U.S. DEPARTMENT OF THE TREASURY

THE AMERICAN RESCUE PLAN: CENTERING RACIAL EQUITY IN POLICYMAKING

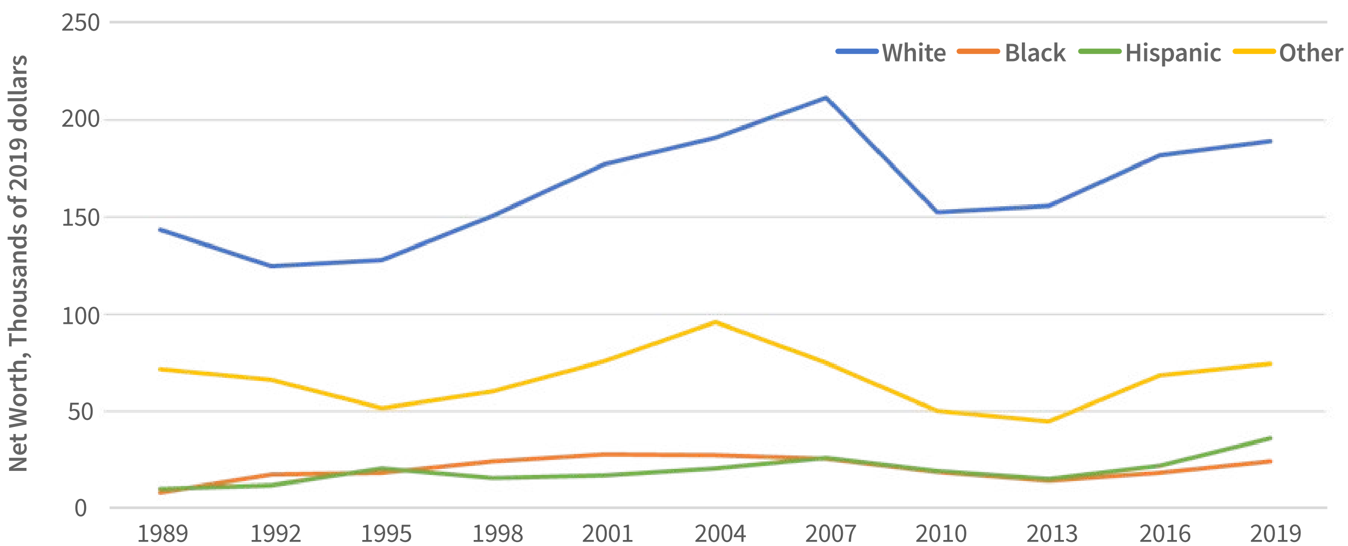
By Deputy Secretary Wally Adeyemo

September 2021

When President Biden took office, our country and economy faced a daunting, uphill battle. The COVID-19 pandemic had slowed economic growth to a crawl, the economy had lost nearly ten million jobs since February 2020, and the virus continued to rage unchecked in communities across the country. Today, six months later, our country looks remarkably different: Over 179 million people are fully vaccinated, and more than 75 percent of adults have received at least one shot.[1] Over the last three months, the economy generated an average 765,000 new jobs and unemployment fell to 5.2 percent, from a pandemic high of 14.8 percent. While we still have a long road ahead to contain the pandemic and Build Back Better, these results demonstrate that President Biden's approach is working.

From the beginning, that approach has placed racial equity front and center. The pandemic cast in stark relief the racial disparities that have persisted in this country for far too long. Black, Latino, and Native Americans were more likely to be infected, hospitalized, or die from COVID-19 than their white counterparts.[2] Communities of color were forced to bear a double burden in this pandemic: both more likely to work in essential, frontline roles with a higher risk of exposure[3] and more likely to lose those jobs as the pandemic caused the economy to contract.[4] And since long before most of us had ever heard the word "coronavirus," this country has suffered from a profound racial wealth gap that makes it harder for communities of color to weather economic downturns, from the pandemic to the financial crisis more than a decade ago. The median wealth of white households is 7.8 times that of Black households and 5.2 times that of Hispanic households,[5] while the rate of homeownership among white Americans is 1.7 times the rate among Black Americans.[6] COVID-19 did not cause these disparities, but it exacerbated them and demonstrated the urgent need for change.

Figure 1: Median Net Worth by Race/Ethnicity, 1989-2019



SOURCE: Federal Reserve Survey of Consumer Finances, 2019

---

1 https://covid.cdc.gov/covid-data-tracker/#vaccinations_vacc-total-admin-rate-total

2 https://www.cdc.gov/coronavirus/2019-ncov/covid-data/investigations-discovery/hospitalization-death-by-race-ethnicity.html

3 https://www.urban.org/sites/default/files/publication/103278/how-risk-of-exposure-to-the-coronavirus-at-work-varies.pdf

4 https://fas.org/sgp/crs/misc/R46554.pdf

5 https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-accessible-20200928.htm#fig2

6 https://www.urban.org/urban-wire/breaking-down-black-white-homeownership-gap

These disparities and the harms that flow from them matter for all Americans. The exclusion of communities of color from the ladder of economic opportunity holds back economic growth for the entire country. Research has shown that if women, people of color, and low-income children had the same opportunities as high-income white males, the U.S. innovation rate would be four times its current level.[7] Overall, according to a report from McKinsey and Company, closing the racial wealth gap could increase U.S. GDP by 4 to 6 percent, or up to $1.5 trillion, over ten years.[8] Pursuing racial equity is a vital opportunity to drive innovation and boost growth across the U.S. economy.

The Biden Administration has made promoting racial equity a top priority since Day 1, and nowhere is that clearer than in the American Rescue Plan (ARP), a $1.9 trillion package of which more than $1 trillion is managed by the Treasury Department. The ARP represents an opportunity to Build Back Better through both immediate recovery efforts and lasting, generational investments in vulnerable communities across the country. In order to make the most of that opportunity, the Treasury stood up a new, dedicated Office of Recovery Programs at Secretary Yellen's direction to manage certain ARP programs, totaling over $400 billion, and coordinate Treasury's recovery efforts. We took the view that structure would be essential to effectuate the ARP's purpose, with dedicated leadership and staff putting priorities like racial equity at the center of their work on the recovery every day. That focus on equity is reflected in the Office's decision to hire full-time Tribal affairs staff to help distribute tens of billions of ARP funds set aside for Tribal communities. This commitment has also flowed through the programs and policies administered by this Office, from nationwide programs that put financial resources in the hands of communities of color today to initiatives like the $10 billion State Small Business Credit Initiative and $9 billion Emergency Capital Investment Program that will increase capital access in these communities and help create ecosystems of opportunity and entrepreneurship over time.

Since March, when President Biden signed the ARP into law, our team at Treasury has worked closely with the White House to implement this historic legislation, put these priorities into action, and pave the road to inclusive recovery that we've been walking since.

I. Direct Support to American Families

COVID-19's economic effects were most immediately felt by those who lost their jobs and their businesses. As unemployment spiked to nearly 15 percent and hundreds of thousands of businesses closed,[9] families across the country struggled to make ends meet—to keep the roofs over their heads and the food on their tables. These struggles were particularly concentrated in communities of color: The unemployment rates among Black and Hispanic workers hit 16.7 percent and 18.5 percent, respectively, in 2020,[10] both higher than the national rate. In addition, Black and Hispanic Americans were twice as likely as white Americans to report that COVID-19 had a major impact on their financial situation.[11]

7 http://www.equality-of-opportunity.org/assets/documents/inventors_paper.pdf

8 https://www.mckinsey.com/~/media/mckinsey/industries/public%20and%20social%20sector/our%20insights/the%20economic%20impact%20of%20closing%20the%20racial%20wealth%20gap/the-economic-impact-of-closing-the-racial-wealth-gap-final.pdf

9 https://www.federalreserve.gov/econres/feds/files/2020089r1pap.pdf

10 https://fas.org/sgp/crs/misc/R46554.pdf

11 https://apnews.com/article/ap-norc-poll-people-of-color-covid-19-economy-421f0582650c02a42508fb46aa461a7b

Economic Impact Payments

The ARP addressed this financial distress head-on through direct cash payments to American individuals and families. Beginning in March, Treasury began distributing economic impact payments (EIPs) of up to $1,400 for individuals and $2,800 for married couples, plus up to an additional $1,400 for each dependent. In total, Treasury and the IRS distributed more than 171 million payments totaling over $400 billion to help Americans weather the financial hardship caused by the pandemic.

Ensuring these payments reach those in greatest need can be difficult because the lowest income individuals—among whom people of color are disproportionately represented—often do not file taxes, making it hard to determine their eligibility and deliver their payments. To overcome this challenge, we partnered with other federal agencies and conducted significant outreach to identify these individuals and make sure they received the payments to which they were entitled. As a result, as of June 30, Treasury and the IRS had made more than 26 million payments to individuals without tax returns from 2019 or 2020, putting cash in the hands of millions of Americans in need.

Child Tax Credit

In July, Treasury and the IRS began making monthly advance Child Tax Credit (CTC) payments to the families of more than 60 million children, totaling over $46 billion over the last three months. Under the ARP, the amount of this credit was increased to up to $3,600 per year for children aged 5 and under and up to $3,000 for children aged 6 to 17 for 2021. These payments are projected to result in a historic reduction in child poverty.[12] The CTC will lead to even larger reductions in poverty among Black and Latino children.[13] The value of this investment in our children will only grow over time: Economists have estimated that the ARP's expansion of the CTC will cost roughly $100 billion while generating about $800 billion in benefits.[14]

These CTC payments have already had a noticeable impact. According to data from the Census Bureau released last month, adults in households with children saw a 24 percent decline in the rate of food insufficiency after the July CTC payments.[15] However, we also know that the families who have not taken advantage of the CTC so far may be those most in need of this support. We have and will continue to work with partners in the public and private sectors to encourage all families with eligible children to take advantage of the CTC benefit. Going forward, Treasury will continue to build on the lessons we have learned from the distribution of EIPs in reaching underserved communities and will continue to invest in new tools to harness our data to better serve the American people.

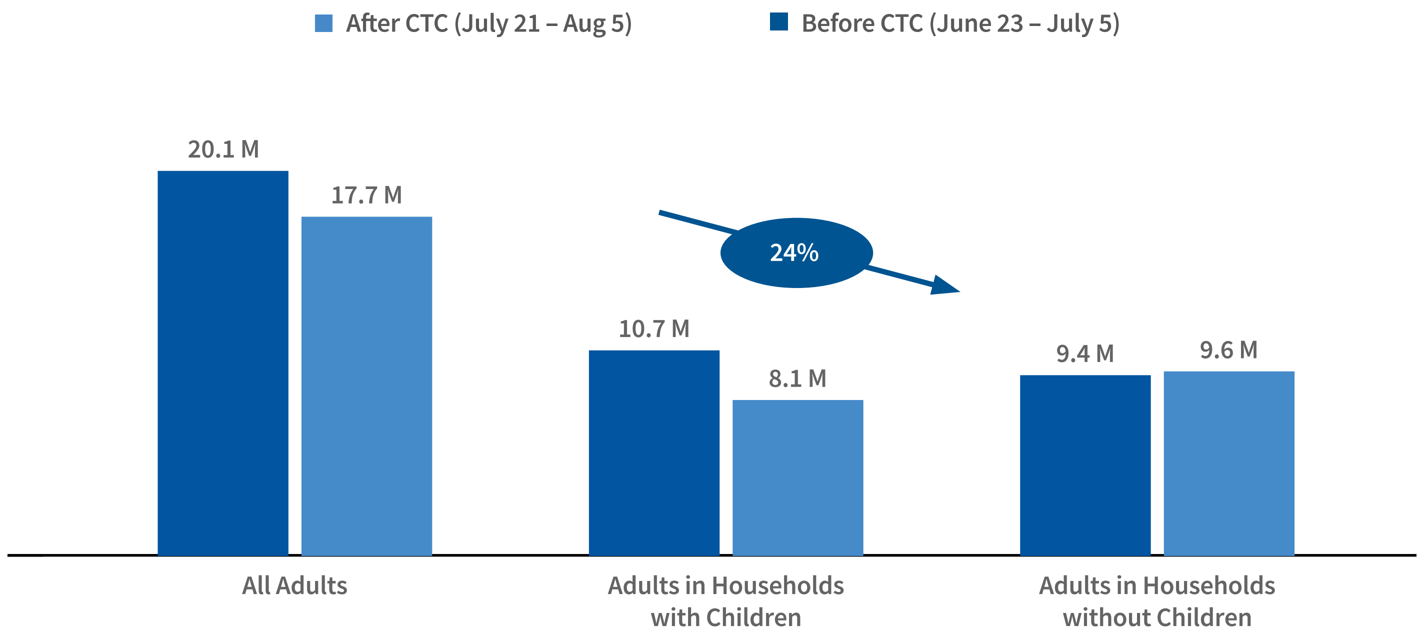
12 https://www.brookings.edu/blog/up-front/2021/03/11/new-child-tax-credit-could-slash-poverty-now-and-boost-social-mobility-later/

13 https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and

14 https://static1.squarespace.com/static/5743308460b5e922a25a6dc7/t/61081baa32c9d257a80438b2/1627921323005/Child-Allowance-CBA-Brief-CPSP-August-2021.pdf

15 https://www.census.gov/library/stories/2021/08/economic-hardship-declined-in-households-with-children-as-child-tax-credit-payments-arrived.html

Figure 2. Food Insufficiency Rates for Adults in Households, Before and After First CTC Monthly Payments



SOURCE: U.S. Census Bureau, 2021

IV. Housing Equity and Access

The pandemic also dramatically underscored the importance of safe, stable, and affordable housing—to work from home, to shelter in place, or simply to be with one's family. Though President Biden immediately extended the nationwide eviction moratorium upon taking office, he and his economic team also knew that pandemic-related job losses and economic distress would leave many families with unpaid utilities, back-rent, and late mortgage payments—and in need of assistance. That's why the ARP includes two programs focused on keeping Americans in their homes, whether they rent or own them.

The ARP's Emergency Rental Assistance (ERA) program provides roughly $22 billion for struggling renters to cover rent and utilities, on top of the $25 billion for ERA authorized in December. Though much work remains for state and local governments to accelerate programs to meet the scale of the need, the program has already made approximately 1 million payments to households totaling more than $5 billion. Similarly, the Homeowner Assistance Fund (HAF) under the ARP provides nearly $10 billion for state and local governments to distribute mortgage payment assistance and other aid to homeowners struggling to make ends meet.

Equity is embedded in these programs and the ways they serve the American people. The ARP itself directs that $2.5 billion in ERA funds go to high-need grantees—such as very low-income households paying more than 50 percent of their income on rent or living in substandard or overcrowded conditions. Similarly, the HAF requires that at least 60 percent of a grantee's funds go to homeowners making less than 100 percent of their area median income or the national median income.

These programs and their support for renters and homeowners in need have profound implications for racial equity. Even before the pandemic, Black and Hispanic households were more likely to be severely cost-burdened by housing than white households.[16] Moreover, majority Black neighborhoods experience eviction filing rates more than 2.5 times greater than the national rate and experience evictions at 1.7 times the national rate.[17] Even when it comes to those who own rather than rent their homes, communities of color fare worse than their white counterparts: Homes in predominantly Black and Hispanic communities are 2 and 2.5 times more likely, respectively, to experience foreclosure than homes in white communities.[18]

There is a historic underinvestment in the infrastructure needed to prevent evictions and foreclosures. This is why ERA provided state and local governments with the ability to invest resources in building that infrastructure. In the case of ERA, state and local governments have unfortunately faced significant challenges distributing these funds—from inadequate technology and systems to difficulties reaching the poorest renters, who often lack the documentation requested by program administrators. Treasury has also enabled grantees to rely on applicants' self-attestations regarding program eligibility and encouraging grantees to make funds available directly to tenants, rather than only to landlords.

Still, we know much more needs to be done to ensure these resources get into the hands of tenants, landlords, and homeowners as soon as possible. We are committed to using every lever at our disposal and providing any support we can to state and local governments in order to make that happen. By helping recipients stay in their homes, these programs will help families avoid the economic scarring that comes with eviction or other housing instability—job loss for adults,[19] and lower health[20] and educational outcomes[21] for children, among others.

IV. State and Local Aid

The ARP also provides historic aid totaling $350 billion to state, local, territorial, and Tribal governments to ensure they can meet emergency needs caused by the pandemic, strengthen their fiscal condition, and make enduring investments in their futures.

We know from historical experience that protecting state and local governments is critical for preserving opportunities for workers from communities of color. Because state and local workforces are more diverse than the private sector, budget cuts and layoffs in the public sector disproportionately fall on Black workers.[22] During the Great Recession, the failure to provide adequate support to state and local governments led to dramatic public sector job losses, especially for Black workers who were even more likely to lose their jobs than white workers.[23] The Biden Administration was determined not to let this happen again, and to support state and local governments in rebuilding from the pandemic.

16 https://www.jchs.harvard.edu/blog/black-and-hispanic-renters-face-greatest-threat-eviction-pandemic

17 https://www.brookings.edu/research/the-coming-eviction-crisis-will-hit-black-communities-the-hardest/

18 https://www.zillow.com/research/housing-bust-wealth-gap-race-23992/

19 https://scholar.harvard.edu/files/mdesmond/files/desmondgershenson.sp2016.pdf?m=1452638824

20 https://pediatrics.aappublications.org/content/141/2/e20172199

21 https://static1.squarespace.com/static/5075895f84ae84c1f4ec0443/t/587d6ec2cd0f68450bf0e502/1484615365774/KC-AERC_KCMobility083115_v7.pdf

22 https://cepr.net/cutting-state-and-local-budgets-is-an-attack-on-the-countrys-black-workers/

23 https://laborcenter.berkeley.edu/public-sector-impacts-great-recession-and-covid-19/

Treasury has made advancing racial equity a central tenet in its decision-making on how these funds can be spent. As we recognized in the rules Treasury developed for the ARP's State and Local Fiscal Recovery Funds, "While the pandemic affected communities across the country, it disproportionately impacted some demographic groups and exacerbated health inequities along racial, ethnic, and socioeconomic lines."[24]

The rules place an emphasis on spending these funds in low-income communities—including communities of color—by making such areas presumptively eligible for investments to rectify health, educational, and housing disparities exacerbated by COVID-19. These include services like community health workers, public benefit navigators, housing and homelessness services, remediation of lead paint and other lead hazards, and evidence-based community violence prevention efforts. The rules also pay specific attention to addressing the social determinants of health, to maximize the impact of these funds on both economic and health outcomes in communities of color that have been hit especially hard by the pandemic.

Similarly, the State and Local Fiscal Recovery Funds' rules for investments in broadband access require that state and local governments focus on unserved and underserved areas, which disproportionately include communities of color.[25] Finally, when state and local governments report back on how they have used these funds, Treasury will ask them to discuss how their expenditures have advanced equity, in order to promote accountability for this critical objective.

Many state and local governments have already demonstrated how these funds can be used to advance racial equity goals. In Detroit, for example, the city government held 65 public meetings and conducted an inclusive online survey to ensure perspectives from a diversity of communities informed the city's decisions on how to use its $826 million in ARP funds. Ultimately, the city decided on a plan to use its funds to fight intergenerational poverty, including a $168 million investment in revitalizing underserved neighborhoods, $105 million for job creation, and $67 million to support housing access, among other investments which will create opportunities in communities of color and elsewhere.[26]

* * * *

The American Rescue Plan, and Treasury's approach to implementing it, have embedded racial equity as a top priority. We are already beginning to see progress on this front, from equity-focused investments by state and local governments to support for renters in communities of color who will be able to stay in their homes. But we also know this work is far from done. As we continue to implement the ARP and push for additional policies to Build Back Better, we are committed to ensuring communities of color have a seat at the table and that their needs are reflected in our Administration's decisions.

24 https://home.treasury.gov/system/files/136/FRF-Interim-Final-Rule.pdf

25 https://www.pewresearch.org/fact-tank/2021/07/16/home-broadband-adoption-computer-ownership-vary-by-race-ethnicity-in-the-u-s/

26 https://detroitmi.gov/government/mayors-office/american-rescue-plan-act

THE DEPARTMENT OF THE TREASURY

1789