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# The business case for **RACIAL EQUITY**

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# A Note from the W.K. Kellogg Foundation

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## DEAR READERS

The W.K. Kellogg Foundation's America Healing effort supports programs that promote racial healing and address racial inequity, with the goal of ensuring that all America's children have the equitable and promising future they deserve. The work fosters racial healing by changing hearts and minds, chipping away at the deeply held and unconscious biases that cause the structural inequities.

The data and comprehensive analysis outlined in the pages ahead demonstrate how race, class, residential segregation and income levels all work together to hamper access to opportunity. With these proof points in hand, our partners across the country voice their concerns for vulnerable children and families – to find the support needed to advance racial healing and racial equity.

While our investments in action-oriented research have highlighted the impact of racial inequity on vulnerable children, this ground-breaking report shows the potential benefits to all Americans when racial equity is achieved.

I hope that in reading this report, you will gain a deeper awareness and understanding myriad of ways racial inequity impacts us all, but importantly the opportunities available for a brighter, more equitable future.

## SINCERELY,

**La June Montgomery Tabron**

President and CEO

W.K. Kellogg Foundation

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W.K. Kellogg Foundation

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# Introduction

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Striving for racial equity – a world where race is no longer a factor in the distribution of opportunity – is a matter of social justice. But moving toward racial equity can generate significant economic returns as well. When people face barriers to achieving their full potential, the loss of talent, creativity, energy, and productivity is a burden not only for those disadvantaged, but for communities, businesses, governments, and the economy as a whole. Initial research on the magnitude of this burden in the United States (U.S.), as highlighted in this brief, reveals impacts in the trillions of dollars in lost earnings, avoidable public expenditures, and lost economic output.

Racism in the U.S. has left a legacy of inequities in health, education, housing, employment, income, wealth, and other areas that impact achievement and quality of life. Opportunities that were denied to racial and ethnic minorities at critical points in the nation's history have led to the disadvantaged circumstances that too many children of color are born into today.

While significant progress has been made in eliminating legal discrimination, disparities by race and ethnicity remain imbedded in societal institutions and manifested in lending practices, hiring practices, law enforcement

and sentencing, and other policies. Further, the implicit, or internal, biases carried by both whites and minorities and perpetuated by the media and other cultural representations, subtly but powerfully influence how we view ourselves and each other.

Achieving greater racial equity will become even more critical in the U.S. due to demographic shifts that are already underway. According to the U.S. Census Bureau, children will be “majority minority” by 2018, and, overall, people of color will surpass 50% of the U.S. population by 2043.

# Studies begin to quantify economic benefits

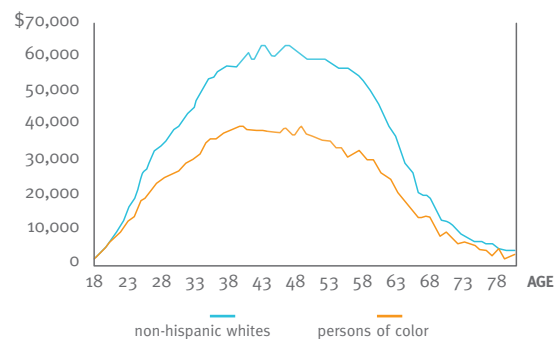
Altarum Institute studied the effect of closing the minority earnings gap in the U.S., and the corresponding impact on a number of broad economic measures.<sup>1</sup> Age/sex-adjusted earnings per person for people of color are currently 30% below those of non-Hispanic whites. The full set of causes for these earnings differentials is unknown, but it clearly includes inequities in health, education, incarceration rates, and employment opportunities – all areas that can be influenced by targeted policies and programs.

We found that, if the average incomes of minorities were raised to the average incomes of whites, total U.S. earnings would increase by 12%, representing nearly \$1 trillion today. By closing the earnings gap through higher productivity, gross domestic product (GDP) would increase by a comparable percentage, for an increase of \$1.9 trillion today. The earnings gain would translate into \$180 billion in additional corporate profits, \$290 billion in additional federal tax revenues, and a potential reduction in the federal deficit of \$350 billion, or 2.3% of GDP.

When projected to 2030 and 2050, the results are even more startling. Minorities make up 37% of the working age population now, but they are projected to grow to 46% by 2030, and 55% by 2050. Closing the earnings gap by 2030 would increase GDP by 16%, or more than \$5 trillion a year. Federal tax revenues would increase

by over \$1 trillion and corporate profits would increase by \$450 billion. By 2050, closing the gap would increase GDP by 20%. This is roughly the size of the entire federal budget, and a higher percentage than all U.S. healthcare expenditures!

**Figure 1: Earnings per Capita by Age for Males**



Source: 2011 American Community Survey data.

These figures are initial approximations, and they represent upper bounds on potential economic benefits. They do not consider the cost of investments required to close the earnings gap. But they illustrate that even modest progress toward eliminating racial inequities could produce significant economic benefits.

Researchers from the Center for American Progress (CAP) also recently examined the impact of closing the earnings gap, estimating total earnings would have been 8% higher, and GDP \$1.2 trillion higher, in 2011.<sup>2</sup> CAP estimates were of the same order of magnitude as the Altarum estimates but a few percentage points lower due to methodological differences – the Altarum analysis captured the broader impact of equalizing average earnings per capita, including the currently unemployed and incarcerated, while the CAP analysis focused on eliminating disparities for current wage earners.

In similar work, a McKinsey & Company analysis of the educational achievement gap between African American and Hispanic students and white students in the U.S. found that closing the education gap would have increased U.S. GDP by 2% to 4% in 2008, representing between \$310 and \$525 billion.<sup>3</sup>

**Inequities in health create a tragic human burden in shortened lives and increased illness and disability. They also create an economic burden.**

Gaskin, LaVeist, and Richard, for the National Urban League Policy Institute, updated their research on the economic impact of differential health outcomes by race and ethnicity, finding that disparities in health cost the U.S. an estimated \$60 billion in excess medical costs and \$22 billion in lost productivity in 2009.<sup>4</sup> They projected that the burden will rise to \$126 billion in 2020 and \$363 billion by 2050 if these health disparities remain. An additional economic loss due to premature deaths was valued at \$250 billion in 2009.

An Urban Institute study found that the differences in preventable disease rates among African Americans, Hispanics, and whites cost the health care system \$24 billion annually, and under current trends this cost is projected to double to \$50 billion a year by 2050.<sup>5</sup>

Developing an accurate estimate of the total economic burden of racial inequities is clearly a complex task. The numbers presented here from various studies cannot easily be combined as there are methodological differences and some overlaps in what they measure. Further, reducing racial inequities may not completely eliminate current disparities in health, income, and other measures. However, these findings indicate the enormous economic consequences of racial inequities and the degree to which the impact will be compounded in the future if we fail to act.

# Racial equity benefits businesses, government, and the overall economy

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Greater racial equity supports businesses by creating a healthier, better educated, more diverse workforce, and by increasing the ability of minority populations to purchase goods and services. A U.S. Department of Commerce study estimated that if income inequalities were eliminated, minority purchasing power would increase from a baseline projection of \$4.3 trillion in 2045 to \$6.1 trillion (in 1998 dollars), reaching 70% of all U.S. purchases.<sup>6</sup>

## A MORE PRODUCTIVE WORKFORCE

Whether as employees or as self-employed entrepreneurs, a well-educated, healthy, and diverse workforce is essential for improving economic efficiency and competing in a global marketplace.

Healthier workers have fewer sick days, are more productive on the job, and cost less in health care benefits.

The job opportunities of tomorrow will require a higher level of training and education than those of today. The U.S. President's Council on Jobs and Economic Competitiveness has identified strengthening education as a top priority for preparing the American workforce to compete in the global economy. The Council found that 3.3 million jobs go unfilled because the potential workforce does not have matching skills or training, and that by 2020 there will be 1.5 million too few

college graduates to meet employers' demands.<sup>7</sup> A better educated workforce will lower unemployment and enable businesses to more efficiently produce the level of goods and services the market demands.

A more diverse workforce brings with it a better understanding of cultures and potential new markets around the world and a greater variety of perspectives, leading to more innovation in products and services. Research has shown that businesses with a more diverse workforce have more customers, higher revenues and profits, greater market share, less absenteeism and turnover, and a higher level of commitment to their organization.<sup>8</sup>

## RELIEF FOR GOVERNMENT FISCAL PRESSURES

The U.S. population is aging. The ratios of wage earners to recipients of such social insurance programs as Social Security and Medicare are declining. Government deficits and debt are a major concern for our economic future. Greater income for the growing minority share of our population will generate more contributions to these programs through payroll taxes and higher income, sales, and other tax revenues. There will be a double benefit in that a healthier and more productive population will require fewer tax dollars spent on safety net programs supporting food, housing, medical care, and other essential needs.



The Altarum analysis cited above found that, by 2030, closing the minority earnings gap would increase federal tax revenues by over \$1 trillion and that even a 10% reduction in federal Medicaid and income support would reduce these safety net expenditures by nearly \$100 billion. The increase in tax revenues and decrease in outlays would combine to produce over \$1.1 trillion dollars annually that could be used to reduce the debt, lower taxes, or shift spending to other priorities.

### STRONGER ECONOMIC GROWTH

The U.S. Congressional Budget Office projects growth in real GDP starting late in the decade, after returning to full employment, will begin to average 2.25% per year. This growth is slower than the average rate of growth of full-employment GDP in the U.S. since 1950. The slower-than-historical long-term growth projections are mainly due to slower projected growth in the labor force and retirement of the baby boomers. In the Altarum analysis, closing the minority income gap was estimated to potentially increase GDP in 2050 by 20%, or about an additional 0.5% growth per year, which would materially raise long-term GDP projections.

In addition to lower long-term economic growth, there are other reasons to be concerned about the growing income inequality in the U.S. over the past four decades,<sup>9</sup> including persistent income gaps by race and ethnicity. While the presence of some income inequality

is often believed to be associated with economic growth by providing incentives for achievement, it can also be destabilizing. Economists at the International Monetary Fund studying the duration of growth cycles in nations around the world found that greater income inequality is associated with shorter periods of economic growth, even when such other determinants of growth duration as initial income and macroeconomic stability are taken into account.<sup>10</sup>

### History has shown that reducing barriers to opportunity can lead to greater economy-wide growth.

An analysis by economists at the University of Chicago and Stanford University showed that reductions in occupational barriers facing blacks and women between 1960 and 2008 in the U.S. could explain 15% to 20% of the aggregate growth in output per worker over this period.<sup>11</sup> Our success today in continuing to reduce barriers to opportunity will help drive the level of economic growth we are able to achieve over the next 50 years.

# Areas of opportunity: Current inequities and promising solutions

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The social and economic forces that influence opportunities for achievement are interconnected and reinforcing. Healthier, better-educated people tend to earn more and live in higher-income neighborhoods, where they experience lower crime rates, less pollution, better quality education and community amenities, and have more resources to stay healthy. The wealth accumulated through homeownership in neighborhoods with increasing home values increases financial stability and allows families to support higher education and make other investments for future generations. The accumulation of wealth and credit associated with homeownership can also provide capital for entrepreneurship and job creation. The forces shaping inequities in these interconnected areas are complex, but they can be influenced with the right incentives, policies, and programs, as highlighted in the sections that follow.

## HOUSING AND RESIDENTIAL SEGREGATION

Housing inequities are a root cause of disparities in lifetime outcomes for minorities in at least two ways. First, there are significant racial-ethnic differences in rates of homeownership and the value and appreciation of those homes, creating large gaps in wealth accumulation and economic security. Second, segregation has constrained minorities to lower quality residential neighborhoods and amenities, impacting health, wealth, and educational and employment opportunities.

In 2012, 74% of white families owned homes. In contrast, 44% of African American families, 46% of Hispanic families, 51% of American Indian/Aleut/Eskimo families, and 57% of Asian American and Pacific Islander families owned their own home.<sup>12</sup> The black/white wealth gap increased from \$85,000 in 1984 to \$236,500 in 2009, driven primarily by the racial difference in the number of years of homeownership.<sup>13</sup>

White families buy homes an average of eight years earlier in life than African Americans.<sup>14</sup> Whites more often receive financial assistance from their families to support homeownership, allowing them to qualify for lower interest rates and other lending costs.

Even when incomes are comparable, racial and ethnic minorities own homes with lower values than do whites. Houses in neighborhoods with higher percentages of minority residents typically have lower values and appreciate more slowly. A study of homes in Philadelphia found that in areas with higher levels of segregation, the home value gap between blacks and whites was larger.<sup>15</sup>

**The historical experience of African Americans illustrates how both overt and structural racism have led to current housing inequities.**

During slavery, blacks were not allowed to own property, and later laws also severely limited the ability of African Americans to acquire property until the late 19th century. When the 1862 Homestead Act was enacted allowing Americans to buy land as the country was expanding to the West, blacks were still not able to purchase land, because they were not considered citizens. During Reconstruction, some attempts were made to allow blacks to purchase land; however, they were quickly overturned by new legal or de-facto forms of discrimination.

**While housing discrimination in the U.S. was outlawed in the Fair Housing Act of 1968, legal forms of housing discrimination were built into, or sanctioned in, prior federal, state and local laws.**


In 1934, the Federal Housing Administration (FHA) created the current financial home mortgaging system. The Underwriting Handbook used by the FHA endorsed the practice of “redlining,” which made home purchases in many non-white, largely urban neighborhoods ineligible for FHA-backed mortgages, without consideration of the credit worthiness of the

applicant. For the next two decades, most home loans were financed by the FHA, but the vast majority of them went to borrowers in white middle-class neighborhoods, and very few were awarded in minority neighborhoods within central cities, contributing to both racial segregation and inner city decline.

The GI Bill is another example of opportunity for homeownership and advancement being selectively distributed by race. After World War II, thousands of soldiers received loans for homes, businesses, and farms through the GI Bill, but, again, very few were offered to black veterans.

At the local level, the use of racially restrictive covenants emerged in 1917, when the U.S. Supreme Court deemed city segregation ordinances illegal. Unlike segregation ordinances, restrictive neighborhood covenants were private contracts, not municipal ordinances. They usually stated that homes could not be sold to non-white or Jewish buyers even if the seller and buyer agreed to the transaction.<sup>16</sup> In 1946, the Supreme Court ruled that such covenants were not legally enforceable but many areas continued to implement them.

The most recent national research study of discrimination in housing showed that in 2012 the most overt forms discrimination, such as refusing to meet with a minority home buyer/renter, have decreased compared with 1977, when the first national study was conducted.<sup>17</sup> However, more subtle forms of



discrimination persist, and they increase the housing search cost and limit housing choices for minorities, including African Americans, Asians, Native Americans and Latinos. Blacks, Latinos, and Asians looking for rental units were told about fewer available units than comparable whites in 11%, 13%, and 10% of cases, respectively. Minorities were also shown fewer units. Similar results were seen in home sales, with well-qualified minority homebuyers told about and shown fewer homes than whites.

During the recent housing crisis, neighborhoods with high proportions of low-income and minority families, coupled with lax housing finance regulations, created a landscape that allowed mortgage companies to geographically target minority neighborhoods for marketing sub-prime (high interest) loans. The rate of subprime loans for Americans of color was twice the rate for the overall population. These targeting practices resulted in disproportionately high rates of foreclosure and diminishing home values. In 2012, Wells Fargo and Countrywide, two of the nation's largest home mortgage lenders, agreed to multi-million dollar payments to settle accusations that they had discriminated against African American and Hispanic borrowers during the housing boom.

Cutler and Glaeser found a statistically significant relationship between the degree of residential segregation and life outcomes for blacks in the U.S.<sup>18</sup> They found that greater segregation was associated with lower high school graduation rates and lower earnings, and that a one-standard-deviation reduction in segregation (13 percent at the time of their study) would eliminate one-third of the gap between whites and blacks in most outcomes.

The significant impact of residential segregation on life outcomes offers hope for affecting multiple areas of disparity through reducing it. Greater residential integration can also lead to greater exposure, tolerance, and understanding between racial and ethnic groups.

There are a number of strategies in use today for dismantling segregation, including mobility programs such as Moving to Opportunity that offer vouchers for tenants of public housing to move to low-poverty areas, and inclusionary zoning techniques that require a percentage of new housing developments to be set aside for low- or moderate-income housing.

## EDUCATION

Inequities in education are highly related to inequities in housing. In the U.S., most children attend their neighborhood school, so high levels of housing segregation result in high levels of school segregation, as well as racial disparities in children's exposure to schools with high concentrations of poor students.

There has been a dramatic re-segregation of blacks and Hispanics in U.S. schools in every region of the U.S. and in every large school district since the mid-1980s. The average white public school student attends a school that is almost 80% white.<sup>19</sup> In contrast, 72% of black and 77% of Hispanic students attend schools where the majority of students are minorities.

Racial segregation is a critical determinant of the concentration of poverty. Half of all black and Hispanic students attend schools where 75% of all students are poor. Only 5% of whites attend such schools. Most schools (three-quarters) where 90% or more of the students are black and Hispanic are high-poverty schools. Although there are more poor white children in the U.S. than poor black or Hispanic children, the majority of poor whites attend schools where most children are middle class, while the majority of poor minorities attend schools where most students are poor and the neighborhood has high rates of violence, crime, and poverty.

**Students in segregated schools are less likely to be exposed to peers who can have a positive impact on academic learning. Educational offerings and resources are limited, student achievement levels tend to be lower, dropout rates are higher, and there are fewer informal connections to employment and higher education.**

Segregation truncates socioeconomic mobility by restricting access to quality elementary and high school education, preparation for higher education, and good employment opportunities. Segregated schools can also be a pipeline to prison. Students struggling with academic performance in elementary and high schools are at markedly elevated risk of high school dropout and incarceration. Long-term studies of the impact of school desegregation in the 1960s through 1980s found that, with accompanying increases in school quality, desegregation was associated with significantly increased educational attainment and adult earnings,

reduced probability of incarceration, and improved adult health status for blacks.<sup>20</sup>

Segregated schools impose grave costs to society. Important benefits critical to the effective functioning of a diverse society are linked to being educated in more racially diverse settings. Students who receive their early education in diverse classrooms have more cross-racial friendships, more racial tolerance, and higher comfort level with members of other racial/ethnic groups.<sup>21</sup> They demonstrate an increased sense of civic engagement and greater desire to live and work in multicultural settings. They also have a greater ability to recognize the existence and effects of discrimination and have lower levels of racial prejudice. These skills and attitudes are beneficial to workplace performance in an increasingly global economy.

In addition to strategies targeted directly at residential segregation, a number of strategies are being used within school districts around the U.S. to increase diversity.<sup>22</sup> In districts that include a variety of racial and ethnic groups within their borders, purposeful zoning can create more diverse schools. Another strategy is developing magnet programs at particular schools that pull students from throughout the district. Finally, a number of policies within schools can increase the diversity of the educational experience, including encouraging diversity within classrooms and school programs.<sup>23</sup>

## **Studies have shown that early interventions can have meaningful impacts on educational performance and other outcomes, providing benefits that accumulate over lifetimes and into future generations.**

Nobel Prize-winning economist James Heckman estimated that the return on quality early childhood education is 7% to 10% per year, compounded over decades. Other researchers find a net return of \$3 to \$17 for every \$1 spent on early childhood education.<sup>24</sup> Dr. Heckman states, “Investing early allows us to shape the future and build equity; investing later chains us to fixing the missed opportunities of the past.”

The Perry Preschool Program is an example of an investment in early childhood education that has demonstrated lasting payoffs. A two-year program targeting African American 3- to 4-year olds in public housing included sessions at school and home visits by teachers. Participants at age 27 showed a 44% higher high school graduation rate and 50% fewer teen pregnancies, compared with the control group. At age 40, participants had 36% higher median earnings, were 46% less likely to have served time

in jail or prison, were 32% more likely to own their own home, and were 26% less likely to have received government assistance.<sup>25</sup>

### **Researchers have demonstrated the power of expectations and internal beliefs on educational achievement.**

Two experiments with middle-school students studied the effects of a self-affirmation exercise on subsequent academic performance. Students were asked to choose a value that was important to them and to write about it. While there was no measurable effect on the white students, black students who participated maintained a greater trust in academic authorities than non-participant black students and demonstrated higher grades in the target course and other courses, resulting in a 40% reduction in the racial achievement gap. Follow-up studies showed some lasting effects, particularly for previously low-achieving black students.<sup>26</sup>

### **HEALTH**

Inequities in access to health care, the quality of care received, and, probably most importantly, the social determinants of health – where we live, work, learn, and play – lead to lower lifespans and poorer health for minorities compared with whites in the U.S. The

above discussion of housing and education suggests that there are vast inequities in the social determinants of health. Additionally, there are inequities in access to health insurance and health care.

An Institute of Medicine study found that, while the U.S. has above average incomes and spends more on health care than any other nation, it is among the least healthy among its peer countries by most measures of health.<sup>27</sup> Among the explanations for the poorer U.S. performance were higher levels of poverty and income inequality and less-effective investment in education and safety net programs to protect against the negative impacts of extensive social disadvantages.

In the U.S., where a person lives can dramatically increase that person's chance of living a longer, healthier life, in some cases by as much as 22 years.<sup>28</sup> PLACE MATTERS is a groundbreaking initiative that seeks to build community-based coalitions to identify and address the social, economic, and environmental conditions that are root causes of health inequities. Teams in 24 jurisdictions across 10 states and the District of Columbia identify community concerns related to health and well-being, work to understand root causes, and build support for solutions.<sup>29</sup> The teams represent broad coalitions of public sector, business, academic, and faith-based organizations working within communities and with elected officials to improve opportunities for good health.

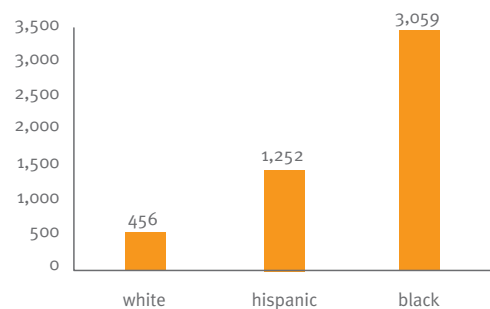
Home visiting programs, such as the Nurse Family Partnership (NFP) program, demonstrate the importance of early intervention in health. NFP nurses visit the homes of low-income, first-time mothers during prenatal and early childhood periods. Both parents and children showed improvement in health and in socio-economic status. For the mothers, the program was found to increase workforce participation, decrease smoking rates during pregnancies, and decrease the use of public assistance. Injuries, substance abuse, and crime were reduced for the children.<sup>30</sup> The investment in this program has been estimated to generate net present value savings over the long run of \$18,000 per family.<sup>31</sup>

The Affordable Care Act (ACA) included a program for states to establish home visiting models for at-risk women and children. Under the guidance of the U.S. Department of Health and Human Services, an evaluation of the evidence on home visiting programs was conducted. Nine models, included NFP, Child FIRST, and Early Head Start-Home Visiting were found to meet criteria for an evidence-based model, having quality studies that established favorable impacts of the program on one or more domains.<sup>32</sup>

As of 2011, 30% of Hispanics, 19.5% of African Americans, and 16.8% of Asians in the U.S. did not have health insurance, compared with 11% of whites. The ACA will increase coverage through expanding

state Medicaid programs and offering subsidies for individual and small business policies available through state insurance exchanges. Because a disproportionate percentage of the uninsured are minorities, ACA implementation will likely reduce disparities in insurance coverage, although increasing coverage will depend on the effectiveness of outreach efforts to enroll those who currently do not have coverage.

**Figure 2: Rates of incarceration per 100,000 males**



Source: Guerino P, Harrison P M, and Sabol W. *Prisoners in 2010*. *Wasjustice Statistics*, 2011.



**Even under the ACA, many decisions about levels of Medicaid coverage will continue to differ across states, leading to differences in care received and impacting health outcomes.**

African Americans and Hispanics are more likely to live in the South and Southwest regions of the country, in states with lower levels of Medicaid and State Children's Health Insurance Program funding. Residents in these states are less likely to be covered by the programs at all, and those who are covered receive less generous benefits than Medicaid recipients in other states. The differences in coverage across states will increase starting in 2014 as some states choose not to participate in the Medicaid expansion.

Even when there is financial and geographic access to care, studies by the Agency for Healthcare Research and Quality, the Institute of Medicine, and others have documented that minorities often receive a lower quality of care for the same conditions.

Improved education and training of medical professionals to adhere to evidence-based guidelines for all patients, as well as recruiting and supporting more minorities to enter health professions, have the

potential to improve quality of care provided to people of color. Good communication and trust between the provider and patient, made easier if there are commonalities in language, culture, and background, play an important role in accurate diagnosis, effective treatment, and patient compliance.

**CRIME AND THE JUSTICE SYSTEM**

Reducing crime and the number of people who are incarcerated would produce economic benefits through reducing losses from crimes, reducing prison and related costs, and returning working-age men, who are the majority of the prison population to the workforce, and to their communities and families.

**Americans of color have disproportionately high rates of involvement with the criminal justice system, being more likely to be incarcerated and to be victims of crime.**

Systemic inequity in the administration of justice contributes to high incarceration rates for minorities. African American men are incarcerated at a rate of

nearly six times that of white men. According to the Department of Justice, the lifetime chance of going to prison is 32% for black males, 17% for Hispanic males and 6% for white males.<sup>33</sup> African American youth represent 17% of their age group within the total population, yet they represent 46% of juvenile arrests, 31% of referrals to juvenile court, and 41% of waivers to adult court.

**African Americans are more likely to be stopped, questioned, and searched than whites. A range of studies in the 1990s and 2000s showed patterns of police stopping minority drivers and pedestrians at much higher rates than whites.**

A two-year study of police traffic stops in a Midwestern city found minority drivers were stopped at a higher rate than whites and were searched during these stops more often.<sup>34</sup> Native Americans were searched four times more often than whites, and Hispanics were searched nearly three times more often.

Despite higher number of searches, the police were less likely to find contraband on minority motorists.

There are also racial differences in the punishment for some crimes. Prior to the Civil War, many laws in the United States required more severe punishments for blacks than for whites. Although those laws no longer exist, the administration of justice is still especially harsh to blacks when the victim is white. The Sentencing Project reports that African Americans are 20% more likely to be sentenced to prison and 21% more likely to receive mandatory-minimum sentences than white defendants facing an eligible charge.<sup>35</sup>

Changes in the country's approach to drugs in the 1980s contributed to a major increase the number of arrests and in the size of the U.S. prison population. Between 1980 and 2011, the prison population grew by more than 500%, from 350,000 to more than 2.2 million. Drug-related arrests account for most of the change during this time; the rate of violent crimes actually declined.

Minorities made up much of the increase in the prison population. African Americans are about 12% of the U.S. population, yet they represent 34% of drug-related arrests and 37% of state prison inmates serving time for drug offenses.<sup>36</sup> African Americans, Hispanics, Asian Americans, and Other Pacific Islanders have been shown

to have lower rates of substance abuse than whites, yet African American youth are ten times more likely to be arrested for drug offenses than whites.

Besides being out of the workforce for the time they are in prison, former inmates face difficulty in finding employment and housing, and the effect is greater for minorities. Total earnings of former inmates are depressed by 9% for African American men, 6% for Hispanic men, and 2% for white men.<sup>37</sup> Further, 54% of inmates are parents with minor children, significantly impacting the economic resources and stability of those families, creating a cycle of disadvantage. One in 9 African American children (11.4%), one in 28 Hispanic children (3.5%), and one in 57 white children (1.8%) has an incarcerated parent.

Addressing the social and economic factors that contribute to crime and eliminating inequities in treatment by the justice system are important strategies for improving opportunity for minorities, especially minority youth. In addition to the human cost, state governments spend nearly \$57 billion on prisons and correctional system costs each year. Reducing the need for these services could save billions of dollars, and many related programs would also see large cost reductions.

**The toll of violence on minority youth in the U.S. is also extraordinarily high. Homicide is the leading cause of death for African American male youths, and it is the second leading cause of death for Hispanic male youths.**

# Now is the time to invest in our future

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Communities, states, and nations need the full economic, social, and creative contributions of all their people. As PolicyLink, a national research and action institute states,

**Achieving equity requires erasing racial disparities in opportunities and outcomes. Equity is not only a matter of social justice or morality: It is an economic necessity. By building the capabilities of those who are the furthest behind, America not only begins to solve its most serious challenges, but also creates the conditions that allow all to flourish.**

In the coming decades, it is today's younger generation who will drive economic growth, whose tax contributions will support social insurance programs for the elderly and other services, whose purchasing power will determine the demand for goods and services, who will serve in our armed forces, and who will act

as caregivers to an aging population. The majority of this generation will be children of color, many of whom will face the legacy effects of past racism and ongoing inequities of structural racism and implicit biases touched upon in this brief. The ability of these children to succeed will shape our shared future.

The W.K. Kellogg Foundation (WKKF) has launched the America Healing initiative “to ensure that all children in America have an equitable and promising future.” WKKF recognizes that racially based obstacles to success threaten our nation's economy and security, and that tackling these obstacles is not only the right thing to do – it is the economically efficient path, as it will be a significant driver of our collective well-being.

WKKF is committed to working with partners in business, philanthropy, government, and communities to promote a better understanding of the economic dividends that could be achieved through smart, strategic investments to ensure that all children thrive.

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