

# Ten Solutions to Close the Racial Wealth Divide

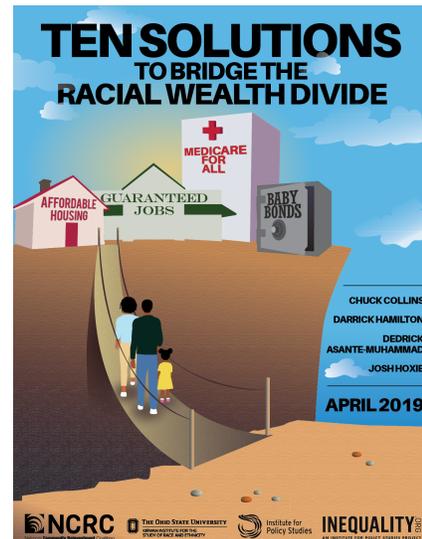
## Executive Summary

By: Dedrick Asante-Muhammad, Chuck Collins, Darrick Hamilton, and Josh Hoxie

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The deep and persistent racial wealth divide will not close without bold, structural reform. It has been created and held in place by public policies that have evolved over time including slavery, sharecropping, Jim Crow, white capping, red lining, mass incarceration, and predatory subprime lending among many others. The racial wealth divide is greater today than it was nearly four decades ago, and trends point to its continued widening.



In this report, we offer 10 bold solutions broken into three categories: Programs, Power and Process. These solutions are designed to strike at the structural underpinnings holding the racial wealth divide in place while inspiring activists, organizers, academics, journalists, legislators and others to think boldly about taking on this incredibly important challenge. This summary outlines the 10 solutions, gives a snapshot of the latest racial wealth divide data, and offers a warning against false solutions.

## Programs

### 1. Baby Bonds

The source of the racial wealth gap is grounded in endowment, the unequal and unfair distribution of inherited advantage. Baby bonds, as colloquially described today, was originally conceived by Darrick Hamilton, a co-author of this report, and presented in print by Hamilton and William Darity Jr. Baby Bonds are an essential program to balance the historical injustices that created the racial wealth divide in a manner that is both universal and race conscious. Baby bonds are federally managed accounts set up at birth for children and endowed by the federal government with assets that will grow over time. When a child reaches adulthood, they can access these funds/use these assets for education, to purchase a home or to start a business. One recent study shows that a baby bond program has the potential to reduce the current black-white wealth gap by

more than tenfold. Another study shows that had a baby bond program been initiated 40 years ago, the Latinx-white wealth divide would be closed by now and the black-white wealth divide would have shrunk by 82 percent.

## **2. Guaranteed Employment and a Significantly Higher Minimum Wage**

Black and Latinx workers are twice as likely as white workers to be among the “working poor,” meaning they have a job, but that job doesn’t pay enough to cover basic living expenses. Likewise, the black-white unemployment ratio has consistently remained roughly 2:1. Bridging the racial wealth divide requires more than just “more jobs”; it demands good jobs that pay a living wage for everyone who is able to work. A federal job guarantee would provide universal job coverage for all adult Americans and eliminate involuntary unemployment. It would offer existing workers a viable alternative to jobs with low wages, inadequate benefits and undesirable working conditions. Moreover, the work would be used to create and improve our nation’s physical and human public infrastructure.

The current federal minimum wage is lower than the cost of living in every city in the country. Moreover, at every education level, blacks are twice as likely to be unemployed compared to their similarly educated white peers. We recognize that income and wealth are conceptually different, and that the racial wealth divide persists through the income distribution. Nonetheless, the income from a federal job guarantee will limit the racially disproportionate exposure to predatory finance practices (e.g. wealth stripping debt traps) resulting from inadequate income, unemployment and income volatility.

## **3. Invest in Affordable Housing**

Affordable housing remains out of reach for millions of families. A comprehensive approach like the “American Housing and Economic Mobility Act” is needed to ameliorate historical injustices in housing and to address the current crisis. Perhaps the most direct way the bill works to reduce the racial wealth divide is by including a provision that provides down payment assistance to first-time homebuyers living in formerly redlined or officially segregated areas. Three out of four neighborhoods that were redlined are still low income showing the long-term effect of this policy on cities. Safeguards would need to be considered to prevent the moral hazards of subsidizing unintended recipients gaming the policy and hastening displacement of intended recipients via gentrification.

## **4. Medicare for All**

People of color accounted for more than half of the total 32 million non-elderly uninsured in 2016. Poor access to health care and poor health outcomes are inextricably

tied to race in the United States. The privatized healthcare system in the United States continues to leave behind millions of families, despite progress made by the Affordable Care Act. This deeply unfair and immoral system leaves low-income and low-wealth people in the most vulnerable position of choosing between forgoing the care they need and financial ruin. The number one cause of bankruptcy in the United States is an illness to oneself or a family member. Medicare for All would remove the burden and stigma associated with finances at the point of the delivery of medical care. Medicare for All would guarantee high quality healthcare as a human right, not a privilege.

### **5. Postal Banking**

The number of unbanked families remains stubbornly high in this country, with the FDIC reporting that about 10 million American families lack bank accounts. Predatory financial services targeting low-wealth, unbanked families thrive due to the lack of competition from a public banking option. People of color are particularly vulnerable to being unbanked, as are rural populations, the very young and the elderly. The postal service is uniquely positioned to provide essential financial services to these families including short term, low-level loans to address income volatility.

## **Power**

### **6. Significantly Raise Taxes on the Ultra-Wealthy**

The growing concentration of wealth has translated to a monopolization of economic and political power by the ultra-wealthy. The tiny group that controls the vast majority of the nation's private wealth is overwhelmingly white and have been the primary beneficiaries of the past four decades of economic growth and historically low tax rates. Significantly raising taxes on the ultra-wealthy serves both the intrinsic value of reducing the corrupting influence of plutocratic power, as well as the instrumental value of producing significant public revenue that can be invested in creating wealth building opportunities for those who have been blocked from generating wealth.

### **7. Turn Upside-Down Tax Expenditures Right-Side Up**

Federal tax subsidies, estimated at over \$600 billion per year, are currently skewed dramatically to ensure the wealthy are able to become wealthier. Shifting these tax expenditures toward wealth-building programs for low-wealth people, particularly those of color, would have a monumental impact in reducing the racial wealth divide and solving economic inequality more broadly.

## **Process**

### **8. Congressional Committee on Reparations**

For decades, Congress has considered the topic of reparations, but never created a formal commission to take on the issue or grapple with what it would really look like. In 2008, the House of Representatives passed a resolution issuing a symbolic formal apology for slavery and Jim Crow. Unfortunately, this resolution did not acknowledge the ongoing injustice created by this history and did not move forward any effort to address this injustice. Legislation like HR 40, championed for many years by now retired Rep. John Conyers (D-MI-13) and currently by Rep. Sheila Jackson Lee (D-TX-18), proposes to create a commission to study the issue and then propose what an apology and policy might look like.

### **9. Improve Data Collection on Race and Wealth**

It is difficult to understand the breadth and scope of the racial wealth divide without the necessary data on the full range of racial diversity in the United States. The collection of localized data, that includes information on household assets and debt disaggregated by respondent race, ethnicity, tribal affiliation and ancestral origin, would provide better insight into the nation's racial and economic differences.

### **10. Racial Wealth Analysis**

Analytical tools like the "Racial Wealth Audit" from the Institute on Assets and Social Policy (IASP) and the "Racial Equity Toolkit" from the Government Alliance on Racial Equity (GARE), provide a framework to assess how legislation will widen or narrow the divide. If closing the racial wealth divide is to be a priority, adopting a framework to assess public policy through a racial equality lens is essential to understand the impact and potential unintended consequences of legislation on the racial wealth divide.

## **Racial Wealth Divide Snapshot**

- Between 1983 and 2016, the median black family saw their wealth drop by more than half after adjusting for inflation, compared to a 33 percent increase for the median white household.
- The Forbes 400 richest Americans own more wealth than all black households plus a quarter of Latinx households.
- Black families are about 20 times more likely to have zero or negative wealth (37 percent) than they are to have \$1 million or more in assets (1.9 percent). Latinx families are 14 times more likely to have zero or negative wealth (32.8 percent) than they are to reach the millionaire threshold (2.3 percent). White families are equally likely to have zero or negative wealth (about 15 percent) as they are to be a millionaire (15 percent).

## **False Solutions:**

Changes in individual behavior will not close the racial wealth divide, only structural systemic policy change can do that. Adjustments to black and Latinx education rates, homeownership, savings and employment do not greatly reduce the racial wealth divide due to the structural underpinnings holding the racial wealth divide in place.