

How Latino Families Are Faring in Today's Economy

Submitted to

**U.S. House Committee on Ways & Means
Select Revenue Measures Subcommittee**

Submitted by

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INTRODUCTION

UnidosUS, formerly the National Council of La Raza, is the largest national Hispanic* civil rights and advocacy organization in the United States. For 50 years, we have worked to advance opportunities for middle and working-class Latino families to achieve economic stability and to build wealth. In this capacity, UnidosUS and its Affiliate network of more than 260 community-based organizations in 41 states, the District of Columbia, and Puerto Rico, work to provide education, health care, housing, workforce development, free tax preparation, and other services to millions of Latinos in the United States each year.

For more than two decades, UnidosUS has been actively engaged in anti-poverty work. UnidosUS has combined original research, policy analysis, and advocacy to support policy solutions that will help advance the nation's 58.8 million Latinos. This has included: advocating for a fair and equitable federal income tax system; empowering Latino wealth-building through homeownership; and supporting a regulatory environment that fosters a safe and affordable financial market.

This statement for the record focuses on select demographic and economic well-being indicators—including employment and job quality, wealth and income, and housing—to understand how Latinos have fared in the decade since the Great Recession.[†] Responsive policies helped propel more Americans, including millions of Latinos, to recovery following the recession, but more remains to be done to overcome persistent racial and ethnic inequities.

BACKGROUND

In 2007, the U.S. economy took a drastic downturn, disrupting a period of growth and prosperity for millions of Americans. While the nation has largely recovered from the Great Recession, the effects of this devastating shockwave linger; a decade after the official end of the recession, our economy still shows the scars of widespread loss and restructuring that took place in the wake of the crash. Even as millions of Americans faced financial upheaval as a result, the rupture of the housing bubble, foreclosure crisis, and subsequent sharp rise in unemployment hit the Latino community exceptionally hard. In the period leading up to the recession many Americans, including Latinos, experienced growth and prosperity—in terms of employment, wages, homeownership, home prices and equity—yet gaps between Latinos and White Americans were significant even then. In 2007, when Latinos reached record highs in homeownership and educational attainment, White net worth was still 7.7 times greater than Latino net worth, household income was \$15,514 higher, and unemployment was 1.2 percentage points lower than that of Latinos. These longstanding inequities were present before the economic crash and

* The terms “Hispanic” and “Latino” are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

† Methodological note: Unless otherwise footnoted, the analysis included in this document was conducted by UnidosUS using Current Population Survey data from 2007 to 2018 core using public use files. Included in the universe are Hispanic persons age 18-79 for all indicators except median age which includes all ages. Wealth and percent of assets in housing data were analyzed using Survey of Consumer Finances data for survey years 2007, 2010, 2013, and 2016. Unemployment data are from March BLS data accessed from BLS Data Finder.

persist because of structural bias and ineffective policies that limited the economic opportunity and mobility of Latinos.

Although the Great Recession officially ended 10 years ago in 2009, its effects linger today. While the post-recession “recovery” has benefitted some, many workers remain financially fragile and stagnate. This is particularly true of the Latino community. Latinos saw many of their hard-earned gains slip away during the recession—an especially difficult experience after reaching important milestones. Despite their hard work and contribution to the economic recovery, Latinos have continued to experience limited wage growth and feel the negative effects of deepening wealth inequality. Latinos make up the largest share of workers earning poverty-level wages, with nearly one in five Latinos earning an hourly wage that leaves them below the federal poverty line, even when working full-time, year-round.¹

EMPLOYMENT AND JOB QUALITY

At 66.6%, Latino labor force participation rate is among the highest among all racial and ethnic groups in the United States.² Latinos also lead in labor force growth, as the Latino labor force has grown to six times its size over the last four decades—from 4.3 million to more than 26.8 million. Between 2007 and 2017 alone, the Latino labor force increased by 27%, adding more than five million workers to the labor force.³ The Latino labor force is projected to continue growing faster than any other racial or ethnic group in the country.⁴ As the Latino labor force expands with the entrance of educated young Latinos, the importance of job quality for those beginning their careers as well as for Latinos with more experience will only continue to grow.

Latino job quality—the combination of factors like earnings, benefits, job security, and paid leave—remains a persistent issue, leaving many workers and their families struggling to make ends meet. Job quality plays an important role in a household’s ability to get by day-to-day as well as save for the future and maintain good health. Latinos’ disproportionate concentration in low-wage jobs offering little to no benefits, constrains their ability to achieve economic security and build wealth for future generations.

In 2017, the Latino unemployment rate was 5.1%, the first return to pre-recession levels in a decade but still higher than the national average of 3.9%. Reaching pre-recession unemployment represents an important milestone for Latinos and highlights the success of both the Latino community’s tenacity as well as policy investments like the 2008 Economic Stimulus Act and the 2009 American Recovery and Reinvestment Act (ARRA) aimed at bolstering employment and economic security during the depths of the recession.*

* The 2008 Economic Stimulus Act was passed by Congress in response to growing concerns over a worsening economy and evolving housing crisis. The law provided for \$168 billion to be used for tax rebates for low- and middle-income Americans and tax incentives directed at businesses in order to create more liquidity, keep employers from cutting jobs, and promote normal economic spending activity. The law also created policies to respond to the subprime lending crisis by increasing the ability of the Federal Housing Administration and government-sponsored enterprises to purchase mortgages in an attempt to stabilize the housing market. The 2009 American Recovery and Reinvestment Act (ARRA) was an \$787 billion economic stimulus package passed by Congress to address increasing job loss and financial insecurity in the midst of the Great Recession. ARRA was intended to help preserve American jobs and promote job growth and help the most financially vulnerable and those hardest hit by recession by investing in tax relief, health care, infrastructure, education, and environmental protection. ARRA also invested substantial funds in financial support to state and local governments to protect against benefit cuts to critical programs at the state level.

In the aftermath of the recession, Latino full-time employment declined, while the rate of Latinos working part-time but preferring full-time work nearly tripled.⁵ The percentage of Latinos who worked full-time in 2017 (81.0%) was lower than the percentage who were working full-time in 2007 (84.0%). Accordingly, the share of Latinos working part time in 2017 (19.0%) is higher than the pre-recession share (16.0%). Between 2007 and 2017 there was a 67.7% increase in the number of Latinos working part-time but wanting full-time work.⁶ Full-time work is an important indicator of job quality as full-time jobs are more likely to provide health and retirement benefits than part-time employment. One avenue that many people, including Latinos have turned to in an effort to help make ends meet is contingent and gig work.

INCOME

The economic recovery from the recession has ushered in an era of low unemployment but has failed to produce wage growth for workers, even as most major corporations have rebounded. Despite high labor force participation and low unemployment, many Latino families continue to struggle to cover basic necessities. One contributing factor is insufficient wage growth, an important indicator of job quality and a key factor in economic security. Over the last decade, the average U.S. worker has seen wage growth eclipsed by rising inflation. Top earners however, have seen more substantial wage growth since the recession, with a higher rate of wage growth than their lower wage counterparts. Once inflation has been factored in to wage growth, the real average wage and purchasing power for U.S. workers is the same today as it was in 1978, even as productivity has increased by more than 70% in the same period.^{7 8}

One positive factor mitigating wage stagnation for low-income working families are tax credits like the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and American Opportunity Tax Credit (AOTC). The expansion of these tax credits to support low-income working families was one of ARRA's central features. These tax credits lowered families' tax liabilities and provided extra financial support for low-income families with low tax liabilities in the form of refundable credits. The expanded tax credits, made permanent in 2015, benefit about five million Latino working families each year.⁹

Latino families were more vulnerable to the financial shocks brought on by the Great Recession than others because of historic gaps in income and wealth as well as occupational and housing segregation. In fact, the gap between Latino and White median household income widened in the decade between 2007 and 2017. Latino Median family income increased by just over \$13,500 from 2007 (\$46,486) to 2017 (\$60,000), in 2017 dollars. Between 2007 and 2017 Latino household income increased by 29% and White household income increased by 25%. The lowest point for Latino family income over the ten-year period was in 2010 and 2011 when family income was just \$46,000. Increases in Latino household income are driven by both modest increases in hourly rates as well as Latinos taking on more work to supplement their income. In the face of ever rising living costs, increases in Latino income is likely higher because Latinos are working more hours or jobs to get by rather than earning higher wages alone. Over the decade,

Latino households, similar to Whites, made significant gains on par with their peers, but more recently year over year gains for Whites have surpassed Latinos and widened disparities.

WEALTH

The recession had a devastating effect on Latino wealth—Latinos saw a 42% decline in wealth between 2007 and 2013 alone. Between 2013 and 2016, Latino median family wealth began to rebound, reaching \$20,600—But in 2016, Latino wealth was still 16% less than it had been in 2007. The painful and lingering effects of the recession on Latino wealth are plainly visible as Latinos continue to face challenges to reach pre-recession levels of wealth. Different from income, wealth is an important indicator of long-term financial security. In pre-recession years, Latino wealth was closely tied to homeownership—as the housing market crashed, so did Latino wealth. Yet, despite post-recession growth in the housing market, Latino wealth has not recovered as many Latinos still confront foreclosure, debt, and limited opportunities for affordable homeownership.¹⁰ Other factors that contribute to wealth building, including retirement plan ownership struggled, while debt has increased. The residual effects of the economic collapse Latinos experienced because of the recession have yet to dissipate.

Far from reflecting individual or families' hard work, wealth accumulation is and can be influenced by public policy. For low income communities of color, wealth creation has often occurred in spite of policy.¹¹ Policies that permit disparities in incomes, mortgage lending, health care and retirement access all contribute to wealth gaps. Most recently, the Tax Cuts and Jobs Act, created to benefit higher income households, provides a massive tax cut for the wealthiest Americans while providing little help to working families. In 2019, an estimated 89% of Latino taxpayers (more than 28.1 million) will receive an average tax cut of \$316 compared to the average tax cut of \$55,190 for the richest 1% of Americans, further deepening the growing racial wealth gap.¹²

HOUSING

Homeownership has long been a cornerstone of the American dream for countless Americans, including Latinos, who value homeownership as a path to the middle class. The high priority that Latinos place on homeownership is evidenced by the fact that Latinos are more likely than other groups to have most of their assets invested in their homes.¹³ For this reason, the housing crisis hit Latinos especially hard: Leading up to the financial crisis Latino families were disproportionately targeted by high-cost lenders and mortgage brokers whose predatory products led to a wave of foreclosures. The lasting impact of the recession on Latinos is clearly seen in the stalled Latino homeownership rate, which has yet to reach prerecession highs. The Latino homeownership rate reached a high of nearly half (50%) in the pre-recession years (2005-2007) which capped-off a steady increase since 2000. Latino homeownership hit its lowest point over the decade in 2014 at 45% and has increased by only 2.2 percentage points in since (47.2%). In 2007, the White homeownership rate was 72.2%, 22.3 percentage points higher than

Latino homeownership. Even as both Whites and Latinos have seen declines in homeownership, a vast gap remains. Latinos continue to experience an uneven recovery in the housing market.

Leading up to the recession, widespread predatory lending practices and a lack of financial regulation in tandem with an expansion of mortgages issued to borrowers with a wider range of credit profiles resulted in a dramatically high number of mortgage applicants. Latinos with good credit were disproportionately steered toward subprime loans, and compared with Whites, Latino borrowers were offered credit on terms that were only financially sustainable in “hot” housing markets with fast rising home prices.¹⁴ In the wake of the housing crisis, increased regulation halted the spread of unchecked predatory lending, tightened lending standards, and led to a decline in home values (steep in some states and neighborhoods). These factors contributed to rising rates of mortgage denials. Since the recession, standards have shifted, as have the rates of mortgage denials and the pool of aspiring mortgage applicants. Latino mortgage denials declined by 69% between 2007 and 2017. Mortgage denials were highest in 2007 at 636,609 and dropped to 164,300 in 2010, before slowly rising again to 194,570 in 2017. Despite improvement, Latinos continue to run into credit and affordability barriers, exacerbating disparities in mortgage denial rates. During this 10-year period, Whites saw similarly significant declines in mortgage denials (61%) yet had consistently lower rates of mortgage denials than Latinos and continued to see lower rates in the post-recession period.

Reflecting the steep decline in Latino homeownership since the recession, the number of Latinos renting homes has increased. In 2007, Latinos who rented and owned homes were evenly split at 50%. Since the recession however, the rate of Latinos renting has increased by nearly three percentage points to 52.8% in 2017. At its peak, the rate of Latinos renting was 55% in 2014, indicating that Latinos were still feeling the effects of the housing crisis well into the recovery. Even as the rate of Latinos renting has continued to decline since 2014, in 2017 more than eight million Latino households in the United States were renting.¹⁵ For millions of Latinos renting, whose dream of homeownership remains out of reach, affordable housing issues are a growing concern—especially within urban centers around the country.

Rising wealth inequality along racial lines weakens the economic mobility potential of current and future generations of Latinos. Building wealth is important for several reasons, but especially for its protective effects; owning financial assets makes it easier for families to weather economic downturns and periods of job loss, all while ensuring the success of the next generation. In 2016 Latino wealth was 16% lower than it was in 2007 (\$20,600 compared to \$24,400). The low point for Latino wealth was 2013, when Latinos had only \$14,200 in wealth. From 2007 to 2013, Latinos lost 42% of their wealth.

CONCLUSION

The fragility of Latino financial security and the nation’s increasing reliance on Latino workers and consumers present a challenging outlook for the nation’s economy. However, recent policies aimed at economic growth will not achieve this goal because they leave out those who most need assistance. Most recently, Republican leadership in Congress and the Trump administration missed an opportunity to fuel economic mobility for working people. Instead, Congress passed

and President Trump signed, the Tax Cuts and Jobs Act (TCJA) which is already giving massive financial windfalls to the wealthiest Americans and largest corporations but has done little to nothing for middle-class and working families. For example, the TCJA left millions of workers without the full benefits of the expanded CTC, denied the CTC to nearly a million children without a social security number, repealed the individual mandate and made no improvements to the EITC. The massive tax cuts in the law will add \$1.5 trillion—at a minimum—to the national deficit, which has led some members of Congress to call for steeper cuts to federal programs that help working families make ends meet.

As economists begin to warn of a looming economic slowdown, taking stock of what worked and what failed to live up to its promise can enable us to better respond to economic downturns in the future. The key takeaway is clear: Latinos demonstrate that where policymakers create targeted policies and programs that help working Americans succeed, Latinos succeed.

We trust this statement for the record has provided key insight into the economic condition of Latino households following a decade of uneven economic recovery for Americans households. We look forward to continuing to work towards policy solutions that will achieve economic justice for Latinos and ensure continued recovery and growth for our nation. Please feel free to contact Stephanie Román (sroman@unidosus.org) for any questions raised by this statement.

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