

# FEDERAL POLICY PROPOSAL

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expanding economic opportunity

## Presidential Action Needed to Close the Racial Wealth Divide

Over the past several decades, economic inequality has skyrocketed to heights not seen since the Great Depression. Today, the 20 richest Americans own more wealth than half the country combined.<sup>1</sup> At the same time, nearly half of all Americans (44%), including millions of middle-class families, are living paycheck to paycheck.<sup>2</sup> Although these issues affect all Americans, economic inequality disproportionately impacts households of color, who are 2.1 times more likely than whites to live below the federal poverty line and 1.7 times more likely to lack the savings needed to weather an unexpected financial crisis. When it comes to wealth, the disparity is even more drastic: white households have nine times more wealth than households of color.<sup>3</sup>

The recent events in cities from New York to Ferguson and from Baltimore to Flint have turned national attention to the enormous economic inequalities faced by communities of color. But the economic and social disparities that came into sharp focus as a result of recent events were not created overnight.<sup>4</sup> Years of discrimination at all levels of government and in the private sector, as well as policy barriers in a range of areas—such as housing, education and criminal justice—have coalesced to create widespread financial insecurity within communities of color and to grow the gaping racial wealth divide we see today.

Shining a light on these discriminatory policies is critical, but awareness isn't enough. Solving this problem—and addressing widespread income and wealth inequality more broadly—requires federal policies that intentionally work to close the racial wealth divide rather than exacerbate it.

In order to address the racial wealth divide, policymakers first need to understand how current federal policies are leaving communities of color behind.

Within the first 100 days of the next President's administration, the President should take executive action to conduct a thorough and extensive government-wide analysis of the role today's policies are playing in perpetuating or closing the racial wealth divide. Only then can federal policymakers take intentional steps through executive, administrative and legislative action to rectify a problem fueled by years of discriminatory practices.



## The Racial Wealth Divide is a Big, Growing Problem

In the past two decades, white households have seen their median wealth exceed that of African-American and Hispanic households by more than \$100,000.<sup>5</sup> Although the racial wealth divide existed long before the economic downturn, it widened significantly during the Great Recession when African-American and Hispanic households lost a much larger share of their wealth (31% and 44%, respectively) than did white households (11%).<sup>6</sup>

Moreover, the recovery that followed has mostly bypassed communities of color and did little to close the wealth divide. African-American and Hispanic households now own six and seven cents of wealth, respectively, for every dollar of wealth owned by white households.<sup>7</sup> For households of color, that means a paltry penny increase from where they were at the end of the recession.

Wealth is not just about how much a household has in the bank or whether they own a home. It also includes college and retirement savings, business ownership and other investments that help create a financially secure future. Altogether, wealth is determined by a collection of economic and social factors that ultimately allow households to start getting ahead, rather than simply getting by.

Unfortunately, for African-American and Hispanic households, unequal access to economic opportunity has limited their ability to build wealth at almost every turn:



**EMPLOYMENT:** Today, African-American workers are unemployed at a rate of 8.8%, more than double the rate of their white counterparts (4.3%),<sup>8</sup> while the unemployment rate for Hispanic workers stands at 5.9%.<sup>9</sup>



**EMERGENCY SAVINGS:** Although nearly 35% of white households are liquid asset poor,<sup>10</sup> meaning they don't have enough savings to live at the poverty level for just three months if they lose a job or face another income loss, more than two-thirds of African-American households (67.2%) and Hispanic households (71%) lack such a personal safety net.<sup>11</sup>



**ENTREPRENEURSHIP:** Households of color are less likely to own businesses than white households, and the average value of minority-owned businesses is significantly lower. On average, white-owned businesses are worth eight times that of the average African-American-owned business and four times that of the average Hispanic-owned business.<sup>12</sup>



**HOUSING:** Only 41% of African-American households and 45% of Hispanic households own their homes, compared to 71% of white households. In addition, households of color are more likely to be "cost-burdened" renters, meaning they spend more than one-third of their income on rent and utilities.<sup>13</sup>



**HIGHER EDUCATION:** Fewer than 20% of African-American adults and fewer than 15% of Hispanic adults hold four-year degrees.<sup>14</sup> But the racial wealth divide is not merely a function of the achievement gap: even after graduating from college, African-Americans and Hispanics accrue far less wealth than white households.<sup>15</sup> In fact, **the median white high school dropout has more wealth than the median African-American or Hispanic college graduate.**<sup>16</sup>



## Federal Policy Created & Continues to Exacerbate the Racial Wealth Divide

**Today’s racial wealth divide did not suddenly materialize overnight or even over the course of a few years.** Rather, it was the direct result of decades of systematic abuses and injustices that deprived communities of color of equal economic opportunity. The result is a racial wealth divide so expansive that it puts nearly every person of color at an economic disadvantage from the day they are born.

**One of the greatest contributors to the creation and expansion of this divide has been federal policy.** Historically, the federal government has played an important role in helping families build wealth through long-term and progressive policies. However, many of the federal initiatives used to expand economic opportunity for white families systematically created discriminatory barriers that limited households of color from building long-term wealth. A few of the most noteworthy examples include:

- The exclusion of farmworkers and domestic workers—who were predominately people of color—from coverage under the Social Security Act of 1935.
- The racially biased implementation of the GI Bill by officials within the Department of Veterans Affairs, which resulted in an unequal distribution of benefits—such as low-cost home mortgages and tuition assistance—for service members of color.
- The Federal Housing Administration’s practice of shutting out, through redlining, entire communities of color from the opportunity to purchase their own homes. The racial wealth divide we see today can be largely attributed to this single action. Redlining not only prevented households of color from purchasing homes—the largest driver of household wealth in this country—it also contributed to the creation of many of today’s most economically depressed communities.

In the more than 50 years since the Civil Rights Act was passed, policymakers have corrected these and many other discriminatory actions. But other policies remain in effect today that actively limit the wealth-building potential of households of color:

- Tax policies such as the Mortgage Interest Deduction and reduced rates on capital gains not only overwhelmingly benefit wealthy households,<sup>17</sup> they also disproportionately concentrate benefits in white communities.<sup>18</sup> For example, in 2012, researchers found that three-quarters of those benefiting from the reduced rate on capital gains resided in just a handful of all zip codes, which tended to be predominately white.<sup>19</sup>
- By allowing states to opt out of expanding Medicaid, the Affordable Care Act has created a health care coverage gap for a great number of the country’s most vulnerable communities, including 1.7 million adults of color.<sup>20</sup>

These are just a few examples of how current federal policies continue to play a role in the expansion of the racial wealth divide. In order to document and correct all of them, we must make a concerted effort to identify every single federal policy contributing to the problem.

## Solving Wealth Inequality Requires Addressing the Causes of the Racial Wealth Divide

We cannot begin to solve widespread wealth inequality without intentionally addressing the policies that caused and continue to perpetuate the racial wealth divide. According to the U.S. Census Bureau, by 2020, minorities will account for more than half the country's children, and by 2040, more than half of the entire population.<sup>21</sup> In other words, unless we stem the tide of growing racial wealth inequality, demographic realities will cement the racial wealth divide as a defining feature of American life. We must stop standing idly by and instead take decisive action to address the alarming state of economic inequality faced by households of color.

### OUR PROPOSAL

To begin addressing racial wealth inequality, the next President should take immediate executive action in the first 100 days to assess how major policies and programs within every federal agency contribute to the racial wealth divide today. Only then can we deliberately craft policy solutions to remedy the situation.

This executive action should direct a government-wide audit to rigorously assess all major economic policies and programs, across all relevant federal agencies, to understand how those policies are affecting the racial wealth divide. The audit should be broad in scope and should do the following:

- **Appoint a racial wealth divide audit ombudsperson or special advisor:** The President should appoint a special advisor or ombudsperson who reports directly to the President and is responsible for coordinating the audit and advising the Administration on actionable steps it can unilaterally take to reduce the racial wealth divide.
- **Conduct a thorough, evidence-based review:** Under the direction of the racial wealth ombudsperson or special advisor, empirical tools such as the Racial Wealth Audit developed at Brandeis University<sup>22</sup> should be used to quantify the economic impact that federal policies and programs are having on the racial wealth divide.
- **Issue a public report with actionable administrative reforms:** The Administration should develop a public report to share the findings of the audit, which would include details on the results of each individual federal agency policy review and a list of recommendations the government should take to reduce its role in growing the racial wealth divide. The report should also elevate policies that are helping to close the divide as a way to bring broader attention to these programs so they can be scaled and resourced for greater impact.
- **Demonstrate legislative leadership:** In consultation with the ombudsperson or special advisor, the President should create a legislative agenda which outlines key reforms to close the racial wealth divide that require congressional authorization.

The actions listed above would not only allow for a deeper understanding of the role current federal policies have on the racial wealth divide, but would also provide critical information on what it will take to close it. Additionally, these steps would signal to all other levels of government, the private sector and the nation as a whole that closing the racial wealth divide is a problem that requires our collective and immediate action.

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- <sup>1</sup> Joshua Holland, "20 People Now Own as Much Wealth as Half of All Americans," *The Nation*, December 3 2015, <http://www.thenation.com/article/20-people-now-own-as-much-wealth-as-half-of-all-americans/>.
- <sup>2</sup> Kasey Wiedrich, Lebaron Sims, Jr., Holden Weisman, Solana Rice and Jennifer Brooks, *The Steep Climb to Economic Opportunity for Vulnerable Families* (Washington, DC: CFED, 2016), 4.
- <sup>3</sup> "Net Worth," *Assets & Opportunity Scorecard*, January 2016, <http://scorecard.assetsandopportunity.org/latest/measure/net-worth>.
- <sup>4</sup> Rich McClure and Rev. Starsky D. Wilson, *Forward Through Ferguson A Path Toward Racial Equality* (Ferguson, Missouri: The Ferguson Commission, 2015).
- <sup>5</sup> Signe-Mary McKernan, Caroline Ratcliffe, Eugene Steuerle and Sisi Zhang, *Less Than Equal: Racial Disparities in Wealth Accumulation* (Washington, DC: Urban Institute, 2013), 6.
- <sup>6</sup> Ibid.
- <sup>7</sup> Rebecca Tippet, Avis Jones-DeWeever, Maya Rockeymoore, Darrick Hamilton and William Darity, Jr, *Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security* (Washington, DC: Center for Global Policy Solutions, 2014), 14.
- <sup>8</sup> U.S. Bureau of Labor Statistics, "Table A-2. Employment Status of the Civilian Population by Race, Sex and Age," February 2016, <http://www.bls.gov/news.release/empsit.t02.htm>.
- <sup>9</sup> U.S. Bureau of Labor Statistics, "Table A-3. Employment Status of the Hispanic or Latino Population by Sex and Age," February 2016, <http://www.bls.gov/news.release/empsit.t03.htm>.
- <sup>10</sup> Liquid asset poverty is a measure of the liquid savings households hold to cover basic expenses for three months if they experienced a sudden job loss, a medical emergency or another financial crisis leading to a loss of stable income. For a family of four, that amount is approximately \$6,063.
- <sup>11</sup> "Liquid Asset Poverty Rate," *Assets & Opportunity Scorecard*, January 2016, <http://scorecard.assetsandopportunity.org/latest/measure/liquid-asset-poverty-rate>
- <sup>12</sup> "Business Value by Race," *Assets & Opportunity Scorecard*, January 2016, <http://scorecard.assetsandopportunity.org/latest/measure/business-value-by-race>
- <sup>13</sup> Wiedrich, Sims, Weisman, Rice and Brooks, *The Steep Climb to Economic Opportunity*, 11-12.
- <sup>14</sup> "Four-Year Degree by Race," *Assets & Opportunity Scorecard*, January 2016, <http://scorecard.assetsandopportunity.org/latest/measure/four-year-degree-by-race>
- <sup>15</sup> Laura Sullivan, Tatjana Meschede, Lars Dietrich and Thomas Shapiro, *The Racial Wealth Gap: Why Policy Matters* (New York, NY: DEMOS and Brandeis University, 2015), 20.
- <sup>16</sup> Matt Bruenig, "White High School Dropouts Have More Wealth Than Black And Hispanic College Graduates," *DEMOS*, September 23, 2014, <http://www.demos.org/blog/9/23/14/white-high-school-dropouts-have-more-wealth-black-and-hispanic-college-graduates>.
- <sup>17</sup> Ezra Levin, Jeremie Greer and Ida Rademacher, *From Upside Down to Right-Side Up: Redeploying \$540 Billion in Federal Spending to Help All Families Save, Invest and Build Wealth* (Washington, DC: CFED, 2014), 6-7.
- <sup>18</sup> Lewis Brown, Jr. and Heather McCulloch, *Building an Equitable Tax Code: A Primer for Advocates* (Oakland, CA: PolicyLink, 2015), 5-6.
- <sup>19</sup> Benjamin H. Harris and Aurite Weman, *Factsheet: Beneficiaries of Tax Expenditures Across Zip Codes* (Washington, DC: Urban Institute and Brookings Institution, 2014), 4.
- <sup>20</sup> Samantha Artiga, Anthony Damico and Rachel Garfield, "The Impact of the Coverage Gap for Adults in States not Expanding Medicaid by Race and Ethnicity," *Kaiser Family Foundation*, October 26, 2015, <http://kff.org/disparities-policy/issue-brief/the-impact-of-the-coverage-gap-in-states-not-expanding-medicaid-by-race-and-ethnicity/>.
- <sup>21</sup> U.S. Census Bureau, "New Census Bureau Report Analyzes U.S. Population Projections," March 3, 2015, <http://www.census.gov/newsroom/press-releases/2015/cb15-tps16.html>.
- <sup>22</sup> Thomas Shapiro, Tatjana Meschede and Laura Sullivan, *The Racial Wealth Audit™: Measuring How Policies Shape the Racial Wealth Gap* (Waltham, MA: Brandeis University, 2015).