

Chapter 2

MOBILITY

Mobility is perhaps the most cherished of American opportunity values--and is the dimension of opportunity that comes to mind most frequently when Americans are asked what opportunity means to them. Mobility is the belief that everyone who works hard should be able to advance and participate fully in the economic, political, and cultural life of the nation. Mobility means that any poor child in America should be able to fulfill her or his full potential, and that economic status, gender, race, ethnicity, and nationality should not pre-determine one's ultimate achievements or assets.

Public policies in the United States have sought to protect and expand mobility by opening avenues for education, homeownership, entrepreneurship, and wealth creation. Indeed, when our national policies have focused on strengthening the opportunity for mobility--through policies such as the G.I. Bill, Pell Grants, and federally guaranteed home loans--we have made great strides in improving our nation's economic strength and cohesiveness. This was true even though these policies largely excluded women, non-whites, and others in the years prior to anti-discrimination legislation enacted in the 1960s.

In recent years, however, important aspects of mobility for many Americans have stagnated or declined. These trends have occurred despite some significant gains in dimensions of mobility, particularly in areas such as educational attainment. This chapter assesses opportunity for mobility along several dimensions including education, economic mobility, homeownership, and the distribution of wages and wealth across demographic and socioeconomic groups. This assessment reveals several areas where opportunities for mobility have improved, as well as areas where such opportunities are stagnant or declining.

Box 2: Has the Nation Ensured Mobility for All?*Major Gains in Mobility*

- Rates of college enrollment are increasing for many groups and are rising most rapidly among women, particularly some women of color.
- Women- and minority-owned businesses are increasing and gaining a larger share of all business revenue.

Areas of Limited, Mixed, or No Progress

- Today, virtually all large school districts have greater levels of segregation of minority and low-income students than in 1986, despite modest progress toward desegregation in the 1970s.
- While high school dropout rates have generally declined for all groups since the late 1960s, some schools--disproportionately poor and minority--continue to experience high dropout rates.
- Recent studies find that economic mobility is limited, particularly for individuals in the bottom socioeconomic tiers, as well as for African Americans and Hispanics.
- While the share of workers earning poverty-level wages has declined and the proportion earning three times the poverty rate has increased since 1973, significant wage inequality on the basis of race, ethnicity, and gender persists.
- Despite modest increases in homeownership over the last 35 years, racial, ethnic, and income disparities in rates of homeownership are large and persistent.

Areas Where Mobility Has Declined

- The cost of a college education is increasingly out of reach for low- and moderate-income families, as tuition has far outpaced family income and financial aid has not increased proportionally.
- Large wealth disparities are increasing among socioeconomic groups. The top 5 percent of households own nearly 60 percent of the nation's wealth--a proportion that has steadily increased since 1983.

Core to our national consciousness is the idea that Americans' economic, educational, and social advancement should depend on their effort and ability rather than on their circumstances at birth. Where we start out in society should not pre-determine where we end up, nor should the country have rigid caste lines or perpetuate a privileged class. Americans rightly see economic and social mobility as central to opportunity and vital to achieving the American Dream. And their belief in a fair chance at mobility for themselves and their families helps to power their optimism, productivity, and perseverance in tough times as well as prosperous ones.

Because we believe that class distinctions should be surmountable through effort and determination, and that Americans' human potential is vast, we expect that our nation's social categories will be fluid and unpredictable, that many people will move up or down the socioeconomic scale over their lifetimes, and that families will change their status over generations. We expect, moreover, that taken as a whole, our national mobility will be primarily upward, toward greater economic success and human achievement over time.

The U.S. Constitution reflects this commitment to mobility over caste in its prohibition of titles of nobility or "corruption of blood," and in its systematic move away from slavery,

patriarchy, and the privileges of a landed gentry and toward the guarantees of equal protection of the laws, universal suffrage, and universal privileges and immunities for all Americans. As Alexis de Tocqueville noted in 1835 in his seminal *Democracy in America*, American mobility nurtures in its people a deep belief in the limitless potential of themselves and their countrymen, “Equality suggests to the Americans the idea of the indefinite perfectibility of man,” he wrote. The experience of the frontier, migration and immigration, recovery from the Great Depression, and the post-World War II rise of the middle class served to galvanize this ideal.

These values are also reflected in human rights laws. For example, the Convention on the Elimination of All Forms of Racial Discrimination condemns the practices of colonialism, segregation, and apartheid that enforce caste systems and limit mobility.¹ And the American Declaration of the Rights and Duties of Man provides that “every person has the right to an education that will prepare him to attain a decent life, to raise his standard of living and to be a useful member of society.”²

Several opportunity vehicles have long served as springboards to mobility in the United States. A high school diploma, a college degree, and, increasingly, an advanced degree have helped to catapult generations of Americans from poverty and working-class status into the middle class and, sometimes, affluence. And, in addition to its economic benefits, education advances human knowledge and development in ways that benefit society as well as the individual. Similarly, a decent job at a living wage not only provides economic advancement through wages, savings, and freedom from debt; it also provides the leisure time that is essential to creativity, entrepreneurship, and spiritual advancement. Homeownership, too, has long been an investment in economic mobility and in strong communities and social networks that aid in broader advancement. And, though more obscure, tax policy is also key to the mobility of our society, because it determines the extent to which wealth will be concentrated and perpetuated by privileged families from generation to generation or invested in expanding opportunity and prosperity for all.

This chapter assesses the nation’s progress toward protecting and expanding mobility for all. Economic mobility is the centerpiece of this assessment. But mobility is also a function of access to high-quality educational opportunities, the ability to afford a home of one’s choosing, and the degree to which the nation helps all children have the best possible start. Mobility is also influenced by trends in the distribution of wealth and income. A systematic concentration of wealth in a few hands runs counter to American ideals of fair play. Mobility is assessed here by several indicators, described below.

About the Data in this Chapter

We derive specific measures of mobility from many sources such as surveys of economic and human rights, reports on national economic and labor force trends (e.g., the Economic Policy Institute’s *State of Working America* report), and relevant research literature.³ We include measures of trends in: access to quality educational opportunities (as measured by levels of racial and income segregation in K-12 education, access to

comprehensive, high-quality child care, high school degree attainment and dropout rates, and access to higher education); economic mobility (as measured by estimates of income gains or losses over time among people in different income quintiles and among different racial and ethnic groups); the distribution of wealth and wages; homeownership; and other measures. As with data in other chapters, most of the trend data presented here draw on cross-sectional or survey data; few longitudinal data are available that might allow more conclusive interpretations of trends over time. Our conclusions are therefore offered with caution. In a few instances, trend data are not available for important measures, but rich contemporary data provide an indication of the degree of opportunity for mobility. In these instances, we present data, but not conclusions about trends.

Data are drawn largely from federal sources such as the U.S. Census Bureau and the Bureau of Labor Statistics. Several notable exceptions exist--for example, we draw on data collected by The College Board to assess trends in college education financing. Most of the data reported here are available from other published sources. However, The Opportunity Agenda sought assistance for data collection and analysis of trends in a few specific areas; these original analyses of federal data are noted where they appear.

Several limitations of the data should be noted. For instance, federal guidelines require the collecting and reporting of population data based on five racial groups (white, African American or black, Asian American, American Indian or Alaska Native, Pacific Islander) and two ethnic groups (Hispanic or non-Hispanic).⁴ But these guidelines were issued in 1997, and federal data collected prior to that year often fail to disaggregate these groups. In many cases, data are unavailable for all groups except whites, African Americans, and Hispanics.

Further, these broad racial and ethnic categories often fail to adequately capture the diversity *within* U.S. racial and ethnic groups, which may vary considerably on the basis of immigration status or nativity, primary language, cultural identification, and area of residence. A full assessment of opportunity should include a consideration of how opportunity varies along these dimensions. Where possible, we present subgroup information such as variations among Asian-American and Hispanic nationality groups.

Similarly, federal data are rarely presented disaggregated by both race and ethnicity and measures of social class or socioeconomic status. Yet the opportunity barriers for low-income whites may differ in important ways from those of better-off whites and some minorities. We encourage researchers to examine how opportunity indicators differ by race, ethnicity *and* income, and to explore their interaction.

Education

Access to high-quality education is widely recognized as being essential to mobility, both for individuals and communities. This is particularly true in the new millennium, as a growing share of workers either use technology on the job and/or are working in high-technology sectors. Yet the quality of education varies considerably in the United States by race, ethnicity, citizenship and/or immigration status, gender, family socioeconomic

status, and geography (e.g., rural, suburban, or urban residence). Educational inequality starts early in life, beginning with uneven access to high-quality, center-based early childcare. It persists through K-12 education in the form of public schooling that is often separate and unequal on the basis of race, ethnicity, geography, family income and language status. And it continues in higher education that is inaccessible for many because of insufficient financial resources and/or inadequate academic preparation.

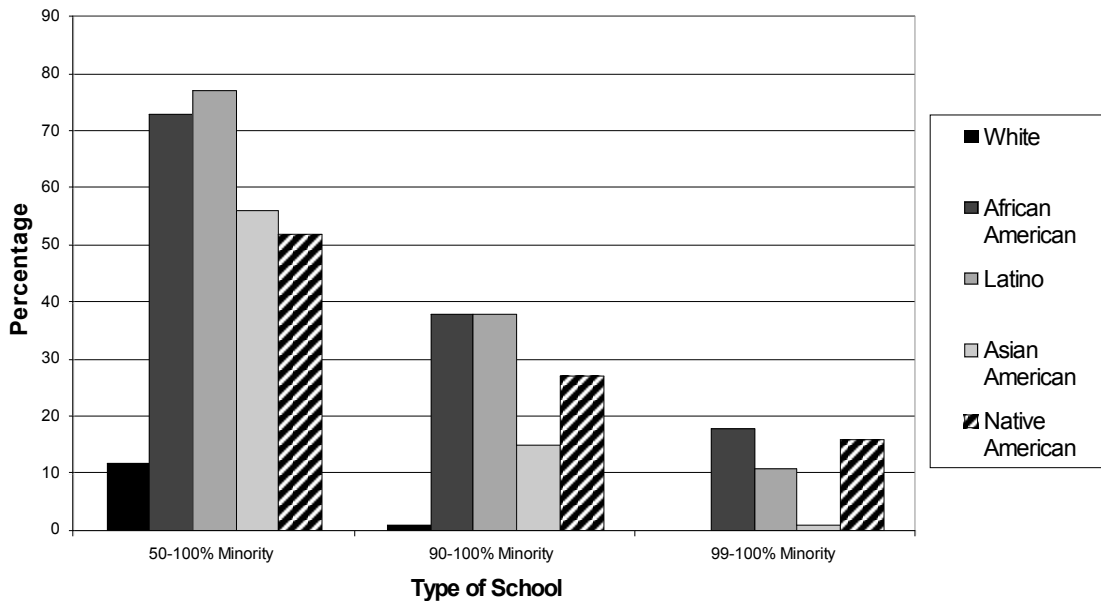
The Persistence of Segregation in Education

Racial, ethnic, and class segregation in schools--largely the consequence of residential segregation--is strongly correlated with classroom outcomes, as has been widely demonstrated.⁵ Predominantly minority and high-poverty schools have less experienced and fewer certified teachers, higher teacher turnover, poorer instructional quality, fewer Advanced Placement courses, poorer test scores, and higher dropout rates. For example, in 2001, rates of high school dropout in predominantly minority schools were nearly 20 percent higher than in majority white schools. In 2002, half of predominantly minority schools had dropout rates of over 40 percent, as did two-thirds of those schools that enrolled fewer than 10 percent white students.⁶ High-poverty and predominantly minority schools are so systematically unequal relative to majority-white schools that some researchers have concluded that they are “institutions of concentrated disadvantage.” School segregation is therefore an important measure of opportunity for mobility.

Despite fifty years of legal precedent and policy at federal, state and local levels to desegregate schools, rates of school segregation have failed to decline, and are showing signs of increasing. High levels of resistance in many communities to school desegregation efforts, coupled with court-ordered dissolution of desegregation plans, have halted the movement to create more integrated public schools. Today, over 40 percent of K-12 students in the United States are nonwhite, and the great majority of them attend predominantly minority schools (see Figure 2-1).⁷ A study examining racial isolation of African-American and Latino students in the nation’s 239 largest school districts found that despite considerable integration through the mid-1980s, virtually all large school districts have experienced increasingly lower levels of integration: Since 1986, African-American and Latino students have become more segregated from whites.⁸ And a study of private schools found that white private school students are less likely than whites attending public schools to be exposed to racial and ethnic minority students.⁹

Figure 2-1. Percent of Students from Each Racial and Ethnic Group in Minority Schools, 2002-2003

Source: Orfield and Lee, 2005



Access to Comprehensive, High-Quality, Early Childcare

Substantial and growing research demonstrates that high-quality early child education programs produce substantial benefits, particularly for children in poverty and in other at-risk conditions, their families, and for society at large. Early child education programs have improved long-term educational outcomes for children, and are associated with lower dropout rates, reduced crime, increased employment, and less reliance on social service and safety net programs.¹⁰

Increasing the quality and availability of early child education programs is an important opportunity policy, particularly in light of the need for childcare among working parents. Over two-thirds of U.S. households have both parents or a single parent working outside the home, and about three of five (13 million) children under age six are cared for during the day by someone other than a parent.¹¹ But for many low-income families, the cost of adequate childcare severely restricts childcare options at best, and is prohibitive at worst. Childcare assistance can make a significant difference in improving childcare options. A study comparing wages and work supports in ten U.S. communities found that childcare assistance can reduce a low-income family’s out-of-pocket expenses by as much as 35 percent.¹²

Given the high costs and paucity of appropriate childcare, it is not surprising that low-income working families, as well as many racial and ethnic minority families, are less likely to have children enrolled in early child education programs (see Figure 2-2).¹³ While these families are disproportionately reliant on programs such as the federally

funded Head Start program, children from higher income families remain far more likely than children from low-income families to attend a center-based early childhood preschool. As shown in Figure 2-3, children from families in the highest income quintile are more than three times more likely to attend such programs than children from families in the lowest income quintile.¹⁴

Figure 2-2. Percent of Kindergartners Who Had Attended Center-Based Preschool by Race and Ethnicity, 1998

Source: Lee and Burkham, 2002

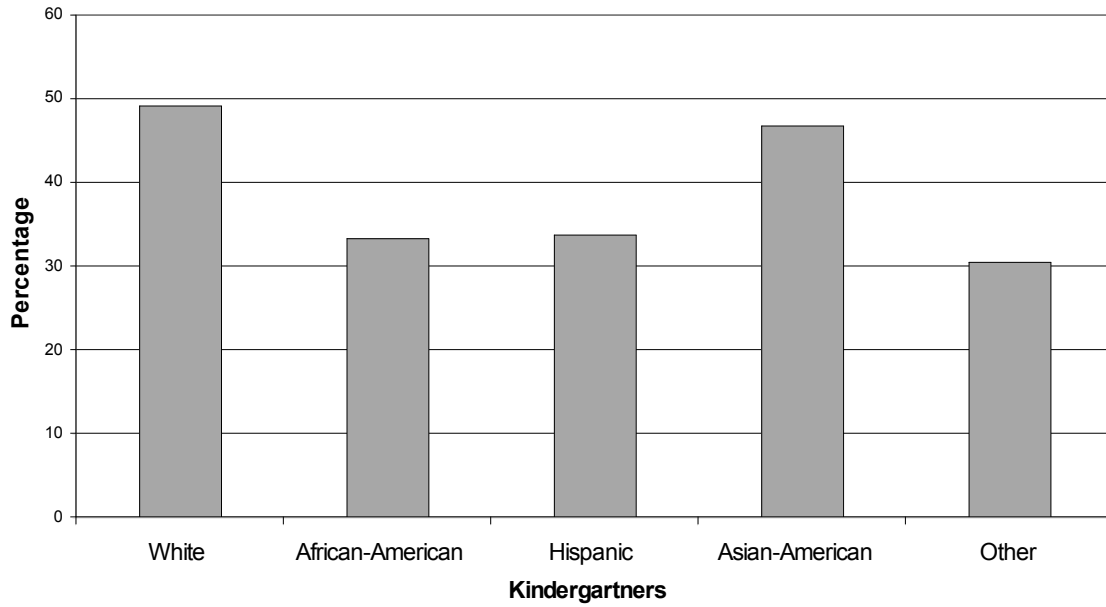
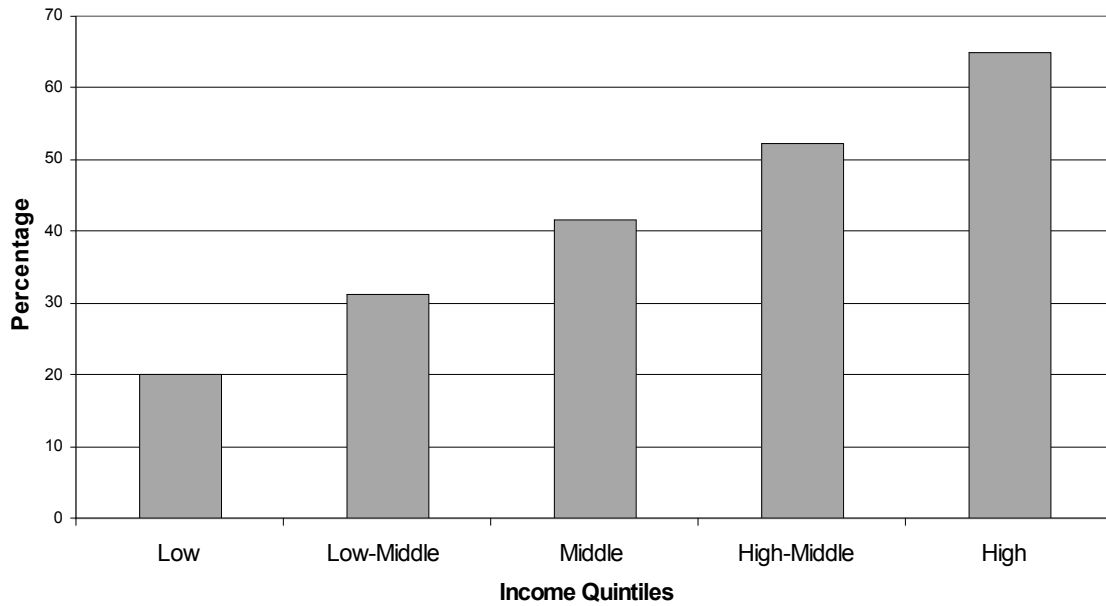


Figure 2-3. Percent of Kindergartners Who Had Attended Center-Based Preschool, by Income Quintiles, 1998

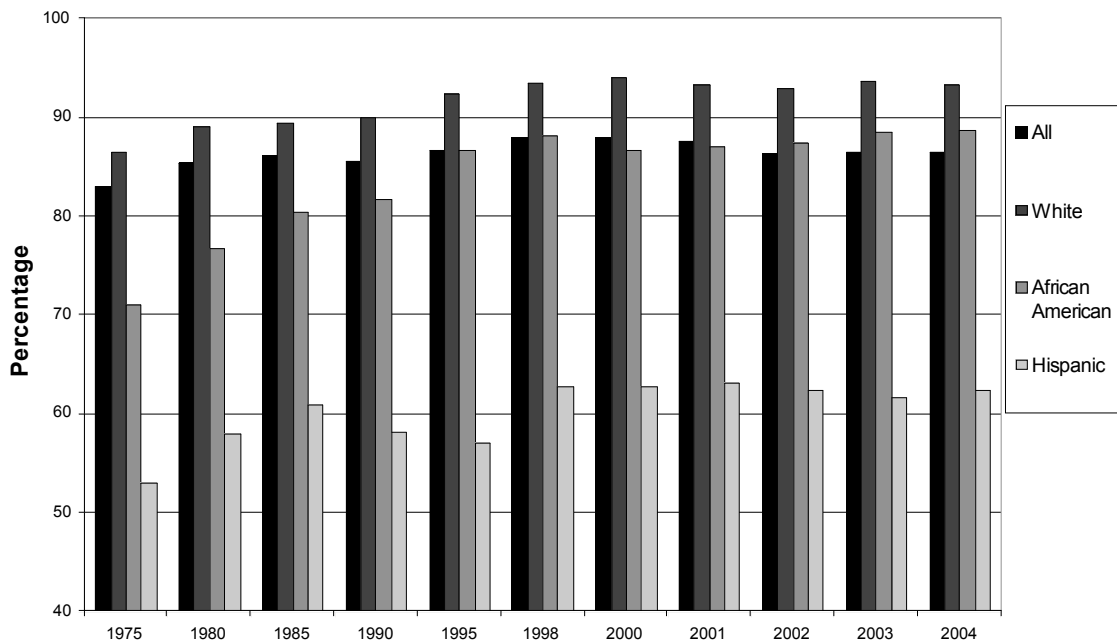
Source: Lee and Burkam, 2002



High School Degree Attainment and Dropout Rates

High school degree attainment in the United States is high overall--nearly nine in ten U.S. adults (87 percent) have obtained a high school diploma or general education equivalency degree. But rates of high school degree attainment haven't increased dramatically since 1975, when 83 percent of U.S. adults held a high school degree or equivalent. And while African Americans have considerably narrowed the high school degree attainment gap with whites (only 71 percent of African Americans held high school degrees in 1975, compared to 89 percent in 2004), Hispanics remain well behind on this indicator. The rate of high school degree attainment among Hispanic adults has held steady at just above or slightly below 60 percent for the last twenty years (see Figure 2-4).¹⁵

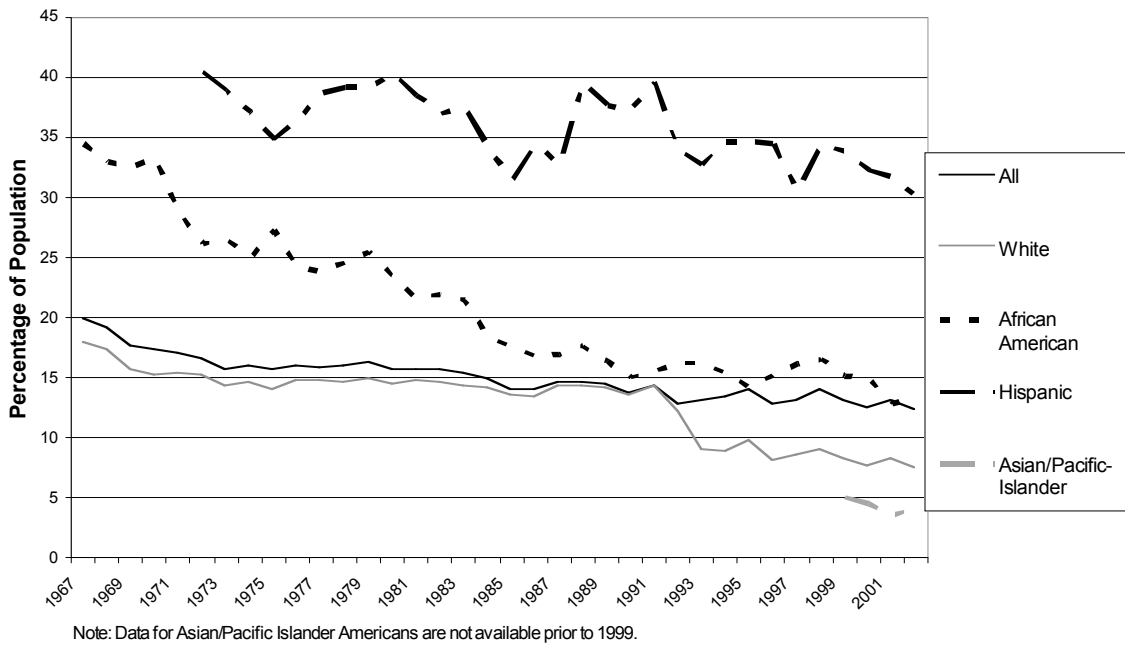
Figure 2-4. High School Completion Rates by Race/Ethnicity
 Source: U.S. Department of Education, National Center for Education Statistics, 2004



The percentage of young adults who have dropped out of high school has declined for the nation overall: Only about one in eight persons age 18 to 24 left high school prior to obtaining a diploma in 2002, compared to about one in five in 1967. Encouragingly, high school dropout rates have declined among all racial and ethnic groups in the United States over the past thirty-five years. Some of the most dramatic declines have occurred among Hispanic young adults, who have experienced a 25 percent decline in dropout rates since 1972, and African Americans, who have experienced a 64 percent decline in dropout rates since 1967. Significant racial and ethnic gaps in high school dropout rates persist, however. Hispanic youth, for example, are four times more likely to drop out than are white youth (see Figure 2-5).¹⁶

These federal data often mask considerable problems of high dropout rates that are not “captured” in federal definitions, and therefore underestimate dropout rates.¹⁷ Overall, only about two-thirds of all students who enter 9th grade will graduate on time with regular diplomas in 12th grade. Three-fourths of white students will graduate on time, while only about half of Black, Latino, and Native American students earn regular diplomas alongside their classmates.¹⁸ And a study by the Educational Testing Service found that despite apparent declines in dropout rates noted in federal data, the high school completion rate declined in all but seven states between 1990 and 2000. In ten states, high school completion rates declined by 8 percentage points or more.¹⁹

Figure 2-5. Percentage of High School Dropouts, Age 18-24 Years
 Source: U.S. Bureau of the Census, Current Population Survey, 2004

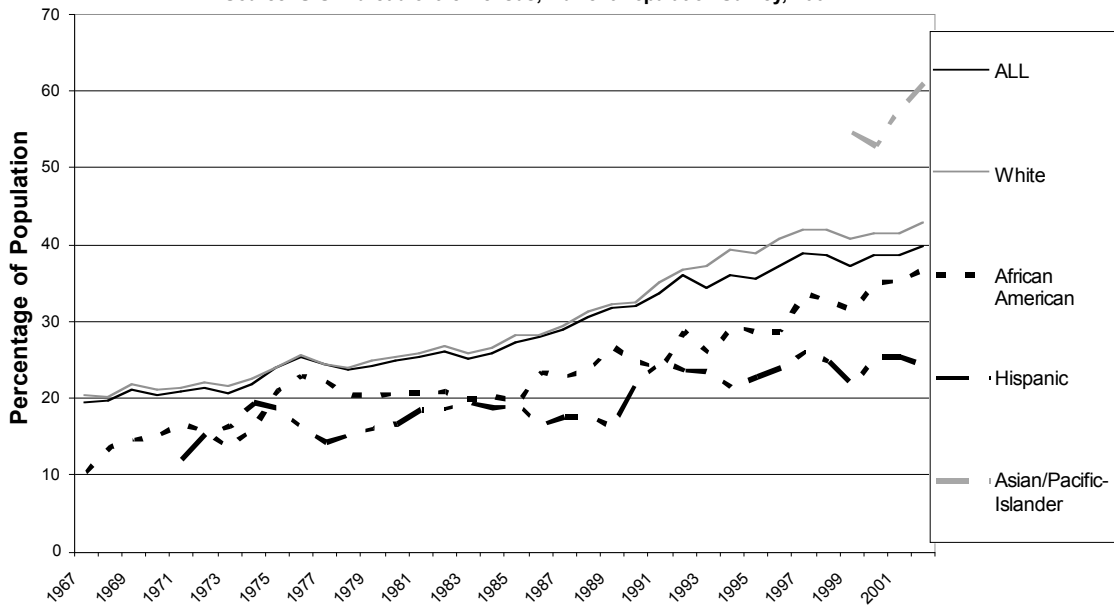


Access to Higher Education

College Enrollment. Rates of college enrollment in the United States are low relative to the proportion of high school graduates. About 40 percent of U.S. females and one-third of U.S. males age 18 to 24 were enrolled in college in 2002. On the positive side, the proportion of women enrolling in college has nearly doubled between 1967, when only about one in five women age 18 to 24 were enrolled in college, and 2002, when nearly two in five women were enrolled in college. African-American women have experienced some of the most dramatic increases in college enrollment, as rates of matriculation among this population have nearly quadrupled over the past thirty-five years (from 10 percent in 1967 to 37 percent in 2002). Male enrollment, however, has remained relatively stagnant, following a decline from a high of 35 percent in 1969 to 26 percent in 1979. Moreover, racial and ethnic gaps in college enrollment persist, despite the fact that rates of college enrollment have increased for some racial and ethnic minorities, such as African-American men and women. Hispanic women and men continue to have the lowest college enrollment rates (24 percent and 16 percent, respectively) of any racial or ethnic group, and African-American male enrollment has remained relatively stagnant at about 26 percent over the last decade, following increases in the 1970s and 1980s (see Figures 2-6 and 2-7).²⁰

Figure 2-6. Percentage of Female High School Graduates Age 18-24 Who Are Enrolled in College, 1967-2002

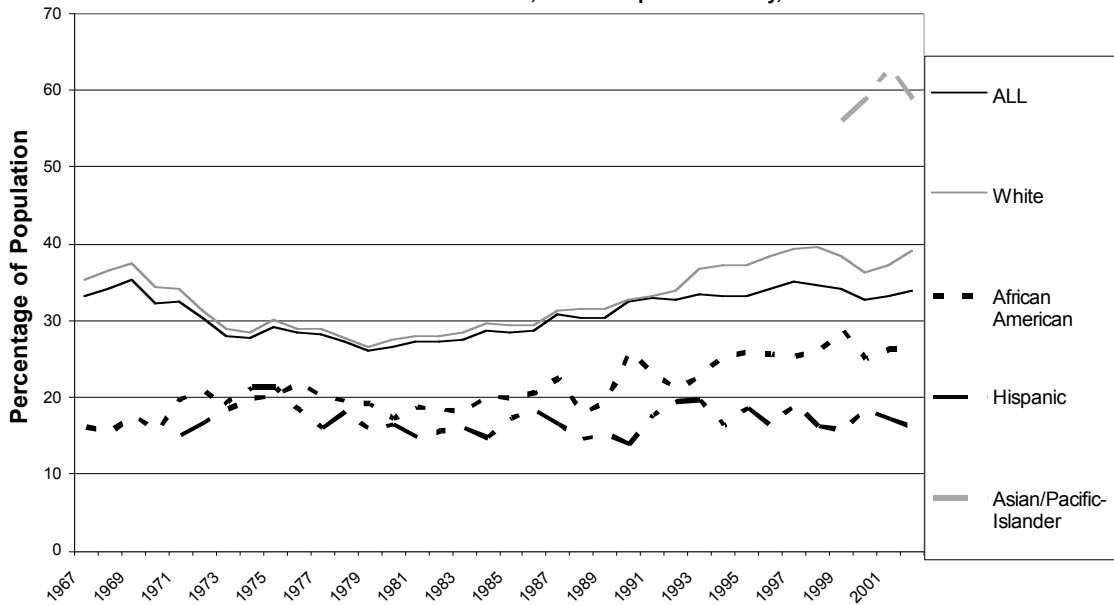
Source: U.S. Bureau of the Census, Current Population Survey, 2004



Note: Data for Asian/Pacific Islander Americans are not available prior to 1999.

Figure 2-7. Percentage of Male High School Graduates Age 18-24 Who Are Enrolled in College, 1967-2002

Source: US Bureau of the Census, Current Population Survey, 2004



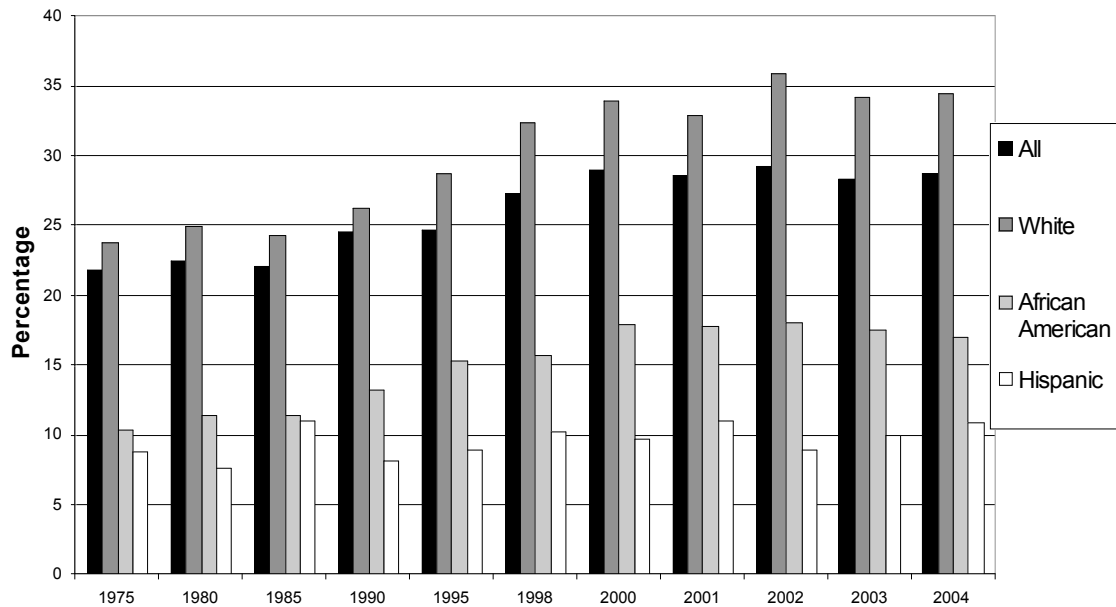
Note: Data for Asian/Pacific Islander Americans are not available prior to 1999.

College Degree Attainment. As of 2004, fewer than three in ten U.S. adults age 25 to 29 had obtained a bachelor's degree or higher. In addition, significant disparities exist among racial and ethnic groups in college degree attainment--gaps that have not

narrowed significantly despite a dramatic rise in the number of students of color who gained access to college in the 1970s and 1980s. For example, the percentage of African Americans with a college degree increased from 10 percent in 1975 to 18 percent in 2000, but this rate has leveled off since then. Similarly, the percentage of Hispanics holding college degrees hasn't improved since 1985, when 11 percent of the Hispanic adult population held a college degree (see Figure 2-8).²¹

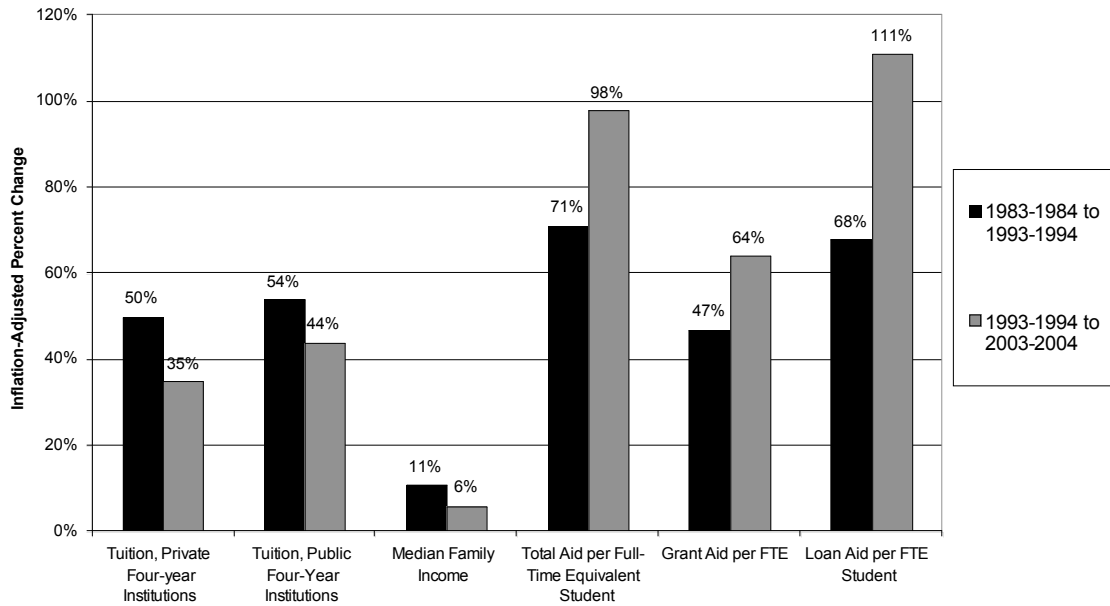
Figure 2-8. Degree Attainment by Race and Ethnicity, Bachelor's Degree or Higher

Source: U.S. Department of Education, National Center for Education Statistics, 2004



Financial Barriers to College Enrollment. The high cost of tuition is a barrier to opportunity for students who come from middle- and low-income families. Grants have been a vital source of financial aid to these students, and federal government programs such as the Pell Grants target aid to low-income students for whom post-secondary education would otherwise be unaffordable. Since 1983, however, the increase in tuition costs at both public and private four-year institutions has greatly outpaced the increase in median family income (see Figure 2-9). In response, many public and private institutions have greatly increased sources of financial aid, but most of the aid is in the form of loans rather than grants. Moreover, the increased aid is not targeted at low- and middle-income families. Sources of merit-based aid have increased relative to sources of need-based aid.²²

Figure 2-9. Inflation-Adjusted Changes in Tuition, Family Income, and Student Aid, 1983 to 2004
 Source: The College Board, 2004



Economic Mobility

The chance to “get ahead” economically is central to the American Dream. The optimism of the United States--the spirit that attracts newcomers and sustains lifelong residents--is grounded in the belief that any person in this country can achieve economic advancement, regardless of where she or he starts.

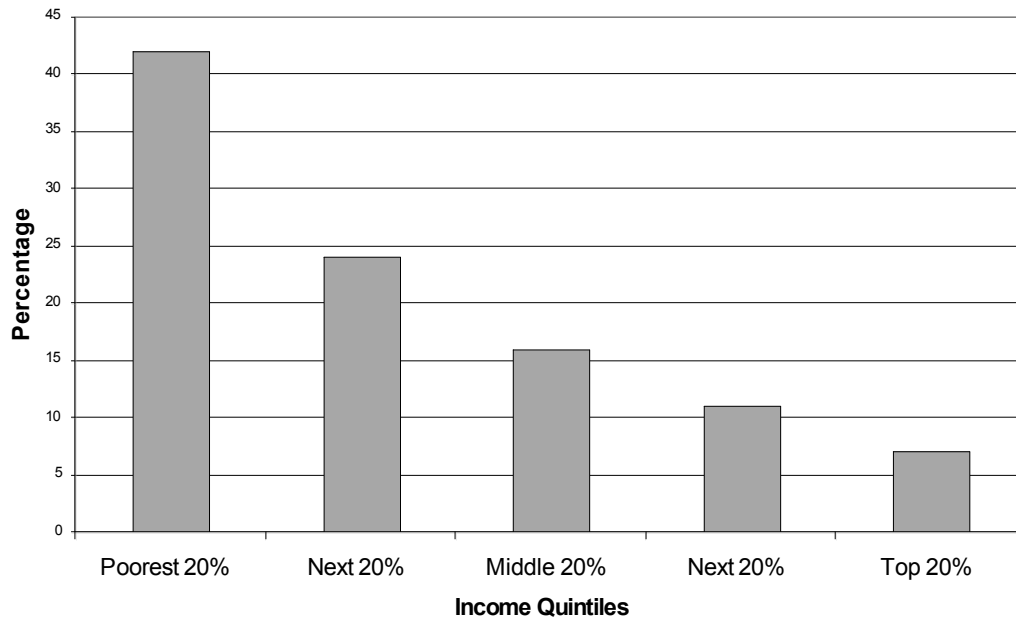
How accurate is this belief? Are economic rewards in America available to all based on effort and talent? Can everyone succeed and reap the benefits of hard work? Some studies of economic mobility published prior to the 1990s found that mobility in the United States was “significant and . . . remained stable over time.”²³ These studies also found that the share of people who moved into different income quintiles was greater when longer timeframes were studied. Over a ten-year period, for example, as many as 60 percent of people switched income quintiles, while about one-quarter to one-third moved into a different income quintile from year to year.²⁴

More recent studies, however, find less mobility and a greater likelihood that those in the bottom and top quintiles will remain there. These studies show that people in the lowest income quintiles experience the least mobility, with estimates ranging from 19 percent to 38 percent average annual mobility among those in the lowest income quintile over a ten-year period.²⁵ A study that followed more than 6,000 individuals and families with children born between 1942 and 1972 found that 42 percent of those born in the bottom income quintile remained in this group on follow up, while another 24 percent moved up only to the next income quintile. Movement from the bottom quintile to the top was

unlikely: Only 7 percent of those starting out at the bottom were among the top quintile on follow up (see Figure 2-10).²⁶ In addition, women, minorities, and other demographic groups who are disproportionately in the bottom income group are more likely to be stuck at the bottom. For example, one analysis found that fewer than 20 percent of whites born into families in the bottom income decile remained there as adults, compared to 42 percent of African Americans in the same circumstances.²⁷ Another study found that African Americans and people living in female-headed households were more likely to be chronically poor--that is, living in poverty for 24 consecutive months.²⁸ Moreover, whites are more likely to move up from the bottom than they are to fall from the top income group; the opposite is true for African Americans.²⁹

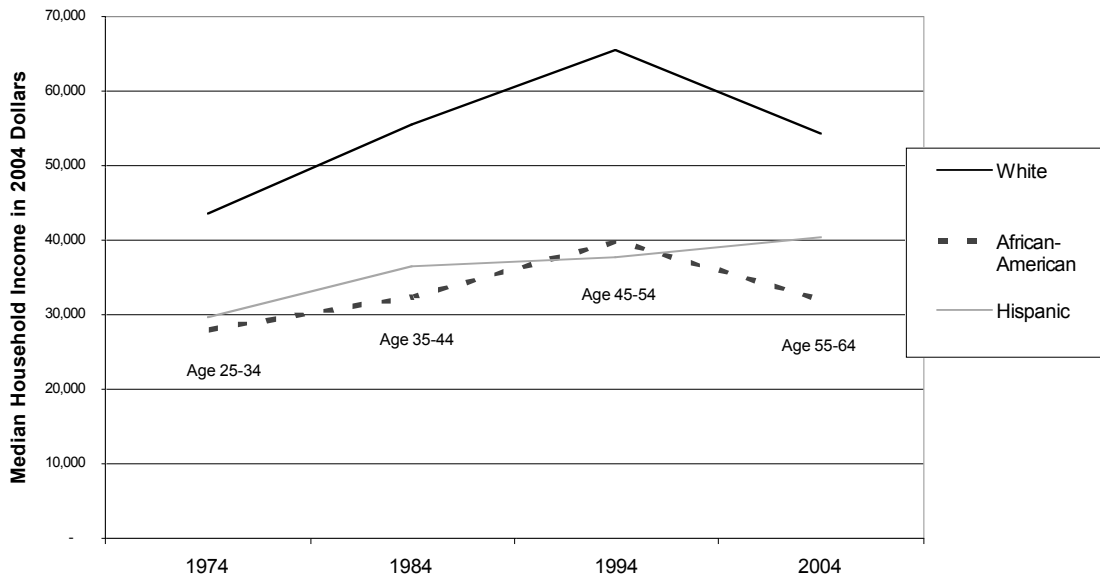
Figure 2-10. Where Those Born in the Poorest 20 Percent of the Population Ended Up as Adults

Source: Hertz, 2003, as reported by the Century Foundation, 2004



A cohort analysis of U.S. Census Bureau data reveals that white households gained more in real income than African-American and Hispanic households between 1974 and 2004. This analysis, prepared for The Opportunity Agenda by the Washington, D.C.-based Economic Policy Institute, assesses median household income for those age 25 to 34 in 1974, then again for those age 35 to 44 in 1984, for those age 45 to 54 in 1994, and for those age 55 to 64 in 2004. This analysis examines age cohorts across decades, but does not follow the same people from one decade to the next. White households enjoyed an average income increase of more than \$20,000 between 1974 and 1994, before seeing these gains cut in half by 2004. But African-American and Hispanic median household income lagged far behind that of whites at each measurement point, and increased to a smaller degree than did white household income (see Figure 2-11).³⁰

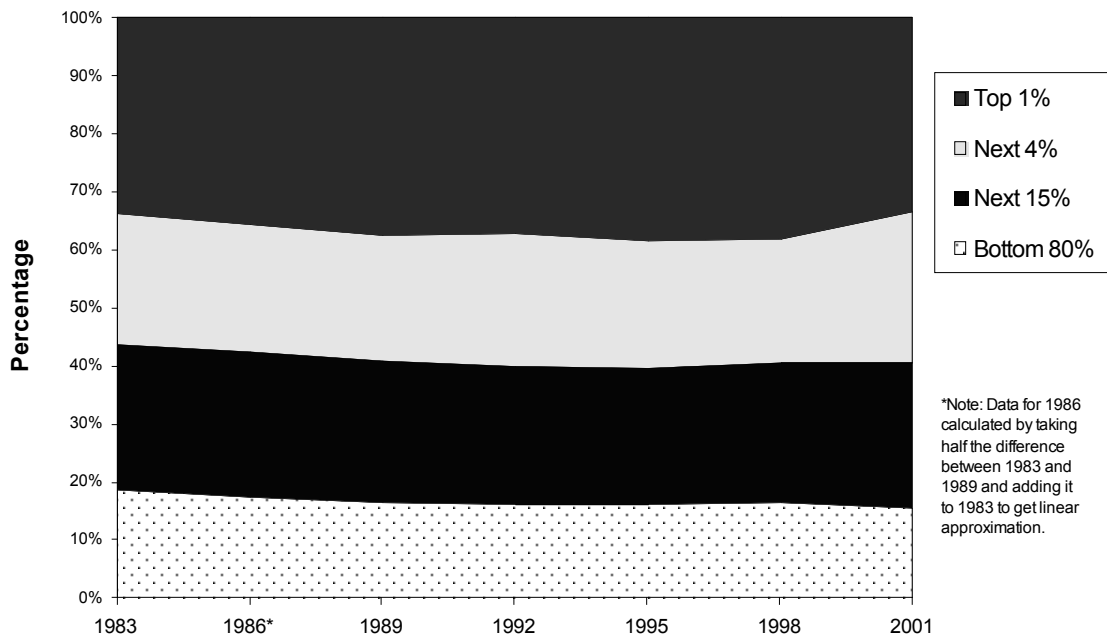
Figure 2-11. Real Median Household Income, by Race 1974-2004
 Source: Economic Policy Institute Analysis of Current Population Survey Data, 2005



Distribution of Wealth

Wealth is unequally distributed in the United States, but some periods of time have been characterized by greater wealth inequality than others. Today, the top 1 percent of households owns about one-third of household wealth, and the next 4 percent owns an additional 25 percent. The bottom 80 percent of households own about 15 percent of the nation’s wealth. This distribution has been fairly consistent over the last twenty years. But two recent trends are worthy of note: Between 1983 and 2001, the proportion of national wealth increased for the top 5 percent (from 54 percent to 59 percent), while the bottom four-fifths of households saw their share of national wealth decline from 19 percent to 16 percent (see Figure 2-12).³¹

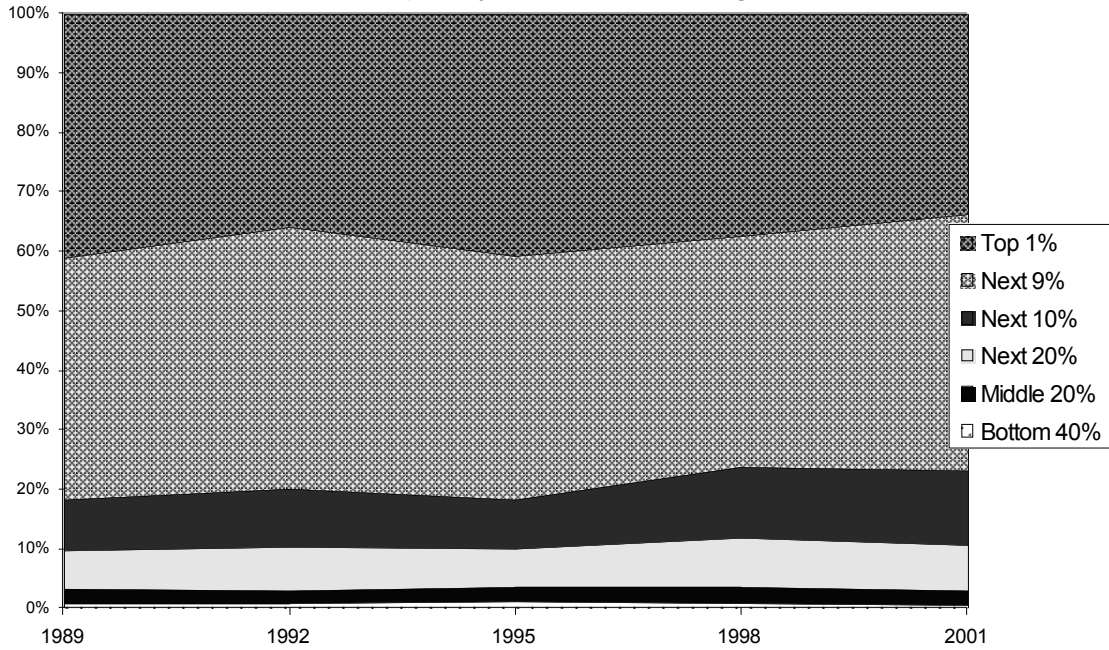
Figure 2-12. Distribution of Wealth by Wealth Class, 1983-2001
 Source: Wolff 2004, as reported by Mishel, Bernstein, and Allegretto, 2005



Stock market wealth--in recent years, a major source of growth in family wealth--is also unequally distributed. While the share of stock market wealth owned by the top 1 percent of stock-owning households declined from 41 percent in 1995 to 35 percent in 2001, stock wealth increased from 41 percent to 43 percent for the next 4 percent of stock-owning households during this same period. The top 5 percent of stock-owning households, therefore, maintained a disproportionately large (77 percent) share of stock wealth, a percentage largely unchanged over the last fifteen years. During this same period, the bottom 40 percent of stock-owning households barely maintained a foothold in the stock market, holding about 1 percent or less of stock (see Figure 2-13).³²

Figure 2-13. Distribution of Stock Market Wealth by Wealth Class, Selected Years, 1989-2001

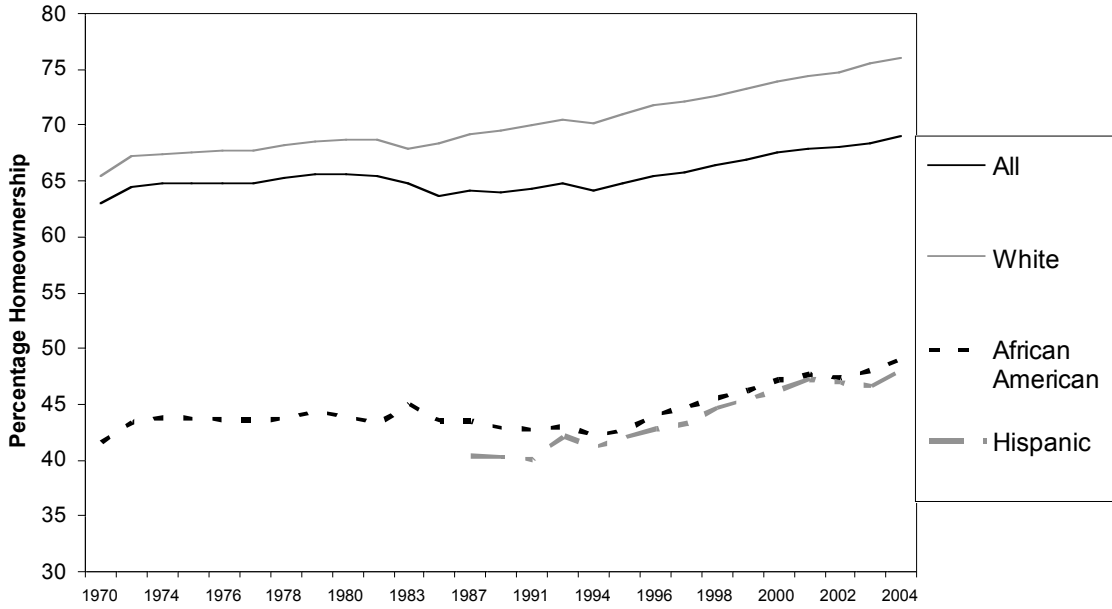
Source: Wolff, as reported by Mishel, Bernstein, and Allegretto, 2005



Homeownership

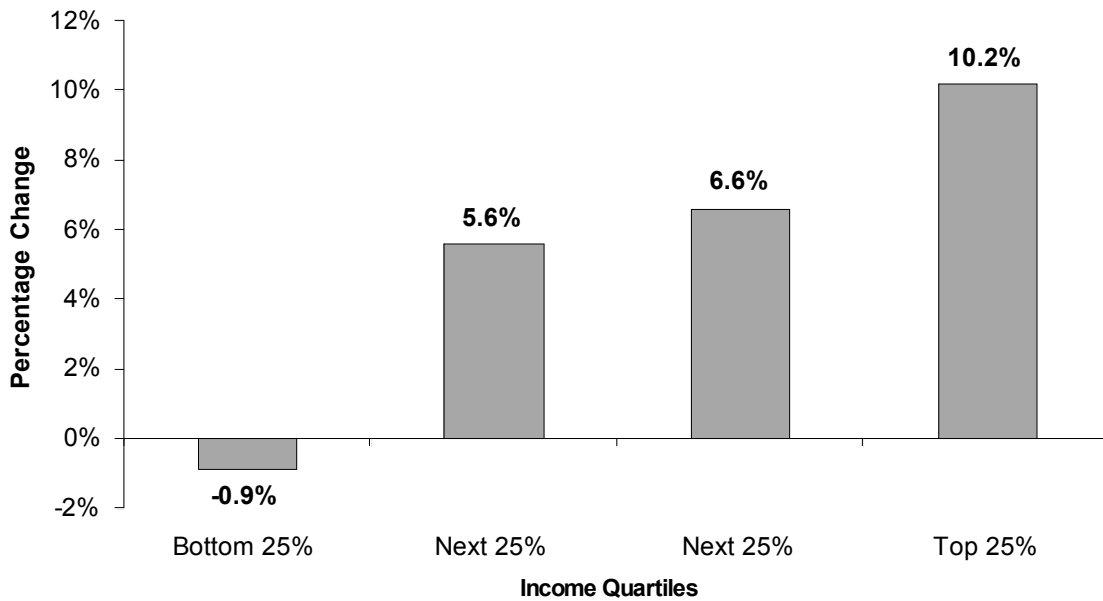
Homeownership, long acknowledged for its beneficial impact on household wealth and stabilizing impact on communities and families, has slightly increased nationally, from a rate of 65 percent homeownership in 1979 to 68 percent in 2003. Homeownership has increased for all income quartiles, as well as for all racial and ethnic groups. Hispanics saw the greatest gains in rate of homeownership, from just over forty percent in 1989 to 47 percent in 2003 (see Figure 2-14).³³ But large gaps in homeownership are found among income, racial, and ethnic groups. In 2001, for example, nearly nine in ten of top income quartile households owned homes, compared with just over half of the lowest income quartile households. Moreover, the rate of homeownership growth has disproportionately favored higher income groups. Between 1970 and 2003, homeownership among the top income quintile grew by over 10 percent, while slightly declining among the lowest fifth of wage earners (see Figure 2-15).³⁴ African-American and Latino households are also far less likely to own homes than are whites. Although this gap is narrowing slightly, it is large and has persisted for decades.

Figure 2-14. Homeownership Rates by Race, 1970-2004
 Source: Economic Policy Institute analysis of U.S. Census Data, 2005



Note: U.S. Census designations added "Hispanic" as a separate category in 1987.

Figure 2-15. Change in Homeownership Rates by Income Quartiles, 1970-2003
 Source: Economic Policy Institute analysis of U.S. Census Data, 2005



Mortgage Lending

The vast majority of American homeowners must obtain mortgage loans to purchase their homes. But a significant body of evidence shows that minority loan applicants continue to face discrimination when attempting to obtain a mortgage loan--discrimination that may, in part, explain the racial and ethnic gap in homeownership rates. One of the largest and most significant studies to date, conducted by the Boston Federal Reserve Bank, assessed loan denial rates among white, African-American, and Hispanic applicants using a sample of about 3,000 loan applications for conventional mortgages in the Boston area in 1990. Controlling for a variety of applicant, loan, and property characteristics, the study found that the rejection rate for African-American and Hispanic applicants was 82 percent higher than for white applicants. The statistical controls used in this study demonstrate that the racial difference in rejection rates occurred among comparable loan, property, and applicant characteristics.³⁵ Critics of the study charge that many methodological problems limit the study's ability to draw conclusions. A major reanalysis of the study's data, however, finds that the large differences in loan approval rates between white and minority applicants cannot be explained by methodological problems, omitted variables, or other errors.³⁶ More recent studies using a range of controls have yielded similar findings.

Subprime Lending

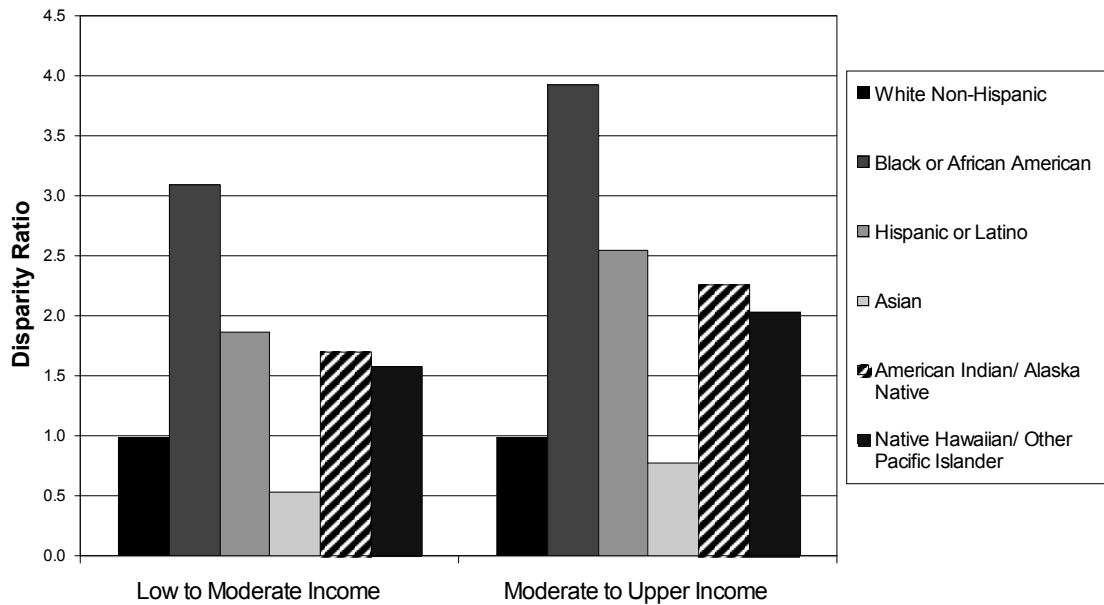
Another barrier to homeownership for many in low-income communities and communities of color can be found in the type and quality of loan products available to consumers. Prime loans--loans offered by banks and other commercial lending institutions at prevailing interest rates--are the most desirable home loans, and as such are typically only available to borrowers with good credit. In contrast, subprime loans feature higher interest than prevailing rates, and as a result are often the only lending option available to those with credit blemishes. But subprime lending can also crowd out prime lending in traditionally underserved communities, restricting the kinds of loan options available in these communities and increasing the likelihood that some individuals will fall victim to predatory and deceptive lending practices.³⁷

A recent analysis of federal home lending data conducted by the Washington, D.C.-based National Community Reinvestment Coalition (NCRC) found that African Americans and Hispanics, women, and low- or moderate-income borrowers are much more likely to have subprime loans than prime loans in the vast majority of the nation's 331 Metropolitan Statistical Areas (MSAs). In all MSAs, for example, women borrowed a higher percentage of subprime loans than prime loans, and in only 5 of 331 MSAs did prime loans exceed subprime loans among African-American borrowers. In more than three-quarters of the nation's MSAs, a greater share of subprime than prime loans is found in predominantly minority census tracts. And in 98 percent of these MSAs, prime lending lagged behind subprime lending in low- to moderate-income census tracts. Moreover, the NCRC's analysis revealed that the portion of subprime loans taken out by minorities and women increased with higher levels of racial and ethnic housing segregation within census tracts.³⁸

At the request of The Opportunity Agenda, the NCRC analyzed federal data to assess the share of subprime loans relative to prime loans in low-income communities and communities of color. Using whites as the reference group, the NCRC found wide disparities in the prevalence of subprime home purchase loans, refinance loans, and home improvement loans. African Americans, American Indians/Alaska Natives, Pacific Islanders, and Hispanics all relied more on all types of subprime loans than did whites. These disparities *increased* among more affluent borrowers of color. For example, low- to moderate-income African Americans are three times more likely than low- to moderate-income whites to have subprime loans. But moderate- to upper income African Americans are nearly four times more likely than similarly situated whites to be dependent on subprime loans. Similarly, moderate- and upper income American Indians, Pacific Islanders, and Hispanics were more dependent on subprime loans relative to whites than were their low- and moderate-income peers (see Figure 2-16).³⁹

Figure 2-16. Disparity Ratio, Subprime Home Purchase Loans, by Race, Ethnicity, and Income

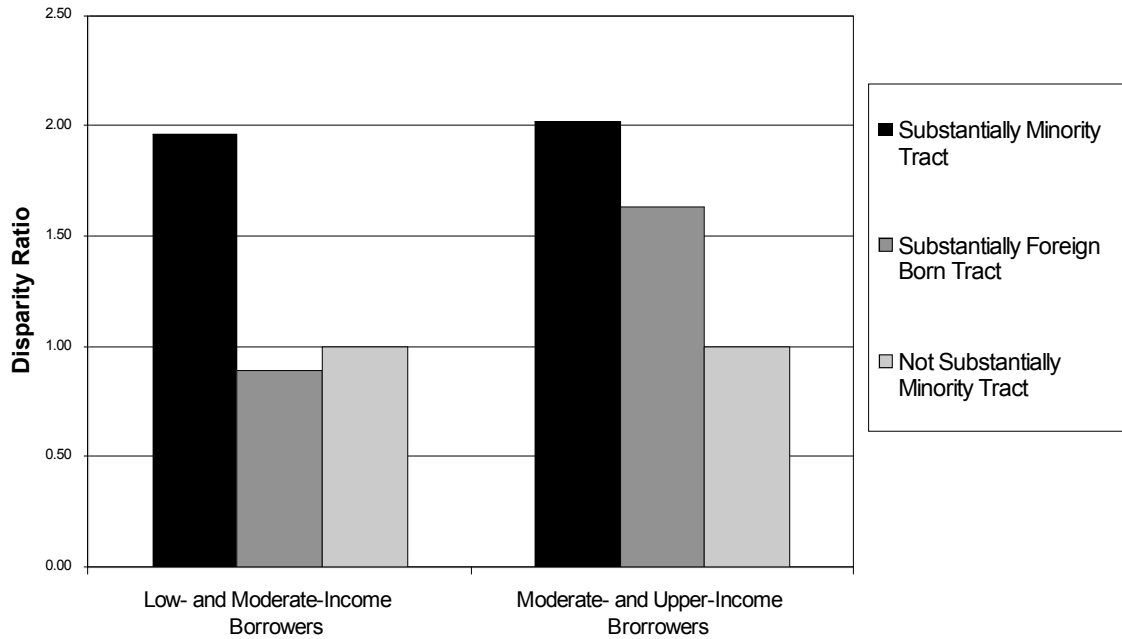
Source: National Community Reinvestment Coalition, 2005



When analyzed by the demographic composition of census tracts, a similar pattern emerged. Low- and middle-income borrowers in substantially minority census tracts were nearly twice as likely as low- and middle-income borrowers in substantially non-minority tracts to receive subprime loans. Yet this disparity ratio increased slightly among middle- and upper income borrowers. And although low- and middle-income borrowers in substantially foreign-born census tracts are less dependent on subprime loans than are low- and middle-income borrowers in non-substantially foreign-born tracts, their middle- and upper income peers are over 1.5 times more likely than those in non-substantially foreign born tracts to receive subprime loans (see Figure 2-17).⁴⁰

Figure 2-17. Disparity Ratio, Subprime Home Purchase Loans, by Type of Census Tract

Source: National Community Reinvestment Coalition, 2005

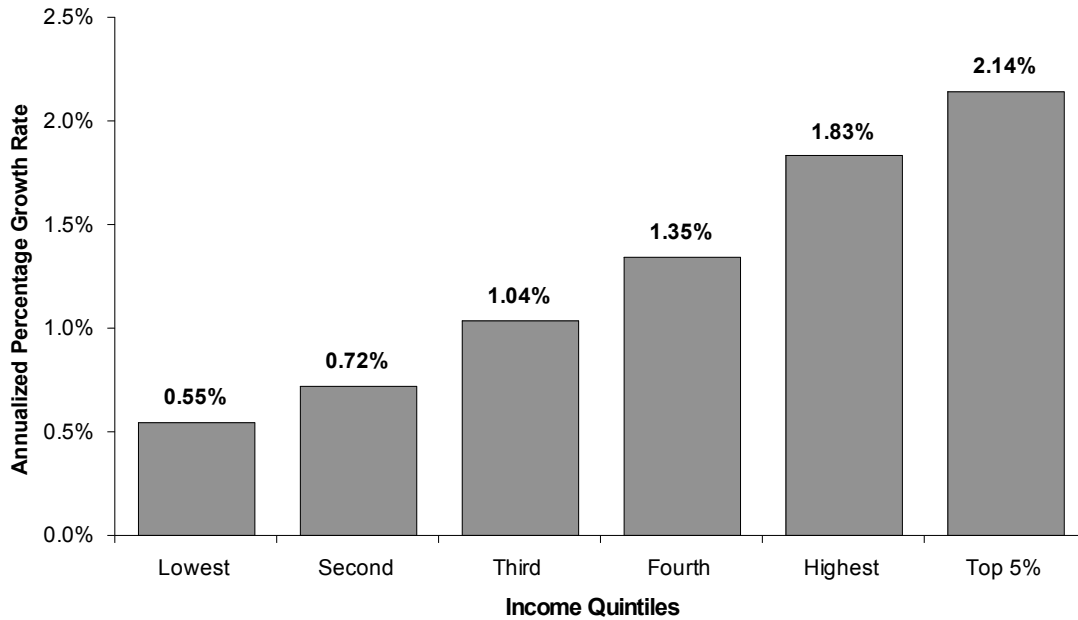


Family Income

Median family income has steadily increased over the last fifty years.⁴¹ Growth in family income has historically been relatively equally distributed across all income levels. In the last four decades, however, families at the highest income levels have seen greater average annualized income growth than have families at the lowest income levels (see Figure 2-18).⁴²

Figure 2-18. Annualized Growth of Family Income by Quintiles, 1966-2003

Source: Economic Policy Institute Analysis of U.S. Census Data, 2005



Women- and Minority-Owned Businesses

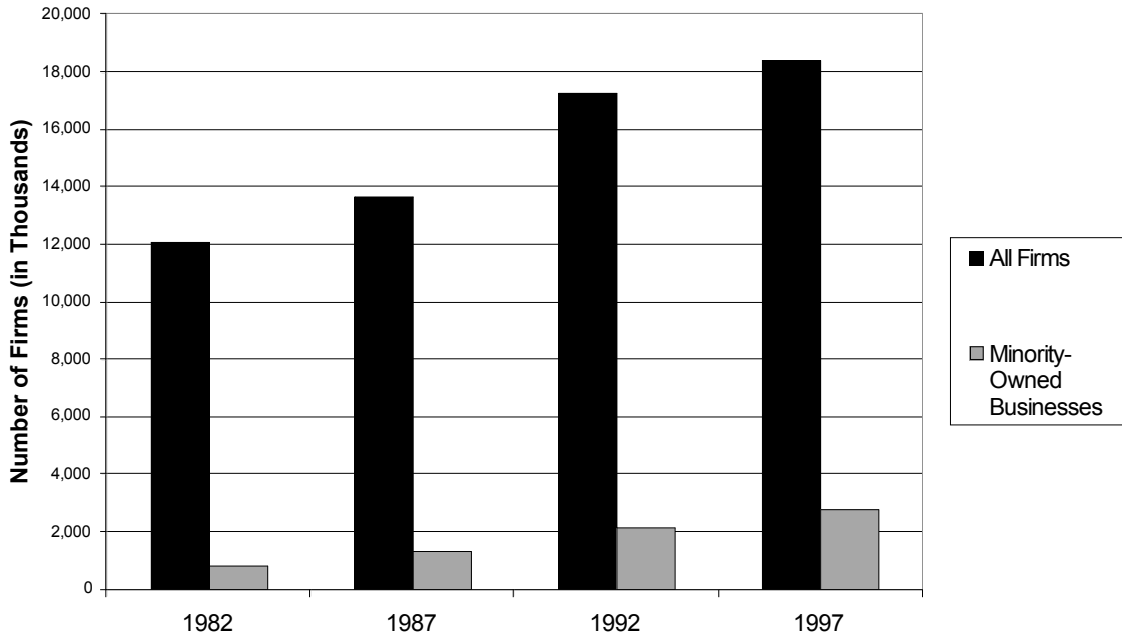
Women-owned businesses have increased both in number and share of all business receipts. Nearly 6.5 million women-owned businesses earned receipts totaling nearly \$1 trillion in 2002. These figures represent a 20 percent increase in the number of women-owned businesses since 1997, and a 16 percent increase in receipts.⁴³ Sole proprietorships, which are nearly two-thirds of all businesses in the United States, are increasingly operated by women, whose numbers increased from 5.6 million in 1990 to 7.1 million in 1998. Women’s sole proprietorships increased their share of receipts during this period from 15 percent of the total to 18 percent. Nonetheless, women-owned businesses remain a much smaller proportion than, for example, women’s representation in the workforce. And these businesses are disproportionately concentrated in the services industries, as nearly 70 percent of all total net income among women sole proprietorships occurred in these fields. The top two types of women sole business ownerships were in door-to-door sales and childcare.⁴⁴

Minorities have made marked progress in rates of business ownership over the last twenty-five years.⁴⁵ Minority firms have seen revenues rise by about 10 percent annually, and these firms grew at rates three times higher than non-minority businesses between 1992 and 1997 (see Figure 2-19).⁴⁶ The percentage of businesses owned by minorities increased from 7 percent in 1982 to 15 percent in 1997, the last year that the Bureau of the Census and the Small Business Administration published estimates of minority business ownership.⁴⁷ But the proportion of minority-owned businesses remains far below the proportion of non-white groups in the country. In terms of the “density” of

business ownership, or rate of business ownership per capita, whites are two to four times more likely than African Americans and Hispanics to own a business.⁴⁸ In addition, minority businesses are more likely to be in low- and no-growth sectors, and are disproportionately dependent on personal and family financing over business loans or other capital investment.⁴⁹

Figure 2-19. Number of All Firms and Minority-Owned Businesses, 1982-1997

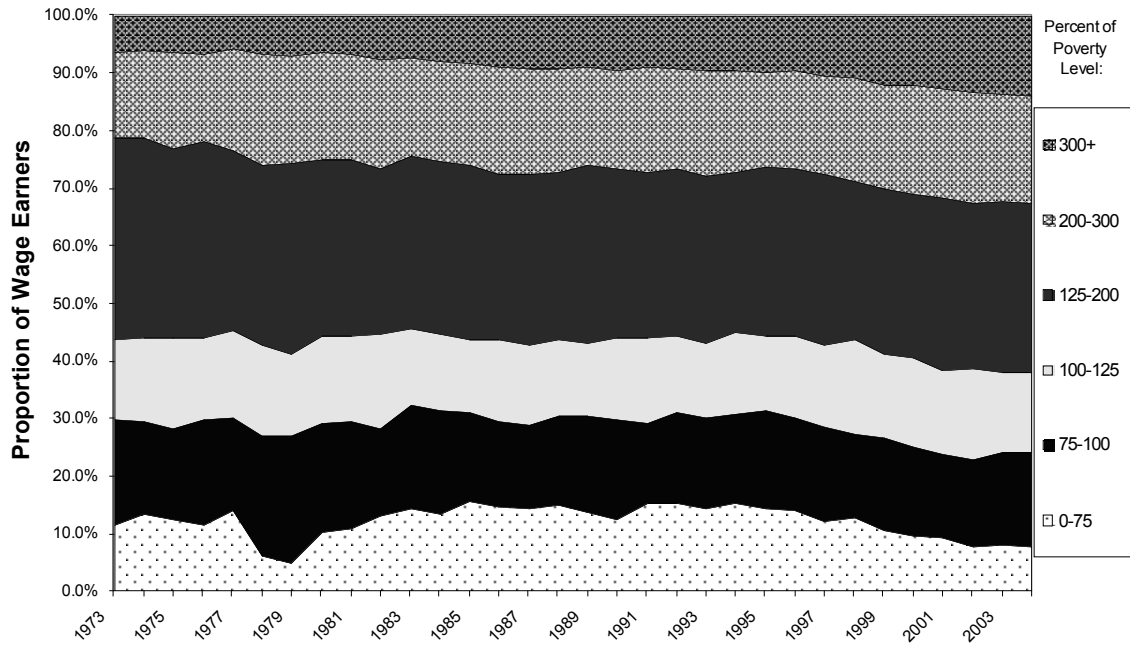
Source: The Boston Consulting Group, 2005



Wage Distribution

The distribution of wages across income groups has shifted significantly over the last three decades, as an increasing share of workers are earning higher incomes. The proportion of workers earning poverty-level and sub-poverty-level wages (0-75 percent of poverty) has also declined over the last three decades. But the share of low- to middle-income wage earners remained relatively stagnant in this period (see Figure 2-20).⁵⁰ Moreover, as will be discussed in the chapter on *Equality*, wage inequality grew sharply between 1973 and 2004. During this period, male workers in the lowest income brackets saw their wages decline in real dollars, while men in the highest income brackets enjoyed large wage gains. And while women’s wages increased at all income levels, women in the highest income brackets enjoyed the greatest real wage gains relative to lower income female workers, and these gains did not eliminate the gender gap in wages.⁵¹

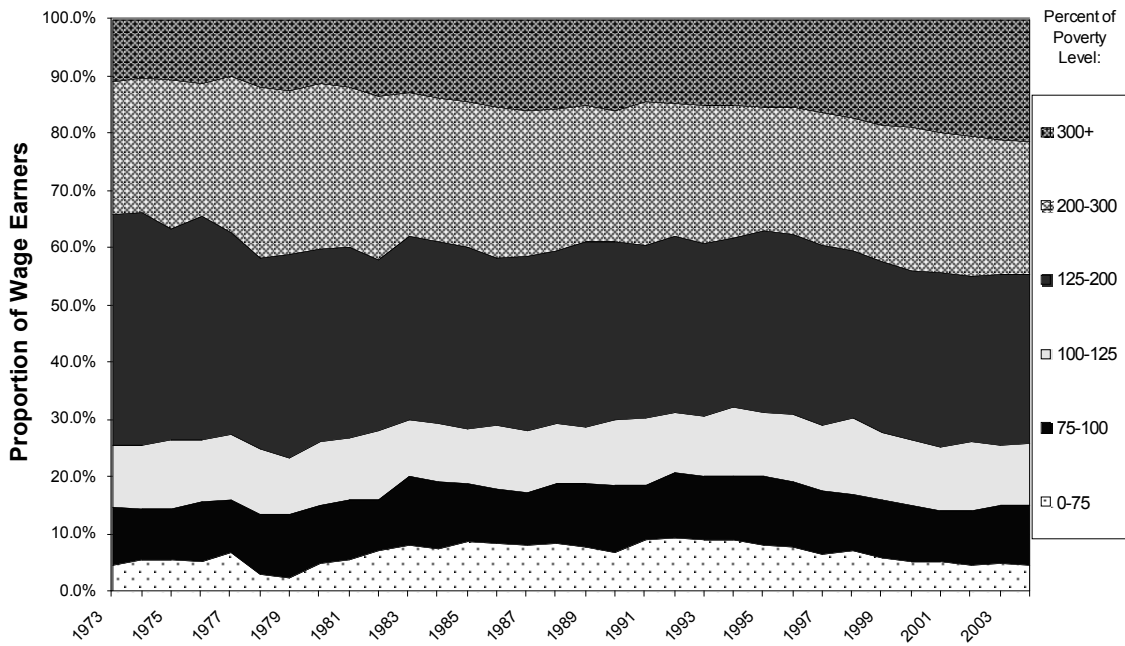
Figure 2-20. Percentage of Wage Earners by Poverty Level, 1973 to 2004
Source: Economic Policy Institute, 2005



Wage Distribution For White Men

White male wage earners saw greater gains between 1973 and 2004 than did most other racial, ethnic, and gender groups, as the proportion of this group earning 300 percent of the federal poverty level doubled. But the proportion of white male low- and middle-wage earners declined, while the segment of these workers earning poverty-level wages remained stable and low (see Figure 2-21).⁵²

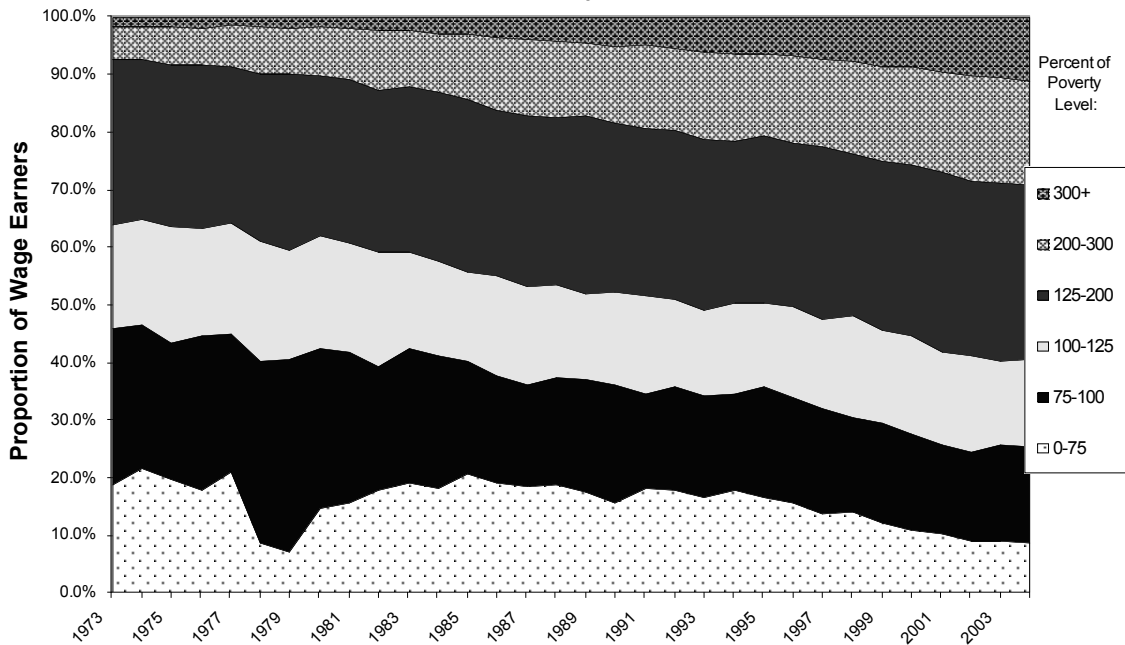
Figure 2-21. White Male Wage Earners by Poverty Level, 1973 to 2004
 Source: Economic Policy Institute, 2005



Wage Distribution For White Women

White females saw the greatest gains of any group in wages since 1973, as the proportion of this group earning wages three times the poverty rate and above increased nearly fivefold, and the proportion earning twice the poverty rate nearly doubled. At the same time, the proportion of white women earning poverty- and sub-poverty-level wages declined sharply. But the share of white women earning near-poverty (100 percent-125 percent of poverty) or moderate (125 percent-200 percent of poverty) wages remained stagnant (see Figure 2-22).⁵³ And as discussed in the chapter on *Equality*, the wage scale for white women remains far below that of white men.

Figure 2-22. White Female Wage Earners by Poverty Level, 1973 to 2004
 Source: Economic Policy Institute, 2005

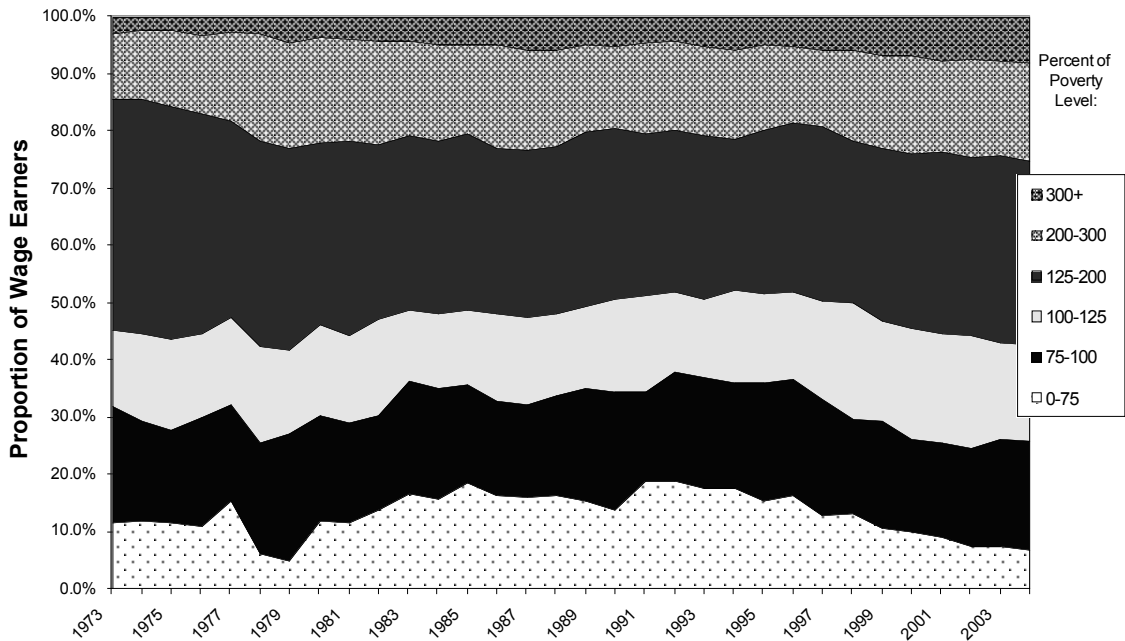


Wage Distribution For African-American Men

Since 1973 African-American male wage earners have experienced modest growth in the proportion of workers earning incomes twice and three times greater than the federal poverty level. Moreover, the proportion of African-American men earning poverty-level wages declined by nearly a third since 1992. But the share of low- and middle-income wage earners (those earning between poverty-level and 200 percent of poverty) has been stagnant or declining since 1973. And the rate of growth in wages among African-American men has been far slower than for other groups (see Figure 2-23).⁵⁴

Figure 2-23. African-American Male Wage Earners by Poverty Level, 1973 to 2004

Source: Economic Policy Institute, 2005

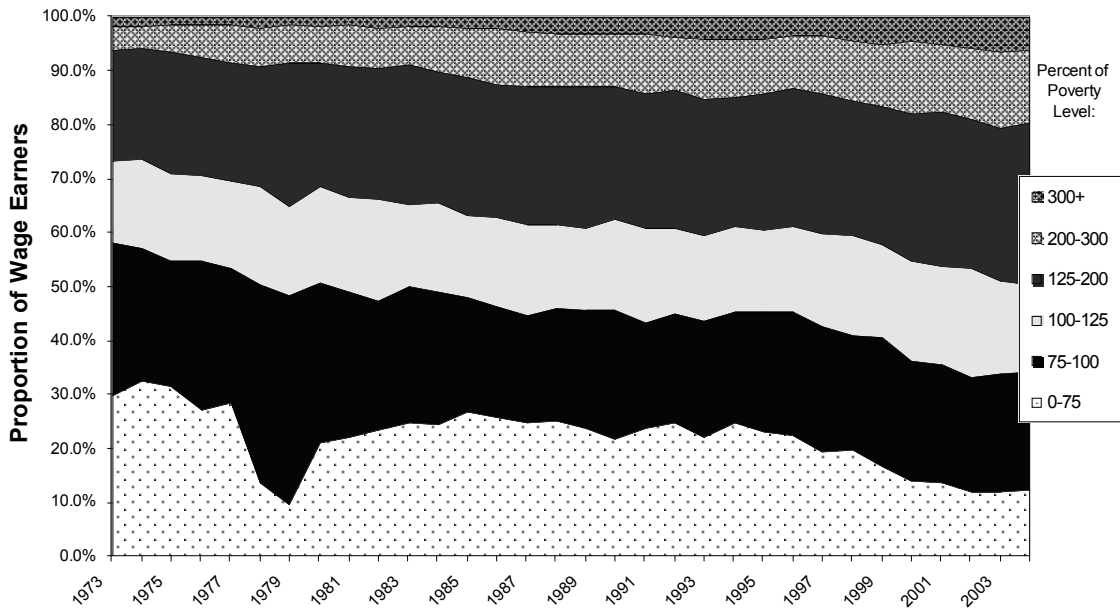


Wage Distribution For African-American Women

An increasing share of African-American women has joined the ranks of high and moderately high wage earners since 1973, as the proportion of this group earning 200 percent and 300 percent of poverty wages or more have more than doubled. At the same time, the proportion of African-American women earning poverty-level wages or below has declined sharply, particularly since the mid-1990s. But these women continue to earn far less than their white male and female counterparts, even at similar educational levels (see Figure 2-24).⁵⁵

Figure 2-24. African-American Female Wage Earners by Poverty Level, 1973 to 2004

Source: Economic Policy Institute, 2005

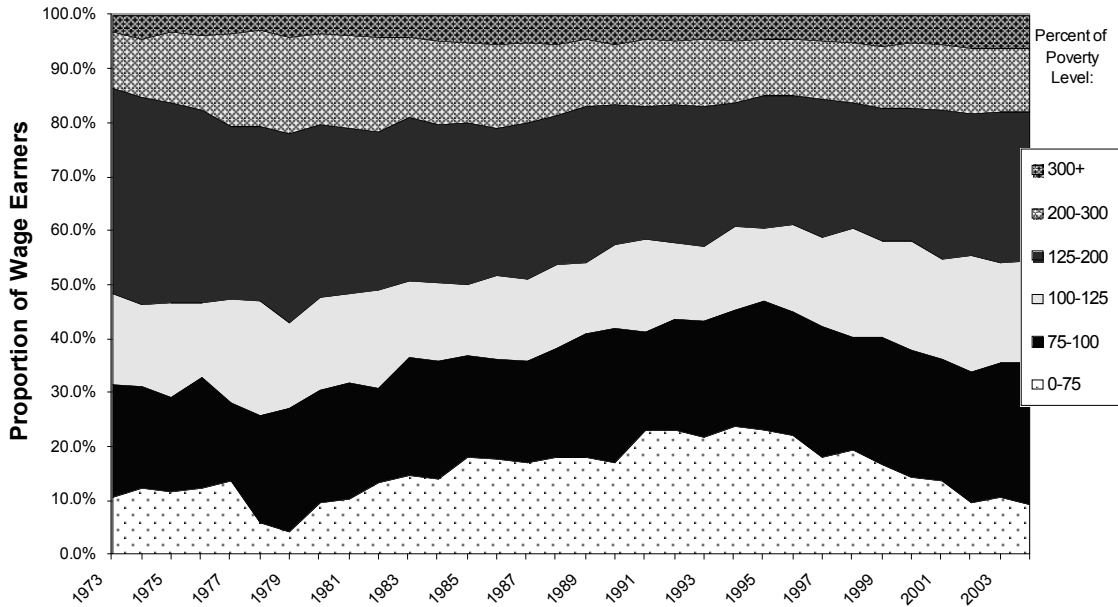


Wage Distribution For Hispanic Men

Since 1973 the share of Hispanic males earning poverty-level or near-poverty-level wages (100 percent-125 percent of poverty) has increased, while the proportion of this group earning moderate wages (125 percent-200 percent of poverty) has declined. At the same time, the proportion of Hispanic males earning wages two and three times or more greater than poverty level has remained largely stagnant. The proportion of Hispanic males earning very low (0-75 percent of poverty) or poverty-level wages has declined sharply, however, since the mid-1990s. While the distribution of wages among Hispanic men can be expected to tilt toward the lower end of the wage scale as a result of immigration, these data nonetheless suggest that Hispanic men have seen little progress toward a more equitable distribution of wages (see Figure 2-25).⁵⁶

Figure 2-25. Hispanic Male Wage Earners by Poverty Level, 1973 to 2004

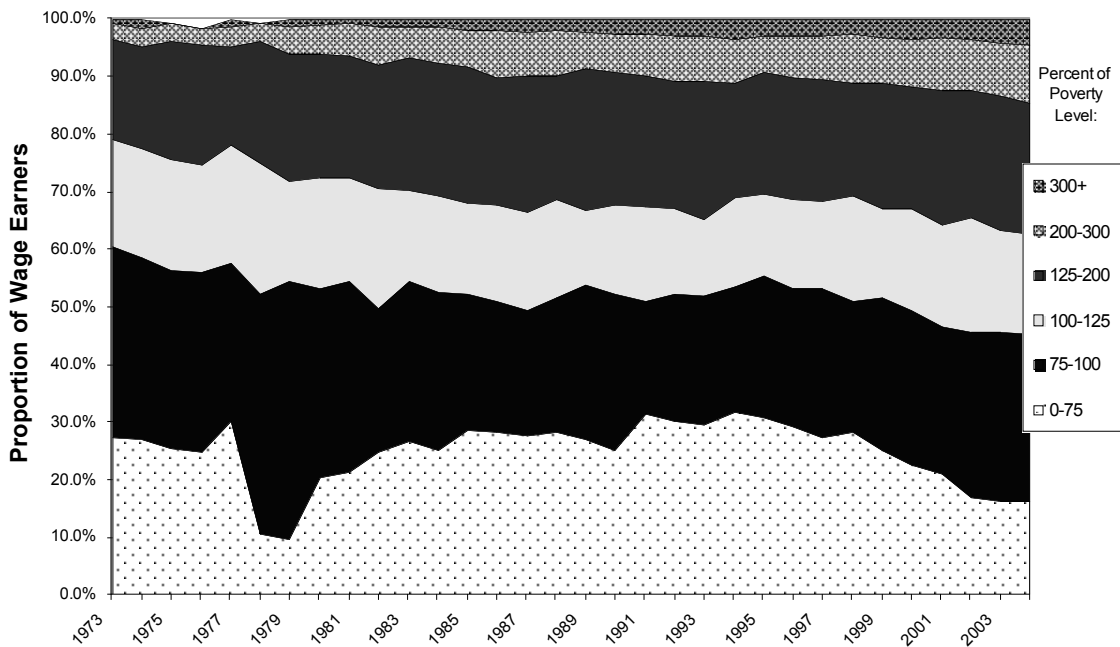
Source: Economic Policy Institute, 2005



Wage Distribution For Hispanic Women

Over the last thirty years, a declining percentage of Hispanic female workers earned poverty-level wages, and an increasing share earned incomes two and three times greater than poverty wages. In 1973 60 percent of Hispanic female workers earned poverty-level wages; this percentage declined to 45 percent in 2004. During the same period, the percentage of Hispanic women earning 200 percent or more of the poverty level increased by nearly fivefold. They remain, however, disproportionately represented among low and very-low wage earners (see Figure 2-26). As with Hispanic men, immigration plays a significant role in trends in wage distribution among this group.

Figure 2-26. Hispanic Female Wage Earners by Poverty Level, 1973 to 2004
 Source: Economic Policy Institute, 2005



How Can the Nation Protect and Expand Mobility for All?

Renewing socioeconomic mobility requires that we ensure access to quality education, homeownership, and other gateways to wealthbuilding and human development. Our recommendations include measures that reduce financial barriers for everyday Americans, as well as greater safeguards against discrimination, isolation, and exclusion.

Investing in Comprehensive, High-Quality Early Childcare and Child Education

Early child development programs provide substantial benefits to the children and families they serve, as well as to society as a whole.⁵⁷ These programs, which typically target low-income and other at-risk children, include a range of educational services, as well as (in some cases) health and nutritional services, and adult education and parenting

classes. Several studies of programs such as the Perry Preschool Project, the Abecedarian Early Childhood Intervention Program, Head Start, and Early Head Start, find that these programs improve academic performance, decrease the likelihood of criminal behavior, and enhance earnings later in life. Investments in early child education programs have been found to save, on average, more than \$3 for every \$1 spent, by avoiding costs for remedial and special education, criminal justice, and welfare. A recent analysis finds that if all of the nation's three- and four-year-old children living in poverty were enrolled in a high-quality early child education program, the net gains for budgets at all levels of government would exceed costs by \$31 billion (in 2004 dollars) by 2030.⁵⁸

Rather than expanding, however, early child education programs are in danger of decline. For example, over the last twenty years, the educational level of early child education teachers has fallen, as the percentage of teachers with a college degree declined from 43 percent in 1983 to 30 percent in recent years. In large part this decline is driven by stagnant wages among the early child teaching workforce. From 1984 to 1997, the wages of early child education teachers rose only 43 cents per hour in adjusted dollars.⁵⁹ Renewed federal, state, and local leadership is needed to expand early child education programs, with the greatest expansion targeted to low-income communities. One estimate is that expanding such programs to enroll all low-income three- and four-year-old children would initially cost about \$19 billion per year. But within thirty years, this investment would improve worker skills, reduce poverty and crime, and increase tax revenues.⁶⁰ Teacher training and pay should also be improved significantly, to attract better educated teachers to the field and create incentives for existing childcare workers to improve their skills.⁶¹

Promoting Socioeconomic and Racial Diversity in Public Education

Passage of the 2001 No Child Left Behind Act elevated the importance of addressing racial, ethnic, and gender-based inequality in K-12 education. Education policymakers at federal, state, and local levels are placing greater priority on improving educational performance for all groups and closing achievement gaps. Laudable success in raising achievement among low-income and minority students in a few settings has been reported. But unless addressed, high levels of school segregation threaten to undermine narrower, system-based or curricular reform efforts to improve educational attainment. Schools that have high percentages of low-income and minority students are overwhelmingly more likely to offer poorer quality educational experiences, have fewer resources, and have lower educational outcomes among students than are mixed-income, racially integrated, or minority white schools. As Orfield and Lee (2005) note, “those who argue that because there are segregated schools that succeed *we need not worry about segregation* are engaged in a fallacy of using exceptions to the rule to prove a relationship” [italics added for emphasis].⁶²

More and more court-ordered desegregation plans in many American communities have been dissolved, including even voluntary plans.⁶³ And the movement to provide vouchers to students as a means of encouraging school transfers threatens to increase

educational segregation, given relatively higher levels of segregation in private schools. School desegregation efforts, however, should not be abandoned. Because much of the racial, ethnic, and income segregation in schools is caused by residential housing segregation, strategies to increase housing integration, such as those discussed in the chapter on *Security*, can help to stimulate school desegregation. Other housing and land use policies, such as efforts to stimulate the development of mixed-income housing, should be designed to avoid the concentration of poverty and racial and ethnic isolation in schools. School districts that are considering abandoning desegregation plans should assess the social and economic impacts of high levels of segregation, and they should create incentives such as high-quality magnet and charter schools that consciously seek to increase racial/ethnic and income diversity in schools.⁶⁴ In other parts of the country, where racial and economic segregation often correspond closely with school district lines, voluntary interdistrict choice programs have had success in placing children in lower poverty public schools. Programs in St. Louis, Boston, and Minneapolis permit city children to transfer to suburban public schools. In Hartford a two-way voluntary desegregation program places more than 1000 city children in suburban schools each year, with twice that number of suburban children coming to Hartford-based interdistrict magnet schools.⁶⁵

Efforts by some school districts to decrease income segregation in schools have resulted in better educational outcomes among low-income students, supporting research showing that low-income students have better educational outcomes when they attend middle-class schools.⁶⁶ In Wake County, North Carolina, for example, the county school district's effort to limit the concentration of low-income students to no more than 40 percent within a school has resulted in dramatically improved test scores for African-American and Latino children. The school district encompasses the entire county, making it easier to assign students to schools across urban and suburban areas. The district has created magnet programs in lower income areas, attracting students with a range of family incomes, and it has assigned students from low-income communities to schools in higher income areas.⁶⁷

Improving Access to Higher Education by Reducing Financial Barriers

Access to a college education is increasingly out of reach for students from low- and moderate-income backgrounds, as the costs of tuition and other fees are rising more sharply than income. Between 1980 and 2000, the share of a low-income family's earning required to pay for one year at a public four-year college increased from 13 percent to 25 percent. At the same time, sources of need-based student aid are declining. By the mid-1990s the maximum federal Pell Grant paid for only about one-third of the average college cost at a public four-year institution, a sharp decline from the mid-1970s, when these grants covered over 80 percent of costs.⁶⁸ Student loans, increasingly a major source of financial aid, constituted nearly 70 percent of federal student assistance in 2002-2003, and non-need-based aid constituted more than 40 percent of all financial aid. Not surprisingly in light of these trends, despite the fact that college enrollment rates are increasing, fewer than half of college-qualified low-income students went to college in 2000, compared with nearly eight in ten high income students.⁶⁹ The U.S. Department of

Education's Advisory Committee on Student Financial Assistance estimates that families of low-income, college-eligible high school graduates face an average annual unmet need of \$3,800, and the shortage of grant aid will result in over 4 million students being unable to attend a four-year college by the end of this decade.⁷⁰

Reducing financial barriers to college will require increasing the share of need-based grants, reducing dependency on student loans, and improving private sector participation through scholarship aid. Federal Pell Grant awards should be doubled and the program fully funded, to increase the availability of need-based grants. State-based financial aid, as well, should emphasize need-based assistance, and state, federal, and institutional financial aid policy must be better integrated, to create a complementary system that allocates resources more efficiently.⁷¹ Finally, colleges and universities should make every effort to hold the line on tuition and fee increases, and offer reduced or no-cost tuition for academically qualified students from impoverished or low-income families.

Homeownership and Lending Policies

The Fair Housing Act of 1968 and the Equal Credit Opportunity Act of 1974 outlaw disparate treatment of applicants--the use of different underwriting standards for different groups in mortgage lending. And the courts have generally interpreted federal civil rights laws as outlawing lending practices that have a disparate impact.⁷² Disparate impact discrimination occurs when policies or practices have the effect of discriminating against a particular group, and either 1) the practice cannot be justified on the grounds of business necessity or 2) the practice's disparate impact can be avoided through less discriminatory alternative policies that meet the same business objectives.

However, the current fair-lending enforcement system fails to adequately protect Americans who may face lending discrimination. Inadequate standards exist for determining when disparate impact discrimination has occurred, and agency procedures are not designed to identify disparate impact.⁷³ Moreover, studies demonstrate that current procedures also fail to identify cases of disparate treatment.⁷⁴ These fair-lending enforcement procedures also insulate some discriminating lenders from investigation, in that they focus only on a subset of possible discrimination indicators.⁷⁵

Drawing on federal guidelines established by the Equal Employment Opportunity Commission to assess disparate impact in employment practices, Ross and Yinger (2002) offer a set of guidelines for underwriting systems that can be used to identify disparate treatment or disparate impact mortgage lending discrimination. These guidelines draw on multivariate, performance-based procedures to determine the impact of underwriting systems as a whole on different racial and ethnic groups, to set high standards for prima facie cases of discrimination, to evaluate "business necessity" claims, and to establish fairness principles that prohibit practices that disproportionately hurt minority applicants. Ross and Yinger propose that assessments of how underwriting systems may be discriminatory should be based on loan approval regression analyses, which explain loan approval decisions for a sample of lenders based on applicant, loan, and property characteristics, and loan performance data, which can evaluate discrimination in loan

approval and can be adapted to test for “redlining,” or unlawful exclusion of certain communities from loan consideration. Fair-lending enforcement agencies must collect and assess lending and loan performance data to generate these analyses, and new provisions to the Home Mortgage Disclosure Act should require all lenders to report standardized performance indicators, loan characteristics, and originator identifiers.⁷⁶ These provisions require resources and effort. Absent their implementation, fair-lending enforcement agencies are rendered ineffective in the effort to address discriminatory lending practices.

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