



## MINNESOTA BUDGET PROJECT

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# Recession policy responses that do not center Minnesotans of color likely to widen racial disparities

Nationwide, the novel coronavirus has inflicted financial and physical wounds on communities of color, laying bare underlying fissures present since our state and country's founding. But this is a story that is unfortunately familiar to us. Many of these wounds were exposed and amplified during the Great Recession just a decade ago, from which many communities of color never recovered. Policy responses to the Great Recession were insufficient in magnitude and length to mitigate racial disparities. In fact, racial disparities in income, housing security, and employment were made worse by the Great Recession.

To avoid repeating the shortcomings of those responses, policymakers at all levels must prioritize racial equity in their responses to the economic downturn and COVID pandemic, to ensure all our communities, whether Black, Brown, or white, can thrive and are resilient in weathering this crisis.

### **Racial gaps in income and wealth widened in the Great Recession**

In the Great Recession of the late 2000s, Minnesotans of color suffered disproportionately from income and wealth losses from which they have only marginally recovered.

Economic downturns are particularly harmful to the financial well-being of households of color. During the Great Recession, unemployment peaked at nearly 17 percent for Black Americans and 13 percent for Latinx Americans, compared to 9 percent for white Americans.<sup>1</sup> Economic research has shown unemployment during recessions can have lifelong negative effects on earnings and health outcomes.<sup>2</sup> Yet even as the economy recovered, the wide racial gaps in employment that had widened during the recession persisted. In 2018, Black Minnesotans experienced an unemployment rate more than twice as high as that of white Minnesotans.<sup>3</sup> This higher rate is likely due to a number of factors, including discrimination in the labor market.

Not only were the incomes for people of color harder hit in the Great Recession, they also took longer to recover. In 2007, just before the onset of the Great Recession, median household incomes (adjusted for inflation) for Minnesotans of color peaked at about \$48,000, and did not reach this amount again until 2017. In contrast, by 2018, household incomes of white Minnesotans were over \$71,000 – higher than their pre-recession peak of \$69,000 – and further expanding the income gap between white Minnesotans and Minnesotans of color.<sup>4</sup>

Homeownership is a major avenue for wealth-building in the U.S., and here too the Great Recession took a greater toll on Minnesotans of color and widened the gap between people of color and white Minnesotans. Homeownership rates for Minnesotans of color peaked at almost 47 percent in 2008, but dropped sharply through the recession, and was still several percentage points lower at 41 percent in 2018.<sup>5</sup> Meanwhile, homeownership rates declined only minimally for white Minnesotans in the same time period, from 78 percent to 77 percent.<sup>6</sup> Systemic denial of prime mortgage offers to people of color, even for those with higher

incomes, meant their costly subprime loans made them more vulnerable to losing their homes in the foreclosure crisis, likely contributing to this widening homeownership gap.<sup>7</sup>

### **Policy responses to today's economic downturn must intentionally focus on equity**

Disparities in economic opportunity and security have roots from long before the Great Recession, and forms of discrimination and bias are ongoing. But an insufficient policy response allowed these disparities to deepen. For example, federal efforts at stemming foreclosures during the Great Recession were not designed to make monthly housing payments more affordable, and therefore often failed to help homeowners avoid losing their homes. And there were inadequate federal actions in the last recession aimed at supporting businesses to retain employees on the payroll, such as the small businesses that people of color are more likely to own.<sup>8</sup>

The COVID-19 pandemic and resulting economic disruption are hitting people of color harder. People of color are more likely to be out of work as a result of the pandemic because of their overrepresentation in industries like personal care services and food services, and have fewer resources in the form of savings and assets to shelter in place.<sup>9</sup> People of color are also more likely to risk catching COVID-19 at work because they are more likely to work as grocery store and hospital employees.<sup>10</sup>

Persistent gaps in economic opportunity for families of color means they are also more likely to be at risk of housing instability; having a secure and affordable place to live has been critical for people to be able to take the steps needed to keep themselves and their families healthy, and to limit the spread and impact of COVID-19.

Policymakers must acknowledge how the pandemic is having disproportionate impact on our communities of color, and must design and implement policy responses that effectively reach these communities. Two examples include expanding Unemployment Insurance and providing targeted support for businesses owned by people of color.

### **Extend Unemployment Insurance (UI) benefits**

Unemployment Insurance is an important tool that replaces a portion of people's wages so that they can meet their everyday needs during a temporary job loss. The state and the nation are seeing record unemployment claims, with as much as 15 percent of the U.S. population unemployed at the beginning of the COVID recession, and unemployment higher among workers of color. Important policy steps have been taken to support the purchasing power of workers currently off the job, including expanding UI eligibility to the self-employed and other workers normally left out, and providing an additional \$600 a week UI benefit, recognizing the severe lack of jobs in many industries.<sup>11</sup> Federal policymakers should continue to provide expanded UI as long as unemployment remains high.

### **Provide targeted support for businesses owned by people of color**

To address the current crisis, the federal government has enacted forgivable loans to businesses to retain their workers through the Paycheck Protection Program (PPP). However, it's clear that these supports are failing some communities. As policymakers seek to support small businesses, they should provide targeted funding to institutions providing fairer lending opportunities and with expertise serving Black, Indigenous, and people of color (BIPOC)-owned businesses.

The PPP could provide essential supports for people of color because it provides money to small businesses, which people of color are more likely to own. But Black Americans have faced barriers in accessing support through the PPP, similar to the barriers to credit that they have faced through generations of substandard financial services and products. A Goldman Sachs survey of small business owners found that Black business owners were less likely to have applied for PPP funds, and those that applied were less likely to be approved: only 40 percent of Black business owners were approved for PPP loans, compared to 52 percent of all small business owners surveyed.<sup>12</sup> Similarly, Latinx, Native, and Asian Americans experienced high barriers to PPP approval; a likely cause is that a history of structural barriers has denied these communities banking relationships, whereas white Americans with longer-standing banking relationships enjoyed quicker access to funds.<sup>13</sup> Lower approval rates mean Minnesotans of color are less likely to get help to maintain their businesses, and more likely to lose a key source of wealth and income during this economic crisis, further widening racial disparities.

As states and the nation work to recover from the economic and health crises, it is critical that policymakers enact policies that ensure a resilient response to this and future economic crises for all Minnesotans. In addition to the policies outlined above, such responses should also include ensuring everyone has access to affordable health care coverage, and expanding food assistance, housing assistance, and other supports so that everyday folks can meet their basic needs. As we collectively face one of the greatest health and economic challenges in recent history, it is imperative to support all of our communities and work toward a more equitable future.

*By Abimael Chavez-Hernandez*

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<sup>1</sup> Bureau of Labor Statistics, [Great Recession, great recovery? Trends from the Current Population Survey](#), April 2018.

<sup>2</sup> Brookings Institute, [Unemployment and Earnings Losses: A Look at Long-Term Impacts of the Great Recession on American Workers](#), November 2011.

<sup>3</sup> Minnesota Department of Employment and Economic Development, [Alternative Measures of Unemployment Using Twelve Month Moving Averages](#), May 2020.

<sup>4</sup> Minnesota Compass, [Median household income by race of the householder](#), 2018.

<sup>5</sup> Minnesota Compass, [Homeownership rate by race](#), 2018.

<sup>6</sup> Minnesota Compass, [Homeownership rate by race](#), 2018.

<sup>7</sup> Washington Center for Equitable Growth, [How not to help distressed mortgage borrowers: Evidence from the Great Recession in the United States](#), October 2018.

<sup>8</sup> U.S. Department of the Treasury, [Treasury Issues New Small Business Program Evaluations](#), October 2016.

<sup>9</sup> Center for American Progress, [The Economic Fallout of the Coronavirus for People of Color](#), April 2020.

<sup>10</sup> Urban Institute, [How COVID-19 is Affecting Black and Latino Families' Employment and Financial Well-Being](#), May 2020.

<sup>11</sup> Economic Policy Institute, [The extra \\$600 in unemployment insurance has been the best response yet to the economic shock of the coronavirus and should be extended](#), May 2020.

<sup>12</sup> Goldman Sachs, [Survey: US Small Business Owners Need More Funding and Immediate Legislative Action](#), April 2020.

<sup>13</sup> Center for Responsible Lending, [The Paycheck Protection Program Continues to be Disadvantageous to Smaller Businesses, Especially Businesses Owned by People of Color and the Self-Employed](#), May 2020.