

Testimony before the Committee on Banking, Housing, and Urban Affairs

United States Senate  
The Dignity of Work  
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Thank you, Chairman and Ranking Member, for the opportunity to testify today.

What I have learned in nearly two decades of economic policy advocacy is that racism in policymaking—stereotyping, indifference to claims of discrimination, insufficient commitment to equitable policymaking—leads to bad economic decision-making. It's been making our economy worse, in ways that don't only disadvantage people of color. It turns out it's not a zero sum. Racism has costs for white people, too. And racial equity, designing policies in ways that make them truly universal and not just one-size-fits-all, will be good for our entire economy.

In *The Sum of Us*, I find racism creating distortions in a range of policy areas including public investment and workers' rights. In my limited time today, however, I'll focus on one of the most devastating recent illustrations of racism costing everyone: the financial crisis.

After decades of government policy and business practices preventing Black communities from accessing the same subsidized mortgage market that fostered white wealth, the 1990s and 2000s saw communities of color experience a wealth-stripping phenomenon known as reverse redlining.

In the wake of Washington's deregulatory zeal, lenders and brokers were free to target hard-working families in neighborhoods of color with predatory financial products, particularly mortgages with features such as exploding adjustable rates, deceptive teaser rates, and balloon payments. These neighborhoods became the canary in the coal mine. As you know, Mr. Chairman, the majority-Black zip code in which you live was the community with the highest number of foreclosures in 2007. I visited your neighborhood back then and met a homeowner named Glenn who was near foreclosure.

The common misperception then and still today is that homeowners like Glenn were risky borrowers buying properties they couldn't afford. Policymakers blinded by this stereotype refused advocates' calls to reign in predatory lending before it was too late.

But that's all it was—a stereotype: a *Wall Street Journal* analysis from 2007 showed that the majority of subprime loan holders had prime credit<sup>1</sup> and could have qualified for more affordable, safer loans. If it wasn't bad credit that made one ripe for a subprime loan, what was it?

Households of color were almost two and a half times as likely as white households to end up with riskier loans.<sup>ii</sup> And despite the excuse that subprime loans were necessary to expand homeownership, the vast majority of loans went to existing homeowners.<sup>iii</sup>

After the crash, most of the nation's big lenders from Wells Fargo to Countrywide would be fined for racial discrimination. But that realization would come too late. These loans spread out past the confines of black and brown neighborhoods like Glenn's and into the wider, whiter mortgage market.

The crisis that ensued—the crisis that my colleagues and I saw coming—would go on to cost us all: \$9 trillion in wealth lost<sup>iv</sup>, 8 million jobs vanished<sup>v</sup>, a homeownership rate that still hasn't recovered.

The resulting loss of wealth stands as a grave and lasting blight on the future of our diverse middle class.<sup>vi</sup> The racial wealth gap—Black families' having 15 cents on the dollar of the average white family<sup>vii</sup>—is the result of public policy, past and present. And to ward off any further stereotyping about Black work ethic, I'll add that white high school dropouts have higher household wealth than Black college graduates<sup>viii</sup>. It's about history showing up in your wallet.

But it's also not a zero sum. The racial wealth gap is costing our entire economy; closing it would make our economy \$1.5 trillion larger in 2028, according to McKinsey & Company projections<sup>ix</sup>. Looking beyond wealth, the racial economic divides in wages, education, housing and investment have cost US GDP \$16 trillion over the last 20 years<sup>x</sup>. Adding in gender, the Federal Reserve Bank of San Francisco calculated that the gap between white men and everybody else cost our economy \$71 trillion over the past 30 years.<sup>xi</sup>

We can do better. The new Administration and Congress have an historic opportunity to rewrite the rules to restore the dignity of work and redress the injustices in our wealth-building policies now. We can't afford to wait.

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<sup>i</sup> Rick Brooks and Ruth Simon, "Subprime Debacle Traps Even Very Credit-Worthy; As Housing Boomed, Industry Pushed Loans to a Broader Market," *Wall Street Journal*, December 3, 2007, <https://www.wsj.com/articles/SB119662974358911035>

<sup>ii</sup> Jacob W. Faber, "Racial Dynamics of Subprime Mortgage Lending at the Peak," *Housing Policy Debate*, 23:2, 328-349 and Badger, Emily, "The Dramatic Racial Bias of Subprime Lending During the Housing Boom", *Bloomberg CityLab*, August 16, 2013. <https://www.bloomberg.com/news/articles/2013-08-16/the-dramatic-racial-bias-of-subprime-lending-during-the-housing-boom> ("In 2006, at the height of the boom, black and Hispanic families making more than \$200,000 a year were more likely on average to be given a subprime loan than a white family making less than \$30,000 a year.")

<sup>iii</sup> Justin P. Steil, Len Albright, Jacob S. Rugh, and Douglas S. Massey, "The Social Structure of Mortgage Discrimination." *Housing Studies* 33, no. 5 (2018): 759–76, <https://doi.org/10.1080/02673037.2017.1390076>

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<sup>iv</sup> William R. Emmons, Bryan J. Noeth, “Household Financial Stability: Who Suffered the Most from the Crisis?,” Federal Reserve Bank of St. Louis, July 2012, <https://www.stlouisfed.org/publications/regional-economist/july-2012/household-financial-stability--who-suffered-the-most-from-the-crisis>

<sup>v</sup> Christopher J. Goodman and Steven M. Mance, “Employment loss and the 2007–09 recession: an overview,” Monthly Labor Review, Bureau of Labor Statistics, April 2011, <https://www.bls.gov/opub/mlr/2011/04/art1full.pdf>

<sup>vi</sup> Sarah Burd-Sharps and Rebecca Rasch. “Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations,” Social Science Research Council, June 2015, [https://www.aclu.org/sites/default/files/field\\_document/discrimlend\\_final.pdf](https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf)

<sup>vii</sup> Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne w. Hsu. “Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances”, FEDS Notes, Board of Governors of the Federal Reserve System, September 2020, <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>

<sup>viii</sup> Darrick Hamilton, William Darity, Jr., Anne E. Price, Vishnu Sridharan, Rebecca Tippett, “Umbrellas Don’t Make It Rain: Why Studying and Working Hard Isn’t Enough for Black Americans,” Insight Center for Community Economic Development, 2015, [http://www.insightcced.org/wp-content/uploads/2015/08/Umbrellas\\_Dont\\_Make\\_It\\_Rain\\_Final.pdf](http://www.insightcced.org/wp-content/uploads/2015/08/Umbrellas_Dont_Make_It_Rain_Final.pdf)

<sup>ix</sup> Nick Noel, Jason Wright, Duwain Pinder, Shelley Stewart III, “The economic impact of closing the racial wealth gap,” McKinsey and Company, August 13, 2019, <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap#>

<sup>x</sup> Dana M. Peterson and Catherine L. Mann, “Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.” Citi GPS: Global Perspectives & Solutions, September 2020, <https://www.citivelocity.com/citigps/closing-the-racial-inequality-gaps/>

<sup>xi</sup> Shelby R. Buckman, Laura Y. Choi, Mary C. Daly, Lily M. Seitelman, “The Economic Gains from Equity,” Federal Reserve Bank of San Francisco, January 19, 2021, <https://www.frbsf.org/our-district/about/sf-fed-blog/economic-gains-from-equity/>