 4**  
**Changes in Poverty Rate in the U.S. and Illinois by Race/Ethnicity 2007-2009**



Source: Estimates based on the Census Bureau's March 2008 and 2009 Current Population Survey (CPS: Annual Social and Economic Supplements).

### Loss of Health Insurance

As Table 2 shows, the Great Recession has affected the health insurance coverage of various groups differentially. According to the U.S. Census Bureau, the number of uninsured adults grew by more than 1.5 million between 2007 and 2008. As the unemployment rate grew, all racial and ethnic groups experienced a decline in employer-sponsored insurance. This drop was partially offset by increases in Medicaid and Medicare. For whites and blacks, however, the uninsured rates increased from 13.9 percent to 14.7 percent for whites, and from 25.3 percent to 25.4 percent for blacks. More Latinos turned to public coverage in 2008. So, despite a

decrease in employer-sponsored insurance, their uninsured rate declined slightly. However, because of growth in the Latino population, the number of uninsured Latino adults increased by 100,000. It should also be noted that because of the increase in the size of the low-income population, the number of uninsured, low-income Americans increased by 1.4 million. As the Great Recession continued through 2009, it is almost certain that the percentage of uninsured adults also increased. According to the Kaiser Family Foundation, a one percentage point rise in the unemployment rate reduces the share of adults with employer-sponsored insurance by 0.9 percentage points. Such reductions are not being offset by increases in public coverage such as Medicaid and Medicare.

### Education

Education, a form of “human capital,” plays an important role in producing economic growth. Factors that lead to less education can have major consequences for years to come.

Recessions can affect educational achievement in several ways. Because early education is driven primarily by parental options and funding, factors that reduce

families’ resources may affect the quality and level of education available to their children. Studies suggest that family income has a direct effect on math and reading test scores. Furthermore, there is evidence that nutrition affects cognitive development. In recessions, when many families face financial troubles and hardships, childhood nutrition can suffer. After-school and summer educational activities also affect in-school achievement and learning. Forced housing dislocations – and in the extreme, homelessness – affect educational outcomes as well. All of these influences on educational success are clearly shaped by economic downturns. There is an irony with respect to higher education and economic recession. The current recession initially led to a surge in college enrollments, but when revenue shortfalls are allocated among state services, higher education is likely to absorb larger cuts than other sectors. Public higher education must compete with K–12 schools, welfare, Medicaid, corrections, and other services for state funding. Relative to these other services, colleges and universities are often perceived by state policymakers as having more fiscal and programmatic flexibility. Thus, when higher education faces cuts in state funding, the state and higher education institutions are likely to shift shortfalls to



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Table 2  
**Changes in Insurance Coverage by Race and Ethnicity, 2007-2008**

Insurance Type	Whites			Blacks			Latinos		
	2007 %	2008 %	2007-08 % Change	2007 %	2008 %	2007-08 % Change	2007 %	2008 %	2007-08 % Change
Employer	70.0	69.8	-1.2	54.8	53.3	-0.1	43.7	43.5	0.2
Medicaid & State	0.1	5.4	0.4	12.2	13.8	0.4	9.6	10.1	0.2
Medicare	3.2	3.3	0.2	4.2	4.5	0.1	1.8	1.9	0.1
Private Nongroup	0.1	6.8	-0.2	3.4	0.0	-0.1	3.4	3.3	0.0
Uninsured	13.9	14.7	1.0	25.3	25.4	0.1	41.4	41.2	0.2

Source: Urban Institute, 2009. Based on data from the 2008 and 2009 ASEC Supplement to the Current Population Survey.  
 Note: Excludes persons aged 65 and older and those in the Armed Forces.



<sup>6</sup> Greenberg and Keating, 2009.

<sup>7</sup> Finklea, 2009.

*Some studies using long time horizons find no direct link between the unemployment rate and crime rates, but several studies using shorter increments of time have found that unemployment rates and property crime rates are correlated.*

students and their families by raising tuition and fees. According to a 2009 College Board study, four-year public colleges in the United States raised annual tuition and fees by an average of 6.5 percent because of reduced state spending on higher education and diminished campus endowments. Moreover, during recessions, states are unlikely to make new or additional investments in student financial aid that will offset increases in tuition. Indeed, student aid may be reduced. The report also showed that 65 percent of 2007-2008 bachelor's degree recipients graduated with student loan debt, and the median burden was \$20,000.

Families struggling to get by are often forced to delay or abandon plans for continuing education. A recent survey of young adults found that 20 percent of people aged 18-29 have left or delayed college.<sup>6</sup> This delay or reduction in college attendance is costly. Not only does college attendance yield higher earnings, lower unemployment, and other benefits to the individual, but it also conveys many social benefits as well, including better health outcomes, lower incarceration rates, greater volunteerism rates, etc.

### Crime

The troubled state of the economy has revived the long-standing debate concerning whether economic factors can be linked to increases in the nation's crime rates. Some studies using long time horizons find no direct link between the unemployment rate and crime rates, but several studies using shorter increments of time have found that unemployment rates and property crime rates are correlated. There is also a correlation between abandoned houses and the property crime rate but not the violent crime rate. Also, there is evidence that foreclosures have an impact on the violent crime rate but not the property crime rate. There are no studies suggesting that recessions are good for crime rates.

A 2009 Congressional Research Service study found that minorities experience substantially higher rates of violent victimization than whites in the United States. The study shows that the higher rates of poverty, urban residence, and differential age distributions of blacks and Latinos help to explain these groups' higher victimization rates. Moreover, the study uses data from the early 1970s to the present to document an association between economic downturn and increases in victimization rates among minorities over this period.<sup>7</sup>

### Income

According to Economic Policy Institute calculations, a basic budget required for a family with two adults and two children was \$48,778 in 2008. This is well above the median income of black families (\$38,269) and Latino families (\$40,000). The median income of white families was \$61,280. More than 50 percent of black and Latino families fall below the basic family budget, as compared with 20 percent of white families.

Between 2007 and 2009, the real median household income in the United States fell from \$52,163 to \$50,313. All racial and ethnic groups saw large declines in income in 2008. The median income for whites declined by 2.6 percent from 2007 to 2008, while African-American households experienced a decline of 2.8 percent. The median income in Latino households declined 5.6 percent from 2007 to 2008. In 2000, the median black family earned 63.5 percent of what the median white family did. By 2009, that ratio had dropped to 62.4 percent.

### Business Startups and Failures

Aside from the general downturn in investment activity, recessions can hamper entrepreneurial activity. However, when unemployment increases, many people

will start their own businesses. This so-called “refugee effect” leads to another irony: rising unemployment is linked to increased small business formation and rising self-employment. Data from the U.S. Small Business Administration also show that in the last two recessions, small business formation increased.

But it is also likely that business failures will increase. The number of business failures in the third quarter of 2009 rose 64 percent from the same quarter a year earlier, and Chapter 11 business filings more than doubled in the first half of 2009, compared to the first half in 2008. It is likely that Illinois will follow these national patterns.

### Conclusions and Policy Recommendations

Economic recessions are at times portrayed as short-term events. However, they can and do have lasting effects that are harmful. For example, job loss and falling incomes can force families to delay or forgo a college education for their children. Recessions also bring about economic hardships, rising poverty, and the inability of families to purchase necessary food and medicine. They are associated with lower levels of insurance and worse health outcomes. They are connected to higher crime rates. And they stifle business growth and development.

As we have shown, the effects of recessions are not borne equally. People of color often receive the brunt of economic downturns. Indicators that were bad for them before the recession get worse. Indeed, it could reasonably be argued that during the Great Recession, communities of color have been experiencing an economic depression. Unfortunately, racial inequality in the economy, education, criminal justice, and health care prevents many people of color from living up to their potential. When these individuals fail to prosper, the nation as a whole is less prosperous as well.

What can be done? When jobs disappear, public jobs programs and the direct intervention of government in the private labor market may go a long way toward the creation of jobs and the reduction of the harmful effects of the Great Recession. But such programs are often politically unpopular and raise concerns about too much government intervention. Also, they are an expensive remedy that may not offer a cure. For example, the American Recovery and Reinvestment Act and other efforts to stimulate the nation’s economy and job growth have and will continue to add to the fiscal deficit. Those costs should be viewed as necessary to provide the short-term boost that helps to avoid even greater long-term damage to families and to the economy. Stimulus proposals based on tax cuts for the wealthy or for business owners are not likely to provide immediate relief to the unemployed, especially people of color. As an example, President Obama suggested that passing the stimulus package would help Caterpillar avoid laying off additional employees and even hire back some of those who had recently been laid off. These comments were subsequently contradicted by Caterpillar CEO Jim Owens who, later that same week, announced that Caterpillar would need to lay off 2,500 more workers. The total number of layoffs at Caterpillar exceeded 20,000.

At the state level, some Illinois legislators have put forth ideas that could help soften the blow of the recession. In particular, the Illinois House is considering a resolution (HR0069) that urges legislation that prohibits businesses that receive federal emergency economic assistance funds from laying off employees during the recession. Obviously, implementation of this idea would provide businesses that receive stimulus package funds greater incentive to retain their employees. The General Assembly also passed a resolution (HR0020) that calls for the allocation of economic stimulus funds to create a youth



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employment program. Again, the basic idea is to give employers more incentive to hire unemployed youth. And finally, the General Assembly is considering a resolution (SR0082) that calls for the inclusion of a short-term housing stimulus in the economic stimulus package to stimulate Illinois' and the national economy.

In addition to the ideas put forth in the above-mentioned resolutions, there are other options. One such option would be to expand spending on education programs so that the unemployed can be better prepared to work at available jobs when jobs reappear. Related to this is the option of expanding programs, such as AmeriCorps, that encourage education and skills enhancement, public service, and education debt forgiveness.

AmeriCorps members are involved in service to communities all across America in activities such as tutoring and mentoring disadvantaged youth, fighting illiteracy, improving health services, building affordable housing, teaching computer skills, cleaning parks and other public lands, managing after-school programs, helping communities respond to disasters, and helping build organizational capacity. Such programs, if done on a large enough scale, can do much to expand our economy and to soften the impact of the Great Recession.

The Great Recession poses some formidable challenges to policymakers. It will test our nation's values and priorities. Such an economic crisis will not let us wait for the market to correct itself. Rather, we will need to weigh the pros and cons of policies and proposals that can be applied quickly to help stimulate economic growth and help reduce racial and ethnic disparities.



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