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Land, Economic Mobility and Race | The Tale of Two Nations: One Rich, One Poor | Hooks Institute Open House and Policy Papers Presentation

The Benjamin L. Hooks Institute for Social Change

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HOOKS POLICY PAPERS

Land, Economic Mobility and Race: The Tale of Two Nations, One Rich, One Poor

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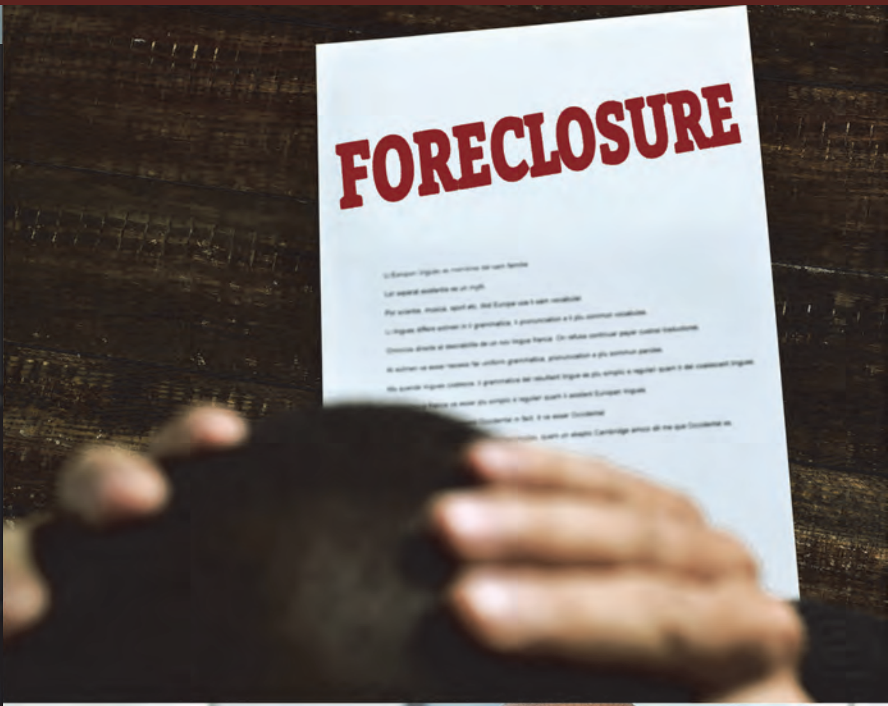

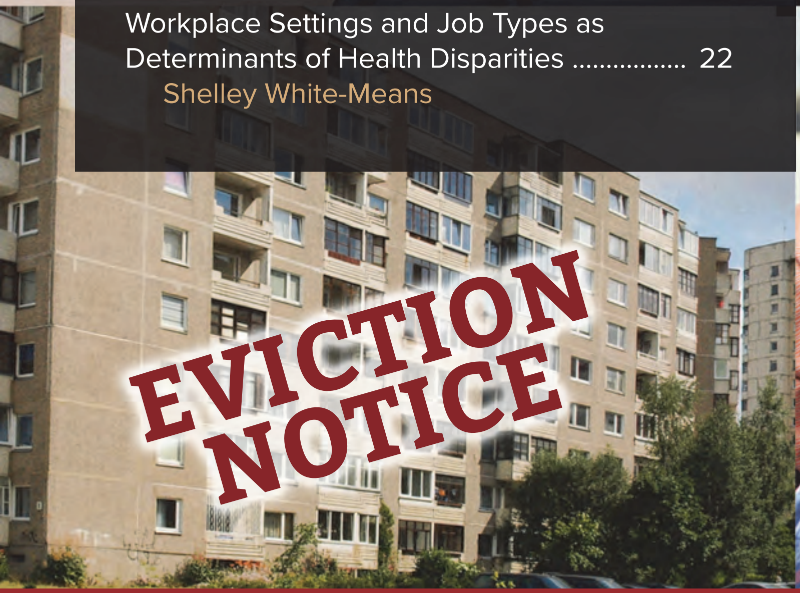

OCTOBER 2019
FIFTH EDITION

THE UNIVERSITY OF MEMPHIS

The Benjamin L. Hooks Institute for Social Change

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FOREWORD

The past several years have been characterized by the erosion of civil rights gained in the previous decades. African Americans continue to encounter barriers to full inclusion to the degree that it is unfathomable to think we are in 2019. When, in 2008 and 2012, Barack Obama was elected president of the United States, it appeared to be a favorable time for African American inclusion in society, politics, and economics. Although the past few years have seen a resurgence of racial animus, most Americans of good will believe in the inclusion of all. Nonetheless, systemic exclusion exists in insidious, often not visible ways and continues to negatively affect the economic prospects and lives of African Americans.

In 2018, the work of Harvard University economist Raj Chetty and colleagues made the national news when his research showed that African American males have a much lower likelihood of ending in the highest economic quintile even when they were born into the highest economic quintile, meaning African American males tend to become poorer than their parents. Social mobility, it appears, is more difficult for African American males than for other demographic groups.

The economic disparities affecting African Americans are particularly important for Memphis, where, according to the 2017 American Community Survey, 64 percent of the population is African American. In the Poverty Report published by the National Civil Rights Museum in 2018, *Memphis Since MLK*, Elena Delavega showed that the income of African Americans in Shelby County has consistently been 50 percent less than non-Hispanic whites despite tremendous gains in education and regardless of any social and political changes. Clearly, Memphis cannot thrive if its African American population does not thrive. As a result, the inclusion of African Americans in all aspects of society takes on renewed urgency.

This issue of the Hooks Policy Papers series explores the various avenues for the systemic exclusion of African Americans, and the consequences for income, wealth, mobility, home ownership, health, and life expectancy.

In “Economic Challenges Facing Black Men and Boys,” William R. Emmons, Ana H. Kent and Lowell R. Ricketts of the Federal Reserve Bank of St. Louis detail the differences in economic outcomes for black men and boys. This paper explores wealth differentials in income by race and ethnicity based on the extensive work the authors have conducted on the subject. This paper also addresses the differentials in economic mobility uncovered by the work of Chetty and his colleagues in 2018. The authors not only describe the economic condition of black men and boys, but also provide insight as to the causes and consequences of the systemic exclusion of black men and boys.

In “A Memphis Mirage: How Home Mortgage Alternatives and Increased Equity Firm Ownership Diminish Wealth in Low-Income Communities,” Wade Rathke and Diné Butler explore the ways in which corporate ownership of housing stock affects the opportunity for wealth creation among African Americans in Memphis.

In “Workplace Settings and Job Types as Determinants of Health Disparities,” Shelley White-Means of the College of Graduate Health Sciences at the University of Tennessee Health Science Center (UTHSC) explores the way in which social determinants of health have systemic exclusion effects with negative health consequences for African Americans and other minorities. This paper focuses on the different classes of work as important upstream factors in health promotion. Low-wage work without benefits not only affects income and wealth, but also has lifelong impacts on health as well.

Economic inclusion of African Americans is particularly relevant to Memphis given the large proportion of the population they represent. The very survival of the city may well depend on how effectively we are able to remove barriers to the full inclusion of African Americans in all aspects of economic life: business development, employment, and consumption.

We trust these series of policy papers will provide recommendations that are insightful and will provide a path forward for the systemic inclusion of all people, among which African Americans must figure prominently. We are confident that you will find this series useful for continuing the work that the Hooks Institute has done for the past several years, providing solid research necessary for informing positive change. [1]

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[1] The Hooks Institute extends its sincere appreciation to Mae Israel, copy editor, and to Nathaniel C. Ball, Media and Programs Coordinator (Hooks Institute), for assisting the editors in bringing this edition to fruition.

ECONOMIC CHALLENGES FACING BLACK MEN AND BOYS

William R. Emmons, Ana H. Kent and Lowell R. Ricketts[1]
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William R. Emmons is the lead economist with the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis, where he also serves as assistant vice president. His areas of focus at the center include household balance sheets and their relationship to the broader economy. Emmons received a Ph.D. in finance from the J.L. Kellogg Graduate School of Management at Northwestern University.

Ana Hernández Kent is a policy analyst with the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis. Her primary research interests include economic disparities and opportunity, wealth outcomes, class and racial biases, and the role of psychological factors in making financial decisions. Kent received her Ph.D. in experimental psychology with concentrations in social psychology and quantitative methods in behavioral sciences from Saint Louis University.

Lowell R. Ricketts is the lead analyst with the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis. His research has covered topics including the racial wealth divide, growth in consumer debt, and the uneven financial returns on college educations. Ricketts received a bachelor's degree in economics with a math emphasis from the University of Wisconsin-Madison.

Income and wealth gaps across race and ethnicity are large and persistent. While the median African American family earned about 40 percent less than the median white family in 2016, the gap was closer to 90 percent in terms of wealth—what you own minus what you owe. Gaps are similar between Hispanic and white families. Moreover, there has been little change during the last three decades.

Part of the income and wealth gaps can be traced to differences in educational attainment, but that's not a complete explanation. In fact, even when comparing families of different races or ethnicities but the same levels of formal education—for example, black and white high school graduates or Hispanic and white college graduates—notable gaps remain. A college education does not level the playing field when it comes to income and wealth.

This article begins with the basic data—trends in family income and wealth by race and education. We use Federal Reserve data to show how large and apparently intractable income and wealth gaps remain across race and ethnicity. The second part of the article explores the research of a team of economists lead by Harvard University economics professor Raj Chetty, which draws on tax and census data to dig into the sources of slow or even stalled upward economic mobility among African Americans and Hispanics.

Chetty's team zeroes in on one specific demographic group that has encountered the greatest difficulty achieving and maintaining higher economic status: black men and boys. Although more research is needed, Chetty and his team conclude that three key challenges must be overcome to open the door to sustainable upward economic mobility for black men and boys:

[1] The views expressed here are those of the authors alone and not necessarily those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

- We must shield black boys from the most pernicious effects of concentrated poverty.
- We must increase the neighborhood presence of black fathers.
- We must decrease whites' racial hostility.

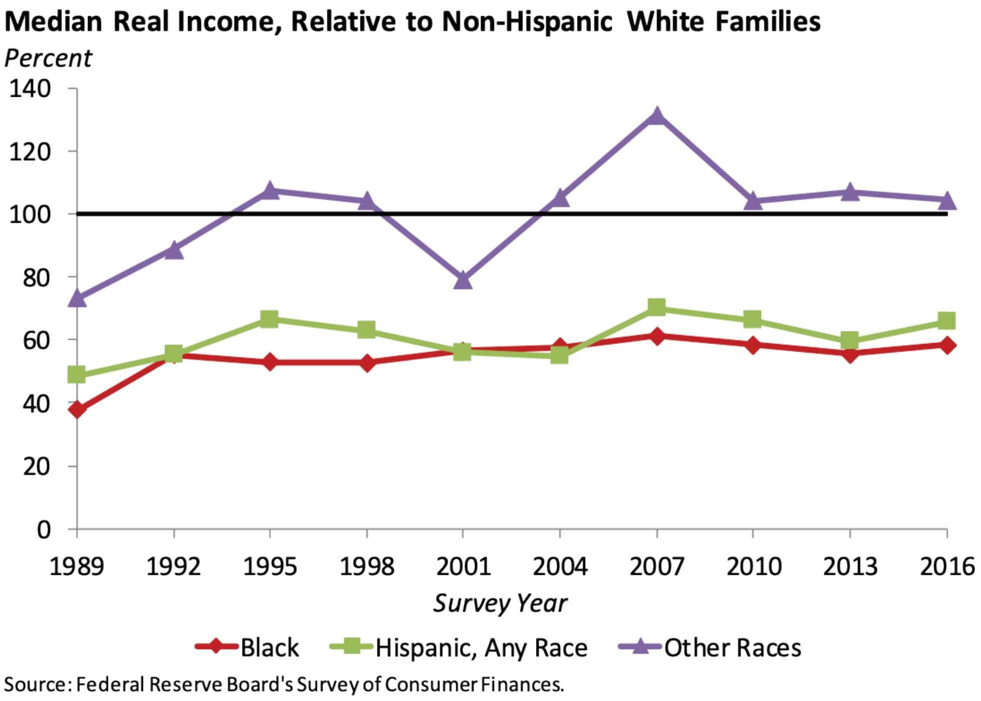
To be sure, these challenges are at the same time very familiar and, some might say, virtually impossible to achieve in the foreseeable future. Yet even the longest and most arduous journey begins with one step, namely, recognizing where we must go.

PART 1: BASIC FINDINGS FROM THE DEMOGRAPHICS OF WEALTH SERIES

The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis has documented trends in family income and wealth during the last three decades in its essay series, *The Demographics of Wealth*.[2] The series focuses on how each demographic dimension is related to key indicators of economic well-being, including income and wealth. The 2018 essays explore, in turn, the roles of education, race and ethnicity, and age or birth year. We show that the demographic characteristics of a family are strong predictors of its income and wealth and, in some cases, of other socio-economic indicators such as homeownership, marriage and health.[3]

Black and Hispanic Income Gaps are Closing Slowly. Typical (median) income of black and Hispanic families has moved closer to that of white families but remains about 40 percent lower. (See Figure 1.) The typical "other-race" family (mostly Asian but including also Native Americans, other native peoples and people of more than race) has surpassed the typical white family's income.

Figure 1



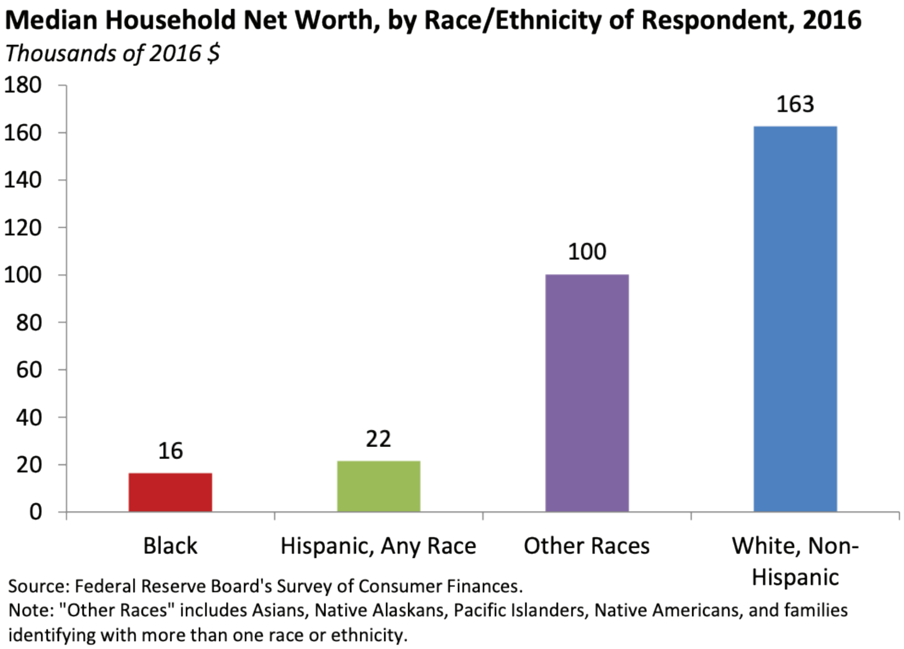
Source: Federal Reserve Board's Survey of Consumer Finances.

[2] See *The Demographics of Wealth*, Federal Reserve Bank of St. Louis, https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/

[3] For the latter, see Essay No. 3, https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/decline-of-white-working-class.

Racial/Ethnic Wealth Gaps are Even Larger. Wealth gaps between black or Hispanic families vis-à-vis the typical white family are even wider than income gaps. In particular, the median black family has about 90 percent less wealth than the median white family. (See Figure 2.) The gap for Hispanic families is almost as large (87 percent) while it is almost 40 percent among the other non-white families.

Figure 2



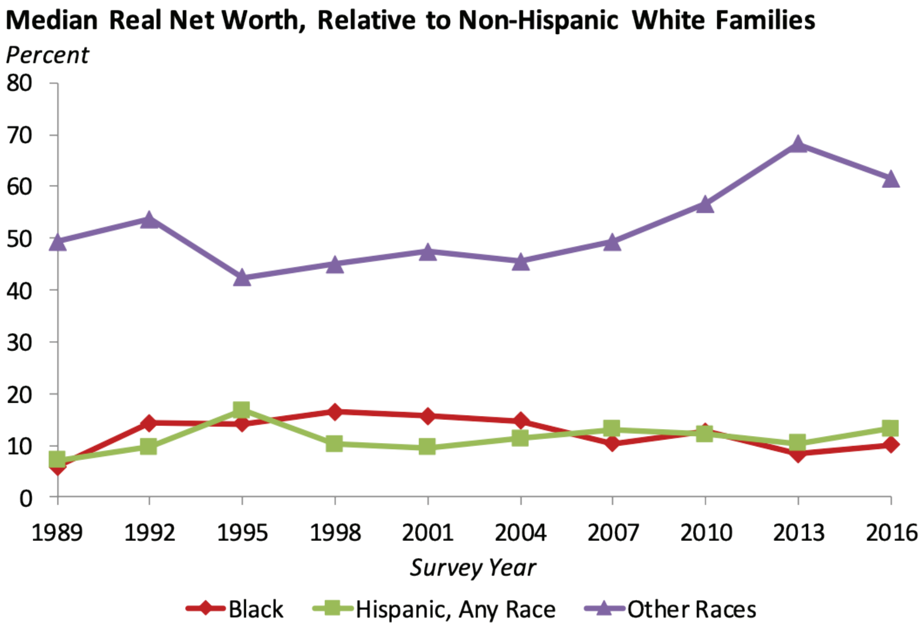
Median Household Net Worth, by Race/Ethnicity of Respondent, 2016

Thousands of 2016 $

Source: Federal Reserve Board's Survey of Consumer Finances.
Note: "Other Races" includes Asians, Native Alaskans, Pacific Islanders, Native Americans, and families identifying with more than one race or ethnicity.

Racial/Ethnic Wealth Gaps are Very Persistent. The wealth of the typical black or Hispanic family has increased a bit since 1989, but the shortfalls compared to the typical white family remain close to 90 percent. (See Figure 3.) Other nonwhite families' wealth has increased faster than that of whites during the last decade, indicated by the rising line in the figure.

Figure 3



Median Real Net Worth, Relative to Non-Hispanic White Families

Percent

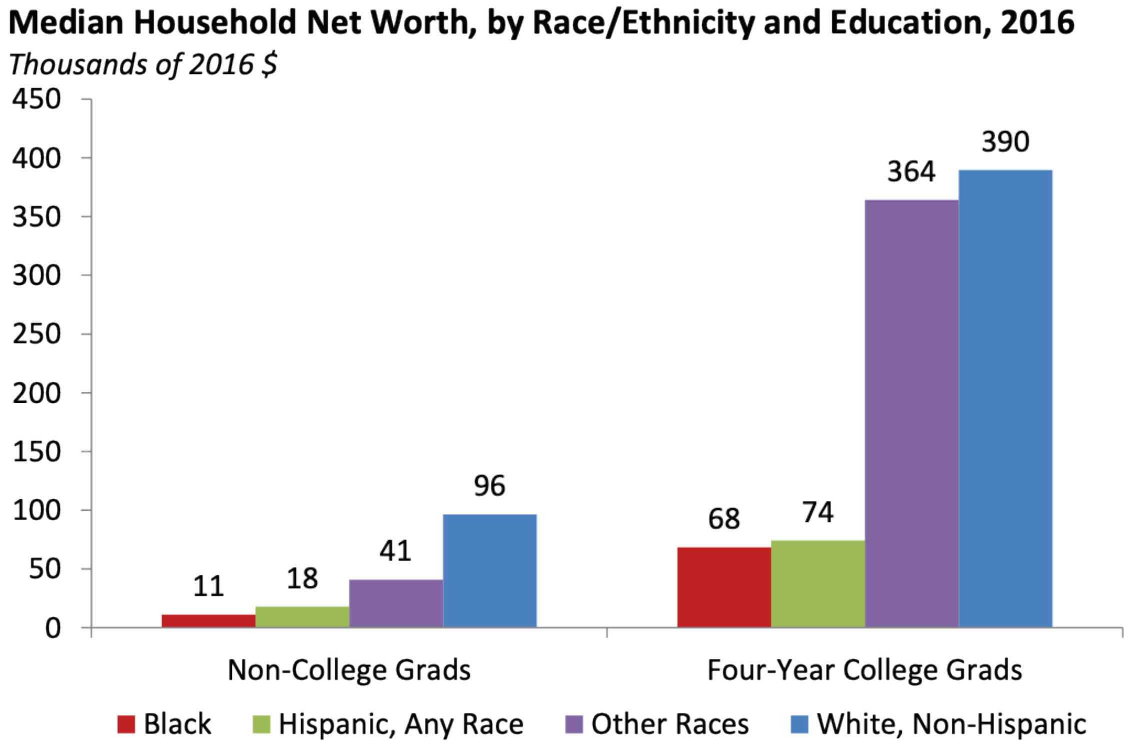
Source: Federal Reserve Board's Survey of Consumer Finances.

Can Higher Education Close These Gaps? A logical place to look for hope in closing these wide gaps is higher education. Our findings are discouraging in this regard: college alone does not appear to close racial and ethnic income and wealth gaps.

The good news is that a four-year college degree usually brings higher earnings and wealth accumulation for graduates of any and all races and ethnicities. However, the income and wealth benefits of college are unequal across racial and ethnic groups. For example, college grads born in the 1970s and 1980s are earning somewhat less and accumulating *much less wealth* than older college grads—especially black and Hispanic grads.

Large Racial Wealth Gaps Exist Also Among College Grads. We emphasize that a college degree brings greater median wealth for *all groups*. However, the racial wealth divide is almost as large among college-educated families as it is when taking no account of education. In our estimates, having a four-year college degree narrows the black-white wealth gap only from 89 to 83 percent. (See Figure 4.)

Figure 4



Note: College grads include any family headed by someone with a four-year degree or higher.
Source: Federal Reserve Board's Survey of Consumer Finances.

Why are Wealth Outcomes so Unequal? We conclude that *structural, systemic or other unobservable factors* related to race and ethnicity are very important sources of wealth inequality—it's not just "bad individual choices."[4] Historical discrimination and disadvantage created large wealth gaps in the past, which continue to affect today's adults and children because wealth is intergenerational. Intergenerational transfers of wealth and other types of social and cultural capital are important determinants of adult income and wealth. Continuing structural and systemic barriers make narrowing of income and wealth gaps very slow.

[4] See Emmons and Ricketts, "College is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps," 2017, https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/college-is-not-enough-higher-education-does-not-eliminate-racial-and-ethnic-wealth-gaps.pdf.

PART 2: INTERGENERATIONAL (IG) INCOME MOBILITY ACROSS RACE AND ETHNICITY

Intergenerational (IG, for short) income mobility is a measure that compares how much one person's income varies from that of his or her parents' income when they were about the same age. For example, we measure your parents' income when you were a teenager and then measure your income roughly a generation later, when you are a young adult. If your income (adjusted for inflation) is higher than your parents' income was when they were your age, you have experienced upward mobility. If it is lower, you've experienced downward mobility.

Thinking about society as a whole, we can distinguish between two extreme cases:

- Perfect IG income **mobility**: Your parents' income doesn't predict your adult income; everyone is equally likely to end up rich or poor, and
- Perfect IG income **rigidity (no mobility)**: You end up exactly like your parents (you are poor if they were poor and vice versa).

Data from the United States suggest that we are somewhere in between these two extreme cases. There is some IG mobility—you may end up higher than your parents or lower—but your parents' income still matters. It is not the case that children who grow up anywhere along the income spectrum are equally likely to end up very rich or very poor. Having high-income parents makes you more likely to have a high income yourself and the same for low incomes. Moreover, there are important mobility differences according to race and where you grow up.

The Best Dataset Ever Assembled for Studying IG Mobility. Raj Chetty is a prize-winning economist at Harvard University who studies IG mobility using very large datasets. Some of his team's results were reported last year in the New York Times, bringing unusually broad attention to the issue of African American income mobility (or its lack).[5] The underlying research paper and a website with extensive data resources provide more details.[6]

Parent Income Ranks in the mid-1990s Varied Greatly by Race and Ethnicity. Table 1 summarizes some of the key results from this research. Almost the entire U.S. population was included in this dataset, divided into five racial and ethnic categories.

The first column of statistics shows where, on average, a person of a particular race or ethnicity ranked in the overall income distribution of people their age in the mid-1990s, when their child was a teenager. For example, among all white parents with a teenage child at that time, the average income percentile rank was 58 (measured from 0, the lowest, to 100 percent, the highest). In today's dollars, the average income was $70,600. In other words, most white parents ranked well above average in U.S. society.

Conversely, the average black parent of a teenager ranked at the 33rd percentile, with an income of $29,200, vastly lower than whites. Another way to say this is that half of all black parents of teenagers at that time ranked in the lowest third of the income distribution. The average Asian parent ranked at the 49th percentile while the average Hispanic and Native American parents ranked at the 36th and 37th percentiles, respectively. In other words, all non-white groups were concentrated in the lower half of the nation's income distribution.

[5] Emily Badger, Claire Cain Miller, Adam Pearce and Kevin Quely, *New York Times*, Mar. 19, 2018, "Extensive Data Show Punishing Reach of Racism for Black Boys," https://www.nytimes.com/interactive/2018/03/19/upshot/race-class-white-and-black-men.html.

[6] See Raj Chetty, Nathaniel Hendren, Maggie R. Jones and Sonya R. Porter, "Race and Economic Opportunity in the United States: An Intergenerational Perspective," NBER working paper, Mar. 2018, http://www.equality-of-opportunity.org/assets/documents/race_paper.pdf. Also see the website of their *Equality of Opportunity Project:* http://www.equality-of-opportunity.org/.

Table 1

Percentiles run from 0 (lowest) to 100 (highest)	**Mean income percentile rank (median Income) of parents in 1990s when kids were in their teens**	**Mean income percentile rank of children in 2014-15 when they were in their 30s**	**Chetty et al's predicted long-run mean income percentile rank by racial/ethnic group**
White	58% ($70,600)	56 (-2 notches)	54 (-2 notches)
Asian	49% ($53,000)	61 (+12)	63 (+2)
Hispanic	36% ($33,100)	46 (+10)	49 (+3)
Native American	37% ($34,900)	37 (--)	36 (-1)
Black	33% ($29,200)	35(+2)	35 (no change)

Source: Chetty, Hendren, Jones and Porter, 2018.

Little IG Mobility for White or Black Adult Children. The second column of statistics shows the amount of intergenerational income mobility that had been experienced by the adult children of the 1990s parents by 2015. By that time, the children were in their 30s.

The average white adult child ranked at the 56th percentile of the distribution of people of the same age in 2015. This means that the intergenerational income rankings are not completely rigid among white Americans, as there is some evidence of "regression to the mean," or downward mobility. Nonetheless, the change in average income ranking across one generation is very small.

Among the young adult children of 1990s black parents, the average income ranking increased by two, from the 33rd to the 35th percentile. As for whites, the fact that the average black income rank moved toward the mean indicates some IG income mobility. But the fact that black adult children in their 30s remained far below white adult children of the same age shows that income convergence across races is very slow.

Asian adult children exceeded their parents' income ranks by a large margin, on average. However, this result should not be taken at face value, according to the researchers. This is because there are many first-generation Americans in the group. Their parents were more educated than the average person in both their native countries and the U.S., predisposing their children also to be more educated and higher earning. When the sample of Asian children was restricted to those with an American-born mother, the degree of IG mobility was much less.

Hispanic IG mobility also was large, with the average adult child ranking very close to the overall midpoint. This indicates substantial IG mobility. Conversely, Native American IG mobility was essentially nil. Taken together, the various degrees of IG mobility measured across races and ethnicities points to very different circumstances and dynamics depending on the group.

On Current Trends, Little Further Income Mobility is Likely for Any Racial Group. The third column shows the long-run predictions made by the research team. If current patterns of IG mobility continue indefinitely, where would each group be likely to end up?

On balance, the results are quite discouraging. Very little additional convergence of average incomes across race and ethnicity is likely, even if we extend the horizon to include young and unborn generations in the distant future. White Americans are likely to remain noticeably above all other races and ethnicities (with the exception of Asians, who are subject to the caveats discussed above). Native American and African American upward mobility appears to be exhausted with the current generation. Wide income gaps appear to be a permanent state of affairs unless the conditions now in place are fundamentally changed.

Why Has Black Upward Mobility Stalled? Two hypotheses that seem crucial for understanding the very low rate of average upward IG mobility among black children are generational poverty—children being trapped by their parents' poverty--and a high risk of downward IG mobility (doing worse than your parents) among black children whose parents were able to achieve a higher income than their own parents or grandparents. As Chetty and his colleagues explain it, "Black children continue to fall behind their white peers even if their parents catch up."[7]

The Main Fault Line: Black Boys versus Girls. An important fact documented by the research team is that black girls are just as upwardly mobile as white girls whose parents had the same income. However, black boys are not. In fact, they're much more likely to earn incomes far below white boys with the same parental income.

In fact, black girls' high school completion and college attendance rates are higher than those of white boys. Thus, the gender gap among African American children looms as large as the racial gap between whites and blacks overall.

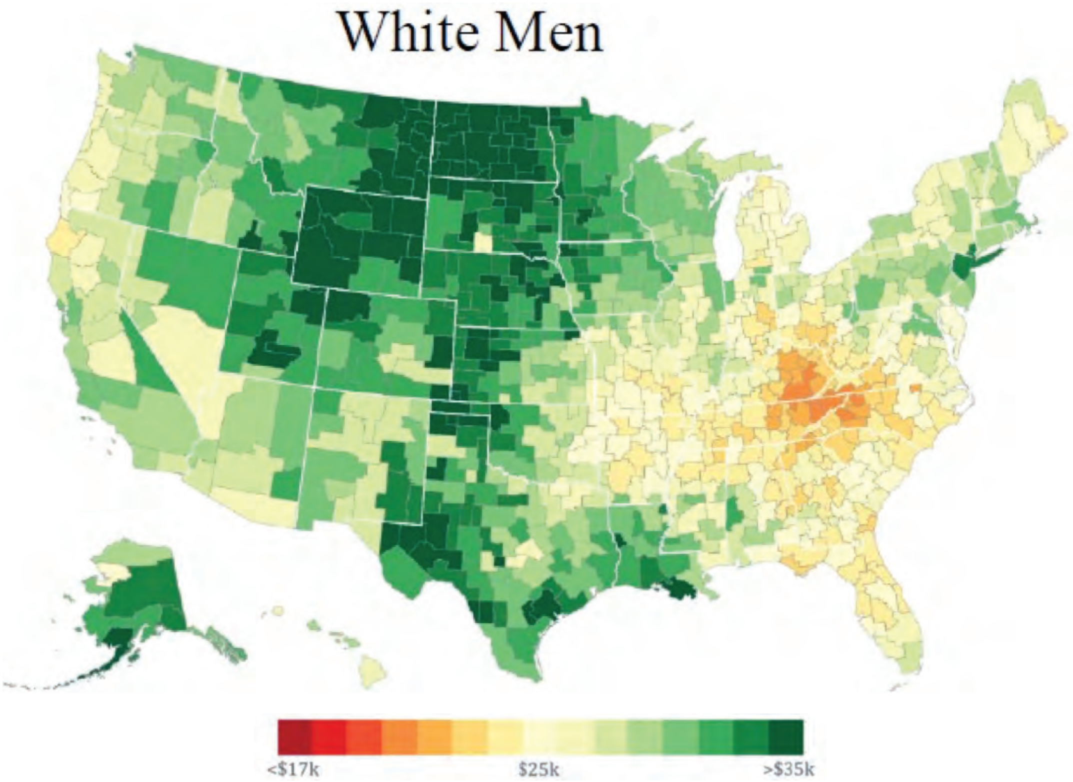
Large Regional and Neighborhood Variation in IG Mobility. The remarkably large and detailed dataset assembled by the Chetty team allows them to identify very granular geographical patterns in the U.S. They find high IG income mobility for black children—especially boys—in some parts of the South, Northeast and West. On the other hand, they find very poor outcomes for black boys raised in the industrialized cities of the Midwest, such as Chicago, Milwaukee or Cleveland. In general, Memphis is in between—better than Chicago but not as good as New Orleans or parts of New York. We return to a discussion of particular neighborhoods below.

Chetty and his colleagues posit that black boys are especially vulnerable when they live in what they call "low-opportunity" neighborhoods, regardless of their parents' income. These are neighborhoods characterized by a large number of very poor families; a dearth of fathers living in the neighborhood; and neighborhoods or regions in which racial animus directed by whites at nonwhites is high.

Figures 5 and 6 illustrate the vast differences in achieved upward IG income mobility both across the country and between whites and blacks. The young men represented in these maps all were teenagers in the 1990s and all grew up in families whose income ranked at about the 25th percentile of family incomes—in other words, they were poor. The "stoplight" maps show the average incomes achieved by young men according to where they grew up, not where they lived in 2015. Red shading indicates that the young men have very low average incomes; yellow shading is intermediate; and green shading represents relatively high incomes.

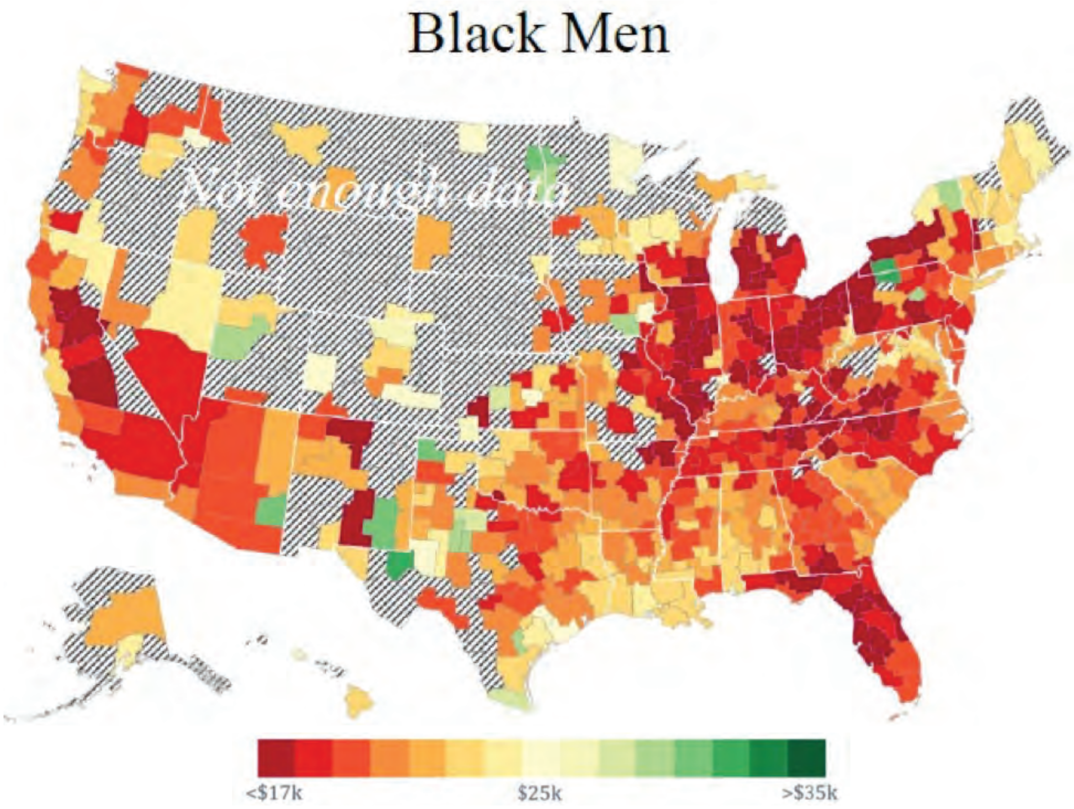
[7] See Chetty et al, 2018, p. 18.

Figure 5
Average Incomes of White Men Who Grew Up in Low-Income (25th percentile) Families


White Men
<$17k
$25k
>$35k

Source: Chetty, Raj; Hendren, Nathaniel; Jones, Maggie; and Porter, Sonya. R (2018)

Figure 6
Average Incomes of Black Men Who Grew Up in Low-Income (25th percentile) Families


Black Men
Not enough data
<$17k
$25k
>$35k

Source: Chetty, Raj; Hendren, Nathaniel; Jones, Maggie; and Porter, Sonya. R (2018)

Perhaps the first thing to notice is how different the color palettes are in Figures 5 and 6. In the former, depicting young white men who grew up poor, most regions are green or yellow, indicating relatively high or intermediate incomes. Only in Appalachia are dark orange patches visible, signaling low—although not extremely low—incomes. In Figure 6, depicting young black men who grew up poor, the map is mostly red, with as many areas of deep scarlet red (the very worst outcomes) as there are oranges and yellows. Another important takeaway, according to the Chetty team, is how much variation in color there is in each map. That is, where you grew up seems to make a big difference, no matter your race.

Examples of Neighborhoods Where Black Boys are More Likely to Thrive as Young Adults. Despite the overall picture of bad outcomes for black boys who grew up poor, there are neighborhoods in which outcomes were relatively good. Table 2 lists some examples from both low-income (25th percentile) and high-income (75th percentile) neighborhoods.

These examples illustrate the regional diversity of opportunity. Some are in the Deep South while others are in the Northeast.

Table 2

Poor neighborhoods: Average family income at 25th percentile ($27,000); most black fathers are present; relatively low poverty rate.		**Rich neighborhoods: Average family income at 75th percentile ($94,000); most black fathers are present; relatively low poverty rate.**	
Washington DC	Downtown Silver Spring, Woodside Park, Woodside Forest	Newport News VA	Richneck, Newport News County
	College Park, Prince George's County	Baton Rouge	East Baton Rouge, East Baton Rouge County
	New Carrolton, Prince Georges' County	New Orleans	Terrytown, Jefferson County
	Greenbelt, Prince George's County		Woodmere, Jefferson County
New York City	Queens Village, Queens		
	Laurelton, Queens		
	Wakefield / Eastchester, Bronx		

Examples of Neighborhoods Where Black Boys Do About Average. Table 3 lists some neighborhoods in which black boys' outcomes as young adults were intermediate—not particularly good but not very bad, either. As with the high-opportunity neighborhoods, some of the average neighborhoods are in the South—in particular, in the Memphis area.

Table 3

Poor neighborhoods: Average family income at 25th percentile ($27,000); many black fathers are present; moderate poverty rate.		**Rich neighborhoods: Average family income at 75th percentile ($94,000); many black fathers are present; moderate poverty rate.**	
Houston	Ost-South Union, Harris County	Chicago	Harvey, Cook County
	Sunnyside, Harris County		South Holland, Cook County
Memphis	White Haven, Shelby County	Memphis	Hickory Ridge-South Riverdale, Shelby County
	Coro Lake, Shelby County		

Examples of Neighborhoods Where Black Boys Do Worse than Average. Table 4 gives examples of neighborhoods in which the young-adult outcomes of black boys were very poor on average. Corresponding to the pattern shown in Figure 6, the worst neighborhoods are very likely to be found in the industrialized cities of the Midwest.

Table 4

Poor neighborhoods: Average family income at 25th percentile ($27,000); few black fathers are present; high poverty rate.		**Rich neighborhoods: Average family income at 75th percentile ($94,000); few black fathers are present; high poverty rate (among blacks).**	
Chicago	Robert Taylor Homes/Fuller Park, Cook County	Chicago	Humboldt Park, Cook County
	Bronzeville, Cook County		West Garfield Park, Cook County
	Garfield Park, Cook County	Detroit	Harper Woods, Wayne County
	Englewood, Cook County		Hamtramck, Wayne County
Detroit	Chandler Park, Wayne County		
Cincinnati	South Fairmont, Hamilton County		
Los Angeles	South Los Angeles/Watts, Los Angeles County		

What Makes Chicago Neighborhoods So Much Worse than New Orleans for Black Boys? The sheer variety of outcomes by race, geography, income, and gender allows us to rule out some pernicious explanations for persistent poverty among African Americans:

- It’s *not* primarily due to individual “race-related shortcomings,” because black girls do much better than black boys (and white girls and boys, in some respects).
- It’s *not* primarily due to family structure or marriage rates because it’s the share of neighborhood dads present that matters most, not the presence of the child’s own dad.
- It’s *not* primarily due to environmental factors like school quality because black boys do worse than black girls and white boys even in what appear to be good schools.

So what is it? According to Chetty’s team, good outcomes for young black men are due to:

- Lack of concentrated poverty in the neighborhood: More than just your own income, your neighbors’ incomes matter, too.
- A high fraction of fathers present in the neighborhood: Dad in the house is good but many black dads in the neighborhood are even better.
- Low levels of racial bias: Racial hostility expressed by local whites hurts black boys and black girls more than Hispanic or Asian boys or girls.

Interestingly, the research team found that areas with high levels of white racial animus was associated with unusually poor outcomes for low-income whites, too. Hatred hurts both the haters and the hated.

Black Men and Boys Face Immense Economic Challenges But We Know What Helps. Black-white income and wealth gaps are large and slow to change because of cumulative discrimination and disadvantage—that is, structural racism. As a result, upward black intergenerational income and wealth mobility are low.

Unfortunately, in terms of neighborhood quality, Chicago is more typical than New Orleans for most African American children. It’s unusual to find neighborhoods containing many African American families with all of the characteristics Chetty and his team identify as ingredients in the “secret sauce” of upward mobility--low poverty; many black fathers present; and low racial hostility from whites.

Stated differently, the research of Chetty and his colleagues shows that, to break out of the pattern of deep and persistent racial income and wealth gaps across generations, we must create more “opportunity neighborhoods” for black boys (and girls) to grow up in. To do this, we must successfully answer these questions or challenges:

- How do we shield black boys from concentrated poverty and its effects when it is prevalent in so many neighborhoods?
- How do we increase the neighborhood presence of black dads?
- How do we decrease whites’ racial hostility, which harms both non-white and white Americans?

The challenges are formidable. The time to get to work on these challenges is now.

A MEMPHIS MIRAGE: HOW HOME MORTGAGE ALTERNATIVES AND INCREASED EQUITY FIRM OWNERSHIP DIMINISH WEALTH IN LOW-INCOME COMMUNITIES

Wade Rathke and Diné Butler
ACORN International

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Diné Butler is a long-time community and labor organizer, data and policy analyst, and housing and environmental justice activist. She is back in New Orleans after pursuing her graduate degree at CUNY Hunter College in the Urban Policy and Leadership program. She is currently writing a comparative best practices guide for community-based organizations fighting for community benefits when their neighborhood faces a city-initiated rezoning, using a recent New York City case study.

The mirage of attainable homeownership in Memphis is on the decline thanks to corporate investment in post-housing crisis housing stock. As if the Great Recession's foreclosure crisis of 2007-2008 was not bad enough, more than a decade later, instead of a phoenix rising from the wake of the burst housing bubble, the vultures have descended upon the housing in Memphis. The result is a policy crisis and the exacerbation of the wealth and racial divisions in the city.

Memphis Housing Market in the Crosshairs

The Memphis housing market tells the tale of what happens when the state and federal governments allow large companies to further impoverish black communities in a way that harkens back to government sanctioned redlining and the long shadow of racial discrimination and inequities. In just one-decade, private equity companies have come to dominant the real estate market in Memphis and have diminished homeownership rates and increased evictions. The corporatization of housing in Memphis, the lingering impact of the Great Recession, the ongoing barriers to lending to low-and-moderate-income (LMI) families, the increase of income inequality and stagnant wages drive the housing market in the city.

Details of the corporatization of the housing market:

- Cerberus[1], the giant Wall Street private equity company "has become in just three years the largest owner of single-family homes in this Mississippi River town, with nearly 1,800 houses rented out to thousands of residents." (Washington Post, 2018, December 25)
- FirstKey Homes, the property manager owned by Cerberus, **files for eviction at twice the rate** of other rental home property managers in the Memphis area and threatens renters with removal at the highest rate among the area's large management firms, going to court more than 400 times in 2018. (Washington Post, 2018, December 25)

[1] Cerberus is named after the many-headed monstrous dog of Greek mythology, guarding the gates to Hades to prevent anyone from leaving.

- In 2018, the share of single-family-home **purchased by outside investors** was 27 percent in Detroit, **20 percent in Memphis**, 23 percent in Philadelphia, 18 percent in Atlanta, and 19 percent in Oklahoma City. Nationally investors bought 11 percent of all properties. (Wall Street Journal, 2019, June 20)
- By 2014, Prager Private Equity acquired 700 rental properties in Memphis (Memphis Business Journal, 2014, October 29) and over 1,000 in the rest of the US.
- Invitation Homes, owned by the Blackstone Group, one of the largest US-based private equity companies, now owns more than 80,000 single-family houses, including in Memphis where it holds a significant concentration. They report an occupancy rate of 96.5 percent and rent increases on current leases going up by 5.3 percent. (Wall Street Journal, 2019, August 3)
- Since the 2008 financial crisis, no major city has suffered a bigger percentage drop in owner-occupied single-family housing than Memphis, partly the result of predatory mortgage lending, giving way to a flood of foreclosures. (Washington Post, 2018, December 25)

Memphis shows the small city impact of the national trend of rising rents and corporate housing effects on elevated evictions that impact low income and minority areas in Memphis. Many of these evictions are driven by the corporate invasion of single-family homes. The Comprehensive Housing Market Analysis Report for Memphis explains this connection to the crash: “single-family rental units currently comprise an estimated 39 percent of the rental stock compared with 24 percent in 2000, as investors purchased distressed single-family homes to rent following the effects of the national recession.” According to the report, the result is “stronger rental demand” and further states that some of the highest rent in “Shelby County rose 8 percent above the rent a year earlier in the Downtown/Midtown area and 7 percent higher than the previous year in the other two areas.”(Housing and Urban Development, 2016)[2]

As the corporations put their weight on the side of the ownership scale, the fall in residential homeownership and rise in tenancy is directly correlated; from 2010 to 2017, Memphis homeownership declined from 66 percent to 59 percent and renters rose from 34 percent to 41 percent (see Table 2). Renter household increases are highest among African Americans with the total number of African American renters double the number of white renters in a city where there are double the number of white residents (see Table 1). This housing crisis has hurt the homeownership rates of white households as well. The surprise silver lining is that there is an increase in ownership in Hispanic and Latino households, although the Hispanic and Latino renter population also rose dramatically between 2009 and 2013 (American Community Survey, 2017).

[2] *https://www.huduser.gov/portal/publications/pdf/MemphisTN-comp-17.pdf*

Table 1: Change in Ownership and Rentals by Race/Ethnicity between 2009 and 2017

Race	2009	2013	2017	# change from 2009 to 2018	% Change from 2009 to 2017
Hispanic / Latino					
Owner	5369	6298	7579	2210	41.16%
Renter	7666	9963	9757	2091	27.28%
Black or African American					
Owner	105221	104496	103959	-1262	-1.20%
Renter	96100	105556	121181	25081	**26.10%**
White not Hispanic / Latino					
Owner	194150	187876	179332	-14818	-7.63%
Renter	57443	57623	59073	1630	2.84%

Source: American Community Survey (ACS) 2013-2017 TN-AR-MS Shelby County Metropolitan Statistical Area (MSA)

Table 2: HUD's 2017 Comprehensive Housing Market Analysis for Memphis

Table DP-1. Memphis HMA, Data Profile, 2000 to Current

				Average Annual Change (%)	
	2000	**2010**	**Current**	**2000 to 2010**	**2010 to Current**
Total resident employment	570,610	573,982	587,300	0.1	0.4
Unemployment rate	3.7%	9.7%	5.4%		
Nonfarm payroll jobs	625,900	592,300	632,100	– 0.6	1.1
Total population	1,213,230	1,324,829	1,348,000	0.9	0.3
Total households	451,472	494,602	510,700	0.9	0.5
Owner households	298,333	317,128	300,200	0.6	– 0.8
Percent owner	66.1%	64.1%	58.8%		
Renter households	153,139	177,474	210,500	1.5	2.7
Percent renter	33.9%	35.9%	41.2%		
Total housing units	484,301	555,082	566,900	1.4	0.3
Owner vacancy rate	1.8%	2.6%	1.8%		
Rental vacancy rate	8.0%	14.1%	8.2%		
Median Family Income	NA	NA	$58,000	NA	NA

HMA: Housing Market Area

Land Installment Contracts – They're Back!

There is another piece of the corporatization of housing market jigsaw puzzle in Memphis. The sale of foreclosed homes in Memphis did not just land in private equity firms who want to rent the homes, there are many companies who sell these homes through home mortgage loan alternatives called land installment contracts (LICs). Facing a declining number of affordable units, a general increase in rent, and stagnant income, families are driven to the mirage of homeownership through land installment contracts (rent-to-own, contract-for-deed, etc.) once again. Land installment contracts are agreements to pay monthly payments (installments) for extended periods of time (often up to 30 years) without acquiring a deed to the property. Failure to make regular payments triggers loss of the property.

Often the contracts are also "as is," forcing the family to make the repairs themselves or live in dilapidated and deteriorating conditions. This predatory practice is now revived and at times is thought to be legitimate depending on who the seller is. The classic land contracts came under the jurisdiction of Dodd-Frank legislation and the supervision of the Consumer Finance Protection Bureau (passed in the wake of the Great Recession), but companies immediately devised new predatory LIC-type instruments to exploit communities caught in the housing crises. ACORN and others hoped that the passage of the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA) in the mid-1970s that sought to end discrimination in lending had put a stake in the heart of such discriminatory practices for minority and lower income families, but zombie-like, they had risen again.

The ACORN Home Savers Campaign (AHSC) partnered with University of Memphis School of Social Work students with a shared goal: to understand if residents who ACORN researchers believed may have signed contracts with companies who sell home mortgage alternatives were in fact in predatory contracts; if so what previous housing experience had the residents had that led them to their contract; and how did they feel about the contract after volunteers at the door broached the possibility that the contracts might lead to a path far from homeownership.

Through extensive research, national and local companies were identified in the local market. New homegrown land installment contract companies are on the rise, such as the Memphis Wring family's "Affordable Housing Property Management Company," which was found to own hundreds of houses in Shelby County. Over the course of two days, 60 contract holders were surveyed. AHSC and its partners found that 21 percent of those who answered the survey responded that their top motivator for entering in their contract was due to an emergency housing crisis, and 25 percent stated that the house from Vision Property Management (VPM), the largest company doing such installment contracts, was the "most affordable housing (they) could find." These findings indicate that the majority of contract holders are in desperate need of stable housing. Only 43 percent reported that their top motivator in signing an installment contract was to own their own home (See Figures 1 and 2).

Figure 1: Previous Housing Experience before signing a LIC

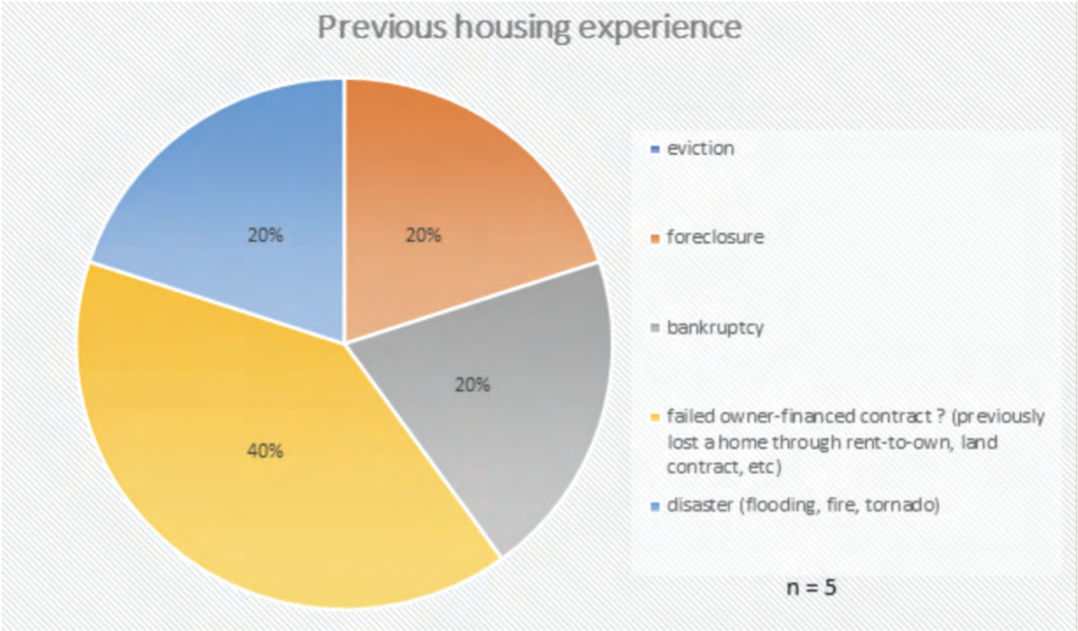
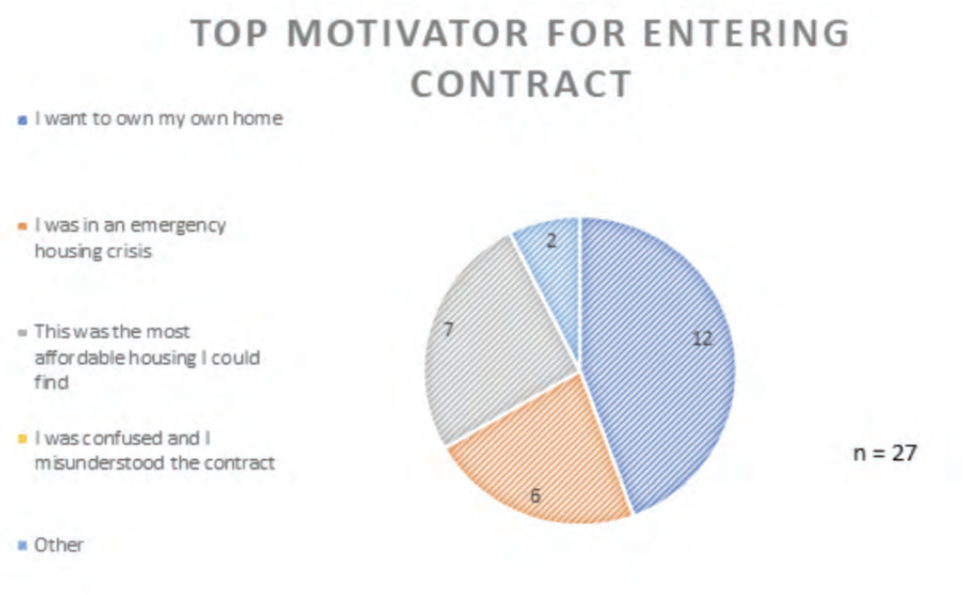


Figure 2: Top Motivator for Entering a LIC



Another surprising finding was that only one person replied that they had previously been denied a loan. The qualitative interviews with some contract holders found a range of feelings about these contracts. One customer of Vision Property Management said that their lease purchase option (LPO) was the only way they could have owned a home (they now have a mortgage and the deed is in their name), while others would never recommend this kind of contract to anyone again. Contract holders have walked away from their homes due to unexpected costs that occurred because of code enforcement citations, enormous utility bills due to leaks or broken pipes, and sheer frustration with the process to convert their lease purchase option into a mortgage.

The home savers campaign staff and volunteers were told numerous stories, many of which displayed the pitfalls of how the code enforcement regulations intended to keep families safe forced land installment contract buyers to default on their homes, and in some cases caused homelessness. AHSC knocked on one Memphis family's home, where they found two families who had lost homes previously to land installment contracts and code enforcement fines. One family was currently facing a slew of code enforcement violations, including one involving a conflict over whose responsibility it was to pay to raise a utility pole's electricity line. Because this family is in a LIC, the seller of the home declared that they were not responsible for the expense of raising the line, putting this family in danger of defaulting and losing their investment thus far in their home. The husband and wife have several children, some of whom have special needs. It is important that homes are safe and in good condition, but code enforcement cannot be blind to these circumstances. The examples of these families inform policy recommendations.

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BLACK GIRLS ARE LIT

Family subject to code enforcement violations while in a land installment contract

As detailed in a previous paper, jointly authored with Josh Akers and Eric Seymour (Radical Housing Journal, 2019),

> Foreclosed homes, once repossessed by banks and federal agencies, are referred to as "real estate-owned" (REO) properties. As REO inventory climbed across the country starting in 2007, national lenders and GSEs (government-sponsored enterprises) started to sell large portions of their holdings at deeply discounted prices in inner cities hit hard by the foreclosure crisis, particularly in cities and neighborhoods with lower home values and large numbers of black residents (Coulton, Schramm, & Hirsh, 2008). These types of sales were largely made to out-of-state investors and local fringe operators, most of them buying multiple properties and paying in cash (Ford et al., 2013). In 2012, the Federal Housing Finance Agency piloted a "REO-to-rental" program pooling homes located in hard-hit metropolitan areas and selling them to investors pledging to maintain them as rentals for an extended period (Fields, 2015). In recovering Sunbelt housing markets, Wall Street-backed corporate landlords renting single-family homes repossessed during the foreclosure crisis mechanically fine, evict, and replace tenants to ensure an adequate revenue stream to satisfy investors (Fields, 2015; Gottesdiener, 2014). These sales provoked strong reaction from housing activists concerned with corporate landlords' incentives to increase rent and respond harshly to late payments (Bond-Graham & Liu, 2012). Only more recently, however, has attention been drawn to federal agencies' bundled sales to investors selling properties on contract (Goldstein & Stevenson, 2016).

Land Installment Contracts, Vision Property Management and the ACORN Home Savers Campaign

ACORN assembled a team of volunteer organizers and community leaders to survey owner-occupants in Memphis, Little Rock, Atlanta, Indianapolis, Detroit, Pittsburgh, Philadelphia, Akron, and Youngstown that have agreements with Harbour, Vision, and other property management companies. The findings were surprising. No one fully understood the agreements.

As the results from the home visits accumulated, ACORN launched the ACORN Home Savers Campaign (AHSC) in 2017. Vision became the target and as each city was organized, a demand letter was sent to Vision's headquarters demanding city-by-city meetings with the company to renegotiate the agreements for the families.

While AHSC committees were sending demand letters to Vision, they also joined a national effort to demand that all companies using installment land purchase contracts that mandate signers maintain and repair homes in "as is" conditions be banned from future Federal National Mortgage Authority (FNMA or Fannie Mae) auctions. Congressman Elijah Cummings (D-MD) argued this point as well, based on a well-publicized case of lead poisoning in a Vision property in Baltimore.[3]

The confluence of these simultaneous actions gave the ACORN Home Savers Campaign unexpected leverage with Vision because most of its pipeline of homes had come from the Fannie Mae auctions where it was now effectively barred. At the time of the AHSC demands, they were also feeling pressure from their dozens of investor pools as well as from a spate of bad publicity and legal actions around the country, making them receptive to direct negotiations with committee members. This led to an agreement with AHSC largely based on the interest in getting owner-occupants out of the lease property option (LPO) agreements and into some form of mortgage that would give them a deed to their homes. Vision needed to get people out of the agreements in order to service their investor pools' demand for cash flow. The company and the ACORN Home Savers Campaign have been trying to launch a joint pilot program in Detroit that would rehab properties in specific neighborhoods and market them to prospective homeowners on short-term contracts to prove creditworthiness. If successful, the effort could turn around whole neighborhoods.

[3] *https://oversight.house.gov/news/press-releases/cummings-seeks-information-from-vision-property-management-and-fannie-mae-about*

POLICY RECOMMENDATIONS

Strengthen Existing Land Installment Contract (LIC) Policies

According to Tennessee state law, “installment land sales contract or lease with option to buy” must include a disclosure statement (Title § 66-5-201) that shows the condition of the property, including any material defects known to the owner. This is critical information for buyers so they can assess what kind of ongoing expenses will be needed on top of their monthly note to the company. Unfortunately, this law does not have any teeth. There are no clear repercussions for the company.

To strengthen the Tennessee land installment contract (LIC) law that currently exists, officials should consider legislation in three other states that provide precedent and good language and give buyers more protections and a way to recuperate their investment:

- The state of Texas provides the best protection for buyers through the equity protection act passed at ACORN’s instigation in 1996. At the point of eviction or failure of the agreement, the law requires a refund of the down payment and reimbursement of money spent by the agreement holder for repairs and improvements. By state law, if a purchaser defaults after they have paid 40 percent or more of the amount due or the equivalent, the purchaser recovers their investment and the value of their repairs.
- In California, a land contract must list the address of the estate, full legal description of the property, the purchase price, paid down payment, the monthly amount and terms, the number of payments to be made and the exact payoff schedule. An amortization table is encouraged. Land contract buyers will be treated like property owners and will receive the property tax bills, insurance and utility bills.
- In Arizona, the buyer acquires an “equitable interest” in the property when the buyer and seller sign the land contract.

Increase Tenant and LIC Buyer Protections

An important factor in how the law does or does not pay attention to land installment contract buyers is that they are not given status, the contracts do not have to be recorded. This must change. Land installment contracts should be governed similarly to mortgages - they must be recorded at the county level; held to truth-in-lending policies; buyers should be treated like owners once they have paid 40 percent of the asking price (*like in Texas*); and overall LIC buyers should be supported as special status under the Community Reinvestment Act (CRA). Companies should be treated like banks and report their LICs like loans under the Home Mortgage Disclosure Act (HMDA)and they should be given loans by banks to support the wealth-building in low-income, minority communities. Land installment contracts should be treated more like home mortgages and there should be stronger language enforcing the condition of the house by requiring a third-party appraisal. If LIC buyers were *treated as owners* there would be additional programs for which they would be eligible, such as low-income buyers’ decrease in property taxes, upgrades to utility programs, more affordable home insurance and more.

Renters of homes owned by equity firms and LIC buyers are in similar situations when it comes to who pays to improve the conditions of housing, creating unintended consequences. This policy can lead to evictions for those buyers (or perhaps even renters) who cannot keep the home up to code enforced standards. Large landlords and companies pass along these costs to renters via rent increases and/ or force LIC buyers to pay for the maintenance and improvements themselves. The alternative is default, eviction, court action and the jurisdiction condemning the structure. Governmental authorities need to consider allowing access to Community Development Block Grant (CDBG) funds or other housing monies to facilitate repairs so that families are able to live in safe and healthy housing without code enforcement creating homelessness.

Policies are needed to minimize the effect that equity firms have on the city rental market by capping rental increases. New York recently passed rental regulations that discourage large landlords from passing on maintenance and repair costs by capping rental increases at two percent annually.

Private equity firms should be included under Community Reinvestment Act and Home Mortgage Disclosure Act requirements around disclosures and non-discrimination. They are currently issuing more than 50 percent of the mortgages nationally, but not being supervised by the Federal Reserve. Such firms owning more than a certain baseline percentage of housing units or an absolute number, like 100 units, should be required to also provide a ratio of affordable housing, much like inclusionary zoning requirements for new developments.

Programs and Funding is Needed

Local governments should work with local banks, subject to the Community Reinvestment Act, to help subsidize down payments and more affordable homeownership programs for those with low-incomes and minority populations to support their ability to build wealth through homeownership so that communities are not driven to home mortgage loan alternatives.

There should be programs that allow funds for low-income owners and Land installment contract buyers to have access to programs that help fund the maintenance and repair of homes so that they are up to local safety standards.

The U.S. Department of Housing and Urban Development and local governments should give grants to community-based organizations to act as stewards of the outreach and loan counseling of these programs. There should be outreach to all contract holders to ensure that they have access to any and all government programs that will support them in achieving homeownership.

Fines and Penalties

Legislation should be passed to reap fines from the larger companies and bad actors. Often times bad violations involve *de minimus* (minor violation) fines which they resist paying until such nonpayment triggers foreclosure or seizure, as found repeatedly in cities like Youngstown and Detroit.

Also, legislation should be passed to assess an additional fee to large landlords managing over a certain threshold in the number of units or properties to assist in funding home improvements and affordability.

CONCLUSION

There is little appetite in most state governments and certainly the federal government now in seeking to do the hard work of regulating companies in order to drive the more predatory practices and companies out of the marketplace, but it needs to be done.

The housing crisis in the United States is a fusion of mortgage alternative predation, misguided policies, government inaction, and the legacy of government action that has resulted in the wealth gap and homeownership - rental gap in Memphis, where the African American community represents more than double the number of white renters. The history of redlining is the history of Memphis. There must be changes to policies and funding for low-income homeownership programs, pressure on the banks to make loans in communities of color, as well as policies and programs that create safe and affordable rental housing for low-and-moderate income communities.

WORKPLACE SETTINGS AND JOB TYPES AS DETERMINANTS OF HEALTH DISPARITIES

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A large body of research explores how workplace environmental hazards and risky job responsibilities impact health (Viscusi, 1983; Danna and Griffin, 1999). Recent emphasis on social determinants of health additionally reveals that health disparities result from inequalities in where you live, work, and play (Department of Health and Human Services, 2015). This paper explores how where you work (i.e., the type of job you hold) impacts your access to health insurance, and thus indirectly influences your health. This is because a lack of health insurance locks the door of opportunity to use preventative and curative health care services.

A second emphasis of this paper is to explore what this relationship between workplace settings and health insurance implies for health outcomes and health disparities for those who work in Memphis. While it is a health care metropolis with access to a wide range of health care options, Memphis is also a city with some of the worse health disparities in the nation. For example, in 2012, Memphis was noted to have the largest racial gap in breast cancer mortality among the major metropolitan cities in the nation (Whitman, Orsi, and Hurlbert, 2012). How are workplace settings potentially associated with disparate health outcomes in Memphis?

Nonstandard Work Arrangements

Most employed persons work in settings that are classified as traditional or standard. A smaller percentage of workers are employed in the nonstandard sector. Nonstandard work arrangements include contingent workers and workers in alternate employment arrangements. Contingent workers have jobs that are temporary or are not expected to last for non-personal reasons; they do not have a contract for long-term work (White-Means and Hersch, 2005; United States Bureau of Labor Statistics, 2018). Alternative employment arrangements include workers paid by contract firms and temporary help agencies, as well as on-call or day laborers and independent contractors (White-Means and Hersch, 2005; United States Bureau of Labor Statistics, 2018b). Although separate classifications, contingent work and alternate employment arrangements may not be mutually exclusive categories of workers (United States Bureau of Labor Statistics, 2018a). Also, note that nonstandard work arrangements may include highly skilled workers and are work arrangements that are increasing in prevalence (Su et al., 2019).

Most of what we know about the nation's nonstandard employment market is based on data from the Current Population Survey (CPS). The CPS reports statistics related to the main jobs held by U.S. workers. According to the latest statistics gathered for contingent workers, there were 5.9 million workers (3.8 percent of the workforce in 2017) who held contingent worker positions as their primary job (Bureau of Labor Statistics, 2018a). This represented a decline from percentages reported in earlier years of 4.9 percent and 4.1 percent in 1995 and 2005, respectively.

In May, 2017, there were 10.6 million independent contractors, 2.6 million on-call workers, 1.4 million temporary help agency workers, and 933,000 workers for contract firms (U.S. Bureau of Labor Statistics, 2018a). The trend toward work in alternative employment as one's sole occupation, in contrast to trends in contingent work, increased between 1995 and 2005 and then decreased in 2017. The primary change occurred among independent contractors. Among workers in the alternative arrangement sector, independent contractors are the largest percentage of workers and they also represent the largest percentage of workers in the nonstandard work sector, i.e., 6.9 percent compared to 3.8 percent employed in contingent work (Bureau of Labor Statistics, 2018b).

Workers in Alternative Arrangements as a Percent of Total Employed

	Feb-95	Feb-05	May-17
Independent Contractors	6.7	7.4	6.9
On-call Workers	1.7	1.8	1.7
Temporary help agency workers	1.0	0.9	0.9
Workers provide by contract firms	0.5	0.6	0.6
All alternative workers	9.9	10.7	10.1

Source: Bureau of Labor Statistics (2018b)

Demographic descriptors associated with workers in nonstandard work sectors are unique and varied (U.S. Bureau of Labor Statistics, 2018a). Compared with non-contingent workers, contingent workers were more likely to be younger than age 25, Hispanic, have less than a high school education (14 percent vs. 7 percent), and to work part-time in professional and business services, in education and health services, and in construction and agriculture (Kosanovich, 2018a). Independent contractors were more likely to be older, male, white, and work in management, sales, business, and financial operations. Independent contractors worked in the construction and professional and business services industries (U.S. Bureau of Labor Statistics, 2018a). On-call workers were evenly distributed across race/ethnicity, were 65 and older, worked part-time, and worked in professional, service, construction, transportation, and material-moving jobs. They were concentrated in education and health services, as well as construction industries (U.S. Bureau of Labor Statistics, 2018a).

Temporary help agency workers were more likely to be black, work part-time, and work in production, transportation, material moving, and manufacturing. Those who worked for contract companies were more likely to be Asian, male, and worked as computer professionals and security guards for jobs in public administration (U.S. Bureau of Labor Statistics, 2018a). With the exception of workers provided by contract firms of whom only 4 percent have less than a high school education, workers in nontraditional jobs were more likely to have less than a high school education; 9.7 percent, 10.6 percent, and 10.5 percent for independent contractors, on-call workers, and temporary help agency workers, respectively (Kosanovich, 2018b).

While Current Population Survey data suggest that the nonstandard employment sector is stable and slightly decreasing in its role as a source of employment, the data tend to underrepresent two employment trends. First, CPS data do not capture data on nonstandard employment as a secondary source of employment income, as an opportunity to stretch one's income when one's primary job is associated with wages insufficient to provide a living-income. The CPS estimated about 21 million workers in the nonstandard employment sector, while data from Upwork, a freelancing platform, reported 57 million, a growing number of workers fleeing to the "gig" market in order to survive (Novello and Stettner, 2018). The growth of the numbers of workers for firms such as Uber and Lift also supports the supposition of a growing number of workers in the nonstandard employment sector who are underestimated.

Second, there are differences between white workers and black and Hispanic workers in how they are represented over time (2005 vs. 2017) in the contingent and alternative work arrangement sectors. Between 2005 and 2017, there was a decline in the percent of white workers who were employed in the contingent sector and increases of 12 percent and 10 percent for black and Hispanic workers. Between 2005 and 2017, there was a decline in the percent of white workers who were employed in alternative work arrangements and increases of 41 percent and 46 percent for black and Hispanic workers. Novello and Stettner (2018) attribute these trends to a growing racial divide in employment sectors due to racial unemployment and wage differentials in the traditional labor market, driving more minority workers than white workers to the nontraditional sector.

Health Insurance Coverage by Work Arrangement

The primary reason that employers develop nonstandard workforce agreements is to save money. In manufacturing, the use of workers from temporary help agencies increased from 30 percent in 2005 to 39 percent in 2017 (Novello and Stettner, 2018). Sometimes nonstandard workers are used as the alternative to raising wages of workers in standard work arrangements (Houseman, Kalleberg and Erickcek, 2003). Such strategies may be used to avoid paying overtime wages of time and one-half and reduce expenditures on fringe benefits.

Health insurance coverage, in particular, varies by whether one is employed in the traditional employment sector versus the nonstandard sector. Using Current Population Survey data from 1995-2001, White-Means and Hersch (2005) found that white, black and Hispanic workers were less likely to have employer health insurance coverage if they worked in nonstandard employment sector jobs; 71, 72, and 58 percent of white, black and Hispanic workers in the traditional job market were covered by employer health insurance, while 32, 26 and 21 percent of white, black and Hispanic workers in the nonstandard job market were covered by employer health insurance.

By 2005, about 56 percent of workers in traditional jobs had health insurance coverage under their employer's plan. In contrast, 18 percent of contingent workers and 26, 8, and 49 percent of on-call workers, temporary help agency workers, and workers provided by contract firms had employer coverage (Kosanovich, 2018a; Kosanovich 2018b). During this time period, employer sponsored health insurance coverage declined in both traditional and nonstandard sectors as growth in health insurance costs tended to exceed growth in wages, health insurance premiums and co-payments increased and employee take-up rates (the percent of workers who participate in employer-provided benefits) declined.

Nonetheless, employer health insurance coverage rates remained at least two times higher in the traditional job sector as that found in nonstandard jobs. Employer-sponsored health insurance coverage for workers with temporary help agencies was almost non-existent. By 2017, there were still gaps in employer-provided coverage in the traditional and nonstandard sectors, but the gap was reduced primarily because of increasing insurance coverage in the nonstandard job market. About 53 percent of workers in traditional jobs had health insurance coverage under their employer's plan. In contrast, 25 percent of contingent workers and 28, 13 and 41 percent of on-call workers, temporary help agency workers, and workers provided by contract firms had employer coverage (U.S. Bureau of Labor Statistics, 2018a).

Both the economic recovery following the 2008 crisis and the passage of the Affordable Care Act (ACA) have been credited with this expansion in employer-provided health insurance coverage. Specific changes implemented under the ACA that potentially led to greater employer health insurance coverage for workers in nonstandard jobs included the following: small employers were offered the opportunity to purchase affordable health insurance via state health insurance marketplaces; employers with 50 or more full-time employees were required to offer coverage that met minimum value or affordability standards; and individuals were mandated to purchase qualified health insurance (Su et al., 2019). Yet again, employer-sponsored health insurance coverage of workers in nonstandard employment remained half or lower than that of workers in traditional job markets.

Health Disparities Implications

What do the data imply regarding health disparities projections for Memphis? At this point, no Bureau of Labor Statistics data currently available report the distribution of workers across nonstandard and traditional work sectors in Memphis. The smallest geographic region including data for the Memphis area is the East South Central (ESC) Region. The ESC region includes the states of Tennessee, Kentucky, Mississippi, and Alabama. Memphis is the largest city in the ESC region. See Table AE12. The table reports the number of workers according to their employment sector and region/division of the country in 2017. Noted in red are distributions of the workforce according to workforce sector in the national and ESC region. The difference between the national distribution and the ESC region distribution is noted in blue. The ESC distribution of workers is similar to the national distribution.

However, the largest percentage point gaps are for independent contractors (-0.85 lower in ESC) and workers employed by temporary help agencies (0.38 higher in ESC). Herein lies the health insurance concern for residents of Memphis. National data indicate that workers employed by temporary help agencies were the least likely to have employer-provided health insurance (only 13 percent had coverage in 2017 and only 8 percent in 2005), and workers in the ESC region were more likely than workers in the nation to fall in this category. Indeed, the coverage rates for these workers is extremely low, suggesting severe limitations in access to health care services for those employed by temporary help agencies. These workers also are most likely to be black or Hispanic (U.S. Bureau of Labor Statistics, 2018a).

Why does having limited access to health insurance matter? The Institute of Medicine (2002) reports that uninsured persons: 1) receive less preventive screenings, 2) are less likely to receive health care services in a timely manner, 3) receive substandard care, and 4) have a higher risk of dying prematurely, including higher rates of death in the hospital. Health insurance also influences racial and ethnic health disparities in use of preventive and screening services and also cardiovascular disease services (Institute of Medicine, 2002; Collins, Bhupal, and Doty, 2019). Economically vulnerable populations have greater improvements in health due to increases in health insurance (Levy and Meltzer, 2008).

First, given that health insurance status is so closely linked to health status and health disparities, especially for economically vulnerable populations, and second, given that job sector employment has critical implications for health insurance status, workplace settings and job settings are de facto determinants of racial and ethnic disparities in health. Working in nonstandard jobs (such as employment as a contingent worker, independent contractor, on-call worker, or for a temporary help agency or contract company) results in a low likelihood of health insurance coverage, from 13-41 percent, based on 2017 Bureau of Labor Statistics data.

Further, these nonstandard jobs are becoming more heavily concentrated with black and Hispanic workers. While workers in these sectors may not perceive an immediate risk for their health by their employment sector choice, there are long-term health risks by employment in these sectors due to long-term lack of access to health insurance coverage and lack of utilization of essential health care services. Current employment trends suggest that black and Hispanic workers will face a higher burden of long-term health risks due to their choice of workplace setting.

Table AE12. Employed persons 16 years and over other than unpaid family workers, by alternative work status, census region and division, May 2017
(In thousands)

Characteristic	Total	Total in alternative work arrangement	Independent contractor	Employed by temporary help company	Employed by contract company	On call worker	Day laborer	Total not in alternative work arrangement
Total United States	153,331	15,478	10,614	1,356	933	2,579	68	137,853
Percent of workforce in nation		10.09	6.92	0.88	0.61	1.68	0.04	89.91
Northeast	26,251	2,443	1,689	196	164	406	5	23,808
New England	7,579	680	489	63	39	96	–	6,899
Middle Atlantic	18,672	1,763	1,200	133	125	309	5	16,909
Midwest	34,255	3,050	1,960	398	170	526	4	31,205
East North Central	23,450	2,115	1,299	307	133	381	–	21,335
West North Central	10,805	935	661	92	37	145	4	9,870
South	56,267	5,925	4,019	517	394	994	26	50,342
South Atlantic	29,635	3,110	2,160	268	228	460	7	26,525
East South Central	8,616	803	523	109	39	138	3	7,813
Percent of workforce in ESC		9.32	6.07	1.27	0.45	1.60	0.03	90.68
Difference relative to nation		-0.77	-0.85	0.38	-0.16	-0.08	-0.01	0.77
West South Central	18,016	2,012	1,336	141	128	396	15	16,004
West	36,558	4,060	2,946	244	205	654	32	32,498
Mountain	10,743	1,136	813	51	69	208	6	9,607
Pacific	25,815	2,924	2,134	193	137	446	27	22,891

SOURCE: Contingent Worker Supplement, Current Population Survey (CPS)

NOTE:
Detail may not add to totals because there are a small number of workers who were both “on call” and “provided by contract firms.” Detail for other characteristics may not sum to totals due to rounding.
The states (plus the District of Columbia) that comprise the census divisions are: New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont); Middle Atlantic (New Jersey, New York, and Pennsylvania); South Atlantic (Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia); East South Central (Alabama, Kentucky, Mississippi, and Tennessee); West South Central (Arkansas, Louisiana, Oklahoma, and Texas); East North Central (Illinois, Indiana, Michigan, Ohio, and Wisconsin); West North Central (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota); Mountain (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming); Pacific (Alaska, California, Hawaii, Oregon, and Washington).

Policy Implications

These findings give rise to several public policy implications:

- Doubling the minimum wage is a popular policy recommendation. It is basically justified by arguments that wages need to be high enough so that what workers have in effect is a living wage, i.e., a wage that allows families to move out of poverty. Opponents of changes in the minimum wage focus on how additional wage costs would increase the cost of doing business and drive down profits. However, what both proponents and opponents of a rising minimum wage often fail to consider are the valuable health impacts of rising wages. As we explored in this paper, there is a connection between higher workplace benefits and improved health outcomes. As health improves, productivity increases, and employers receive higher returns on their investments in workers. Thus, both employers and workers gain as disparities in wages and disparities in health decline.

- Rising minimum wages would make employment in the alternative work sector less needed and/or desirable. Thus, higher burdens of long-term health risks faced by black and Hispanic workers would decline.

- Currently, the workplace setting has a significant influence on health insurance coverage, as well as health, quality of life and life expectancy. It is not clear why such a connection between the workplace and life expectancy is necessary or desirable. Why don't we separate this connection by giving serious consideration to universal health insurance coverage?

- Whether it is an extension of the Affordable Care Act that fills gaps in coverage or an overhaul of the health insurance system that is replaced by some variation of Medicare-for All, it is not clear whether the additional costs of financing these new health insurance systems outweigh the benefits. This is because most calculations of the cost of a new health insurance system compare health care expenditures under the new system with health care expenditures under the current system, and then questions are asked about whether we can afford the additional costs associated with the new system. No adjustments are made in these cost calculations for the benefits of the new system, such as reductions in the costs of premature deaths, disability days, and pain and suffering associated with greater and early access to health care. A reconsideration of our health insurance system is critical for persons who must work in alternative employment arrangements in order to secure a living-income for their families.

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