



INSIGHT.
CENTER FOR COMMUNITY
ECONOMIC DEVELOPMENT

Laying the Foundation for National Prosperity

The Imperative of Closing the Racial Wealth Gap

Executive Summary

March 2009

About the Insight Center

The Insight Center for Community Economic Development, formerly the National Economic Development and Law Center (NEDLC), is a national research, consulting and legal organization dedicated to building economic health in vulnerable communities. The Insight Center's multidisciplinary approach utilizes a wide array of community economic development strategies including promoting industry-focused workforce development, building individual and community assets, establishing the link between early care and education and economic development, and advocating for the adoption of the Self-Sufficiency Standard as a measurement of wage adequacy and as an alternative to the Federal Poverty Line.

This work is part of a national effort to close the racial wealth gap in the United States for the next generation. For more information on this initiative, visit <http://www.insightcced.org/communities/Closing-RWG.html>. For more information on the Insight Center, visit <http://www.insightcced.org/>,

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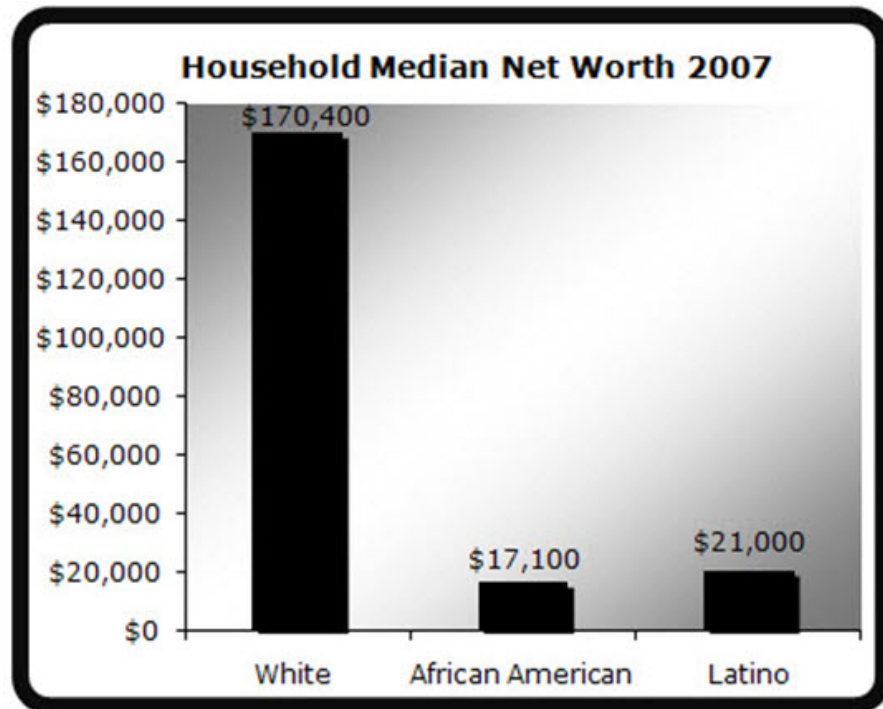
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For every dollar owned by the median white family in the United States, the typical Latino family has twelve cents, and the typical African American family has a dime.¹ Wealth is what you own minus what you owe: assets minus debts.

This racial wealth gap has roots in the past, and reaches forward as well: it drains a family's capacity to give the next generation a solid start. Without addressing the wealth gap, racial inequality will be with us for generations to come.



Source: Federal Reserve, 2007 Survey of Consumer Finances public dataset

Anti-poverty programs have relied primarily on providing subsistence income for today's necessities, not building assets that lead to economic mobility and security, and in fact have sometimes penalized low-income people for owning assets. Wealth-building policies can help even the lowest-income families gain stability and plan for the future.

Asset poverty is a new definition of poverty that reveals how many families lack even minimal amounts of wealth. It can be defined as not having enough savings to survive for three months without income. People of color are far more likely than whites to be asset-poor. The median family of color has enough assets to last only five weeks at the poverty level, compared with seven months for the median white family.²

The Roots of the Racial Wealth Divide in U.S. History³

Throughout U.S. history, federal and state governments have provided "wealth starter kits" for some to turn their work into worth. For example, governments have given gifts of land, education, government-backed mortgages and farm loans, a social safety net, and business subsidies to white families, sometimes exclusively and usually disproportionately.

The same governments that boosted white wealth took land from people of color, denied them education, and erected barriers to home and business ownership.

- **Native Americans** lost assets not just during the first centuries of U.S. history, through displacement and treaty violations, but also more recently through tribal termination and Bureau of Indian Affairs mismanagement.
- **African Americans** were not just denied property; they *were* property during slavery. Legal segregation and Jim Crow laws pushed Black citizens to the margins of the economy, where many remain stuck today. Wealth-building programs such as Social Security and the post-WWII GI Bill at first excluded African Americans, with multigenerational effects.
- **Latinos** have been negatively affected by U.S. foreign policy and immigration policy. Mexicans and Puerto Ricans lost land to conquest. Temporary guest-worker programs and exploitation of undocumented immigrants have blocked many Latinos from getting a foothold in the U.S. economy.
- **Most Asian Americans** were excluded from entry, and those who were here were largely denied citizenship until after World War II⁴. Japanese Americans lost their assets when they were interned during World War II. While some Asian groups are now prospering, Southeast Asians continue to have a very high poverty rate⁵.

Our country knows how to invest in wealth building for its people. We now need to do so for everyone. We cannot afford to squander America's greatest asset: its people.

Comprehensive Asset Building for All

A comprehensive approach to asset accumulation must recognize that wealth building should unfold over the course of a person's life: learning to save as a child; earning more than just a living wage; borrowing on fair terms to invest in the future: buying a home; starting a business; and retiring with security.

To make that possible for Americans of all races, these interconnected policy areas must be improved to support wealth building:

Land: Land loss led to the impoverishment of Native Americans, Mexican Americans, and African Americans, and land ownership will be essential to ending the racial wealth divide. Suits over land claims brought by blacks, Mexican-Americans, and American Indians must move quickly to settlements. Native peoples, including Native Hawaiians, still do not control their own land, which is held in trust by the federal government and the state of Hawaii; they must regain full ownership rights. Land loss due to fractionation must be stopped. Fair access to subsidized loans must be enforced.

Income and employment: Good jobs with good benefits are important wealth-building tools. In 2007 the median household income for African Americans was \$34,001, and for Latinos \$40,766, compared with \$53,714 for whites; about one-quarter of Black and Latino families were below the poverty line.⁶ Since then, as the recession set in, unemployment has been steadily rising. Immigrants and other people of color tend to fill jobs with inadequate pay and benefits. Anti-discrimination laws need to be enforced. Unionization should be promoted. Public investment, including jobs in new green industries, should be affirmatively targeted to communities of color.

Savings and investments: The racial disparity in financial assets (cash, investment accounts, stocks, bonds, etc.) is wide: the median family of color had only \$9,000 in financial wealth in 2007, compared with \$44,300 for whites.⁷ Access to banks has been a problem on Native American reservations, in inner-city neighborhoods and in rural areas. Public programs that match savings or provide subsidies for college tuition will allow more low-income people to build assets. Matched savings programs should be tailored to fit the cultures of people of color, such as building on existing saving practices in immigrant and Native American communities.

Debt and credit: Poor credit scores and unscrupulous lenders keep many people of color stuck with only high-interest credit options, unable to access fair credit for college, homeownership or auto loans. African Americans paid an average of 7% for new car loans in 2004, compared with 5% for white borrowers.⁸ African and Latino students are far more likely to have unmanageable student loans, defined as monthly payments over 8% of income.⁹ A new federal Financial Product Safety Commission watching for discriminatory practices while protecting all consumers is sorely needed.

Homeownership: The sub-prime mortgage crisis is devastating communities of color. Discriminatory and unregulated practices have led to foreclosures and an estimated loss of at least \$165 billion in wealth in communities of color.¹⁰ Black and Latino homeowners are now facing twice the rate of sub-prime-related foreclosures as white homeowners.¹¹ In the short run, a foreclosure moratorium and a federal program to renegotiate mortgages on fair terms are needed. In the long run, affordable housing must become a national priority.

Business ownership: Fourteen percent of white families but only 7% of families of color owned equity in a business in 2007.¹² The majority of minority-owned businesses have no paid employees.¹³ Minority business start-ups use personal savings and credit cards more often, and receive prime bank loans less often, than white business owners. Ensuring greater access to public and private investment capital is essential to close the gap. Government procurement programs can be used to boost businesses owned by people of color.

Social insurance: Laid-off workers of color are less likely to get unemployment insurance than white workers; and workers of color tend to put more into Social Security than they take out in retirement benefits.¹⁴ Fairer rules in both programs would broaden their reach. But the disability and survivor programs are very important to African Americans; these programs must be protected against cutbacks.

The Tax Code: Currently tax policy prioritizes further asset-building for wealthy asset owners instead of helping wage earners acquire assets. The mortgage interest deduction reduces taxes mostly for owners of high-priced homes who are disproportionately white; low-income taxpayers who do not itemize get no benefit. Making the deduction refundable to low-income homeowners would help close the race gap. A parallel rent deduction would benefit many people of color. Taxes on the very wealthy, such as the estate tax, need to be protected and expanded in order to broaden asset ownership to more people.

Seven Principles for Closing the Racial Wealth Gap

From the recommendations made above, a number of principles can be distilled. They represent a framework that our leaders must pursue to lay the foundation for the full participation of all members of our society in our economy.

1. Craft public policies to support wealth creation and provide opportunities to move up the economic ladder for all those stuck on the lower rungs.

2. Ensure full participation in programs intended to be universal through program design and implementation measures, targeting those often overlooked.
3. Draw upon the perspectives of experts of color to develop public policy.
4. Expand and enforce policies that eliminate discriminatory practices in the private and public sectors.
5. Promote the collection of racial and ethnic data essential to evaluating policy effectiveness.
6. Support community-wide prosperity through community-based economic development.
7. Recognize that a comprehensive human-capital agenda is needed.

In his inaugural address, President Obama said, “The state of the economy calls for action...not only to create new jobs but to lay a new foundation for growth.” By giving populations that have endured years of disinvestment a boost onto the economic ladder, we can lay a foundation for renewed national prosperity.

¹ Federal Reserve Board, *2007 Survey of Consumer Finances*, "Full Public Data Set" (Washington: The Federal Reserve Board, 2009), <http://www.federalreserve.gov/pubs/oss/oss2/2007/scf2007data.html>.

² Authors' calculations of Federal Reserve data.

³ This section is based on *The Color of Wealth*, by Meizhu Lui, Barbara Robles, Betsy Leondar-Wright, Rose Brewer and Rebecca Adamson, The New Press, 2006.

⁴ *Ibid.*, pp. 198 - 100

⁵ *Ibid.*, p. 213

⁶ U.S. Census Bureau, Income, Earnings, and Poverty Data from the 2007 American Community Survey.

⁷ Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*, February 2009.

⁸ Consumer Federation of America. *African Americans Pay Higher Auto Loan Rates but Can Take Steps to Reduce this Expense*. Washington, DC, 2007.

⁹ King, Tracy and Ellyne Bannon, *The Burden of Borrowing: A Report on the Rising Rates of Student Loan Debt*, State PIRGs' Higher Education Project, March 2002.

¹⁰ Schloemer, E., Li, W., Ernst, K., & Keest, K. (2006). "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners," Durham, NC: Center for Responsible Lending; Center for Responsible Lending. (2007). "Subprime Lending is a Net Drain on Homeownership." (CRL Issue Paper No. 14), Washington: DC: Center for Responsible Lending.

¹¹ Oliver, Melvin L. and Thomas M. Shapiro, "Sub-prime as a Black Catastrophe," *The American Prospect*, October 2008, 11.

¹² Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*, February 2009.

¹³ Robles, Barbara, "Latino Entrepreneurship and Microbusinesses: A National and Border Economy Snapshot," AAPSS Blog, October 5, 2007 Survey of Business Owners, 2002 Economic Census, Department of Commerce, Bureau of the Census.

¹⁴ Social Security Administration, *Hispanics, Social Security, and Supplemental Security Income*, Table 7, "Characteristics of Hispanic beneficiaries of Social Security and all beneficiaries," 2005.

