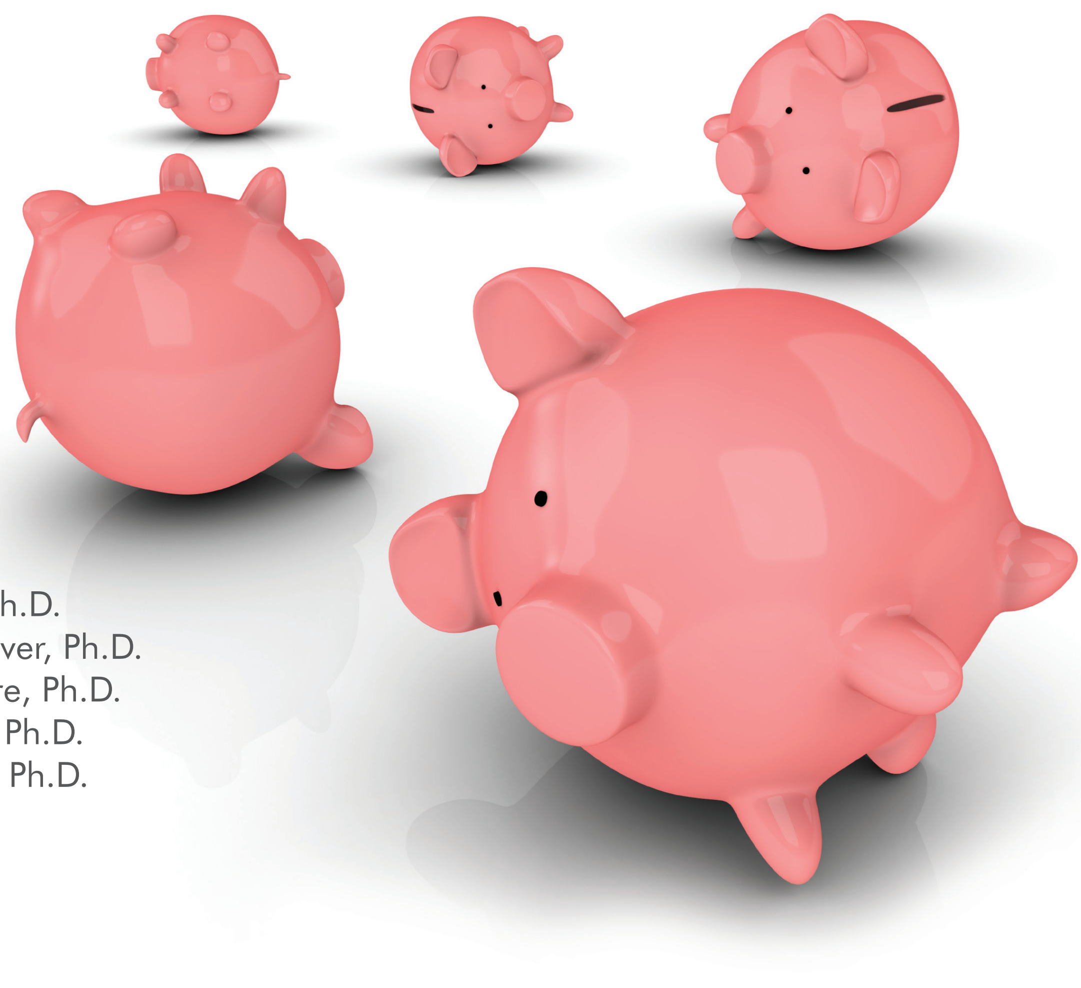
BEYOND BROKE

Why Closing the Racial Wealth Gap is a Priority for National Economic Security



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ABOUT THIS REPORT

This report was prepared by the Center for Global Policy Solutions in collaboration with the Carolina Population Center at the University of North Carolina, Chapel Hill, the Research Network for Racial and Ethnic Inequality at Duke University, and the Milano Graduate School of International Affairs, Management and Urban Policy at The New School. This is a publication of the Closing the Racial Wealth Gap Initiative, a national collaborative effort managed by the Center for Global Policy Solutions in collaboration with the Insight Center on Community Economic Development and with generous support from the Ford Foundation. The program seeks to build awareness and support for efforts to address racial and ethnic wealth inequalities based on structural factors. To achieve this goal, more than 180 scholars, advocates, practitioners, and other experts of color have come together to inform the national economic debate with diverse perspectives and to provide policy solutions to create an inclusive and equitable future for all Americans.

Executive Summary

Despite overwhelming evidence that the racial wealth gap persists in the U.S., it remains a taboo topic in mainstream policy circles and most officials studiously avoid offering targeted solutions to help close this gap. However, this issue is ignored at our nation's peril given the anticipated growth of racial and ethnic groups over the next few decades.

It is an inconvenient truth that the U.S. has maintained racialized policies that have stood in the way of people of color earning wealth and passing it on to the next generation. Historical policies codified in U.S. laws have included: the appropriation of Native American lands and the use of termination and assimilation policies to keep them oppressed; the sanctioning of uncompensated slave labor for people of African origin and the use of housing, educational, and economic segregation to perpetuate their isolation; the use of occupational and educational segregation and the denial of citizenship status to marginalize Latinos; and the adoption of exclusionary laws in the 20th century to keep people of Asian origin from purchasing land, owning businesses, or obtaining citizenship.

The contemporary effects of these racialized policies have been exacerbated by discriminatory practices that persist. For example, the subprime mortgage crisis — in which lenders expressly targeted communities of color for faulty mortgages — had a direct role in decimating wealth in communities of color, which are more dependent upon home equity as a source of wealth. A 2013 study by the Institute on Assets and Social Policy at Brandeis University found that the racial wealth gap is largely driven by "policy shaping opportunities" in the areas of housing, income, unemployment, education, and family or inherited wealth.

Given the projected demographic explosion of the same racial and ethnic groups that have been marginalized in the U.S. economy, the issue of the racial wealth gap must be a national economic security priority. How can we expect U.S. economic productivity to increase and keep pace with the 21st century global economy if the nation's rising majority isn't able to fully participate in its economy? No matter what the prognosticators say about the increasing efficiency of new technologies, we cannot expect the U.S. economy to be driven on autopilot. Who will purchase goods and services from businesses, drive new business ideas, and keep our democratic engines running if the majority of the population is steeped in poverty? U.S. leaders must recognize that closing the racial and ethnic wealth gap is critical for maintaining our economic leadership in the world.

Unfortunately, it is precisely this rising majority that has been impacted most deeply from the most entrenched recession experienced on these shores since the Great Depression. While it is true that Americans of all racial and ethnic backgrounds continue the struggle to rebuild wealth, the depth of this struggle is not the same for everyone. Influenced by both ethnicity and place, the racial wealth gap remains a jarring check on notions of a unified American

experience. This report uses the most recently available data from the U. S. Census Bureau's Survey of Income and Program Participation (SIPP) along with the National Asset Scorecard in Communities of Color (NASCC) in order to highlight the current state of America's racial wealth gap. With these tools, we provide an in-depth analysis of housing wealth and liquid wealth, while also evaluating how wealth disparities manifest across racial and ethnic categories and within racial and ethnic subpopulations in four geographically diverse U.S. cities. We surmise that the larger depletion of housing wealth in communities of color[1]—which played out consistently but unevenly in different U.S. housing markets—and the stark racial disparities in liquid wealth signify that communities of color paid a disproportionate price for the housing and financial crisis but have not yet, and are a long way from, receiving the benefits of the recovery or housing programs intended to provide relief for those affected by the crises.

Findings from the study conclude:

When it comes to the racial gap in liquid wealth, African Americans and Latinos are nearly penniless.

Liquid wealth, that is those financial assets that can be quickly turned into cash, is largely non-existent within Black and Latino households. In fact, as of 2011, African Americans had a median liquid wealth of only \$200, compared to \$23,000 held by Whites and \$19,500 held by Asians. Latinos didn't fare much better, with a median liquid wealth of only \$340. While the overall wealth gap remains stunning, as Whites have a median net worth over 15 times that of Blacks (\$111,740 vs. \$7,113), and over 13 times that of Latinos (\$111,740 vs. \$8,113), when it comes to liquid wealth, the disparity is even starker. The median liquid wealth of Whites is over 100 times that of Blacks and more than 65 times that held by Latinos.

When retirement savings are taken out of the analysis, the disparities in liquid wealth are even more disturbing. Blacks are found to hold a mere \$25 and Latinos just \$100 in liquid wealth, compared to \$3,000 held by the typical White household.

Whites have greater asset diversity than do people of color.

More than half (55%) of Whites own four or more distinct asset types, compared to 49 percent of Asians and only one fifth of Blacks (21%) and Latinos (22%). The study found that African Americans and Latinos are most likely to hold no more than two assets.

For most African Americans and Latinos, checking accounts are their only liquid asset.

Most Whites hold both checking accounts (80%) and retirement accounts (58%), and nearly one-third hold additional financial assets (31%). In comparison, just over half of African Americans (55%) hold checking accounts, while under a third (32%) hold retirement accounts, and only about 1 in 10 hold other financial assets (9%). Similarly, 60 percent of Latinos possess checking accounts, less than a third hold retirement accounts (28%), and only 6 percent own any other financial assets. Asians fare much better in this respect, in fact exceeding the proportion of Whites who hold checking accounts (83% vs. 80%), but still trailing Whites as it relates to retirement account ownership (57%) and ownership of additional financial assets (24%).

The vast majority of African Americans and Latinos are "liquid asset poor."

Over two-thirds of African Americans (67%) could be considered "liquid asset poor" as are nearly three-fourths of Latinos (71%), meaning that their financial assets (including retirement accounts), are insufficient to survive. However, only about a third of Whites (34%) are liquid asset poor (including retirement accounts). Once retirement accounts are taken out of the equation, more than 8 in 10 of African Americans (83%) and Latinos (85%) are liquid asset poor. Even when retirement accounts are excluded, just over half of Whites would be considered liquid asset poor (53%).

African Americans and Latinos are over twice as likely as Whites to hold no financial assets at all, and to have no or negative net worth.

Over a third of all African Americans (38%) and Latinos (35%) have no financial assets whatsoever, compared to only 14 percent of Whites. Likewise, some 33 percent of African Americans and 28 percent of Latinos have either no or negative net worth, compared to only 13 percent of Whites.

While all racial and ethnic groups lost home equity as a result of the Great Recession, people of color suffered significantly more losses than Whites.

Between 2005 and 2011, median home equity declined by more than a third for all racial/ethnic groups. Whites lost 32 percent of the equity in their homes. African Americans lost more than a third (36%), and Asians lost nearly half of their home equity (46%). Latinos were most profoundly impacted, losing over half (56%) of their homes' value.

Race, ethnicity, and place are closely linked to the effects of the housing crisis.

Arizona, California, Florida, Michigan, and Nevada were the five states hardest hit by the housing crisis. More than 40 percent of Asian and Hispanic homeowners lived in one of these five "crisis states." In contrast, only one in five White homeowners (20%) lived in crisis states, as was the case for just 18 percent of African American homeowners. Overall, individuals who live in a crisis state are three times more likely to be underwater in their mortgages than those who do not live in a crisis state.

Whites are more likely than any other racial or ethnic group to own a home, and are the least likely to owe more than their homes are worth.

Even after the housing crash, fully 68 percent of Whites are homeowners, as compared to 59 percent of Asians, 43 percent of Latinos, and 42 percent of

African Americans. These differences in homeownership rates persist even after controlling for a variety of socioeconomic factors such as age, educational attainment, marital status, income, and living in a housing crisis state.

Not only are Whites more likely to own homes, only 15 percent are underwater in their mortgages—the least likely group to experience this circumstance. In fact, African American homeowners are 86 percent more likely to be underwater than Whites, while Latinos are 36 percent more likely to be underwater than are their White counterparts.

Homeownership is still the key driver of wealth.

Among homeowners, home equity still makes up the bulk of their personal wealth. For Whites, home equity accounts for 58 percent of their net worth, for Latinos, 67 percent and for Asian homeowners, 72 percent. For African Americans, home equity accounts for nearly all of their personal net worth (92%). Disparities in home ownership rates, home values, and equity owned in housing are key factors driving the racial wealth gap.

Latino homeowners experienced the largest drop in net worth following the recession, and have yet to recover.

Even in the recovery period, African Americans and Asian Americans lost nearly half of their wealth (45% and 48% respectively) compared to a 21 percent loss among Whites. But no group was more resoundingly impacted than Latinos, who lost a whopping 58 percent of their net worth.

Asian Americans lead all groups in business equity.

Asian Americans outperform all groups when it comes to business equity. At $50,000 their median business equity fully doubles that of whites ($25,000) and greatly outperforms that of both Blacks ($20,000) and Latinos ($12,500).

The racial wealth gap shows little signs of improvement in the recovery period.

Well into the recovery period, the racial wealth gap has improved, but only by an infinitesimal degree. In the immediate aftermath of the Great Recession the racial wealth gap reached record levels. For every dollar in wealth held by Whites, African Americans and Latinos held only 5 and 6 cents respectively. In the recovery period, the disparity remains nearly unchanged as African Americans and Latinos now hold only 6 and 7 cents each for every dollar of wealth held by Whites.

There is great variance in ownership of key financial assets (stocks, mutual funds, investment trusts, etc.) between racial and ethnic groups and among racial and ethnic sub-populations.

According to our pilot study of racial/ethnic wealth differences in four U.S. cities, we find that in Washington, DC, Whites are nearly three times more likely than African Americans to hold key financial assets. In comparison, although Whites in Tulsa, OK hold fewer key assets than do Whites in DC, they are more than seven times more likely to hold these assets than are African American and Mexican families in Tulsa. In Miami, although about half as likely as Whites, Cubans are more likely than African Americans to own key financial assets, and also exceed the rates of Latinos who hail from South America. Among Asian Americans in Los Angeles, we find that Japanese-Americans are fully six times more likely to hold key financial assets than are Vietnamese Americans, and one-and-a-half times more likely to hold assets than Whites. Chinese Americans, too, are especially likely to hold key financial assets, with a rate that is roughly five times that of Vietnamese Americans.

Tulsa, Oklahoma and Miami, Florida are hotspots for liquid asset draining payday lenders.

The four-city analysis of the NASCC data reveals that payday lending is most prevalent in Tulsa, OK and Miami, FL. In Miami, payday loans are most frequently used by African Americans and Puerto Ricans. In Tulsa, Native Americans and African Americans are most apt to use payday loans.

Policy Recommendations

In order to address the challenges this analysis illuminates, we put forth a comprehensive set of recommendations that work together to form a strong "Asset House" for communities of color and help close the racial and ethnic wealth gap. Key recommendations include the following:

✓ ***Make work pay and pay workers fairly.***

It is difficult to divert money to savings vehicles that will result in wealth, liquid or otherwise, if one's earnings are so meager that there is barely enough to cover the basic necessities of life. Therefore, we urge passage of living wage policies to make work pay for every American. We also acknowledge that pay discrimination is not a relic of the past. In fact, a pay gap exists across both race and gender throughout the nation and persists across every level of education. To end this entrenched practice of discrimination, paycheck fairness must become a lived reality so that the wage secrecy which allows discrimination to thrive, can once and for all, come to an end.

✓ ***Ensure mortgage relief programs are transparent and fair.***

Congress and the Administration should ensure that future mortgage settlements include the collection of racial/ethnic, gender, geographical and other demographic data in order to ensure that relief programs are transparent, fair, and targeting the hardest-hit communities.

- ✓ ***Allow Freddie Mac and Fannie Mae to perform principal reduction and loan modifications for distressed homeowners.***

Communities of color were hit hardest by the housing crisis. As such, they are significantly more likely than Whites to be saddled with a mortgage that is higher than the value of their homes. To address this wealth-draining burden, the Federal Housing Finance Agency should allow Freddie Mac and Fannie Mae to assist distressed homeowners by performing principal reductions and other appropriate loan modifications to make home-ownership a sustainable and wealth-building experience for struggling families.

- ✓ ***Enact a universal "baby bond" trust program to progressively endow every American child with an account.***

The baby bond accounts are designed to provide an opportunity for asset development for all newborns regardless of their family's net worth. Children born into households with the least wealth would receive the maximum amount of seed funding from the government--estimated at $60,000--and federal contributions to the accounts would be gradually reduced as the net worth of the child's family increases. These child trust accounts, designed to grow at a federally guaranteed annual interest rate of 1.5 to 2 percent, would be accessed when the child becomes an adult and used for asset-enhancing events such as purchasing a home or starting a new business. With approximately 4 million infants born each year, and an average federal contribution at about $20,000, we estimate the cost of the program to be $80 billion, less than three percent of federal expenditures.

- ✓ ***Expand Social Security.***

For people of color, Social Security is typically a prime source of income in their retirement years; for some, it is their only source of income. For those who are especially reliant on Social Security, such as the very old and the very poor, benefit levels should be boosted. Additionally, college students who have lost a parent should have their Social Security benefits reinstated so that the income lost from the death of a parent can, in part, be replenished. In order to extend the solvency of Social Security and pay for these expanded benefits, the Social Security cap on taxable wages should be eliminated so that high-wage workers can contribute more to the program's overall bottom line.

- ✓ ***Make Refundable Tax Credit Expansions Permanent and Increase the EITC for Childless Workers.***

No one who works every day in America should live in poverty. Yet this reality is the case for far too many, and disproportionately true within communities of color. Few policies have been more effective in pulling workers and children out of poverty than the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), which were temporarily expanded in 2009. There have been growing concerns about the need to increase the EITC for childless workers, who currently receive very little. Therefore, recent expansions to these tax credits should be made permanent and the EITC for childless workers, including non-custodial parents should be increased as well.

✓ ***Expand access to low- and no-cost financial services.***

People of color are much more likely than their White counterparts to be unbanked. As a result, basic needs such as check cashing, bill payment, and access to small short-term loans often come at an exorbitant price, in the long run reducing their ability to maintain or grow their liquid assets. To meet this need we support a variety of efforts to extend low-cost and no-cost services to the unbanked, including: (1) implementing the U.S. Postal Service Inspector General's proposal to expand access to affordable financial services; (2) expanding the range of financial services offered by Community Development Financial Institutions (CDFIs); or (3) requiring traditional banking institutions to improve accessibility and product offerings so that everyone, across race and income levels will have access to a full range of affordable financial services.

✓ ***Use the 10-20-30 concept when allocating resources.***

One particularly promising example of targeting resources to those most in need is the 10-20-30 concept. This approach designates at least 10 percent of new public resources to communities where 20 percent or more of the population has lived below the poverty line for the last 30 years. This place-based strategy can be deployed at the county or the census tract levels in order to better reach impoverished citizens in both urban and rural settings. The approach could prove to be quite useful for discerning how best to direct limited dollars to the nation's neediest communities, a disproportionate number of which are communities of color.

Conclusion

This analysis provides new insight into the close interplay between race and place as it relates to America's persistent wealth gap. Here we find that while everyone continues to experience the negative wealth events brought on by the Great Recession, Whites ultimately suffered much less damage to their overall net worth than did people of color. Comparatively speaking, Whites have greater diversity of assets to turn to in times of economic distress and are less likely to be saddled with mortgages that exceed the value of their homes. In addition, we find that the racial wealth gap has remained largely unchanged in the recovery period, and the gap in liquid wealth is even more daunting. For those communities at greater risk of frequent or protracted periods of unemployment, it is liquid wealth that proves to be the most critical for meeting daily survival needs. The results of this study indicate that communities of color have greater hurdles to overcome in their effort to recover from the Great Recession and from a history of economic marginalization. Policy interventions should be designed to meet this need.

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[1]Funded by the Ford Foundation with Kilolo Kijikazi serving as program officer. Analysis is conducted by the Research Network for Racial and Ethnic Inequality at Duke University, with William Darity, Jr. (Duke University) and Darrick Hamilton (The New School) serving as primary investigators.

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