How Inequality Works

Public Policy Trends Driving Inequality Since World War II

by Josh Anderson

Following the defeat of the Axis powers in World War II, three public policy trends intensified the inequality emerging from education, health care, housing and other sectors of American life. Taken together, the trends—the rise of urban racial segregation, the ascendancy of business over labor in public policy, and the fraying of the nation's social safety net—made it increasingly difficult for low-income families, especially families of color, to get the economic traction they needed to be upwardly mobile in the nation's cities.

The Urban Response to the Great Migration

Few events in U.S. history have had a greater effect on the nation's cities than the Great Migration. From the 1910s through the 1970s, approximately six million Black people left the American South to escape the oppression of Jim Crow laws and pursue educational and economic opportunities.

There were two waves of the Great Migration. The first, extending from roughly 1910 to 1940, saw Black Southerners relocate to cities in the North and Midwest such as New York, Chicago, Detroit, and Pittsburgh. The second, larger wave coincided with the expansion of the defense industry in WWII. The proliferation of jobs attracted migrants to cities in the West such as Oakland, Los Angeles, San Francisco, Portland, and Seattle, and tripled the population of Black Americans living in the North and Midwest.[1]

The Great Migration presented destination cities with a choice: acceptance and integration or resistance and segregation. They mostly chose the latter. From roughly 1916 to 1940, cities across the country responded to the first wave by segregating migrants from southern farms in Black urban neighborhoods. In Chicago this was the "Black Belt," a 5-mile long, half-mile wide stretch of land along the South Side. Los Angeles also had a "Black Belt" situated along the Second Avenue corridor, while Detroit had the "Black Bottom" and Tulsa had Greenwood. To achieve their goals of controlling where Blacks lived, white city governments created restrictive racial covenants that stipulated homes in many communities could not be sold or rented to Black families. Frequently, they resorted to racial violence to police boundaries.[2]

After WWII, as the much larger second wave of the Great Migration rolled across the country, the U.S. Supreme Court ruled restrictive covenants unconstitutional, so white city leaders found new ways to effectuate segregation. From the 1940s through the 1970s, cities used redlining—the practice of systematically withholding mortgages from residents of neighborhoods deemed "hazardous" because of their racial composition—to restrict the flow of home credit to Black communities while employing a suite of policies known as urban renewal to enforce the color line.[3]

Urban renewal, originally known as "slum clearance," included identifying and razing areas of blight. Often, these were sections of Black communities deemed too close to business districts or to white areas targeted for expansion or redevelopment. The work frequently included the construction of public housing, particularly the development of the first high rise public housing complexes, as a way of increasing housing capacity in already crowded Black neighborhoods. Urban renewal also included the strategic construction of new highways to box in Black neighborhoods and fortify their boundaries. As a result, cities became more strongly race segregated by the end of the 1980s than they were in 1940.[4]

Crucially, these policies followed federal models. Redlining emerged from federal lending guidelines handed down by the Home Owners' Loan Corporation (HOLC), which, as part of the New Deal effort to increase homeownership, provided loans to certain homeowners unable to pay their mortgages. The HOLC also classified neighborhoods on their perceived risks to lenders, using the designations "best," "still desirable," "declining," or "hazardous." Neighborhoods with Black residents were deemed risky for investors and were outlined in red on the HOLC's maps (hence "redlining"). Sometimes the presence of a single Black family was sufficient for the HOLC to assign that neighborhood the lowest rating.[5]

The urban renewal playbook drew on the federal Housing Acts of 1949 and 1954, which redefined slum clearance as urban renewal and gave cities broader authority to carry out the projects and funding to do the work. The Eisenhower administration's federal highways program funded many of the new urban transportation infrastructure that further isolated Black communities. The extensive federal role in the post-war isolation of urban Black communities explains why the pattern of segregation is so similar across American cities, from Chicago and Detroit to Memphis, Minneapolis, and Atlanta.[6]

"White flight"—government-supported migration of white families to suburbs—intensified the plight of urban centers between 1940 and 1980. As part of the New Deal in the 1930s, white families gained access to government-backed loans: low-interest, long-term mortgages with low down payments guaranteed by the Federal Housing Authority (FHA) that enabled millions of white families to purchase homes on the outskirts of urban centers. Black families were excluded from these benefits through a combination of practices: residential steering by realtors who would not show Black buyers properties in white areas; unofficial restrictive covenants such as illegal handshake agreements among homeowner associations that they wouldn't sell to Black buyers; and redlining.

Access to home credit for white families was further turbocharged in the 1940s with the passage of the GI Bill. The bill offered Veterans' Administration-backed loans administered by private lenders, enabling returning veterans to purchase homes in the newly built suburbs with no down payment and low-interest mortgages. Black service members were largely excluded from this benefit.

Developers, too, could receive large subsidies through FHA credit to build suburban subdivisions—subdivisions that were officially race segregated until 1948 and remained unofficially "whites only" for at least 20 more years. New highway construction linked new and growing suburbs to central cities, while redlining and residential steering kept Black families out of the new housing developments.[7]

By 1980, half of the nation's greater metropolitan population lived in suburbs. By 2010, that figure exceeded two-thirds.[8] An influential 2018 study by University of California, Merced political scientist Jessica Trounstine shows how cities and suburbs have used zoning laws to essentially stop time, preserving the economic and racial character of metropolitan areas as it was in 1980. While on paper race-neutral, zoning laws—which dictate minimum home lot size, maximum lot coverage, and where and whether multi-family housing can be developed, among other restrictions—in practice are often used to prevent development of affordable housing outside of existing low- and moderate-income areas and to ensure that only expensive homes can be built in affluent communities. The result, as Trounstine points out, is the increasing economic homogeneity of rich, middle class, and low-income communities.

This trend has proved challenging for city council members and other local politicians. They're strongly incentivized to please voters by increasing property values, keeping taxes low, and using public funds for community benefit. The concerns of other communities, invisible by design, are not top of list.[9]

The Ascendancy of Business Over Labor

Since 1980, U.S. labor, housing, banking, and other markets have turned decisively against low- and moderate-income households. This timing follows an unprecedented political mobilization of the business community in the 1970s, starting with a 1971 memo from future Supreme Court justice Lewis Powell to the U.S. Chamber of Commerce calling for business interests to become more serious about wielding political influence. Over the next 15 years, powerful organizations including the Business Roundtable and the Heritage Foundation were formed, and, after years of relative parity, political contributions by business pulled far ahead of those by labor.

Major business policy and enforcement wins followed. Tax cuts in the 1980s and the 2000s established more favorable treatment of capital gains, reduced corporate income tax rates, and reduced the top marginal tax rate on individuals. At the same time, worker protections and benefits eroded in the wake of setbacks to unions, including the expansion of "right to work" laws in many states, the appointment of anti-labor members of the National Labor Relations Board, and the defeat of "card check" procedures that make it easier to organize workplaces. The early 1980s also kicked off a 25-year period of stagnation in the minimum wage, as well as a flurry of banking deregulation that removed barriers to banking mergers and ushered in a period of rapid bank consolidation, ultimately leading to the near extinction of the regional bank.

The result has led to more concentrated, less competitive, and less fair markets over the past several decades. The concentration of jobs in fewer, larger corporations combined with weakened worker protections has resulted in multiple extended periods of stagnant or declining real wages for low-, moderate-, and middle-income workers and astronomical growth in the income of top managers. Banking deregulation led to the shuttering of many regional banks and the concentration of commercial banking in a small number of national institutions that have used transaction fees and other practices to effectively price low-income households out of traditional banking.

A similar pattern has played out in many consumer markets, including air travel, telecommunications, and healthcare. Americans pay more on average for services in these industries—sometimes substantially more—than consumers in peer countries. The economist Thomas Philippon calls this period the "great reversal"—a turn away from competitive markets open to new players. For low- and moderate-income households, the result has been lower wages, higher costs, and severely strained families.[10]

An Inadequate Safety Net

During the years between the First and Second World Wars, America under President Franklin Delano Roosevelt was an international leader in the development of the social safety net—the collection of policies and programs created to safely "catch" Americans in the event of individual or society-level economic shocks, preventing a fall into the destitution so common during the Great Depression. Yet by the end of the 20th Century, America's safety net had become substantially smaller than those of other advanced democracies. In their famous 2001 paper, "Why Doesn't the United States Have a European-Style Welfare State?" economists Alberto

Alesina, Edward Glaeser, and Bruce Sacerdote argue that American political institutions and American race relations are to blame.[11]

Is this so? To begin to answer this question, it helps to understand that even the period of ambitious development of the social state under Presidents Roosevelt and Truman comes with a significant caveat. The Social Security Act of 1935, for example, launched Social Security, unemployment insurance, aid for poor families with dependent children, and grants to states to support public health and child welfare. FDR created the Home Owners' Loan Corporation and the Federal Housing Authority to provide housing assistance to low- and moderate-income families, and his administration pursued public works and job creation programs to help struggling families get back on solid ground.

Yet as the political scientist and historian Ira Katznelson points out, Black Americans were deliberately cut from the safety net during its first decades. The main elements of the Social Security Act listed two industry exclusions: agriculture and domestic labor. Workers in these job categories, which included more than two-thirds of Black Americans, were ineligible for aid. And because Social Security was administered through state offices, including throughout the segregated South, for the minority of Black households that still qualified under the exclusions, aid depended on the attitudes of local administrators. In a further concession to the Southern Democrats whom FDR needed to get his New Deal legislation through Congress, the major New Deal public works and job creation programs were segregated, with Black workers steered into lower paying jobs and excluded from all supervisory roles.

The pinnacle of U.S. social state leadership was the Servicemen's Readjustment Act, commonly known as the GI Bill, signed into law by FDR in 1944. This "model welfare program" represented 15 percent of the federal budget by 1948 and continued as a significant expenditure until the early 1970s. "With the help of the GI Bill," Katznelson explains, "millions bought homes, attended college, started business ventures, and found jobs commensurate with their skills." With fully eight of 10 American men born in the 1920s eligible for its benefits, the GI Bill "created the middle class," Katznelson argues.

And yet—this "model program" operated through the systematic exclusion of Black Americans. Returning Black servicemen attempting to access the bill's benefits faced barriers at every turn, from discriminatory local administrators in southern states to exclusion from admission to most colleges and universities and redlining practices that crushed the promise of home ownership. As a consequence, only a small fraction of Black veterans were able to participate in this generationally significant program.[12]

The role of American political institutions and racial attitudes in creating, and destroying, the U.S. safety net grows more complicated from the 1960s through the 1980s. The safety net widened in that era. Industry exclusions were dropped. Benefits for dependent children of poor families expanded. Medicare and Medicaid were created, as was Supplemental Security Income for disabled persons. Food assistance (now known as SNAP) and Head Start were launched.

Yet despite these expansions, the U.S. failed to keep up with most other advanced democracies—its safety net more fragmented, more contingent, less comprehensive, and ultimately less generous than those of other industrialized nations.[13] Political scientist Martin Gilens has argued that the safety net is simply not valued in the U.S. as it is abroad, for reasons related to race. Put bluntly, he concludes that Americans hate welfare because they associate welfare recipients with negative Black stereotypes—despite the fact that until the program's expansion, Black Americans were systematically excluded from the program and the vast majority of welfare recipients were white.[14] The stereotypes emerged as the product of intentional and consistent coded political framing—including President Ronald Reagan's infamous "welfare queen" characterization—that shifted public perception. As soon as Black Americans became eligible for welfare, in other words, the welfare recipient as cultural construct transformed from deserving to undeserving.

The perceptual shift was most pronounced among the newly suburbanized white middle class. Although the GI Bill had contributed profoundly to white prosperity, many white Americans in the 1970s and 1980s embraced the narrative that merit alone had delivered them to the suburbs. This new ethos of "color-blind individualism"—that is, that people should help themselves and not rely on the government to succeed—drove a decades-long swell of support for conservative social policy.[15]

Welfare reform during the Clinton era pared back cash benefits and increased work-based payments, while the Affordable Care Act of 2010 expanded Medicaid, increased health insurance options, and gave patients greater protections. For decades, access to SNAP benefits continued to expand. Even so, as of 2024 the U.S. safety net remained notably weaker than those of peer countries. More recently, the passage of President Trump's "Big Beautiful Bill" has brought steep cuts to Medicaid, estimated to result in loss of coverage for 10 to 12 million Americans, as well as reductions in SNAP access through increased work requirements and shifting of cost burdens to the states. Compared to other developed nations, to fall on hard times in the U.S. is to fall farther, faster.[16]

These three policy trends help explain why it is so hard for Americans from poor or near-poor beginnings to rise into the middle class. The turn away from competitive markets has contributed significantly to the stagnation of wages for low- and moderate-income workers and to the affordability crisis so many American families face today. As a result of the relative weakness of the U.S. safety net, common setbacks such as job-loss or health challenges can quickly escalate to eviction or other crises for low-income families, making it hard to regain economic stability, let alone achieve mobility.

And the segregation of urban and suburban communities by race and class concentrates the effects of poverty, job insecurity, and other social harms among poor and working-class communities, while more affluent people are shielded—sometimes literally by the presence of overpasses and other physical barriers—from the consequences of these policies. In each case, the interests of the poor and working class lost out to the interests of wealthy individuals and businesses.

ENDNOTES

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3 The term "redlining" derives from the color-coded maps the government used to determine eligibility for federally insured mortgages during New Deal. See https://www.nytimes.com/2021/08/17/realestate/what-is-redlining.html?unlocked_article_code=1.s08.v_rH.0x3PIUA-06M1&smid=url-share

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