



**INSIGHT**<sup>®</sup>  
CENTER FOR COMMUNITY  
ECONOMIC DEVELOPMENT

# Laying the Foundation for National Prosperity

The Imperative of Closing the Racial Wealth Gap

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 disenfranchised 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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## Introduction

As the economy takes a downturn, some American families are better able to weather hard times than others. Not only are workers of color facing more job loss than white workers, but they tend to have less to fall back on. Those losing homes, exhausting savings, and drowning in debt are disproportionately African American, Latino, Native American, and Asian/Pacific Islander.

A long-standing cleft in our society is becoming more obvious: the racial wealth divide. ***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.***<sup>1</sup>

Research has shown that this enormous disparity is not explained by income level, level of education, rate of return on investment, or family background; it is not due to a lack of effort on the part of people of color. Rather, it is the result of historic inequities in public policy, regulations and practice. This persistent legacy of our nation's past drains families' capacity to give the next generation a solid start.

But with a new economic crisis comes new opportunity. As debate rages about how to invigorate the economy and spend additional public dollars to do so, our nation has a chance to level the playing field.

Attention is now being paid to lifting the floor—and appropriately so. But simply lifting those at the bottom will not eliminate racial disparities. Throughout history, whether our economy has been growing or shrinking, the gap between whites and people of color has remained. New public investments are needed in asset-building opportunities for all Americans.

The goal of this paper is to illuminate the pernicious and persistent racial wealth gap and to recommend ways to narrow it. It will not be closed without attention and intention.

Hope is indeed audacious, and the good news is that the problem of racial economic inequality is not intractable. 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.

## The Significance of Wealth

While our culture is obsessed with money and wealth, there is little popular understanding of why wealth matters.

Having wealth is not the same as being wealthy. Even modest assets—such as land, savings and retirement accounts, homes, and small businesses—can provide financial stability. As asset-building pioneer Michael Sherraden discovered, almost everyone, including those with very low incomes, can develop a positive net worth (more assets than debts), and can gain the increased security that comes with asset ownership. Building wealth over a lifetime and then passing it to later generations is the most effective means to secure personal and family well-being and to increase community economic growth.

While income is a flow of money, wealth is a well from which to draw when life's unpredictable troubles, such as job loss or a medical emergency, require deeper resources. Like a well, it can be replenished with interest, dividends, rent or capital gains, so that money to meet basic needs again becomes available.

Wealth allows a different future from the past generations' economic status or one's present circumstances. Melvin Oliver and Tom Shapiro say in their groundbreaking book, *Black Wealth White Wealth*, "Income feeds your stomach, but assets change your head.... When you are living from paycheck to paycheck you just

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<sup>1</sup> 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> (accessed March 4, 2009).

think about how you're making the next day or the next week or the next month happen. But when you have a set of resources that allow you to think about your future in a positive way, you can strategize about the future, create and take advantage of opportunity."<sup>2</sup> Wealth is the essential ingredient for economic mobility.

The financial security that wealth brings correlates to success in many areas, including educational attainment, good health, and intergenerational well-being. It increases civic participation and encourages social responsibility. A neighborhood of homeowners has a deeper level of engagement in their community than a neighborhood of renters; their personal stake propels them to take greater action for community-wide success. Ownership promotes engagement, prompting interest in policy from the neighborhood to the national level. Wealth builds "citizenship" in the broad sense.

Finally, wealth gives people the freedom to innovate and add value to the economy as a whole. Starting a business, inventing a new product, making land productive, and investing in new enterprises all provide opportunities for others to gain income and wealth, with a multiplier effect on the economy.

While everyone wants economic opportunity and security, there are cultural differences in the way people of color define wealth. In discussions hosted by the Ford Foundation and the Insight Center between 2004 and 2007, experts on asset building among different racial groups found some broad commonalities. A widely held belief is that land (meaning all natural, non-man-made resources) *is* wealth, and the basis for all other kinds of wealth. For example the Native Hawaiian word for wealth is "waiwai," or "waterwater." Wealth has spiritual as well as economic meaning, connected to deep love for the land.

Second, people of color place more emphasis on strategies that involve extended family members, community sharing of resources, and responsibility for each other. Thinking in terms of individuals or nuclear families is a foreign concept for some non-white groups.

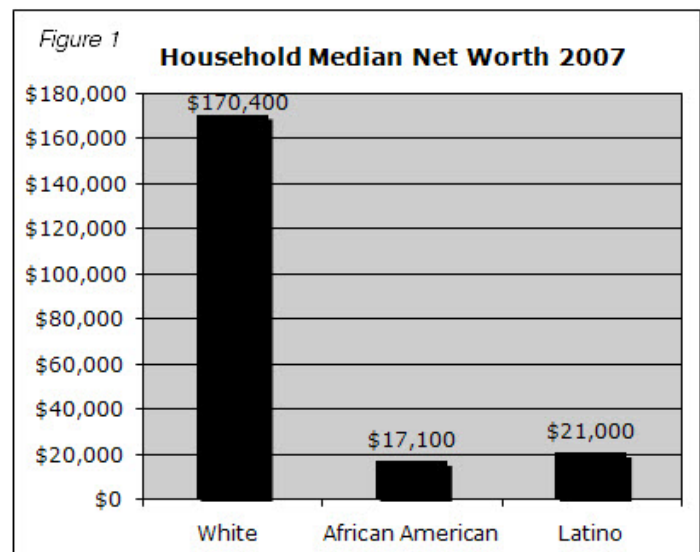
These differences must be kept in mind as we craft solutions to close the gap.

## The Racial Wealth Gap

The magnitude of the gap between white and non-white wealth is staggering. In 2007, the median Latino household had a net worth of \$21,000 and the median African American household had a net worth of \$17,100, compared with \$170,400 for white households (see Figure 1).<sup>3</sup>

This gap exists for all types of assets: savings, cars, home and business ownership, retirement and college accounts, items of high value, stocks, bonds and investments.

Wealth data for Native Americans is not broken out within the Federal Reserve's Survey of Consumer Finances, from which these Black, Latino, and white wealth data come, and there are too few Asian Americans surveyed to calculate a reliable median. Without good data, it is hard to craft effective public policies that serve all populations. Wealth information on Asian Americans, Native Americans and smaller ethnic groups must be pieced together from what few sources are available, and we will provide them where we can.



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

<sup>2</sup> Melvin Oliver, interview. *Race: The Power of an Illusion*, PBS, 2003. Edited transcript available at [http://www.pbs.org/race/000\\_About/002\\_04-background-03-05.htm](http://www.pbs.org/race/000_About/002_04-background-03-05.htm) (accessed March 4, 2009).

<sup>3</sup> Federal Reserve Board, op. cit.

## a. Asset Poverty: New Measure of Economic Well-Being

Since poverty thresholds were first designed in 1963, poverty has been defined solely as three times the cost of a bare-bones food budget. Today, it is generally accepted that this method of calculation is outdated, resulting in an official federal poverty level (FPL) that is much too low and unrealistically uniform across a country in which the cost of living varies significantly by region. A family of four cannot live on less than \$21,200 (the 2008 FPL) a year anywhere in the United States, much less in expensive coastal areas. The anti-poverty programs created in the 1960's still focus on temporary income supplements to alleviate short-term need when today many people can't pay the rent or put food on the table on a longer-term basis. This type of policy originated in a period of economic growth and high employment, and assumes that a good job is right around the corner. This assumption does not fit today's economy; income instability is five times greater today than it was in 1970.<sup>4</sup>

When low-income people move up the pay scale to a job that pays more than the amount allowable to qualify for income support programs, they often lose other benefits such as Medicaid, Food Stamps, or Headstart. Since to qualify for those programs, besides income limits, most states also set a very low limit on the amount of assets allowed (often \$2,000 or \$3,000), they must spend down existing savings or sell assets such as cars. Ironically, it becomes unaffordable to save or accept a better job. This kind of policy has the opposite of the intended effect: it penalizes workers, particularly women workers, for pursuing upward mobility and financial independence.

Public policies better support workers' progress toward economic security when there is a gradual decline in assistance: as income increases, the benefit declines until the worker reaches a locally determined self-sufficiency standard level and can afford to pay for basic goods in the private market. Similarly, families should not be penalized for saving more than a few thousand dollars, owning a home or car, or beginning to build assets for a more secure future. If the goal is to raise families out of poverty, public policies need to take into account the interplay between income and wealth. ***A measure of minimal financial assets should also be included in how we define poverty.***

There is ongoing discussion in the asset-building field about how to define asset poverty.<sup>5</sup> Some say it means having no wealth (zero savings and/or greater debt than assets); others define it as less than the amount of savings needed to last a family three months at the federal poverty level; others define it as less than the amount needed to last a family for three months at their current rate of living expenses.

But however you define asset poverty, it is clear that families of color are twice as likely to face it. African Americans and Latinos are almost five times as likely as whites to have zero assets, i.e., *no* cushion to break an economic fall.<sup>6</sup>

Defining asset poverty as being able to survive for three months at the federal poverty level with no income, African Americans' rate of asset poverty is two and a half times that of whites (see Figure 2.) 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.<sup>7</sup>

Wealth grows with the family tree; its roots often lie hidden in previous generations. Once assets have been accumulated, they can give a head start to future branches of the tree. In white families, the next generation more often gets their "wealth starter kit" from their parents or grandparents, whether by having their college tuition paid for, money given for a down payment on a home, a trust fund, or an inheritance.

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<sup>4</sup> Jacob Hacker, *The Great Risk Shift* (New York: Oxford University Press, 2006), 27.

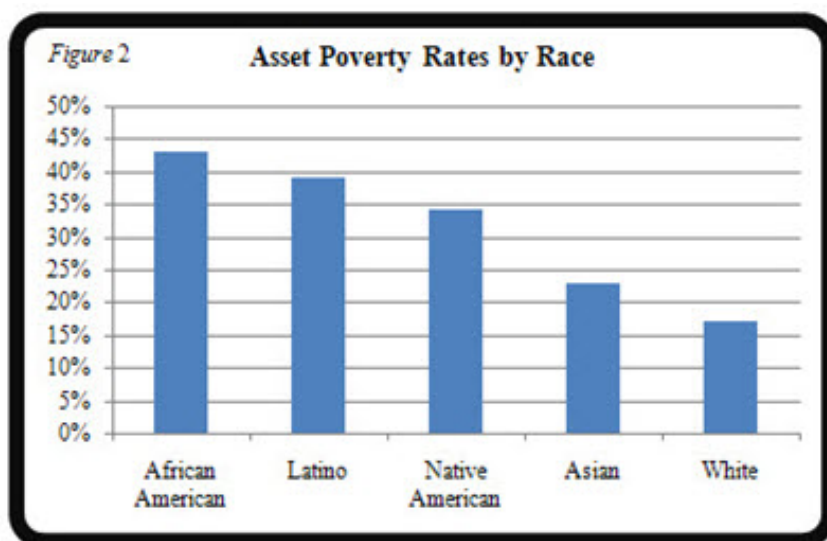
<sup>5</sup> Signe-Mary McKernan and Michael Sherraden, *Asset Building and Low-Income Families* (Washington, DC: Urban Institute Press, 2008), 12-27.

<sup>6</sup> Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*, February 2009.

<sup>7</sup> Federal Reserve Board, *2007 Survey of Consumer Finances*, "Full Public Data Set," 2009; author calculations.

People of color are less likely than whites to receive financial gifts during their parents' lifetimes. In addition, whites are four times more likely to inherit than African Americans, and when they do, the amount inherited is ten times greater.<sup>8</sup> In fact, many young adults of color are asset-poor because they use their own incomes to support their parents<sup>9</sup> or to send money back to their home countries to support family members there.

Research has shown that the net worth of parents is the key predictor for the wealth of the next generation. Today, intergenerational mobility in the U.S. is the lowest among similar industrialized countries except the UK.<sup>10</sup>



Source: Corporation for Enterprise Development ([www.cfed.org](http://www.cfed.org)), 2007 - 2008 Assets and Opportunity Scorecard, analysis based on U.S. Census Data (2004).

## Historical Roots of the Racial Wealth Gap

Today, when we desperately want to believe our society is “post-racial,” how can it be that families of color have just ten to twelve cents of wealth to the white family’s dollar? For the answer, we need to understand more about how wealth is created.

The long-standing American belief is that anyone can make it to the top by just working hard and tugging mightily on those proverbial boot-straps. From the pioneers to the financiers, American heroes are acclaimed as self-made men, succeeding on pure grit, gumption, and ingenuity.

From this logic it then follows that if certain people have not achieved financial success, they must not be hard-working. Poor people, particularly people of color, are described as lazy, wanting something for nothing, unwilling to learn English, incapable of saving, uninterested in education, and so on. In short, the common wisdom is that both wealth and poverty are the result of personal behaviors.

J. Paul Getty, one of the first millionaires of the 20<sup>th</sup> century due to his success in the oil industry, liked to say there were three secrets behind his wealth. First, he advised, “work hard.” Second, “rise early.” Third, “find oil!” While the first two success ingredients are about personal behavior, Getty recognized that there are factors outside of our control, such as luck. But he did not—nor do we as a society—press the question further. While he was smart and did work hard, reaping personal profit means he had to own the land and the natural resources it contained. The question our nation has not yet asked is, “*How did he come to own the land on which oil was found?*”

While it may sometimes seem that individuals laid each building block of wealth with their own effort alone, in fact, the invisible hand of government has helped families of European descent erect their asset structures during every period of U.S. history.

<sup>8</sup> Betsy Leondar-Wright, Meizhu Lui, Gloribell Mota, Dedrick Muhammad, and Mara Voukydis, *State of the Dream, 2005: Disowned in the Ownership Society* (Boston, MA: United for a Fair Economy), 16-17, <http://www.faireconomy.org/files/pdf/StateoftheDream2005.pdf> (accessed March 4, 2009).

<sup>9</sup> Thomas Shapiro, *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality*. (New York: Oxford University Press, 2004), 101.

<sup>10</sup> Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *State of Working America 2006-2007* (Washington: Economic Policy Institute, 2007).

## a. Public Policy and Wealth Building in U.S. History

The founders of this American democratic experiment rejected the idea that a person's future should be decided by the accident of their birth. Instead, they believed that the opportunity to rise economically and socially should be available to everyone willing to work hard and serve the common good. During the Revolutionary War, the brilliant leadership of many ordinary men cemented the belief that all are capable of greatness. The promise of opportunity has drawn immigrants from all over the world, many of them arriving with nothing but their dreams, their drive, and their capacities.

But how can people move beyond a subsistence living toward being able to create new value for their families and for society? Farmers coming from Europe needed land to till, youth with inventive minds needed education, workers needed wages high enough for saving, and entrepreneurs needed access to capital to start businesses.

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, free public education, government-backed mortgages and farm loans, a social safety net, and business subsidies to white families, sometimes exclusively and usually disproportionately.

These government investments jump-started our economy more than once, an economy that has leapt forward with dynamism and innovative power, turning the U.S. into a global economic powerhouse in a short span of time.

Take the post-World War II GI Bill as an example. In the largest federal public benefits program in our history—\$50 billion in today's dollars and 15% of the national budget—7 million mostly working class, overwhelmingly white young men who might otherwise not have had the opportunity for post-high school education received college and vocational training paid for by Uncle Sam. Millions also got low-interest government-backed mortgages that made it possible for them to buy their first homes. These programs unleashed tremendous intellectual, professional and entrepreneurial talent. They created a large, stable, educated and home-owning middle class with a stake in American success. The GI Bill returned seven dollars to the nation for every dollar invested, and helped lead to an era of unprecedented and widely shared prosperity.<sup>11</sup>

But due to discrimination in college admissions and in the housing markets, soldiers of color who fought just as valiantly and sacrificed just as deeply as whites were far less able to use the benefits. They, and the nation, could have made even greater advances if there had been equal access to the programs to which all veterans were entitled.

The same governments that boosted white wealth took land from people of color, denied them education, and erected barriers to home and business ownership. Government also committed the sin of omission in its failure to act on the behalf of non-white people – and this reinforced unequal opportunity. The federal government, for example, failed to remove settlers from Indian lands, failed to prosecute lynchings, and failed to protect the property of African American, Mexican, Japanese and Chinese people. Governments have both explicitly and implicitly supported discrimination, enacting discriminatory home lending policies such as red-lining communities of color, or in the case of the Department of Agriculture, excluding black farmers from loans. While white Americans were able to climb up an escalator powered by government assistance, people of color were too often stuck on a treadmill.

Some years ago when racist jokes were allowable in public, there was a mocking jingle that went, “Ching-chong Chinaman, sitting on a fence. Trying to make a dollar out of fifteen cents.” Today, people of color still have less than fifteen cents to the white dollar, even though they and their ancestors have worked just as hard to build the American economy.

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<sup>11</sup> Ray Boshara and Susan Castillo, “Investing Now in the Future of Our Children,” *The Portland Oregonian*, November 25, 2005, [http://www.newamerica.net/publications/articles/2005/investing\\_now\\_in\\_the\\_future\\_of\\_our\\_children](http://www.newamerica.net/publications/articles/2005/investing_now_in_the_future_of_our_children) (accessed March 7, 2009).



Since the end of Jim Crow segregation and the enactment of the 1964 Civil Rights Law, the U.S. government has included people of color in anti-poverty programs. But in this same period, public policy has concentrated on subsistence income supports, not asset building. No more do we see direct gifts of wealth such as the Homestead Act or massive subsidies for homeownership and college such as the GI Bill. While giving people money for survival is necessary, it is not sufficient to set them on the pathway to financial independence. Our attention must turn again to creating wealth-building opportunities. This time, we can't afford to leave anyone behind. Inclusive asset-building strategies will enable individuals, families, and communities not just to get by, but to get ahead.

## **b. Obstacles to Asset Building in Four Communities of Color<sup>12</sup>**

Throughout U.S. history, beginning with the founding documents of our nation, deliberate government policies transferred wealth from nonwhites to whites and blocked people of color from asset ownership. But the specific mechanisms have varied for each group of color. A brief review of American history reveals a consistent pattern of race-based policies that created the deep racial wealth gap that divides our population today.

### **Native Americans: Loss of land, loss of control**

Where did J. Paul Getty's ancestor get the land on which oil was found? When the first European colonists arrived on these shores, the continent was already inhabited. Native Americans had different understandings of the significance of land, which would clash with those of the new arrivals. Since humans did not create the earth, many Native Americans have believed that no individual has the right to claim land for their own exclusive use. Tribal culture is collective, and wealth is not about accumulation, but about preservation and stewardship of the precious resources of nature. For those arriving from capitalist Europe, land was meant to be divided into plots and privately owned, and utilized for short-term profit. Their desire to own more and more land would lead to violent conflicts, and to the transfer of land-based wealth from Native peoples to whites.

Native tribes were sovereign nations on this continent when the United States began. After the American Revolution, the U.S. Congress in the Northwest Ordinance of 1787 stated, "The utmost good faith shall always be observed toward the Indians; their land and property shall never be taken from them without their consent." However, as European immigration increased and with it a demand for land, good faith became bad faith. The federal government pressured Native Americans to sign over 400 treaties giving up their land. Resistance led to being force-marched to territories far from their traditional hunting, fishing and planting grounds—their traditional source of wealth.

Once transplanted to reservation lands, even then Native Americans were not allowed control of their own resources. As if they were children incapable of taking care of themselves, they and their assets were placed under government trust. The Bureau of Indian Affairs was created in 1824 allegedly for Indian benefit, but its shifting policies were never beneficial. On numerous occasions, forced assimilation policies could not pound round pegs into square holes: instead, the pegs broke. Education, for instance, is critical to economic mobility, and free public schools became a vehicle for a new European generation to do better than the last. But for Native children put in boarding schools purposefully far from their parents and punished for speaking in their own languages, education was a weapon against them, not a tool for their benefit.

The 1862 Homestead Act expropriated a vast area of land from 42 Indian tribes and re-distributed it to white homesteaders; they received 160 acres of land for free if they would farm it for five years. While the Homestead Act is often cited as a model government *asset-building* program, when viewed from the other side of the looking glass, it was an *asset-theft* program.

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<sup>12</sup> 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.

The passing of the General Allotment Act in 1887 paved the way for an attack on the last cultural mainstay of tribal existence—communal ownership of land. Tribal lands were broken into individual parcels, and assigned to individual Indians; the “surplus” was sold to white settlers. Over 40 years, tribal lands were reduced from 138 to 48 million acres.

Mismanagement of Native American assets has been pervasive—and yet, by law, Native Americans are still wards of the government. Over a 200-year period, U.S. government policies turned Native American wealth into white wealth. J. Paul Getty, without the land gifts from the government to his forebears, would not have become a millionaire.

### **African Americans: Black labor, white wealth**

While both European and Africans were both initially indentured servants, the status of Africans was fixed by law; they alone were placed into permanent servitude. When indentured servants finished their terms of work, many received plots of land, their “wealth starter kits.” As enslaved people, African Americans not only were denied the right to earn a wage—it is estimated that if they had earned wages there would be four trillion dollars in the Black community today—they could not turn their own work into wealth. In fact, they *were* tangible assets, listed as such in the financial ledgers of their owners. The South was the richest region of the country up to the Civil War, and most of that wealth was held in the form of slaves. Like stocks and bonds today, possessing enslaved people brought greater return than their initial cost, both through the products their labor created, and through their production of more units of wealth—enslaved children. The slave system became the basis of the entire U.S. economy. Enslaved people created wealth for plantation owners in the South, slave traders, bankers, and insurance companies in the North, and the cotton they produced fed the burgeoning garment industries. If hard work alone were the basis of wealth, then African Americans today would be the wealthiest people in the United States.

At the end of the Civil War, it was recognized that the African population would never gain real freedom without assets. The freed people needed a “wealth starter kit,” land and tools of their own: the promised “forty acres and a mule.” But the Freedmen’s Bureau was disbanded after only seven years, and the overwhelming majority of land that freedmen had been allotted was returned to its former white owners. Unable to get a foothold as self-employed farmers, African Americans were forced to accept sharecropping arrangements. While sharecroppers kept some part of what they produced as in-kind income, the system kept them perpetually in debt and therefore unable to rise above a condition of servitude.

Learning to read and write was forbidden to African Americans during slavery, and teaching them was a punishable offense. Even after the end of slavery, schools were segregated both north and south. Schools for Black children were severely under-resourced, and many remain so today. It was the dedication and commitment of Black teachers that increased the knowledge, encouraged the aspirations, and instilled a fierce sense of community responsibility to new generations.

In spite of the odds, some African Americans were able to save, buy land, start businesses, and prosper within their own communities. But some whites could not bear to see African Americans achieve economic mobility and security, even in segregated communities. Government at every level looked the other way or even assisted vigilantes in destroying African-American homes and businesses, running them out of town, and lynching those “uppity” enough to resist. It was not uncommon for entire Black communities to be targeted. For example, the African-American business district in north Tulsa, known as the “Black Wall Street” for its size and success, was torched on the night of June 21, 1921 by white rioters, who destroyed as many as 600 African-American-owned businesses. While whites and their property enjoyed the protection of the police and the army, a Black person could work hard, obey the law, pay taxes—and have the fruits of their labor taken from them with impunity.

After the Depression, government programs were put in place to restore prosperity. But under the New Deal, African Americans were often barred from these programs. Under Social Security, workers paid into the system and were guaranteed money for retirement, disability and surviving the death of a breadwinner. However, domestic and agricultural work—two of the most common Black and Latino occupations—were excluded. Unemployment insurance and the minimum wage also didn’t apply to domestic workers or farm

workers. The Home Owners' Loan Corporation (HOLC) was created in 1933 and helped one million homeowners avoid foreclosure during its three-year tenure; not a single loan went to a Black homeowner. The half of Detroit where Blacks lived was excluded outright.

The Civil Rights movement brought about new tools to narrow the racial economic gaps. While not specifically a race-based program, the Community Reinvestment Act of 1977 mandated that federally insured banks meet the credit needs of their *entire communities*, including low-income people. Challenges by local activists of color led to prime loans and increased home buying in minority areas. However, as shady non-bank lenders proliferated in the 1990's, gaining quick and easy profits by targeting minority homeowners for subprime home equity loans, the government turned a blind eye as people of color were divested of their hard-won home equity. When the housing bubble popped recently, African Americans were the most likely to face foreclosure, eviction and bankruptcy.<sup>13</sup>

De jure racial discrimination may have been outlawed, but de facto discrimination is far from over, and government policy and regulation is needed to ensure equal opportunity for African Americans.

### **Latinos: Foreign Policy, Domestic Abuse**

Latinos come from many countries with varied histories. The relationship of Mexicans to the United States is the longest, and people of Mexican descent are the largest Latino group in the United States (69.3% in 2005).<sup>14</sup> Foreign policy has been the primary government mechanism for moving Mexican wealth into Anglo hands.

In 1824, the Monroe Doctrine promised the newly independent nations of Latin America "protection" from interference by European powers. This doctrine was designed to foster United States' control of the entire hemisphere. Ever since, this paternalistic relationship (reminiscent of the "trust" relationship with Native tribes) has meant U.S. political and economic dominance in Mexico and Central and South America, causing the push and pull of the people of those countries into and out of the United States.

Mexico and the United States were roughly the same size in the early 1800's. But as more and more immigrants from Europe came needing more and more land, the U.S. desire for expansion grew. Much of Texas was annexed in 1845. President James Polk wanted to gain California, and the rationale was the "manifest destiny" of the "Anglo-Saxon race," as stated by political leaders. That message is reflected in the song "America the Beautiful": "America, America, God shed his grace on thee, and crown thy good with brotherhood, from sea to shining sea." It wasn't "brotherhood" that led to the trumped up war with Mexico in 1846. Mexico was forced to accept the 1848 Treaty of Guadalupe Hidalgo, which gave the United States half of Mexico's land, including what is now the states of California, New Mexico, and Texas. And it wasn't "brotherhood" that led the United States to break the promises made in the treaty to allow Mexicans to maintain ownership of their land. With court proceedings transacted in English only and for other reasons, Spanish speakers were at a disadvantage in contested property cases. Within a generation, Mexican-Americans became a dispossessed and poverty-stricken minority. From landowners, they became a class of permanent subsistence laborers.

Borders are artificial lines drawn for political reasons, and do not reflect the populations that have lived on the land for centuries. As Henry Cisneros, the former mayor of San Antonio Texas famously stated, "I didn't cross the border, the border crossed me." Enforcing the borderline with Mexico has been a consistent issue since it was drawn. During World War II, when U.S. farms needed more agricultural workers, the federal government established the Bracero program, under which Mexican workers were brought into the United States to work for sub-minimum wages—but sent back across the border when their labor was no longer needed.

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<sup>13</sup> United for a Fair Economy, *Foreclosed: State of the Dream 2008* (Boston: United for a Fair Economy, January 2008)

[http://www.faireconomy.org/issues/racial\\_wealth\\_divide/foreclosed\\_state\\_of\\_the\\_dream\\_2008\\_0](http://www.faireconomy.org/issues/racial_wealth_divide/foreclosed_state_of_the_dream_2008_0) (accessed on March 1, 2009)

<sup>14</sup> Social Security Administration, "Hispanics, Social Security, and Supplemental Security Income," *Social Security Bulletin*, 67, no. 2 (2007), Table 1, <http://www.ssa.gov/policy/docs/ssb/v67n2/v67n2p73.html> (accessed March 7, 2009).

The guest-worker program continues this practice. In addition to migrants from Mexico, new populations from South and Central America have also arrived seeking economic opportunity. New policies are needed; currently even valedictorian children of tax-paying undocumented immigrants are not afforded the opportunity to go to state colleges at the in-state tuition rate. Without opportunity, human capabilities are being wasted, to all of our detriment.

### **Asian Americans: No Asians Need Apply**

Asians are most like Europeans in that they too were voluntary immigrants, coming to the United States for the same reasons as whites: to escape economic distress at home and to take advantage of economic opportunity in America. Asians were ready and willing to work hard, obey the law, become loyal citizens, and contribute to American prosperity.

However, the Naturalization Act of 1790 limited eligibility for citizenship to whites. Initially, no one knew whether any new immigrant population did or did not count as white. People identified by their country of origin, not their color. Race was not an obvious category; it took court battles to decide. Armenians for example sued to be white and won. Chinese and Japanese both lost. For South Asians, the outcomes were confusing; classified as Caucasian by race, they were at first deemed white. Then, in later cases, that decision was reversed. Even the right to come to the U.S. was curtailed; the Chinese in 1882 were the first nationality to be denied the right to enter this land of immigrants. While both Irish and Chinese built the trans-Continental railroad, the Irish were allowed to become citizens and turn their work into wealth. The Chinese were sent back to China—the first “braceros”—and largely disappeared from the U.S. for the next century.

Lack of citizenship allowed a series of laws limiting the right of Asians to create wealth to be enacted. One of the earliest, the Foreign Miners Tax in the territory of California, levied taxes on Chinese gold miners and gave European miners an edge; the claims of the Chinese were also not afforded protection, and theft of their mines was common. Taxes on the Chinese provided one-quarter of California’s annual state budget in the 1860s, but the government jobs and services the tax underwrote went exclusively to whites—one of the first tax-based racial transfers of wealth. The 1924 Alien Land Act, aimed against the Japanese, also prohibited non-citizens from owning land or forming corporations. Denied ownership opportunities, the Asians too were marked for permanent working-class status.

Like other groups, in spite of all odds, some Asians managed to find ways to build assets, either by creating business in ethnic enclaves or carving out jobs that whites would not perform, such as laundry work. The Japanese were particularly successful. But World War II would change that. In 1942, the Roosevelt administration forced Japanese Americans, foreign-born and citizen alike, to relocate to internment camps in the inland Western states. They had a week to dispose of their assets. Most had to sell their homes and businesses to whites at fire sale prices—an enormous transfer of wealth.

The Native Hawaiian story more closely parallels that of Native Americans. They were dispossessed of most of the land following the forcible overthrow of the Hawaiian Kingdom by American agricultural industrialists in 1893, and the land remaining to them was put in trust, controlled today by the state of Hawaii, depriving Hawaiians control over their own land wealth. Native Hawaiians are still the most income—and asset-poor of all people living in Hawaii.

While many believe that Asians have surpassed whites in their income and wealth, that is mostly untrue, particularly for some Asian ethnicities which remain at the very bottom of our economy, such as Cambodians. Asian household median income is higher than that of whites only because Asians tend to live in the most expensive and therefore higher-wage parts of the U.S. - California, Hawaii and New York - and because Asian households tend to be bigger, with more earners, than white households. Looking at per capita income within any given state, white median incomes exceed that of Asians.

Similarly, while Asian wealth looks high compared with other groups of color, home values in the few geographical areas with large Asian concentrations are higher than average, which skews the numbers.<sup>15</sup>

Discrimination continues in both the types of jobs and the levels attainable; Asians are still stereotyped as good only in fields requiring math and technical skills. Glass ceilings prevent Asians from moving into top management slots. During the housing bubble, Asians, like other people of color, were more likely than whites to be steered into sub-prime loans.

Asians are not the new white.

## Asset-Building Components: Current Policies and Ways to Close the Gap

The current economic crisis has revealed that racial disparities are not only part of U.S. history, but a current reality as well. Due to recent failures of government to provide equal access to fair credit, regulate mortgage products, or ensure non-discrimination in lending, all signs point to a further widening of the racial wealth gap due in large part to the disproportionate loss of home equity in communities of color, urban and rural.

Without a conscious effort at every level of government to provide new asset-building opportunities for all of our nation's people, business as usual will lead to the continuation or worsening of racial economic hierarchies. Going forward, targeted policies must be crafted to help everyone step onto the economic escalator.

The following sections document current racial disparities in key components of asset-building, identify their causes, and suggest some ways to close the gaps.

### a. Land: A Foundational Asset

In most societies throughout history, landownership has been the basis for political and economic power. The question of who owns the land is a key to understanding who becomes self-sufficient and who can accumulate financial assets. With wise management, land can provide economic security for generations through the sale of timber, water, minerals, oil, fish, meat, grain, and other usable plants on or under the land. That's how people from J. Paul Getty to George W. Bush got ahead.

Figure 3

Table 1  
**All private agricultural land owners, acres owned, and value of land and buildings, by race and ethnicity, 1999**  
*Minorities own only a small part of the U.S. agricultural land base*

Group	Land owners		Acres		Average acres <sup>1</sup>	Value (\$1,000)	Percent <sup>1</sup>
	Number	Percent <sup>1</sup>	(1,000)	Percent <sup>1</sup>			
United States	3,412,080	--	932,495	--	273	1,283,853,124	--
White	3,218,751	96.2	856,051	98.1	266	1,156,977,076	96.8
Black	68,056	2.0	7,754	0.9	114	14,366,319	1.2
American Indian	23,266	0.7	3,398	0.4	146	5,271,769	0.4
Asian	8,158	0.2	964	0.1	118	6,860,824	0.6
Other	27,290	0.8	4,640	0.5	170	11,753,114	1.0
Hispanic <sup>2</sup>	47,223	1.4	12,888	1.4	273	18,209,871	1.4

<sup>1</sup>Racial percentages are calculated based on the racial totals for all owners and all owner acres (3,345,521 and 872,807,000). The U.S. total is greater than the sum of the races because it includes corporate and other non-individual owners that do not have racial characteristics, plus some individuals who did not answer or did not receive a racial identifier. This also applies to average acres per owner.

<sup>2</sup>Hispanic percentages are calculated based on the U.S. totals for all owners and all owner acres (3,412,080 and 932,495,000).

Source: Table 68, 1999 Agricultural Economics and Land Ownership Survey.

<sup>15</sup> Paul Ong, Varisa Patraporn, and Douglas Houston, *Closing the Asian-White Wealth Gap?* (Los Angeles: Asian American Studies Center, February, 2009).

As figure 3 shows, there are diminishing rates of land ownership among people of color. White Americans own 97% of the value of all privately owned agricultural land, and 98% of the acreage.<sup>16</sup>

Native American-owned land is only one-third of the land base that they held in 1881. Native Americans in the lower 48 plus Alaska own 96 million acres of land, which should make them wealthy; but most tribes have been stripped of the ownership of the natural resources on and in the land, and pollution, lack of water rights and other policies made ownership virtually meaningless.<sup>17</sup>

African Americans in 1910 owned 16 to 19 million acres; in 1999 they had 7.8 million acres.<sup>18</sup> Native Hawaiians also have much land held in trust by the State of Hawaii, but their taking ownership is often subject to legal processes that make ownership unstable.<sup>19</sup>

Mexican Americans who lost their land due to fraud and coercion, among other reasons, are still struggling to use the legal system to get their land claims recognized by the United States. For newer Latino farmers, fair access to lending for acquisition of land is an issue.

In spite of the enormous racial disparity in agricultural land ownership and farm operations, land valued at over \$44 billion is still owned by the four minority groups.<sup>20</sup> While homeownership is the major asset for urban America, agricultural/undeveloped land is the major form of potential wealth in minority rural America. Native American tribes own at least 45 million acres of land, including an estimated 10% of the nation's energy resources; and Native American individuals own at least 10 million more acres.<sup>21</sup> This land could be a basis for wealth creation.

Land has been loved and cared for, especially by Native Americans who know how to work with nature, not against it. If the Cherokees had not been force-marched from their homes, they would have preserved the mangrove trees lining the banks of the coast, trees uprooted for tourism and development by short-term profit-seekers. This natural eco-system would have prevented the severity of the flooding after hurricanes from Florida to Louisiana. Perhaps we would not need a green revolution to restore what has been destroyed. We are learning that individual profit-seeking may expand the GDP in the short run, but in the long run, our economy benefits from stewardship of what we hold in common.

### Reasons for the Land Gap

A major problem for Native Americans and Native Hawaiians is that they do not control their own lands, which are still held in trust by the federal government. Mismanagement of lands held in trust has been the norm since the establishment of the Department of Interior's Bureau of Indian Affairs (BIA). The Bureau is unable to account for billions of dollars worth of revenue generated from managing the land on behalf of Native individuals. In the class action lawsuit, *Cobell v. Kempthorne*, in which Native people are trying to determine what happened to the monies held for them in trust, the Department of Interior is unable to produce accounts, nor has it been unwilling to offer a settlement<sup>22</sup>. For the 1.5 million acres of land held in trust by the State of Hawaii, the State cannot account for the land or revenue generated from the land because a thorough and accurate land inventory has never been completed.

For Black farmers, discrimination in lending and other assistance by the Department of Agriculture (DoA) was also proven in the *Pigford v. Glickman* class action lawsuit. Due to discriminatory practices by the DoA, African-American farmers have lost their farms at a rate significantly higher than white farmers. Again, victory did not lead to adequate compensation or systemic remedies.

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<sup>16</sup> Jess Gilbert, Spencer Wood and Gwen Sharp, "Who Owns the Land? Agricultural Land Ownership by Race/Ethnicity" *Rural America*, 19, no. 4 (Winter 2002): 55-63. <http://www.ers.usda.gov/publications/ruralamerica/ra174/ra174h.pdf> (accessed March 7, 2009).

<sup>17</sup> Lui et al, op. cit., p. 33 - 35.

<sup>18</sup> Gilbert et al., op. cit.

<sup>19</sup> Mitchell, Thomas W., "From Reconstruction to Deconstruction: Undermining Black Ownership, Political Independence, and Community through Partition Sales of Tenancies in Common," *Northeastern University Law Review*, Vol 95, No. 2 (2001) 505-580.

<sup>20</sup> Gilbert et al., op. cit.

<sup>21</sup> Lui et al., op. cit., 65.

<sup>22</sup> [www.indiantrust.com](http://www.indiantrust.com)

In terms of revenues, federal commodity payments are skewed to large farmers and agribusiness, almost all of whom are white, because the size of the payments is based on farm size and amount of production.

### Recommendations for Closing the Land Gap

Land ownership by people of color has the potential for creating economic progress in rural areas, and recent changes open up new possibilities. In 2008 Congress passed a farm bill that took significant steps in creating greater equity and diversity in American agriculture, providing \$1.5 billion dollars over five years for small farmers and ranchers of color to implement strategies that will keep them on the farm. This was largely due to the leadership of the Diversity Initiative Policy Team, including members of all-non-white groups established in July of 2006. The new bill also speeds the resolution of Civil Rights claims, puts a moratorium on farm foreclosures, and prioritizes credit and loans to beginning farmers of color. Prior to this time, 95% of participants in the beginning farmer program were white males.<sup>23</sup> Under the terms of the Bill, farmers of color have first rights to purchase land put up for sale in the USDA inventory. These measures have the potential to dramatically increase land ownership for rural people of color. Implementation of the provisions of the bill must be monitored closely at the state level to ensure that farmers of color receive the mandated benefits.

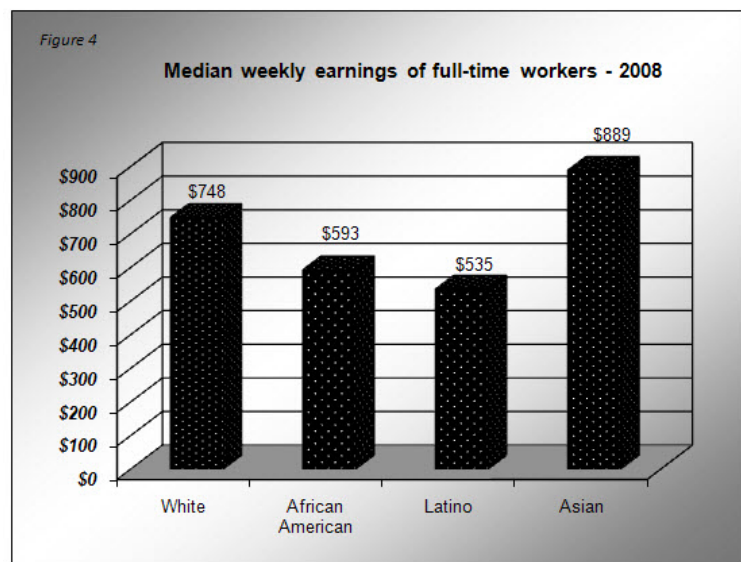
Changes to narrow the land wealth gap include measures to stem land loss and to help farmers of color increase their access to affordable assistance with land management, legal issues, and low-interest loans.

1. Enactment of a uniform heir property law that supports family retention of land that has been sub-divided into myriad pieces;<sup>24</sup>
2. Establishment of comprehensive and accurate land registries, especially the USDA Minority Farm Registry and the state of Hawaii's Hawaiian Homelands Registry
3. Increasing the availability of legal services in rural minority America
4. Incubating programs to develop land-use and train real estate professionals of color

#### b. Income and Employment

Although income from jobs does not by itself constitute wealth, it does provide a foundation for asset accumulation. In many cases, benefits associated with employment may also help workers meet their needs for retirement security and health, disability and unemployment insurance. With these benefits, workers do not have to dip into savings or lose assets in a crisis.

While not as broad as the wealth gap, there is also a racial income gap. Full-time African American workers earn less than four-fifths as much as white workers, and Latino workers less than three-quarters as much (see Figure 4).<sup>25</sup> In 2007 the median household income for African Americans was \$34,001, and for Latinos \$40,766,



Source: U.S. Bureau of Labor Statistics, "Table 1. Median usual weekly earnings of full-time wage and salary workers," Washington: Department of Labor, 2008

<sup>23</sup> The Farm and Food Policy Diversity Initiative, *A Seat at the Table: Diversity and the 2008 Farm Bill*, (Washington: The Rural Coalition, 2008), 4.

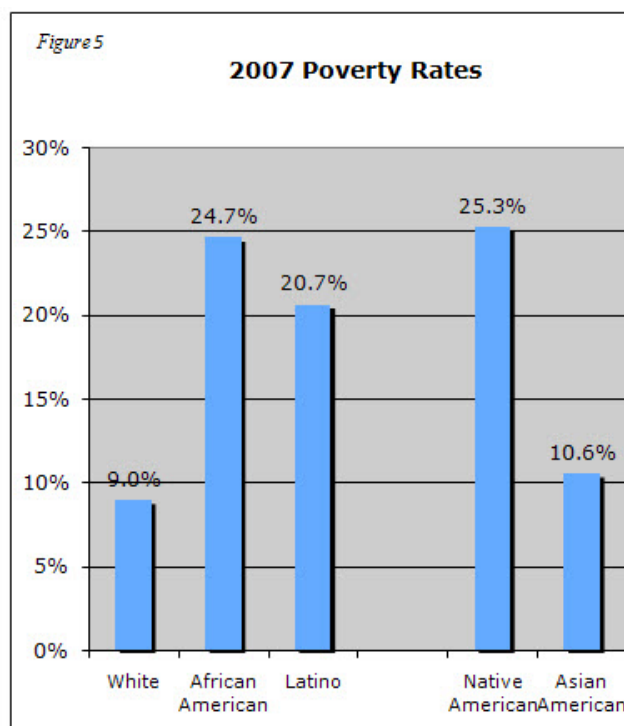
<sup>24</sup> Mitchell, op. cit.

<sup>25</sup> U.S. Bureau of Labor Statistics, "Table 1. Median usual weekly earnings of full-time wage and salary workers," (Washington: Department of Labor, 2008).

compared with \$53,714 for whites.<sup>26</sup>

Some Asians have done well, particularly second-generation or longer-term Asian Americans and those from China and India recruited for their skills or educational backgrounds, but others such as those from Cambodia, Laos, and the Pacific Islands arriving as refugees are at the bottom of the workforce. The Hmong have the highest levels of poverty of any group in the US, 60%.<sup>27</sup>

In 2007, the poverty rate was 9% for whites, 24.7% for African Americans, 25.3% for Native Americans, 10.6% for Asian Americans, and 20.7% for Latinos.<sup>28</sup> One in eight white children, one in three African American and Native American, and one in four Latino children lived in poverty in 2007.<sup>29</sup>



Source: U.S. Census Bureau

As the economic crisis deepened, unemployment shot up from January 2008 to January 2009 for every racial and ethnic group. For African Americans, it rose from 9.4% to 13.4%; for Latinos, from 7.2% to 11%; for Asian Americans, from 3.2% to 6.2%; the white rate rose at the slowest rate, from 4.9 to 7.8%.<sup>30</sup> And these are just the official unemployment numbers, reflecting only people in the labor force who actively looked for work in that month; millions more are discouraged workers subsisting outside the labor market.

<sup>26</sup> Alemayehu Bishaw and Jessica Semega, *Income, Earnings, and Poverty Data from the 2007 American Community Survey*, "Table 1. Median Household Income in the Past 12 Months by Race and Hispanic," (Washington: U.S. Census Bureau, 2008) 9, <http://www.census.gov/prod/2008pubs/acs-09.pdf> (accessed March 7, 2009).

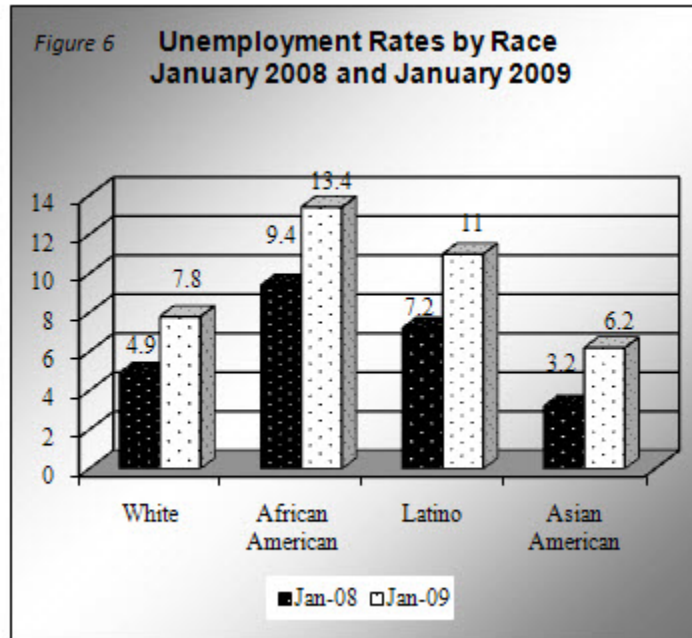
<sup>27</sup> Aarathi Deshmukh, "Closing the Racial Wealth Gap in Public Contracting," webinar (Washington: Asian American Justice Center, October 2008); poverty rates from Bishaw and Semega, op. cit., Table 9, 20.

<sup>28</sup> Bishaw and Semega, op. cit.

<sup>29</sup> U.S. Census Bureau data, cited in Children's Defense Fund, *Child Poverty in America* (Washington: Children's Defense Fund, Aug. 26, 2008), 1, <http://www.childrensdefense.org/child-research-data-publications/data/child-poverty-in-america.pdf> (accessed March 3, 2009).

<sup>30</sup> U.S. Bureau of Labor Statistics, "Table A-15 Employment status of the civilian noninstitutional population by race, Hispanic or Latino ethnicity, sex, and age," (Washington: Department of Labor, 2009), <http://www.bls.gov/web/cpseea15.pdf> (accessed March 4, 2009).





Source: Bureau of Labor Statistics

### Reasons for the income gap

Employment discrimination in hiring and promotions persists in spite of Equal Employment Opportunity legislation that has existed for over 30 years. A 2003 study of job applications showed continuing employer discrimination. Researchers at the University of Chicago and the Massachusetts Institute of Technology sent fictitious responses to help-wanted ads, with either white-sounding names (Emily Walsh, Brendan Baker) or Black-sounding names (Lakisha Washington, Jamal Jones). The white-sounding names were 50 percent more likely to be invited for an initial interview than applicants with black-sounding names. Black resumes weren't helped much by stronger credentials.<sup>31</sup> Similarly, a sociologist at Northwestern University sent white and Black men with and without criminal records to job interviews, and found that white applicants with prison records were more likely to be hired than Black applicants without one.<sup>32</sup>

Unequal access to homeownership, quality public education, jobs, and savings instruments for college lead to a concentration of African Americans, Latinos, Native Americans, and immigrants in lower-skilled, lower-wage segments of the labor market. The geographic locations where most people of color live are not the locations with the best schools, banks and employment opportunities.

In addition, our nation contains increasing numbers of immigrant workers from the global South. Desiring to learn English, they find long waits for English as a Second Language classes. The lack of a pathway to citizenship for so-called guest workers prevents them from achieving economic mobility or security.

Low-paid manual and service-labor jobs are the most likely to be the jobs filled by workers of color, and those jobs are the least likely to offer health insurance or to offer pensions. These workers need Medicaid, but many states require extremely low-incomes and low asset levels to qualify, causing workers either to risk disaster or to stay in jobs well below even the official poverty level. As they get too old to work, they must rely on Social Security alone, and those benefits are inadequate to meet living expenses. Those who are not citizens and return home forfeit benefits. Elders then rely on help from their children, which in a vicious cycle, reduces the next generation's ability to save and invest for their own economic security.

<sup>31</sup> Lui et al., op. cit., 15.

<sup>32</sup> Lui et al., op. cit., 15.

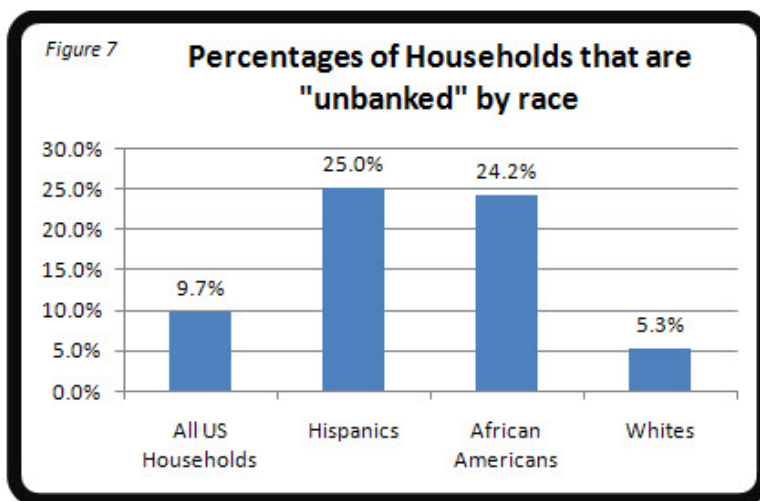
## Recommendations for Closing the Income Gap

1. Strengthen the enforcement of Title VII of the Civil Rights Act, which prohibits discrimination on the basis of race, color, religion, sex, or national origin.
2. Support the freedom to organize which would open the door to workplace benefits and protections for more Americans. Until the 1950's, many unions themselves had racially exclusionary membership rules that exacerbated the wage gap; today, workers of color are the most likely to understand the power of worker association.
3. Focus on increasing employment opportunities and job ladders through sector initiatives, which work with regions' key industry sectors, improving access to good jobs and/or increase job quality in ways that strengthen an industry's workforce<sup>33</sup>. Federal and state governments have already provided support for coalitions that include employers, community colleges, community based organizations, job training organizations, and others in which specific pathways are created that prepare and advance people of color in high-wage, high-demand industries<sup>34</sup>. New green industries should be targeted. Greater investment in this proven approach could generate greater returns.
4. Reform immigration law. The immigrant sector of our workforce has grown, but because of restrictions on citizenship, their work does not bring about mobility or security. Our country needs these workers (as evidenced by political figures from Zoe Baird, Supreme Court nominee under Clinton, to Mitt Romney, Republican Presidential candidate who gave good reasons for having hired undocumented workers), and all who work here should be able to turn their work into wealth.
5. Strengthen our health and retirement systems so all have economic security.

### c. Savings and Investments

Whites accumulate significantly more savings than people of color. The racial disparity in financial assets (cash, investment accounts, stocks, bonds, etc.) is wide: of families with any assets, families of color had only \$9,000 in financial wealth in 2007, compared with \$44,300 for whites.<sup>35</sup> In 2007, 59% of white families saved some money, compared with 51% of people of color.<sup>36</sup>

In order to accumulate wealth through saving, people need access to a federally insured financial institution regulated to ensure safe financial products. Opening a bank account is the first step to formal savings, and currently, people of color are almost five times less likely than whites to have bank accounts, as shown in Figure 7.



Source: Demos calculations based on 2004 Survey of Consumer Finance data

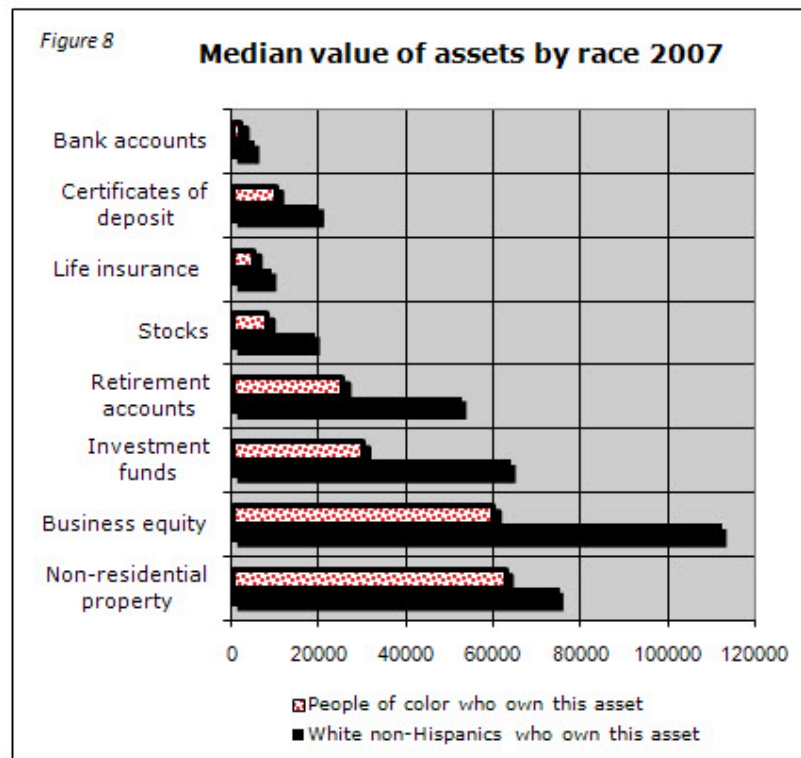
<sup>33</sup> The National Network of Sector Partners (nnspp.org), an initiative of the Insight Center for Community Economic Development, represents more than 400 sector initiatives across the US.

<sup>34</sup> Policy makers in 18 states are developing strategies to support sector initiatives with support from NNSP and its partners in the State Sector Policy Project. For more information visit: [www.insightcced.org/programs/workforce/accelerating-state-adoption-of-sector-strategies.html](http://www.insightcced.org/programs/workforce/accelerating-state-adoption-of-sector-strategies.html)

<sup>35</sup> Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*, (Washington: The Federal Reserve Board, February 2009). [www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf](http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf) (accessed March 7, 2009).

<sup>36</sup> Ibid.

In every category of asset, households of color own less value than white households, as Figure 8 shows. Of all forms of assets, the greatest racial disparity is in the ownership of stocks. People of color are only 44% as likely as white people to own stocks, and of those who do own stock, the median value of the stock is only 42% of whites' median stock value.<sup>37</sup>



Source: Federal Reserve, 2007 Survey of Consumer Finances

Most people of color do not have the opportunity to join employment-based pension plans. In 2007, the median value of retirement holdings for white families with retirement accounts was \$52,700 and only \$25,400 for nonwhite or Hispanic families.<sup>38</sup>

Only 6% of Native American young baby boomers held stocks, bonds, or mutual funds compared to 22% of all young baby boomers.<sup>39</sup> The median value of stock held by nonwhites is less than a third that of whites. In 2001, the mean asset ownership of stocks, mutual funds, IRAs, Thrifts, and Future Pensions for whites was \$146,567, for African Americans, \$18,082, and for Latinos, \$16,798.<sup>40</sup>

To encourage saving for college, there are federal and state policies that allow tax-free savings for college tuition. Because lower-income people pay less in taxes, the tax saving that comes from a 529 or Coverdell account is not significant for them, while high-income people who can put aside tens of thousands of dollars for their children receive a meaningful tax break.<sup>41</sup>

<sup>37</sup> 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> (accessed March 4, 2009).

<sup>38</sup> 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> (accessed March 4, 2009).

<sup>39</sup> Jay L. Zagorsky, "Native Americans' Wealth," in *Wealth Accumulation and Communities of Color in the United States*, ed. Jessica Gordon Nembhard and Ngina Chiteji (Ann Arbor: University of Michigan Press, 2006), 133-153.

<sup>40</sup> Lui, et al., op. cit., 226.

<sup>41</sup> Susan M. Dynarski, *Who Benefits from the Education Saving Incentives? Income, Educational Expectations, and the Value of the 529 and Coverdell*. (NBER Working Paper No. 10470). (Cambridge, MA: National Bureau of Economic Research, 2004).

## Reasons for the Savings Gap

The lack of inherited wealth, giving people of color less to put into savings and investment vehicles, explains some of the gap. While many people of color are financially savvy, they are often unfamiliar with how to make investment decisions, given the proliferation and complexity of investment choices available. Financial education, providing a foundation of sound financial principles that include the cultural aspects of wealth building, should be available for children, youth, and adults. Financial advisors are often unavailable, so that sometimes money is left on the table, as when workers do not join retirement plans that have an employer match.

Second, people of color are more likely to use their own incomes to support the daily needs of other family members both at home and abroad. Research has documented that African Americans use income to help other family members undergoing economic crises more often than whites, and their level of charitable donations as a percent of income are also the highest, suggesting a belief that the community rises and falls together. The amount of remittances that immigrants send to the global South was \$283 *billion* in 2008.<sup>42</sup>

Third, people of color have limited access to mainstream financial institutions. Often, there are no banks in the neighborhood or rural area. In 2001, 86% of Native communities lacked even an ATM, and 15% of Native people had to travel more than 100 miles to get to the closest bank. Many Native people may not even know someone with a bank account. Where banks exist, they are not always user-friendly. Nearly 60% of Asian American Pacific Islanders (AAPI) do not speak English at home, and few banks offer linguistically and culturally competent information or services for AAPI immigrant communities.<sup>43</sup> Relatively high minimum balances required to open and maintain an account and the costly fees (sometimes hidden fees) act as barriers as well. Immigrants may have a lack of trust in banks due to banking practices in their country of origin; Vietnamese home break-ins during their early years of arrival were due to being unbanked. Some older African Americans lost trust in banks during the Great Depression, when most Black banks failed.

Using the tax code to promote savings for college or retirement doesn't work for those with low tax liabilities, and when there are penalties for using the funds for other purposes, it is an added reason not to tie up money that could be needed for all sorts of emergencies. If the goal is to help more of our nation's young people get the education they need for 21<sup>st</sup>-century jobs, a more direct method would better serve that purpose.

A positive development is growing interest in matched savings strategies. These are government-funded accounts that use tax dollars to jumpstart savings for people in different stages of the life cycle. For children, one approach is to put a silver spoon into every child's mouth born in America: at birth, each would receive a small trust fund that would grow tax-free until the child is 18, at which time they could use the accumulated funds for college tuition, home purchase, or business start-up. For low-income adults, Independent Development Accounts (IDAs) are currently funded by the federal government as well as a number of state governments. Savers can use the funds for specific asset-building activities, such as home buying or small business start-up. The idea of a matched retirement savings account to protect our elders is also being explored.

## Recommendations for Closing the Savings Gap

1. Institute universal, age-appropriate, and culturally relevant financial education opportunities from the K-12 curriculum through post-secondary and community-based education settings.
2. Support the expansion of Community Development Financial Institutions (CDFIs). These community-based institutions understand their members well, provide culturally appropriate savings and lending vehicles, and help people gain wealth. The American Recovery and Reinvestment Act of 2009 provided

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<sup>42</sup> Dilip Ratha, Sanket Mohapatra and Zhimei Xu, "Outlook for Remittance Flows 2008-2010: Growth expected to moderate significantly, but flows to remain resilient" Migration and Development Brief 8, (The World Bank, November 11, 2008); [http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MD\\_Brief8.pdf](http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MD_Brief8.pdf) (accessed March 17, 2009).

<sup>43</sup> National Coalition for Asian Pacific American Community Development, *Housing & Foreclosure Facts*, (Washington: National Coalition for Asian Pacific American Community Development, 2008).

increased funding for CDFIs in Indian country. However, all financial institutions should be encouraged to offer affordable and culturally appropriate financial products and services in all markets.

3. Expand the Community Reinvestment Act to require banks to serve the savings and investment needs of people in communities of color.
4. Tailor matched savings accounts to fit the needs of communities of color. Circle Development Accounts as well as IDAs would build on existing savings practices in immigrant communities. Rotating savings accounts, in which members pool their savings and then allow one member at a time to have access to the larger amount of capital, could be made eligible for matching funds. Expanding the allowable use of the funds to include the purchase of computers and cars which are necessary for greater earnings would also benefit savers of color. Concentrating IDA programs in targeted geographical communities could also increase community wealth.

#### **d. Debt, Credit, and Financial Services**

During the housing bubble, many homeowners borrowed against the inflated value of their homes, only to find that debt unmanageable when layoffs rose and the value of stocks and real estate fell. Homeowners of color are more likely to hold more mortgage debt and other debt secured by their primary homes than white people: 78% of homeowners of color and 69% of white homeowners have debt secured by their primary home. Of those who hold such debt, the median amount was \$113,000 in 2007 for people of color, compared with \$106,000 for white people.<sup>44</sup> (See the Homeownership section for more on mortgages.)

Almost half of all families now carry credit card balances. The median amount of credit card balance rose 25% to \$3,000 from 2004 to 2007.<sup>45</sup> While people of color typically carry less debt than white people, their debt-to-assets ratio was higher in 2004: white households had a median of 15 cents of debt for every dollar of assets, while Black and Latino households had a median of 23 and 24 cents of debt for every dollar of assets, respectively.<sup>46</sup>

Credit scores often determine access to credit and its cost. In 2007 on average, African Americans and Latinos had lower credit scores in 2007 than whites.<sup>47</sup>

Cars, even though they depreciate quickly, are an essential asset for low-income people, who may live in areas where rents are cheaper but farther from job opportunities. In 2004, Blacks paid the highest median interest rate (7%) on auto loans for new cars—compared with 5% for white borrowers and 5.5% for Latino borrowers. Both African-American and Latinos received considerably higher interest rates on used car loans; the median rates were 9.5% and 9% respectively, compared with 7.5% for whites.<sup>48</sup>

In today's job market, post-secondary education is becoming essential to earn enough to be self-sufficient. However, the college graduation rate is declining for students of color. Overall, 28% of whites over 25 have a college degree, compared to 17% of African Americans and 11% of Latinos.<sup>49</sup> It can be financially dangerous to stay in school and keep piling on debt. Twenty-one percent of Black students with loans dropped out of college, as opposed to 14% who did not have debt.<sup>50</sup> African and Latino students are far

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<sup>44</sup> Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007*, op. cit.

<sup>45</sup> *Ibid.*

<sup>46</sup> Jose Garcia, *In the Red or in the Black: Understanding the Relationship between Household Debt and Assets* (New York: Demos, January 23, 2008) <http://www.demos.org/pubs/redorblack.pdf> (accessed March 7, 2009).

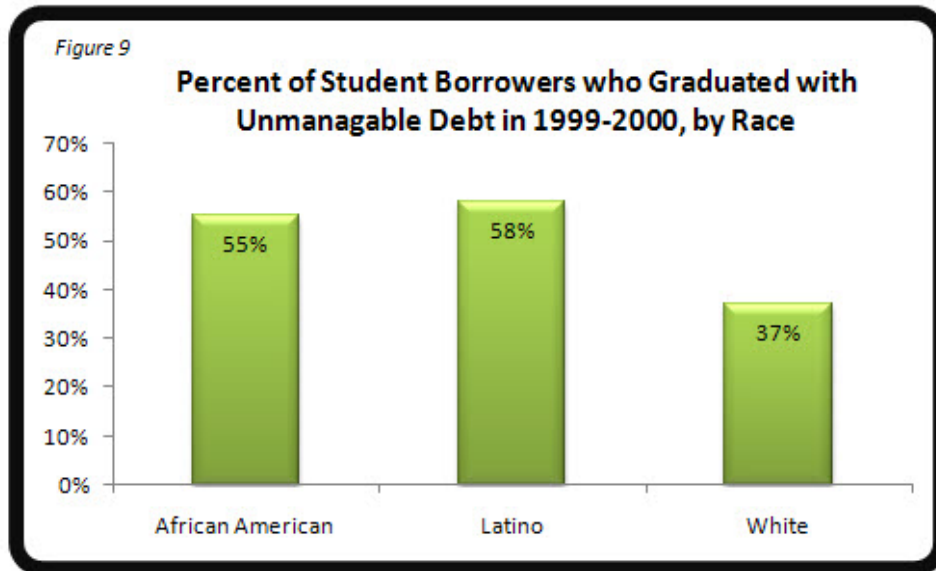
<sup>47</sup> Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007*, op. cit.

<sup>48</sup> Consumer Federation of America, *African Americans Pay Higher Auto Loan Rates but Can Take Steps to Reduce this Expense* (Washington: Consumer Federation of America, May 7, 2007) [http://www.consumerfed.org/pdfs/Auto\\_Loan\\_Press\\_Release\\_5-7-07.pdf](http://www.consumerfed.org/pdfs/Auto_Loan_Press_Release_5-7-07.pdf) (accessed November 27, 2008).

<sup>49</sup> Jennifer Wheary, Thomas M. Shapiro, Tamara Draut, and Tatjana Meschede, *Economic Insecurity: The Experience of the African-American and Latino Middle Classes* (New York: Demos and Institute on Assets and Social Policy, Spring, 2008), <http://iasp.brandeis.edu/pdfs/byathreadlatino.pdf>, (accessed March 7, 2009).

<sup>50</sup> Jose Garcia, *Debt, Assets, Mobility, and the Racial Wealth Gap*, presentation at "How to Close the Racial Wealth Gap: Perspectives of Experts of Color," Santa Barbara, CA, Dec. 5, 2006, <http://www.insightcced.org/uploads///publications/assets/Panel%202%20c%20Garcia%20Debt%20Assets%20Mobility.pdf> (accessed March 7, 2009).

more likely to have unmanageable debt, defined as monthly payments over 8% of income, as shown in Figure 9.<sup>51</sup>



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

### Reasons for the Credit Gap

With poor credit and a lack of credible financial institutions where they live, whether it's on tribal lands, in inner-city neighborhoods or rural areas, people of color find themselves at the mercy of payday lenders, remittance services with exorbitant fees, and predatory lenders who have flourished due to the lack of government regulation and oversight. Payday lenders and remittance companies with annual percentage rates of interest as high as 400% take unnecessarily big bites out of the paychecks of low-income people of color.<sup>52</sup>

Unless they understand financial principles and U.S. cultural practices, people of color can become prey to unscrupulous practices. For example, Haitians in a Miami neighborhood thought that receiving credit card offers in the mail showed that they were accepted and trusted by major U.S. institutions, and they proudly signed up for all of them without understanding the fine print—and soon found themselves caught in the debt trap, with excessive and unmanageable debt loads incurred due to legal but shady credit card company practices.<sup>53</sup>

Credit score rating mechanisms are undisclosed. For immigrants, cultural practices such as paying for all goods and services in full and in cash—logical strategies to prove financial trustworthiness—prevent them from having good credit as defined by the financial sector.<sup>54</sup> For many, it goes against common sense to have to have debt in order to have good credit. The fact that so many households of color are unbanked also affects their credit scores; but being banked and bouncing a few checks can also have negative credit consequences.

<sup>51</sup> Tracy King and Ellynn Bannon, *The Burden of Borrowing: A Report on the Rising Rates of Student Loan Debt*, (Washington: State PIRGs' Higher Education Project, March 2002), <http://www.pirg.org/highered/BurdenofBorrowing.pdf> (accessed March 7, 2009).

<sup>52</sup> Center for Responsible Lending, *Wealth-stripping Payday Loans Trouble Communities of Color*. (Washington: Center for Responsible Lending, October 2, 2008) <http://www.responsiblelending.org/pdfs/az-payday-communities-of-color-10-2-final.pdf> (accessed March 7, 2009).

<sup>53</sup> Little Haiti Housing Association, presentation to Dade County Prosperity Campaign, June 2004.

<sup>54</sup> Jose Garcia, et al., Working group on Debt, Credit and Financial Services, Closing the Racial Wealth Gap Initiative paper (Oakland: Insight Center for Community Economic Development).

Discrimination in lending to African Americans, Native Americans and Latinos has continued. This is best documented in the home mortgage market (see section below). Because of the reporting requirements of the CRA and the 1975 Home Mortgage Disclosure Act (HMDA), it is possible to see lending patterns by race. In markets across the nation, the National Community Reinvestment Coalition has analyzed the data and shown poorer lending records in communities of color.<sup>55</sup> Lack of enforcement of the CRA as well as the lack of similar rules for credit card companies or auto lenders results in business as usual: higher costs for fewer services.

The lack of government regulation has allowed predatory practices to proliferate, and failure to proactively pursue those that practice racial discrimination and targeting is the main cause of the racial debt gap.

### **Recommendations for Closing the Credit Gap**

1. Support the Congressional Oversight Panel's proposal to create a new Financial Product Safety Commission (FPSC), parallel to the Consumer Product Safety Commission. It would set guidelines for consumer disclosure, collect and report data about the uses of different financial products, review new products for safety, and require modification of dangerous products before they can be marketed to the public. It could also ensure that new products do not inadvertently include barriers to their use by people of color, that they are pro-actively designed to meet the needs of minority borrowers, and to watch for discriminatory lending practices.
2. Collect data disaggregated by race and ethnicity for all financial transactions. The collection of this data (similar to that required by the Home Mortgage Disclosure Act) should be federally mandated for credit cards, auto loans, payday loans, rent-to-own and other products that have been targeted to communities of color.
3. Regulate and reform auto lending practices, as well as marginal providers of financial services such as payday lenders or remittance services.
4. Create a federal system of public credit scoring systems. Credit scoring should be transparent, accurate and fair. Flexible measures should be adopted to fairly determine the creditworthiness of consumers who are debt-averse or whose payment behaviors are not measurable. For example, consider rent payments, the credit history of immigrants in their countries of origin, and lack of debt.

### **e. Homeownership**

The foreclosure crisis has hit communities of color especially hard. African Americans in particular were the last in, first out of the housing market.<sup>56</sup> While homeownership rates fell for several racial groups in the last few years, they fell fastest for Black homeowners. (See Figure 10). The Black homeownership rate is falling rapidly. Between 2004 and 2007, it fell by 2.6 percentage points, from 49.7% to 47.1%, while white homeownership fell by 0.8%.<sup>57, 58</sup> While most families of color don't own their homes, for those who do, home equity has been the greatest portion of their wealth, making losses to foreclosure especially devastating.

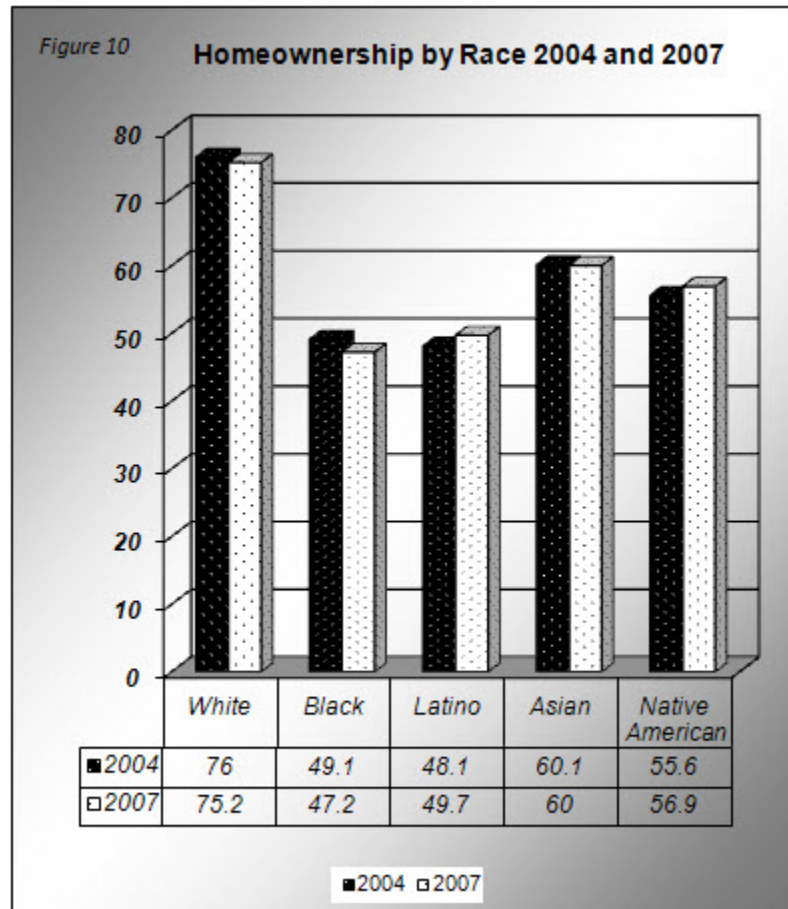
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<sup>55</sup> National Community Reinvestment Coalition, *Income is no Shield Against Racial Differences in Lending: A Comparison of High-Cost Lending in America's Metropolitan Areas*, (Washington: national Community Reinvestment Coalition, July 2007), [http://www.ncrc.org/images/stories/mediaCenter\\_reports/ncrc%20metro%20study%20race%20and%20income%20disparity%20july%2007.pdf](http://www.ncrc.org/images/stories/mediaCenter_reports/ncrc%20metro%20study%20race%20and%20income%20disparity%20july%2007.pdf) (accessed March 5, 2009).

<sup>56</sup> Oliver, Melvin L. and Thomas M. Shapiro, "Sub-prime as a Black Catastrophe," *The American Prospect*, October 2008, 10.

<sup>57</sup> U.S. Census Bureau, *Housing Vacancies and Homeownership, Annual Statistics 2007*, (Washington: U.S. Census Bureau, 2009) <http://www.census.gov/hhes/www/housing/hvs/annual07/ann07t20.html> (accessed March 7, 2009).

<sup>58</sup> James H. Carr and Nandinee K. Kutty, *Segregation: The Rising Costs for America*, (New York: Routledge, 2008), 13.



Source: Census Bureau

Discrimination in the home mortgage market is an under-recognized aspect of the current housing crisis. The nation's largest lenders have given a disproportionate share of the high-cost loans to minority borrowers.<sup>59</sup> African-American borrowers were 3.8 times and Latino borrowers 3.6 times more likely to receive high-cost loans. The numbers are most shocking for high-income people: a high-income African American was almost twice as likely as a low-income white borrower to have a sub-prime loan.<sup>60</sup> They are less likely to receive information about the full range of housing choices and are pushed into segregated neighborhoods less likely to have quality schools or rising home values.

A person of color eligible for a prime loan was three times more likely than a white person to be wrongfully steered into a high-interest adjustable rate mortgage (ARM) with a teaser rate for the first two years, and then exploding payments after that. These discriminatory and unregulated practices have led to foreclosures and an estimated loss of at least \$164 billion in wealth in communities of color.<sup>61</sup>

Asian Americans also have been targeted for sub-prime loans. Sub-prime loans grew 181% for Asian borrowers between 2004 and 2005; \$6.5 billion in loans are now at risk of foreclosure in Asian American

<sup>59</sup> U.S. Federal Reserve's Community Advisory Board, *Paying More for the American Dream* (Washington: The Federal Reserve Board, 2007).

<sup>60</sup> Amaad Rivera, Brenda Cotto-Escalera, Anisha Desai, Jeannette Huezo, Dedrick Muhammad, "Foreclosed: State of the Dream 2008," (Boston: United for a Fair Economy, Jan. 15, 2008), [http://www.faireconomy.org/files/StateOfDream\\_01\\_16\\_08\\_Web.pdf](http://www.faireconomy.org/files/StateOfDream_01_16_08_Web.pdf). (retrieved March 7, 2009).

<sup>61</sup> Ibid.



Pacific Islander communities.<sup>62</sup> As of 2007, Latino homeowners had the greatest increases in housing costs relative to income of any racial group, putting them at great risk of foreclosure.<sup>63</sup>

Brokered subprime adjustable rate mortgages with pre-payment penalties are 5.1 times more likely to default than other mortgages.<sup>64</sup>

Not surprisingly, Black and Latino homeowners are now facing twice the rate of sub-prime-related foreclosures as white homeowners. Some estimates are that more than one in ten homeowners of color will face possible foreclosure, barring government intervention to help them.<sup>65</sup> This is especially devastating because Black families are the most likely to have no other asset besides their homes.

For the owner, foreclosure leads to a further erosion of credit, making it harder to get back up after being knocked down.

When a home is foreclosed, the surrounding community is affected as well. A home neighboring a foreclosed property lost .9% in value, and each additional nearby foreclosure lowered the value another .9%. In lower-income neighborhoods, the loss is even worse: each foreclosure dropped value 1.44%. The total depreciation for those that keep their homes may exceed \$350 billion. For the city or town, each property that is foreclosed costs local taxpayers between \$5,400 and \$7,000.<sup>66</sup> And with lower property values, tax revenues necessary for local services decrease, eroding the quality of life for all.

Asians are a particularly diverse group with a bipolar homeownership profile. While many Chinese and South Asians own homes in suburban, mostly white neighborhoods, Hmong and Laotians are more likely to rent in overcrowded conditions. Only 45.5% of Native Hawaiian and Pacific Islanders live in owner-occupied homes.<sup>67</sup>

In 2005, approximately 15% of Asian homeowners paid at least half of their household income on housing, compared to only 9% of white homeowners.<sup>68</sup> After controlling for state median home value, Asian Americans were found to have \$48,600 less in net worth than whites in a UCLA regression study.<sup>69</sup>

In the Asian extended family system, it may be that the incomes of two parents, several children, and an uncle are all combined to purchase and live in that high-cost suburban home together, unlike the nuclear white family next door.<sup>70</sup>

The United States still has high degrees of residential segregation. One result is lower home values in communities of color. Since the market for a home on an Indian reservation or a majority Black inner-city neighborhood is smaller than for a white community, home values are a fraction of the value of white-owned homes. For example, over 40% of Native Americans live in rural minority counties; the median home value of homes owned by Native Americans in these counties is \$36,800, compared to \$71,300 for white median home values in these same counties.<sup>71</sup>

The current type of housing stock and urban plans do not meet the needs of many families of color. Because there are different definitions of who is in the family and who should own and live in the same home, the nuclear family model and the design of mortgage products as well as the designs of homes and neighborhoods that match that model are not appropriate. Somali-American families are extended and clan-

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<sup>62</sup> National Coalition for Asian Pacific American Community Development, *Asian American and Pacific Islander Housing & Foreclosure Facts* (Washington: National Coalition for Asian Pacific American Community Development, Fall 2008).

<sup>63</sup> Theresa Firestine and Paul M. Ong, *Racial/Ethnic Variation in Homeowners' Financial Burdens, 2001-2007* (Los Angeles: Dept of Urban Planning, UCLA School of Public Affairs, Jan. 15, 2009).

<sup>64</sup> Ding, Quercia, Radcliffe and Li, Center for Responsible Lending (Oct. 2008).

<sup>65</sup> Oliver and Shapiro, op. cit., 11.

<sup>66</sup> Schloemer, et al., op.cit., 25.

<sup>67</sup> National Coalition for Asian Pacific American Community Development, op. cit.

<sup>68</sup> Ong, Patraporn, and Houston, op.cit., 11.

<sup>69</sup> Ibid.

<sup>70</sup> Lui, et al., op. cit., 217.

<sup>71</sup> Housing Assistance Council, *Race, Place and Housing: Housing Conditions in Rural Minority Counties*, (Washington: Housing Assistance Council, 2004) <http://www.ruralhome.org/pubs/RacePlaceandHousing/> (accessed March 7, 2009).

based. Some Asian families who are used to several generations living together put grandparents, aunts, uncles and cousins in one home. Native Americans who may not have reservation land want tribal members to live in contiguous pieces of property.

While recent declines in home values have made home equity a less powerful mechanism for building wealth, it is still particularly important to families of color who still consider homeownership as the main vehicle for achieving the American dream. In rebuilding our national economy, there are new housing markets waiting to be created.

### **Reasons for the Homeownership Gap**

Disparities in home ownership have deep historical roots. From reservations to Chinatowns to barrios and ghettos, people of color have been relegated to the worst areas with overcrowded conditions and dilapidated housing. Homeownership for white families increased by leaps and bounds on two occasions. First, after the Great Depression, as noted previously, the HOLC set racial guidelines as to who would get help with home foreclosures; red-lining began. Their standards carried into the Federal Housing Administration (FHA) created in 1934 to subsidize new homebuyers. Of the \$120 billion in new housing financed by the VA and the FHA in its first 30 years, 98% went to whites.<sup>72</sup> The second big homeownership program was in the GI Bill. Through the FHA and the VA, white GIs received government mortgage subsidies; but discrimination in the housing market prevented many GIs of color from receiving this benefit, or limited the location in which they could buy a home. Moreover the FHA and HOLC inhibited loans that would allow residents in urban communities of color from obtaining loans to improve their homes.<sup>73</sup> As the economy soared and the white middle class grew, people of color were left behind in segregated inner cities, reservations, ethnic enclaves, and rural areas.

### **Recommendations for Closing the Homeownership Gap**

1. Set a national goal of providing quality housing for all. Put a moratorium on foreclosures until a program is in place to re-structure mortgages to enable low-income homeowners to afford payments on a fair, fixed-rate loan.
2. Strengthen and enforce the Fair Housing Act of 1968 to affirmatively close the racial homeownership gap.
3. Establish an effective regulatory system for the sub-prime market. Financial professionals should be made legally responsible for selling products that are appropriate to low-income borrowers.
4. Provide assistance to staunch the loss of homes; geographically target that assistance to the neighborhoods at the most risk of multiple foreclosures.
5. Make low-cost loans available to community-based development corporations to buy foreclosed properties to maintain affordable housing; developers and speculators are already buying some foreclosed properties, and while foreclosures are the hot topic, gentrification of minority neighborhoods and the removal of people of color still need to be addressed.
6. Promote racially and economically integrated housing opportunities. Establish affordable housing initiatives in higher-income communities and at transit nodes to provide access to enhanced property values, better school districts, and jobs.

#### **f. Business Ownership**

The rate of business ownership for people of color is only about half that of whites; 14% of white families but only 7% of families of color owned equity in a business in 2007.<sup>74</sup> And for those who do have business

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<sup>72</sup> Lui et al., *op. cit.*, 257.

<sup>73</sup> Oliver and Shapiro, *op. cit.*, 18.

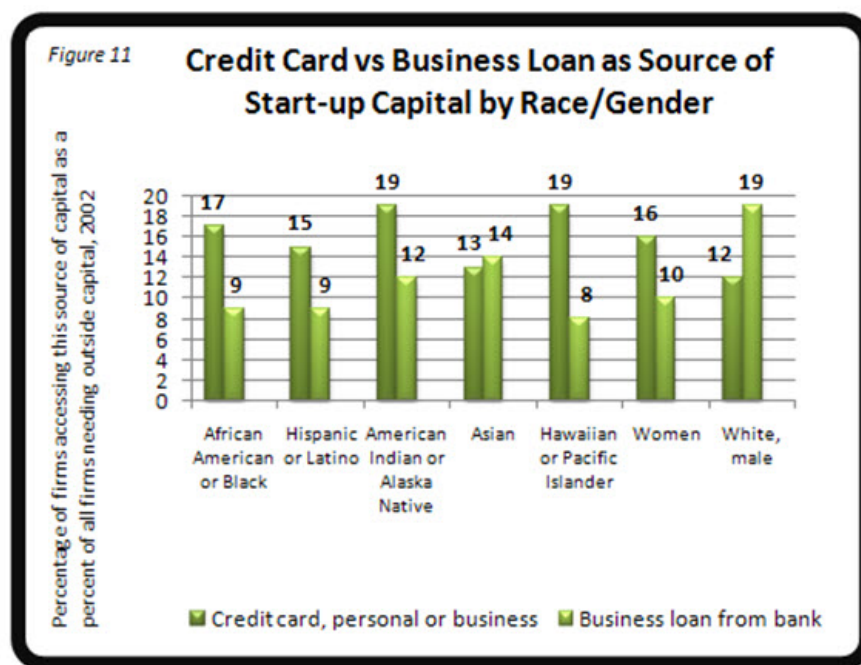
<sup>74</sup> Federal Reserve Board, *Changes in U.S. Family Finances from 2004 to 2007*, *op. cit.*

assets, the median value is only \$60,000 for people of color, compared with \$112,500 for whites.<sup>75</sup> Asian businesses are the most successful of minority businesses, because they often are in the import/export trade and have access to the global marketplace, suggesting that this is a successful strategy for increasing wealth in other immigrant communities with international ties.

Having no employees or less than five employees is the overwhelming business norm in communities of color. While 76% of white businesses were self-employment or micro- businesses in 2002, 92% of Blacks, and 87% of Latinos, Native Americans and Hawaiians/Pacific Islanders were.<sup>76</sup> This is especially unfortunate because business owners of color are more likely to hire employees of color than are white business owners, so job opportunities are lost when companies remain small.<sup>77</sup>

The national market share (portion of total annual receipts) of privately held minority business enterprises (MBEs) was 8.2% in 2002, compared to an overall minority population of 31.8%.<sup>78</sup> White-owned businesses produced \$8.1 trillion in receipts and firms owned by people of color generated a combined \$670 billion in receipts. Less than 1% of all African American-owned firms, less than 2% of Latinos and Native Americans, 2.5% of Hawaiian/Pacific Islanders, and 4.5 % of Asians had sales of over \$1 million per year in 2002, compared to over 5% of white owned firms.<sup>79</sup>

Business start-ups are financed most often by bank loans only for white men; women and people of color are more likely to use credit cards, as seen in Figure 11. Credit card interest rates are usually higher than loans from banks, putting the borrower at greater risk of failure.



Source: Survey of Business Owners, Economic Census, 2002, U.S. Bureau of the Census

<sup>75</sup> Ibid.

<sup>76</sup> Robles, Barbara, "Latino Entrepreneurship and Microbusinesses: A National and Border Economy Snapshot," posting to AAPSS Blog, Oct. 5, 2007, <http://blog.aapss.org/index.cfm?CommentID=43> (accessed March 7, 2009); and U.S. Census Bureau. *2002 Economic Census: Survey of Business Owners*, (Washington: U.S. Census Bureau, 2002) <http://www.census.gov/csd/sbo/> (accessed March 7, 2009).

<sup>77</sup> Timothy Mason Bates. *Banking on Black Enterprise: The Potential of Emerging Firms for Revitalizing Urban Economies*. (Washington: Joint Center for Political and Economic Studies, 1993).

<sup>78</sup> Robles, op. cit.

<sup>79</sup> Robles, op. cit.

## Reasons for the Business Ownership Gap

The wealthiest individuals in communities of color have traditionally been business owners; but the limits of their business success have largely been defined by the boundaries of their own communities. While there were Black-owned businesses before the Civil War with mainly white patrons, after the war, the development of a segregated society ended that.<sup>80</sup> During a century of segregation, African-American businesses did not have access to the white market. The Chinese were run out of mining claims; their business opportunities were limited to jobs that no white man would consider: laundry and cooking. They started these businesses that were traditionally women's work in the mostly male mining towns in the mid-1850's, and it became a small niche market that continued throughout the 20<sup>th</sup> century. Japanese were explicitly prohibited from owning corporations in the early 20<sup>th</sup> century.

Because of their limited capacity to raise capital and the smaller size of their market, and because they were discriminated against in government procurement processes, minority businesses have not created the levels of wealth of white-owned businesses up to today, with a few individual exceptions. The profile of minority-owned businesses is different from that of whites. Besides the high proportion of micro-businesses, businesses often are family affairs or formed by a network of friends; co-operative ventures are more common. They tend to be deeply embedded in their communities.

While providing services, job creation and wealth creation in these markets are strengths, small family businesses and cooperatives usually don't expand to allow greater wealth creation. One reason is the lack of access to the amount of start-up capital that would support larger businesses. Discrimination by financial institutions in the provision of business loans is what needs to be addressed so that businesses of all sizes and in all locations can be established by people of color. Research shows that African-Americans are less likely to receive business loans than white people and those who do receive substantially smaller loans than whites.<sup>81</sup> This is true even when African American and white entrepreneurs have the same level of education, equity capital, credit rating, business size, industry, and previous business experience.<sup>82</sup> Successful entrepreneurship also requires business and market-based knowledge specific to the rules of the nation, state, and local community; such knowledge may be gotten through social networks in white communities, but may sometimes be lacking in minority and especially immigrant communities. Reliable information and social networks are also necessary to gain access to capital. As for other types of loans, credit-scoring methods can be a barrier, and networking opportunities with potential funders may be limited.

Most government procurement programs are not required to seek diversity in their contracts, leading to the operation of an old-boys' network and the exclusion of minority-owned businesses<sup>83</sup>. The Small Business Administration's services include helping the business get access to lower-interest loans and helping with business planning and market analysis; it does not have a good track record serving minority-owned businesses. Its average loan amount is \$157,000, but the average offered to an African American-owned business is only \$80,000, and the average loan to a Latino-owned firm is \$123,000.<sup>84</sup> In addition the SBA has significantly scaled back the Community Express Program, which encouraged lending in communities of color.

Start-up capital is the single most important determinant of the survival and income of a business.<sup>85</sup> Ensuring access to loans, not just to start businesses but also to grow them, is an essential strategy for closing the racial wealth gap. With access to loans and to mainstream markets including receiving government procurement contracts, small businesses can scale up.

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<sup>80</sup> Kilolo Kijakazi, *African American Economic Development and Small Business Ownership*, (New York: Garland Publishing, 1997).

<sup>81</sup> Bates, *op.cit.*

<sup>82</sup> Faith H. Ando, "Capital Issues and the Minority-Owned Business," *The Review of Black Political Economy* 16, no. 4 (1988): 77-109.

<sup>83</sup> Tim Lohrentz, Gabrielle Lessard, Hui Chang Li, Ravinder Mangat. *State Policies and Programs for Minority- and Women-Business Development*. (Oakland: Insight Center for Community Economic Development. December 2007).

<sup>84</sup> U.S. House Small Business Committee Democratic Staff. (2005, December 8). Minority Business Summit Report, <http://www.house.gov/smbiz/Reports/MBS2005.pdf> (accessed January 17, 2009).

<sup>85</sup> Bates, *op. cit.*

Micro-businesses are a huge proportion of minority businesses. Especially in these times when good jobs are scarce and international competition is intensifying, many are creating innovative niches that may help them earn more than they would in the job market as well as building an asset. Government support for the development of small and micro businesses is a worthwhile investment. In 2006, 20.7 million micro-businesses had revenues of more than \$970 billion dollars.

In a period of high unemployment, more people will turn to self-employment. In one program, very low income self-employed women were able to triple their wealth: for every dollar they had in business equity, they increased their household wealth by two dollars.<sup>86</sup> Not only did these entrepreneurs earn more than the minimum wage they might have otherwise earned and improve their families' situations, by catering to underserved vital markets, they enhanced community well-being.

In addition, money that circulates within a community has a prosperity multiplier effect. If a Native American can buy food and fishing tackle from a store owned by a fellow tribal member rather than going to Wal-Mart, the revenue doesn't flow through, but instead stays within the community. Rather than growing Wal-Mart and the profits going to the Waltons and their shareholders, the profits grow local businesses and profit community members who can turn around and spend once again within the community. People of color are more likely to employ other people of color than white business owners; as their enterprises grow, they create new jobs and begin a cycle of economic expansion that ripples out to the whole economy.

### **Recommendations for Closing the Business Ownership Gap**

1. Strengthen and enforce laws that prevent discrimination by financial institutions in the provision of business loans.
2. Provide minority businesses with facilitated access to diverse public and private sources of capital. Such assistance could include outreach, networking opportunities, workshops, materials in different languages, and mentorship programs.
3. Diversify suppliers to a region's public and private sectors, and connect minority businesses to contract procurement opportunities.
4. Encourage the development of new small business loan products.
5. Build on the success of rotating savings accounts. These pooled savings accounts have launched businesses in the Korean, Jamaican, Vietnamese, Dominican, and other communities. The Mission Asset Fund in San Francisco allows participation in a community savings plan to count as evidence of good credit. Allowing those funds to be deposited as a group and to be used to leverage larger loans would help capitalize minority businesses.

There is great potential for growth of minority businesses. There is a growing market of non-white Americans, and minority businesses are in a position to understand their needs and desires. Research has shown that corporations with diverse suppliers have better performance. Especially when corporations operate in a global marketplace, if they have minority business suppliers they have a competitive edge when dealing with Asia, Africa, and Latin America.<sup>87</sup>

### **g. Social Insurance**

*Social insurance is important for closing the racial wealth gap because it is very hard to save adequate amounts of money when the risks one may encounter in life could be financially catastrophic. Given the high costs involved, we should not imagine that the solution for people in poverty is in personal savings (alone)... Social insurance is part of the answer.*

Bill Spriggs, Professor and Chair, Howard University Department of Economics.

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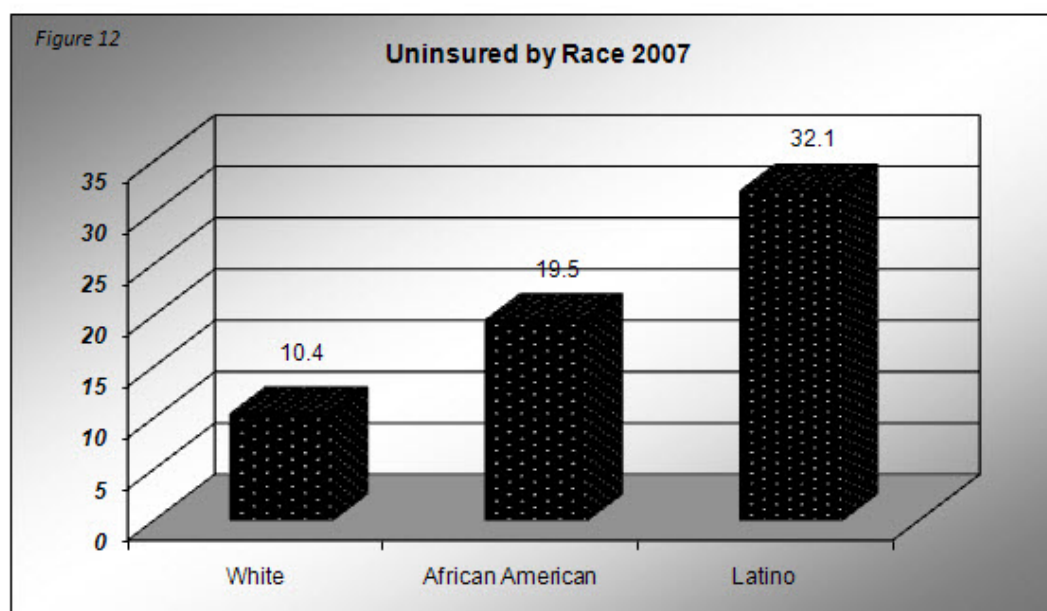
<sup>86</sup> Thais Rezendes, the Women's Initiative, correspondence with author.

<sup>87</sup> Roger Clay, "The Business of Color: Strengthening the Regional Economy," *FOCUS Magazine*, (March/April 2007): 16-17.

We are witnessing a national tragedy: people who have taken personal responsibility throughout their life course for the accumulation of enough wealth to allow them to retire are finding themselves facing impoverishment. Through no fault of their own, the dollars grown over the years in their private accounts have suddenly disappeared in the blink of an eye. But unlike in the Great Depression, our elders and disabled people are not totally penniless, thanks to social insurance programs enacted since that time.

Social insurance refers to worker-financed and/or tax-funded government programs that pool risk across individuals to protect them against economic insecurity caused by such factors as disability, old age, death of a breadwinner, expensive medical care, and unemployment. Social Security, Worker's Compensation, Medicare and Medicaid, and Unemployment Insurance protect individual assets from devastating financial events.

People of color are particularly reliant on these programs, especially Social Security disability and survivor benefits. They are in greater need than whites of Medicare and Medicaid, the largest government-funded health insurance programs. As figure 12 shows, in 2007, the percentage of people without health insurance was 10.4% for white people, compared to 19.5% for African Americans, and 32.1 % for Latinos.<sup>88</sup>



Source: Census Bureau, *Income, Earnings, and Poverty Data from the 2007 American Community Survey*

However, there are important gaps due to flaws in the program designs that reinforce racial inequities.

Social Security retirement benefits disproportionately go to whites, who tend to live longer. Recipients of these old-age payments were 85% white, and only 9% African-American and only 6% Latino in 2005.<sup>89</sup> Given the regressive tax that funds Social Security, described in the Tax section below, the retirement portion of Social Security reinforces racial inequities.

But Social Security includes other benefits besides old-age payments, and these are especially important to people of color. In 2005, Supplemental Security Income (SSI), which goes to elderly people ineligible for Social Security, was paid disproportionately to African Americans, who are 22.3% of beneficiaries and only 13% of the U.S. population.<sup>90</sup> However, the average SSI payment is only \$535 a month.

<sup>88</sup> Social Security Administration, *Hispanics, Social Security, and Supplemental Security Income*, op.cit., Table 7.

<sup>89</sup> Social Security Administration, *Hispanics, Social Security, and Supplemental Security Income*, op. cit., Table 8.

<sup>90</sup> Social Security Administration, *Hispanics, Social Security, and Supplemental Security Income*, op. cit., Table 8.

Similarly, African Americans are more likely than others to receive Social Security Disability Insurance payments. In 2002, 29% of beneficiaries of this program were African American.<sup>91</sup>

Latinos are less likely than other races to receive many kinds of public benefits, in part because on average they are younger and healthier than other groups, and in part because some immigrants are not eligible for social insurance programs. Only 6% of Social Security old-age beneficiaries are Latino, even though Latinos make up over 14% of the U.S. population.<sup>92</sup>

Unemployment Insurance was designed to protect workers and their families against involuntary unemployment resulting from fluctuations in the labor market. Unfortunately, it is structured in a way that advantages higher-income, full-time white collar workers over low-income, part-time, temporary, and self-employed workers—categories in which workers of color are disproportionately represented. Unemployment rates for blacks and Latinos have consistently been about double those of white workers, and yet a 2003 study found that more white men and women received unemployment insurance compared to African American and Latino men and women<sup>93</sup>.

Workers' Compensation is employer-sponsored insurance that provides medical care, disability payments, and vocational rehabilitation to employees who have experienced work-related illnesses or injuries. Despite government regulation, Workers' Compensation awards for racial and ethnic minorities are not in line with the rate of work-related illnesses and injuries experienced by these populations. Immigrants in particular get left out: undocumented immigrant workers do not have access to Workers Compensation, and those who are documented may not know they are eligible.

### Reasons for the Social Insurance Gap

Anti-poverty programs throughout U.S. history have been geared to a subset of “deserving poor,” often a code word for white. For example, during the Great Depression of the 1930s, relief programs were administered by local authorities, which could set their own benefit levels and eligibility rules. Southern congressmen prevented two rules from being passed, one requiring states to set relief levels at “a reasonable subsistence compatible with decency and health,” and the other centralizing relief in one state agency. A smaller percentage of Black people than white people got federal relief payments, even though average Black income was less than half of the average white income.<sup>94</sup>

At its inception in 1935, Social Security covered limited occupations: in commerce and industry). These occupations excluded domestic and farm work, where African Americans and Latinos were primarily employed. President Roosevelt made these exclusions in order to get Southern support for the measure. In 1939, a decision was made to expand coverage to the wives of covered workers, but still not to domestic and farm workers. This policy change underscored the inequity of the law when spouses who did not work received coverage while men and women who did work received nothing.

This racialized policy was actually intended to restrict asset accumulation for people of color. Asset-building pioneer Michael Sherraden referred to Social Security as an “exclusive asset policy” that facilitates the accumulation of assets by some households, typically middle and upper income, and restricts others, usually low-income households.

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<sup>90</sup> Social Security Administration, *Characteristics of Noninstitutionalized DI and SSI Program Participants*, “Table 8. SSI payments as a percentage of personal income for SSI recipients, by selected demographic characteristics,” (December 2002), <http://www.socialsecurity.gov/policy/docs/rsnotes/rsn2008-02.html> (accessed March 7, 2009).

<sup>91</sup> Social Security Administration, *Characteristics of Noninstitutionalized DI and SSI Program Participants*, “Table 8. SSI payments as a percentage of personal income for SSI recipients, by selected demographic characteristics,” December 2002.

<sup>92</sup> Social Security Administration, *Hispanics, Social Security, and Supplemental Security Income*, op. cit., Table 8.

<sup>93</sup> Lee, C.H. (2004). “Impact of State Unemployment Insurance Programs on African Americans”, In Buto, K., Priddy Patterson, M., Spriggs, W.E. & Rockeymoore, M., eds. *Strengthening Community: Social Insurance in a Diverse America*. Washington, DC: National Academy of Social Insurance.

<sup>94</sup> Lui et al., op. cit., 92-93.

In 1950, legislation was passed to extend Social Security coverage to domestic and farm workers. However, inequity still exists. Domestic and farm workers continue to be vulnerable to employers failing to report their wages for Social Security credit. Consequently, these workers may not qualify for Social Security even though they worked, or they may qualify for fewer benefits than they would have if all of their earning had been reported. African Americans and Latinos disproportionately make up the workers in these occupations.<sup>95</sup> Agricultural workers are also not covered by Workers' Compensation in 16 states.

Another source of inequity exists in spouse benefits.<sup>96</sup> The spouse of the primary worker, usually the wife, can receive benefits based on her own work history or receive a benefit equal to 50% of the primary worker's benefit, whichever is higher. This policy favors families with one high earner, often a white man.

Inequity also exists within survivors benefit program. The surviving elderly spouse, usually the wife, can receive a benefit based on her own work history or 100 percent of her deceased husband's benefit. This is a powerful protection against the risk of poverty after the death of a spouse. But this policy favors families with one high earner over families with the same total income earned by two low-earners.

The inequity within spouse and survivors benefits by and large breaks down along racial lines. African-American women historically worked more outside the home than white women, but have earned relatively low wages. Their husbands have also earned lower wages than white men. Consequently, African Americans have typically received a smaller Social Security benefit than whites. Similarly, Latinos also receive lower Social Security benefits than whites because they earn lower wages.<sup>97</sup>

It is important to note that low-wage workers also *benefit* from a key component of the Social Security System. Its progressive benefit formula is designed to help compensate low-wage earners, who are disproportionately people of color and women, for negative labor market experiences like higher unemployment and lower wages. The formula drops five years of a worker's lowest earnings and it provides a higher percentage of pre-retirement earnings to a low-wage worker than to a high-wage worker. However, this formula cannot completely compensate for labor market inequities, and the inequities in the spouse and survivors' benefits work against the effects of the progressive benefit. The result is that African Americans and Latinos have a higher probability than whites of being poor, even after receiving Social Security.<sup>98</sup>

### **Recommendations for Closing the Social Insurance Gap**

1. Protect workers who would otherwise be poor, even after receiving Social Security by re-instituting a minimum benefit. In addition, the program could be made more inclusive by providing better protection for domestic and farm workers by studying the extent of the problem of underreporting of their wages, and by better enforcing reporting requirements.
2. Strengthen the Social Security system by removing asset limits for those that are eligible for both Social Security and Supplemental Security Insurance; allow Social Security benefits for dependents of prisoners, and phase out spousal benefits while increasing the elderly surviving spouse benefit to 75% of what the couple would have received if both were still alive.
3. Restore the age of retirement with full benefits to 65 years. Allow early retirees, between ages 62 and 65, to get a larger share of full benefits.
4. Enact national health insurance, and cover alternative non-Western therapies in health insurance. These are not only effective, but often cheaper than technology and drug-dependent Western medical practices.

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<sup>95</sup> Kilolo Kijakazi, "Impact of Unreported Social Security Earnings on People of Color and Women," *Public Policy and Aging Report* 12, no. 3 (Spring 2002): 9-12.

<sup>96</sup> Kilolo Kijakazi, *Low-Wage Earners: Options for Improving Their Retirement Income* (Washington: Center on Budget and Policy Priorities, 2001).

<sup>97</sup> National Council of La Raza. *The Social Security Program and Reform: A Latino Perspective* (Washington: National Council of La Raza, 2005).

<sup>98</sup> Kijakazi, *Low-Wage Earners*, op. cit.



5. Base eligibility requirements for unemployment on hours worked, not earnings. Because so many people of color are in the part-time and contingent workforce, this change would benefit them. Collection of benefits should be expanded beyond lay-off to those—particularly women of color—who have to leave work to care for a sick child, spouse or parent, among other domestic circumstances beyond one's control.
6. Workers' compensation insurance should be extended to all agricultural workers in all states.
7. Improve outreach and education about existing social insurance programs, in particular to communities of color and linguistic minorities.

## **h. The Tax Code**

Bill Gates is the 20th century equivalent of J. Paul Getty: a wealth superstar. Like Getty, people want to know the secret of his success. That secret was revealed by his father, Bill Gates Sr., as he went on public record in support of keeping the nation's estate tax. He said, "When someone has accumulated a fortune, they have benefited disproportionately from society's investment in education, public infrastructure, scientific research and other forms of society's common wealth." He liked to say that if little Billy had been born in an impoverished country without these tax-supported benefits, he could have been just as smart, just as entrepreneurial—yet live and die poor. It was the government who paid for the research that led to the invention of the computer and of the Internet. Government protections including intellectual property rights helped Gates succeed. A public education system produced a stellar workforce for Microsoft.

The tax code is the nation's wealth budget. Taxes are an investment we all make in each other's, and our nation's, future: the shape of that future can be seen in our tax code. Within the tax code is embedded our nation's wealth DNA, determining who is helped to expand their net worth, and who pays what share of the nation's expenses.

In 2007 the government spent \$367 billion to foster asset building, both in direct outlays and tax expenditures. In 2003, for every dollar spent in a direct outlay (such as a mortgage subsidy), it gave up \$642 in revenues through tax expenditures that reward asset building behavior<sup>99</sup>. A tax expenditure does not put dollars directly into people's hands. Instead, it allows them to keep what would otherwise be placed in the nation's tax box. The largest of these items is the home mortgage interest deductions (HMID). The HMID allows families to subtract the value of the interest on their mortgages from their incomes before calculating how much they owe in taxes; this cost \$72.6 billion dollars in forfeited tax revenues in 2006. For homeowners with incomes too low to itemize deductions, there is no benefit; most of the subsidy goes to those with incomes over \$100,000.<sup>100</sup> As we have seen, a lower percentage of people of color own homes, and more have homes of lower value, so that whites benefit disproportionately.

Other tax expenditures also benefit the wealthy who already own assets, such as the cuts in the estate tax and the capital gains tax. As discussed already, the incentives for college savings and retirement savings do not benefit lower-income Americans of color who are less likely to have retirement accounts or college savings plans.

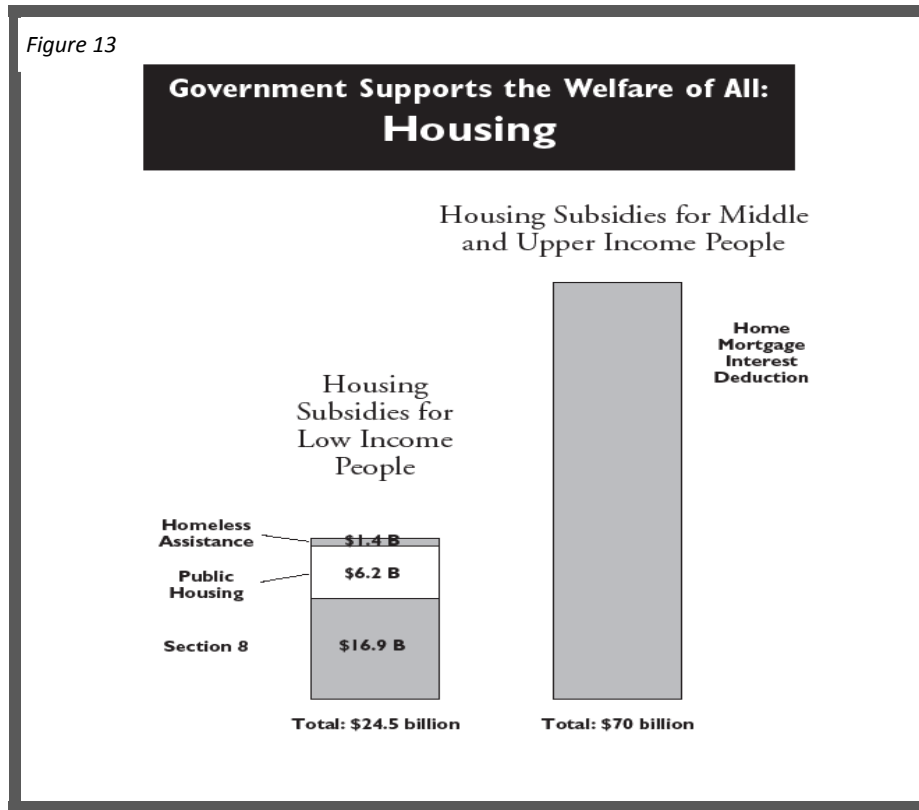
As seen in Figure 13, contrary to the public perception, the amount all taxpayers give to homeowners at the upper ends of the income spectrum is far greater than what we spend on housing programs for the poor.<sup>101</sup>

<sup>99</sup> Lillan Woo, F. W. Schweke, and D. Buchholz, *Hidden in Plain Sight* (Washington, DC: Corporation for Enterprise Development, Spring 2004).

<sup>100</sup> Gerald Prante, *Who Benefits from the Home Mortgage Interest Deduction* (Washington: The Tax Foundation, February 6, 2006), <http://www.taxfoundation.org/research/show/1341.html> (accessed March 7, 2009).

<sup>101</sup> Thomas Shapiro, *African American Savings and Wealth Patterns*, Center for American Progress presentation, May, 2004.

Figure 13



Source: Joint Committee on Taxation; Department of Housing and Urban Development. All numbers for FY 2005.

### Reason for the Gap in Tax Advantages

Throughout U.S. history, taxes have been used as a mechanism of wealth redistribution from people of color to whites. In the mid-1800's when people flocked to California during the gold rush, special taxes were levied on Chinese miners and laundries, inhibiting their capacity to build wealth. Taxes paid by Chinese accounted for 25% of California's taxes between 1850 and 1870, but the Chinese, unable to become citizens, did not receive any tax funded services. Poll taxes only on African Americans prevented them from voting for nearly 100 years. In some Southern states constitutional limits were placed on property taxes in order to keep Black schools underfunded and the population undereducated; the Alabama law still exists.<sup>102</sup> While Latino and other immigrants pay taxes, they are not eligible for tax-funded benefits. For example, the high-school valedictorian children of undocumented workers have been barred from going to public universities at the in-state tuition rate in the state where they reside.

Ironically, just as Native American tribes are finding ways to develop business enterprises such as casinos on their reservations, new tax policies are being passed by states to require them to share their resources, even though tribal governments are legally sovereign and tax-exempt.

Current tax policies are redistributive—from the poor to the wealthy. Those with lower tax liability, or no liability due to low incomes, subsidize the breaks given to those who can afford to pass down large estates to their children, to invest in stocks, and save for retirement and their children's college educations.

The estate tax is paid not on money earned through the hard work of the individual; it reduces the amount of an inheritance at the death of a wealthy parent. It is a mechanism to ensure that the U.S. remains a nation of economic mobility for all, rather than an aristocracy. As Bill Gates Sr. said, "The estate tax is an 'opportunity-

<sup>102</sup> Robin Einhorn, "Tax Aversion: The Legacy of Slavery," *Poverty and Race* 17, no. 2 (March/April 2008): 1-2, 11-12.

recycling program.’ It recycles society’s investment in wealthy individuals to create opportunities for the next generation.”

Some tax policies do help low-income people of color. The Earned Income Tax Credit (EITC) enacted in 1975 is a refundable credit that puts dollars directly into the hands of very low income workers; it is expanded in the American Recovery and Reinvestment Act of 2009. Recently, EITC policy was reformed to allow people to split their refunds and put part of the money directly into an approved bank account, helping more to obtain bank accounts to save. Successful implementation of these policies depends on community-based organizations (many of them part of the National Community Tax Coalition) which conduct outreach and free tax preparation for those who do not make enough to file income taxes, but are eligible for the refund.

### **Recommendations for Closing the Gap in Tax Advantages**

1. The estate tax, our nation’s most progressive tax, imposed only on the concentrated wealth of those who have benefited the most from our society in the last generation, should be preserved. Moreover, the revenues - up to \$1 trillion over a decade - should be earmarked for innovative strategies that open up the clogged pipeline to economic security for the next generation. For example, estate tax revenue could be used to support matching savings programs for children, targeted for direct support of educational opportunity such as funding universal early education, or to close gaps in financial aid for post-secondary students.<sup>103</sup>
2. Analyze and reform tax expenditures in the tax code for effects on narrowing or widening the class and racial wealth gaps. Existing tax deductions could be converted into uniform refundable tax credits, targeted at low-income families and families of color who currently have few or not assets. Cap the tax expenditures any one household can receive.
3. Lower the cap on the mortgage interest deduction to the area median home value, make it available only for a primary residence, and/or make it refundable so that low-income homeowners can receive it.
4. A federal renter credit, such as some states have, could be added to the tax code to help renters increase their likelihood of becoming homeowners one day.
5. The federal government should encourage state governments to create more equitable tax systems through its disbursement of funds to state governments. In states with high proportions of people of color, tax systems tend to be highly regressive, for example relying on sales taxes on basic goods, putting unfair burdens on poor and minority taxpayers.

## **Laying the Foundation for Equitable Economic Growth**

### **a. Asset Development Over the Life Span**

A comprehensive approach to asset accumulation must recognize that wealth building should unfold over the course of a person’s life.

#### ***Saving, not spending***

Today, children are bombarded, even in school settings, with advertisements that promote consumption, and there is no financial education that teaches them how to use money wisely. In fact, sometimes spending is described as patriotic. But saving is a habit that can begin early in life to encourage future orientation. After World War II for example, children were taught to save by being able to bring money to school a little at a time to buy U.S. Savings Bonds—saving was encouraged as a patriotic act. Even small amounts, deposited regularly, can through the magic of compound interest yield many times more than what is put in

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<sup>103</sup> Chuck Collins, “Taxes Pay for Economic Opportunity” in *10 Excellent Reasons Not to Hate Taxes*, ed. Stephanie Greenwood (New York: The New Press, 2007), 85.

initially. Money deposited in transactional accounts such as checking, savings or money market accounts represent a source of readily available funds, while savings put into investments such as stocks, bonds, retirement and college savings accounts are longer-term investments intended to appreciate over time.

### ***Quality jobs: More than a paycheck today***

An income must be large enough to allow for savings; and today the federal minimum wage will not even cover the cost of housing for a family in any part of the country. Wage levels are important for income received even when not working: they determine how much a laid-off worker can collect in unemployment benefits, what they can receive in workers' compensation claims, and the level of their Social Security benefits in retirement. Moreover, in the U.S., health insurance and private retirement pensions have been tied to employment, benefits critical to maintaining financial security.

### ***Taking on good debt***

In the earlier phases of adult life, it is often necessary to borrow. Young people have relatively few assets, but need financial resources to invest in their futures. Debt can be "bad" if it is simply for immediate consumption, or it can be "good" if it can lead to greater financial gain in the future. For example, buying a car on credit may allow a person to commute to a better paying job, or borrowing for college can result in a higher salary. To receive an affordable loan, you need to have a good credit score. Credit and debt are part of the asset-building equation.

### ***Buying a home***

A home is usually a family's first major asset. It is more than a financial investment: it is the centerpiece of opportunity. Where you live determines the quality of schools for your children, proximity to jobs and transportation nodes, exposure to health hazards, and access to social networks and shared community spaces.<sup>104</sup> Owning a home gives access to home equity and appreciation, which can be used as vehicles for upward mobility.

### ***Starting a business***

Business ownership not only provides income for the entrepreneur, but can grow to provide jobs and income first to family members, and then to others as well. Businesses are often a manifestation of the creativity, innovation, and ingenuity of communities of color. In addition, equity in a business can also expand access to loans to grow the business and allow a family to invest in their children's educational future.

### ***Retiring with security***

While pensions from employment and investments in retirement accounts bring income after a person's working years are over, they are not sufficient. Government social insurance programs including Social Security and Medicare, which people pay into throughout their working lives, are critical to older Americans and must not be cut back or privatized.

From birth to death, none of us can make it on our own. Government policies have always been, and will always be, important for our individual and national well-being.

## **b. Seven Principles for Closing the Racial Wealth Gap**

To fulfill the promises of a democratic society, our nation has two tasks. All people living in poverty and near-poverty must be afforded new opportunities for economic mobility and security. A related but separate task is to ensure a post-racial economy for the 21<sup>st</sup> century by affirmatively targeting asset building in communities of color.

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<sup>104</sup> Carr and Kutty, *op.cit.*

These two tasks will require a coordinated set of policies. U.S. policymakers and business, civic and education leaders must advance the common good by embracing a new set of standards that connects all of our people to economic opportunity.

U.S. communities of color already play a positive role in creating a positive relationship to the global economy. Billions of dollars in remittances help boost economies around the world. Many international businesses and non-profit enterprises based on the cultural capital of Americans of color have built both good will and economic ties around the world. As wealth grows in communities of color, these benefits to the nation will grow as well.

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 in the 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.**

While income is vital for working families, income alone is not enough to provide economic security. Promoting asset accumulation and development, whether through tax incentives for homeowners, supporting savings through matched savings accounts and tax-preferred children's, educational, or retirement accounts, or encouraging entrepreneurship through small business programs or other means, are ways that public policies can give all Americans a pathway to prosperity.

2. **Ensure full participation in programs intended to be universal through program design and implementation measures, targeting those often overlooked.**

Public policies should be tailored to particular communities, not one-size-fits-all, paying special attention to those still affected by past exclusion. Such policies must intentionally include all of America's diverse racial and ethnic populations, by using appropriate languages, building on culturally specific wealth-building beliefs and practices, and in other ways removing barriers to asset accumulation for people of color.

3. **Draw upon the perspectives of experts of color to develop public policy.**

Too often, so-called experts who have very little real-world experience with communities of color have the most influence in shaping policies intended to address issues facing these communities. The result is often a failure to achieve the desired outcomes. Researchers, community practitioners, policy experts, and advocates from communities of color have a first-hand understanding of the affected communities. Their experience, coupled with the insights provided by their professional training, are available to design effective policy solutions that will have a successful and lasting impact.

4. **Expand and enforce policies that eliminate discriminatory practices in the private and public sectors.**

Although significant progress has been made toward an inclusive society, discriminatory policies and practices continue to undermine the capacity of communities of color to rise to their economic potential. A dearth of enforced governmental regulation has helped sustain discriminatory practices into the 21<sup>st</sup> century. To be a global beacon of democracy, the U.S. must eliminate the color line through vigorous government and civic leadership.

5. **Promote the collection of racial and ethnic data essential to evaluating policy effectiveness.**

As the late Justice Blackmun once wrote, "In order to get beyond racism, we must first take account of race. There is no other way." Too often there is insufficient data to knowledgeably design public policy or measure its effectiveness, especially for Native American and Asian American communities.<sup>105</sup> Public policies should include requirements to collect all necessary data and conduct performance measurements to assess whether particular asset-building policies are effective in closing the racial wealth gap.

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<sup>105</sup> Wilhelmina Leigh, in *Wealth Accumulation & Communities of Color in the United States: Current Issues*, J. Gordon Nembhard and Ngina Chiteji, Editors, University of Michigan Press, Ann Arbor, 2006., Chapter 1.

## 6. Support community-wide prosperity through community-based economic development.

Although economic opportunity is often viewed through the lens of individual achievement, communal assets also shape opportunities for success in life. Educational, financial, and community institutions that reflect cultural strengths already exist in many communities of color. These community-controlled institutions can best serve their members' interests. Geographically targeted public policies should promote the equitable distribution of resources to enhance these culturally competent community-based institutions.

## 7. Recognize that a comprehensive human capital agenda is needed.

Americans of color need equal access to the educational, health, civic, and economic opportunities that are necessary to reach the economic mainstream and maximize contributions to society. These opportunities are interlocking. When people have access to quality preventive health services, they are in the best condition to learn. When they live in prosperous neighborhoods, they have access to quality education. With education, they can better become inventors and entrepreneurs. When they are empowered and engaged in the civic arena, they can attract public resources that support economically sustainable communities. Individuals, families, and communities with the resources to act on their dreams can renew the American dream.

## Conclusion: The Imperative of Closing the Racial Wealth Gap

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 new foundation for national prosperity.

Facing the racial disparities that keep a third of our people vulnerable to the shifting winds of the economy can be daunting, but simple justice demands that we tackle them. Race and ethnicity should not be a predictor of one's economic future.

Today, too many of our nation's people are without economic mobility or security, their flimsy boats stuck in the shallows, vulnerable to changes in the winds and tides. Without help, they cannot move into safer waters, nor venture forth to find new fishing grounds. We can and must construct sturdy economic vessels for all, by paying particular attention to those in our communities of color who have not yet received benefits in proportion to their contributions.

But it is not only people of color who would benefit from closing the race gap. Historically marginalized racial and ethnic groups are a crucial underutilized resource. Aggressive steps to ensure that all members of these groups fully participate in the economic mainstream will benefit all of us.

Expanding economic opportunities for people of color is an essential strategy for a prosperous America and world. The U.S. needs all of its available human resources to remain competitive, and the world needs all available talent for global prosperity. America's diversity is our strength, and it gives us a unique competitive advantage in an interconnected global economy.