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THE ROAD TO ZERO WEALTH

HOW THE RACIAL WEALTH DIVIDE IS HOLLOWING OUT AMERICA'S MIDDLE CLASS

PROSPERITY NOW

Institute for Policy Studies

AUTHORS

Dedrick Asante-Muhammad is Senior Fellow, Racial Wealth Divide at Prosperity Now. As Senior Fellow, Dedrick's responsibilities include strengthening Prosperity Now's outreach and partnership with communities of color, as well as strengthening Prosperity Now's racial wealth divide analysis in its work. Prosperity Now's Racial Wealth Divide Initiative also leads wealth-building projects that aim to establish best practices and policy recommendations to address racial economic inequality. Prior to Prosperity Now, Dedrick was Senior Director of the Economic Department and Executive Director of the Financial Freedom Center at NAACP.

Chuck Collins is Director of the Program on Inequality at the Institute for Policy Studies, where he co-edits Inequality.org. His most recent book is *Born on Third Base: A One Percenter Makes the Case for Tackling Inequality, Bringing Wealth Home and Committing to the Common Good* (Chelsea Green, 2016). He is co-author, with Bill Gates, Sr., of *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes*. He is co-author with Mary Wright of *The Moral Measure of the Economy* (Orbis 2008), a book about Christian ethics and economic life. He is also the author of *99 to 1: How Wealth Inequality is Wrecking the World and What We Can Do About It*.

Josh Hoxie heads the Project on Opportunity and Taxation at the Institute for Policy Studies. He co-authored multiple reports including *Gilded Giving: Top-Heavy Philanthropy in an Age of Extreme Inequality*, *The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries* and *Billionaire Bonanza: The Forbes 400 and the Rest of Us*. He has written widely on income and wealth maldistribution for Inequality.org and other media outlets. He worked previously as a legislative aide for U.S. Senator Bernie Sanders (I-VT).

Emanuel Nieves is Senior Policy Manager at Prosperity Now, where he works to inform and mobilize advocates across the country to push for policy change at the federal level that expands economic opportunity. He also leads Prosperity Now's work on predatory lending and coordinates the Asset Building Policy Network. Before joining Prosperity Now, he worked at Local Initiatives Support Corporation, where he coordinated LISC's local office advocacy efforts in Washington, DC, and provided support on an array of housing and community development federal issues.

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The Institute for Policy Studies (IPS-dc.org) is a 54-year-old multi-issue research center that has conducted path-breaking research on inequality for more than 20 years. The IPS' inequality.org website provides an online portal into all things related to the income and wealth gaps that so divide us in the United States and throughout the world.

Prosperity Now (formerly CFED; prosperitynow.org) believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

1112 16th Street NW
Suite 600
Washington, DC 20036
202.234.9382
ips-dc.org

Email:
josh@ips-dc.org
chuck@ips-dc.org

1200 G Street NW
Suite 400
Washington, DC 20005
202.408.9788
prosperitynow.org

Email:
dasantemuhammad@prosperitynow.org
enieves@prosperitynow.org

Press Contacts:

Amy Saltzman
asaltzman@thehatchergroup.com
301.656.0348

Chuck Collins
chuck@ips-dc.org
617.308.4433

Sean Luechtefeld
sluechtefeld@prosperitynow.org
202.207.0143

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Key Findings

In our 2016 report, *The Ever-Growing Gap: Without Change, African American and Latino Families Won't Match White Wealth for Centuries*, we showed that it if current trends continue, it will take 228 years for the average Black family to reach the level of wealth White families own today. For the average Latino family, matching the wealth of White families will take 84 years.

In this report, we look at the racial wealth divide at the median over the next four and eight years, as well as to 2043, when the country's population is predicted to become majority non-white. We also look to wealth rather than income to reconsider what it means to be middle class. In finding an ever-accelerating gap, we consider what it means for the American middle class and we explore what policy interventions could reverse the trends we see today. We find that without a serious change in course, the country is heading towards a racial and economic apartheid state.

ILLUSTRATING THE MAGNITUDE OF RACIAL WEALTH DISPARITY

- Earning a middle-class income does not guarantee middle-class economic security. White households in the middle-income quintile (those earning $37,201-$61,328 annually) own nearly eight times as much wealth ($86,100) as middle-income Black earners ($11,000) and ten times as much wealth as middle-income Latino earners ($8,600). This disconnect in income earned and wealth owned is visible across the entire income spectrum between these groups.

- If the middle class were to be defined by wealth rather than by income, Black and Latino families in the middle-income quintile would need to earn 2-3 times as much as White families in order to enter the middle class. If we were to define the middle class in terms of wealth, households would need to own between $68,000-$204,000 in wealth to qualify for the middle class. Under these terms, only Black and Latino households in the highest income-quintile (those earning more than $104,509) would qualify for middle-class status or higher, compared to White households in the top three income-quintiles who already own wealth in excess of this threshold. In fact, only Black and Latino households with an advanced degree have enough wealth to be considered middle-class, whereas all White households with a high school diploma or higher would be considered middle class.

- Defining class in terms of wealth instead of income, roughly 70% of Black and Latino households would fall below the $68,000 threshold needed for middle-class status, whereas only about 40% of White households would fall below the middle class. In contrast, roughly 13% of Black and Latino households could be considered to have "upper-wealth" (meaning they own at least $204,000 in wealth), compared to 40% of White households.

- The accelerating decline in wealth over the past 30 years has left many Black and Latino families unable to reach the middle class. Between 1983 and 2013, the wealth of median Black and Latino households decreased by 75% (from $6,800 to $1,700) and 50% (from $4,000 to $2,000), respectively, while median White household wealth rose by 14% (from $102,200 to $116,800). If current trends continue, by 2020 median Black and Latino households stand to lose nearly 18% and 12%, respectively, of the wealth they held in 2013. In that same timeframe, median White household wealth would see an increase of 3%. Put differently, in just under four years from now, median White households are projected to own 86 and 68 times more wealth than Black and Latino households, respectively.

- By 2024, median Black and Latino households are projected to own 60-80% less wealth than they did in 1983. By then, the continued rise in racial wealth inequality between median Black, Latino and White households is projected to lead White households to own 99 and 75 times more wealth than their Black and Latino counterparts, respectively.

- If the racial wealth divide is left unaddressed and is not exacerbated further over the next eight years, median Black household wealth is on a path to hit zero by 2053—about 10 years after it is projected that racial minorities will comprise the majority of the nation's population. Median Latino household wealth is projected to hit zero twenty years later, or by 2073. In sharp contrast, median White household wealth would climb to $137,000 by 2053 and $147,000 by 2073.

POLICY INTERVENTIONS TO ADDRESS A GROWING CRISIS

- Change our nation's tax code to stop subsidizing the already-wealthy and start investing in opportunities for low-wealth families to build wealth. Specifically, reform the mortgage interest deduction and other tax expenditures, bolster and expand the federal estate tax, and create a net-worth tax on multi-million-dollar fortunes.

- Protect low-wealth families from wealth-stripping practices by strengthening the Consumer Financial Protection Bureau and closing the nefarious offshore tax shelters currently enabling the ultra-wealthy to hide their assets.

- Invest in bold new programs like Children's Savings Accounts, automatic-enrollment retirement accounts, federal jobs guarantees and a racial wealth divide audit of government policies, all of which are vital to reducing the gap between the ultra-wealthy and the rest of the country.

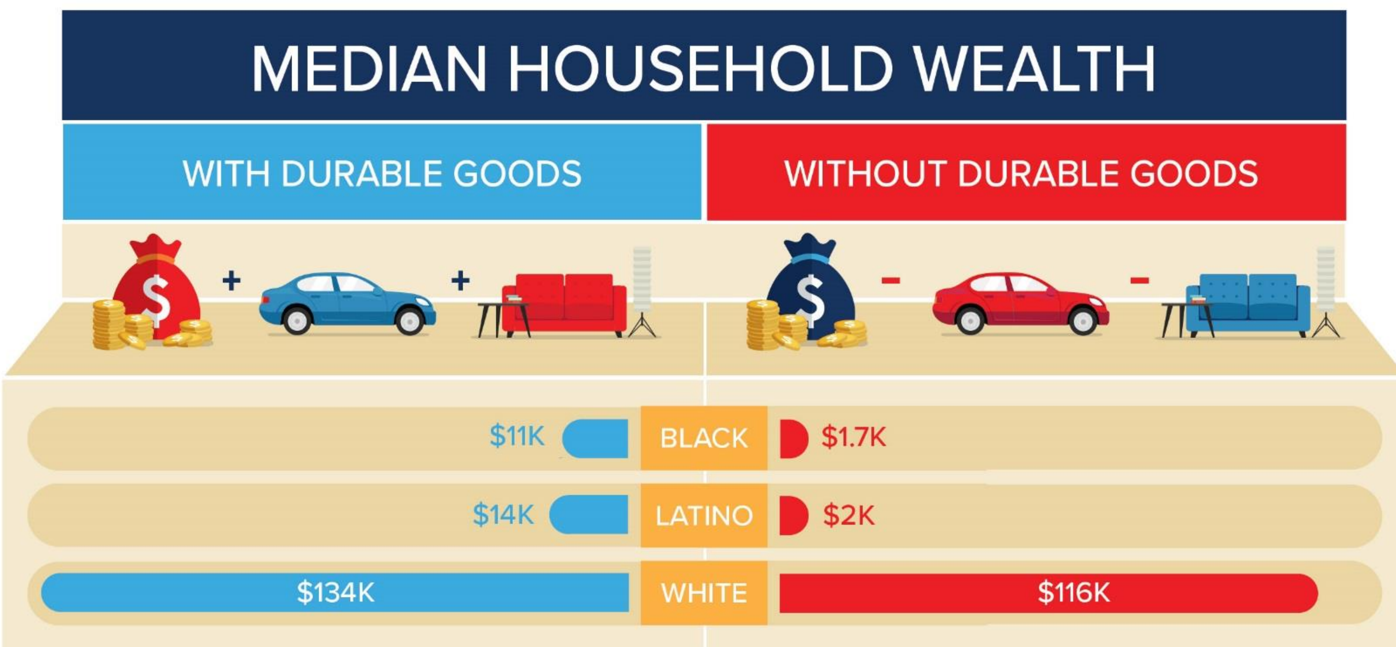
Race, Wealth & The Middle Class

For several years, politicians, researchers, journalists and the public have focused their attention on growing economic inequality in the United States. Most often, this focus is on income (i.e., the wages earned from a job or from capital gains) rather than on wealth (i.e., the sum of one's assets minus their debts). Income inequality, while stark, pales in comparison to the vast economic divide exposed by examining disparities in wealth. For example, a recent study by the Organisation for Economic Co-operation and Development (OECD) found that while the top 10% of income earners in United States receive almost 30% of the nation's income, the wealthiest 10% own an astounding 76% of the country's wealth. That means less than a quarter of the nation's wealth is left for the bottom 90% of the American population.[1]

As stark and as overlooked as these disparities are, they are particularly acute along racial lines as a disproportionate share of the nation's wealth is held in White hands while households of color own a shrinking slice of the proverbial pie. Today, this translates into a racial wealth divide in which the median net worth of Black and Latino families stands at just $11,000 and $14,000, respectively—a fraction of the $134,000 owned by the median White family.[2] Even more disturbing is that when consumer durable goods such as automobiles, electronics and furniture are subtracted, median wealth for Black and Latino families drops to $1,700 and $2,000, respectively, compared to $116,800 for White households (see Methodology for more details).

While some argue that this racial wealth divide stems from choices made by individuals and communities, the facts tell a different story. Recent research shows that the racial wealth divide persists across all levels of educational attainment and family structures, seriously diminishing the "personal choices" argument. Case in point? White high school dropouts own more wealth than Black and Latino college graduates.[3] Furthermore, single-parent White households own more wealth than two-parent Black households.[4]

Wealth is the buffer families need when faced with unexpected economic shocks like a lost job or a broken-down car. Wealth is also the capital available to families to take advantage of economic opportunities, like buying a home, saving for college or investing in the stock market. Ultimately, wealth can be the difference between a family maintaining and strengthening their economic status or flailing in economic insecurity.



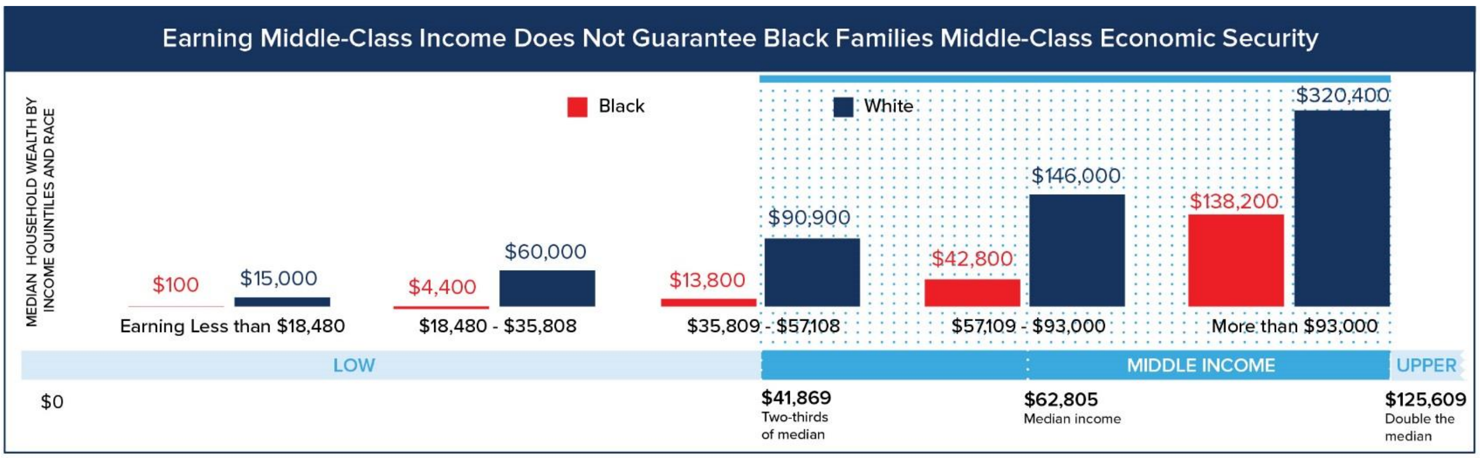
Source: Edward N. Wolff: "Household Wealth Trends In The United States, 1962-2013: What Happened Over The Great Recession?" Figures depicted above are in 2013 dollars.

Beyond these measures, wealth is also critically important to understanding the racial disparities in middle-class status. The middle class is often depicted in terms of income. Much of the economic literature over the past several decades show the share of households considered middle income is shrinking. An oft-cited 2015 study from the Pew Research Center defines middle-class households as those with income between two-thirds to double the median household income.[5] A three-person household, for instance, would need an income between $42,000 and $126,000 in 2014 to be considered middle class.

Discussion of the overall income spectrum, while stark, obscures just how unequal wealth and middle-class economic security is distributed along racial lines. It is for this reason that we should be looking beyond the limited idea of income as the primary indicator of middle-class status and instead recognize that wealth is and has always been the foundation of middle-class financial security.

Emphasizing this point, researchers from The New School, Duke Center for Social Equity and Insight Center for Community Economic Development showed how income does not correspond with wealth, particularly when looking through the lens of racial inequality. According to their study, *Umbrellas Don't Make it Rain: Why Studying and Working Hard Isn't Enough for Black Americans*, a typical White family in 2011 in the lowest income quintile (i.e., those earning below $19,000) still owned $15,000 in wealth. By comparison, African Americans making less than $19,000 annually owned just $100 in wealth. Overall, the researchers found that this pattern holds true across the income spectrum.

Looking at the middle class through the lens of wealth, rather than income, *Umbrellas Don't Make it Rain* found Black families with incomes considered middle class—$42,000 per year—owned just $13,800 in total household wealth (including durable goods) in 2011. That is not nearly enough to build long-term financial security by saving for retirement, to weather an unexpected medical procedure or to put a child through college. In other words, as depicted below, a middle-class income does not guarantee a Black family middle-class economic security.



Source: *Middle Income Range*: Pew Research Center "The American Middle Class is Losing Ground." *Income Quintiles and Associated Household Wealth*: The New School, Duke Center for Social Equity and Insight Center for Community Economic Development "Umbrellas Don't Make it Rain: Why Studying and Working Hard Isn't Enough for Black Americans." The income quintiles and household wealth figures are derived from the 2011 U.S. Census Bureau's Survey of Income and Program Participation (SIPP). Wealth figures include durable goods.

Unfortunately, Black and Latino families have been subject to stagnant economic trends for decades and there is little evidence that this will change. With their rising share of the population, these groups have a larger impact on the American middle class than they once did, an impact that will only continue to grow. In fact, we already see the impact of declining wealth for Black and Latino households on the nation's collective economic well-being. During the past 30 years, African American and Latino median wealth has gone down while White wealth has slowly increased. Overall, however, the median wealth of Americans has decreased from $78,000 in 1983 to $64,000 in 2013.

In other words, if the racial wealth divide continues to accelerate, the economic conditions of Black and Latino households will have an increasingly adverse impact on the economy writ large because the majority of U.S. households will no longer have enough wealth to stake their claim in the American middle class or higher.

To claim that the future existence of the middle-class hinges on whether we reverse the trends of growing racial economic inequality is by no means an exaggeration. Indeed, the rise of a once-strong American middle class didn't happen on its own. Rather, it required a healthy, vibrant economy, including significant investments in Americans' ability to build lasting financial security, such as through homeownership, higher education and transportation, all of which enable families to build wealth. However, these policy investments haven't had a lasting positive effect on the middle class because most often, they were intentionally directed at White communities and away from communities of color. Although the intentional exclusion of communities of color from opportunities to build wealth is a morally repugnant feature of American history, it remained economically viable at a time when the vast majority of our populace was White. As we look ahead to a time when people of color will comprise the majority of the population, however, we are committing economic suicide if we continue believing that we can exclude the majority of the country from opportunities to invest in the future.

In other words, we have reached a breaking point. We need to act now to close the racial wealth divide, as doing so will ensure that the historical injustices of the past do not continue to wreak havoc on household balance sheets or propel the American middle class into extinction. Achieving this goal will require intentional, targeted policy solutions that address the economic needs of low-wealth communities of color. In the remainder of this report, we argue that the only way to craft these solutions effectively is by moving beyond the limited idea of income as the primary indicator of middle-class status to recognize that wealth is the linchpin of middle-class economic security.

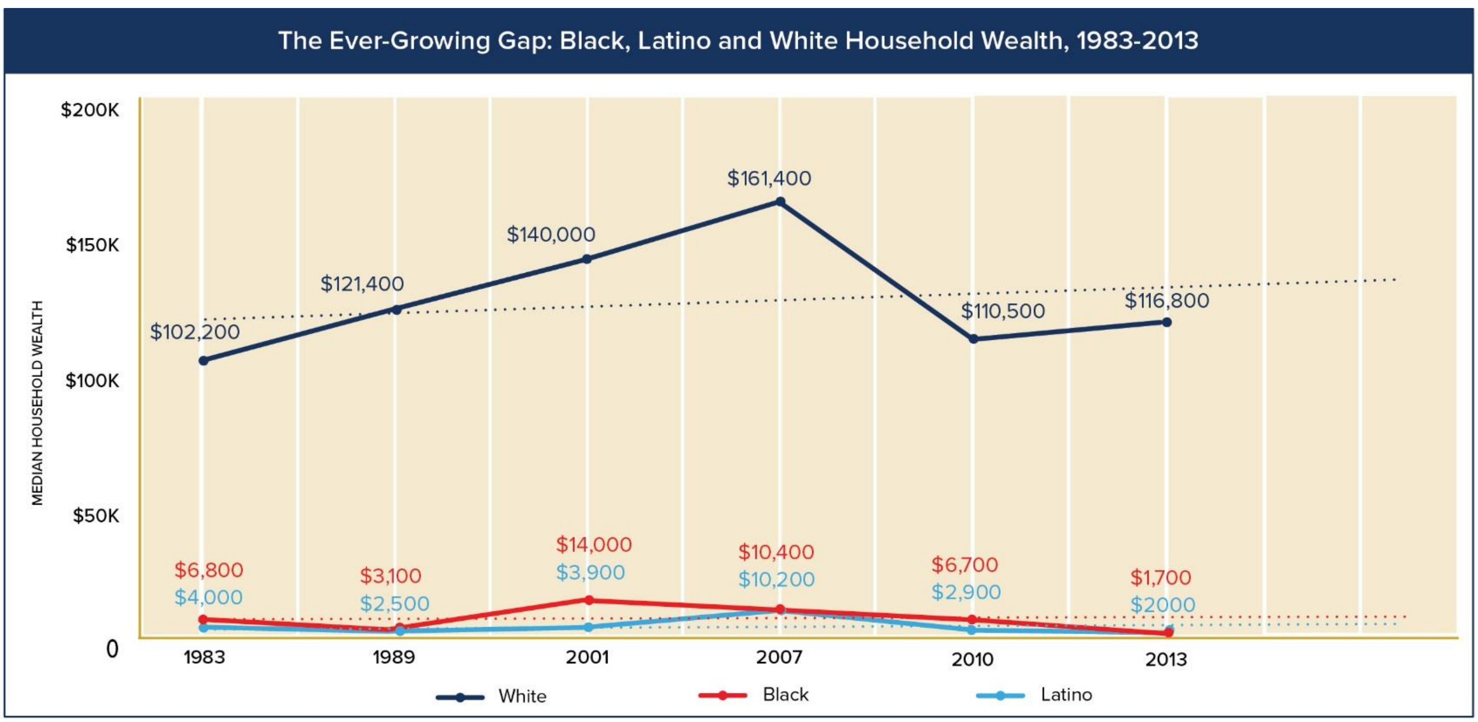
The Racial Wealth Divide & Middle-Class Security

Just as overall wealth inequality has skyrocketed over the past 30 years,[6] so too has racial wealth inequality. In this timeframe, the median wealth of Black and Latino households has taken dramatically different turns than the median wealth of White households, leaving communities of color struggling in more pronounced ways while they watch their White neighbors thrive.

Three Decades of Black & Latino Wealth Loss

Since 1983, the respective wealth of Black and Latino families has plunged from $6,800 and $4,000 in 1983 to $1,700 and $2,000 in 2013. These figures exclude durable goods like automobiles and electronics, as these items depreciate quickly in value and do not hold the same liquidity, stability or appreciation of other financial assets like a savings account, a treasury bond or a home. By comparison, since 1983 the median wealth of White households has risen by nearly $15,000, reaching $116,800 in 2013. Put differently, in just over a generation, median Black and Latino households saw their already-low net worth decrease by 75% and 50%, respectively, while median White households saw their net worth increase by 14%. The result is a wealth divide between Black and Latino households and White households that now stands at over $115,000, a nearly 20% increase.

Whereas these data reveal general trends in the years since 1983, we also see evidence that the Great Recession disproportionately impacted households of color. Even with the wealth loss experienced by White households during the Recession, median wealth never dipped below 1983 levels.[7] For households of color, on the other hand, the Great Recession wiped away the gains made over the past three decades *in their entirety*. Put another way, although Black and Latino households started out well behind their White counterparts in 1983, the Great Recession essentially set them back to where they started. At the same time, White households experienced only minor setbacks, from which they have largely been able to recover.



Source: Edward N. Wolff: "Household Wealth Trends In The United States, 1962-2013: What Happened Over The Great Recession?" Figures depicted above are in 2013 dollars and exclude durable goods.

Although these disparities are driven by several factors, disparities in homeownership rates account for much of the racial wealth divide. For generations, White families have enjoyed access to wealth that has eluded their Black counterparts, making it far easier to come up with downpayments and help their heirs claim their stake in the economy. Between 1994 and 2017, White homeownership rates rose to 76%, compared to 49% for African Americans.

Since 2006, the homeownership rate has declined steadily for everyone—from 69% to 63% in the first quarter of 2017—but these losses have been more pronounced for households of color. The homeownership rate among Black households fell from 48% in 2005 to below 42% in late 2016, while the Latino homeownership rate declined from 50% to 46% in the same time period. Meanwhile, the homeownership rates for White households dropped from 76% to 72%.[8]

Of course, while we believe that median wealth is a better indicator of the impact of racial economic inequality, we cannot ignore the role income plays in nourishing the divide. At the median, White households make significantly more per year ($58,847) than Black ($35,600) and Latino ($42,396) households.[9] With less wealth *and* less income, there are few signs that Black and Latino households will ever be able to "catch up" to their White counterparts.

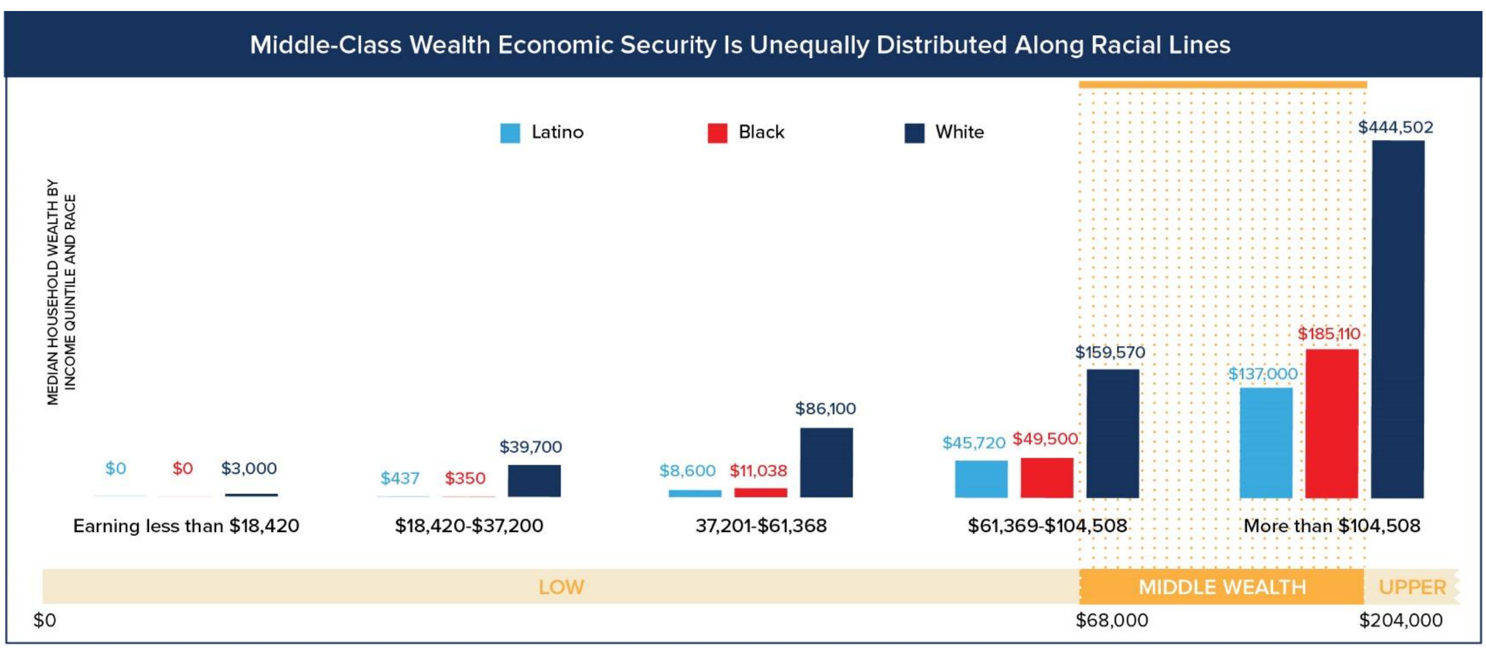
A Minority within a Minority: The Black and Latino Middle Class

For nearly a century, the United States has prided itself on its perceived broad and burgeoning middle class. Baked into the nation's mythology is the ideal of the comfortable, middle-class family that can afford the essentials of a happy, healthy life. That means a house, a car and a few extras such as a family vacation. Middle-class families are also supposed to be able to afford health insurance and child care, foot the bill for their kids' college educations and save for a comfortable retirement. In public opinion polls, more than half of Americans consistently refer to themselves as middle class.[10] Many who cannot afford half the items listed above include themselves in that definition. Also included are most of the nation's millionaires, who consider themselves middle or upper-middle class despite their obviously outsized income[11] and their small representation (3.3%) among the country's overall population.[12]

When looking at where Black and Latino communities fall within the middle class through the lens of wealth, the typical Black or Latino family not only lacks enough wealth to be considered middle class, but they hardly have any wealth at all. To better understand the disparities between income and wealth and just how removed communities of color are from the middle class, we look at wealth as the key indicator of what it means to be middle class.

For the purposes of this study, "middle-class wealth" (or "middle-wealth") is defined using median White household wealth since it encompasses the full potential of the nation's wealth-building policies, which have historically excluded households of color. More specifically, we use median White wealth in 1983 ($102,200 in 2013 dollars) as the basis for developing an index that would encompass "middle-class wealth" because it establishes a baseline prior to when increases in wealth were concentrated in a small number of households. Using this approach and applying Pew Research Center's broad definition of the middle class,[13] this study defines "middle-class wealth" as ranging from $68,000 to $204,000 (see Methodology for more details).

Using this index to examine recent Census Bureau data, we more clearly see the stark racial gap in middle-class wealth between White households and households of color. That data reveal that White households in the middle-income quintile (those earning $37,201-61,328 annually) own nearly eight times as much wealth ($86,100) as Black households in the middle-income quintile ($11,000) and ten times as much as Latino households in the middle-income quintile ($8,600). This stark disparity isn't isolated within the middle-income quintile—White families across the income spectrum own significantly more wealth than their Black and Latino peers.



Source: U.S. Census Bureau, Survey of Income and Program Participation, 2014. Wealth figures depicted above exclude durable goods.

In essence, Black and Latino families in the middle-income quintile would need to earn 2-3 times as much as their White counterparts to exceed the minimum wealth threshold of $68,000 needed to qualify as middle class. Meanwhile, White households in the top three income-quintiles already own wealth in excess of this threshold.

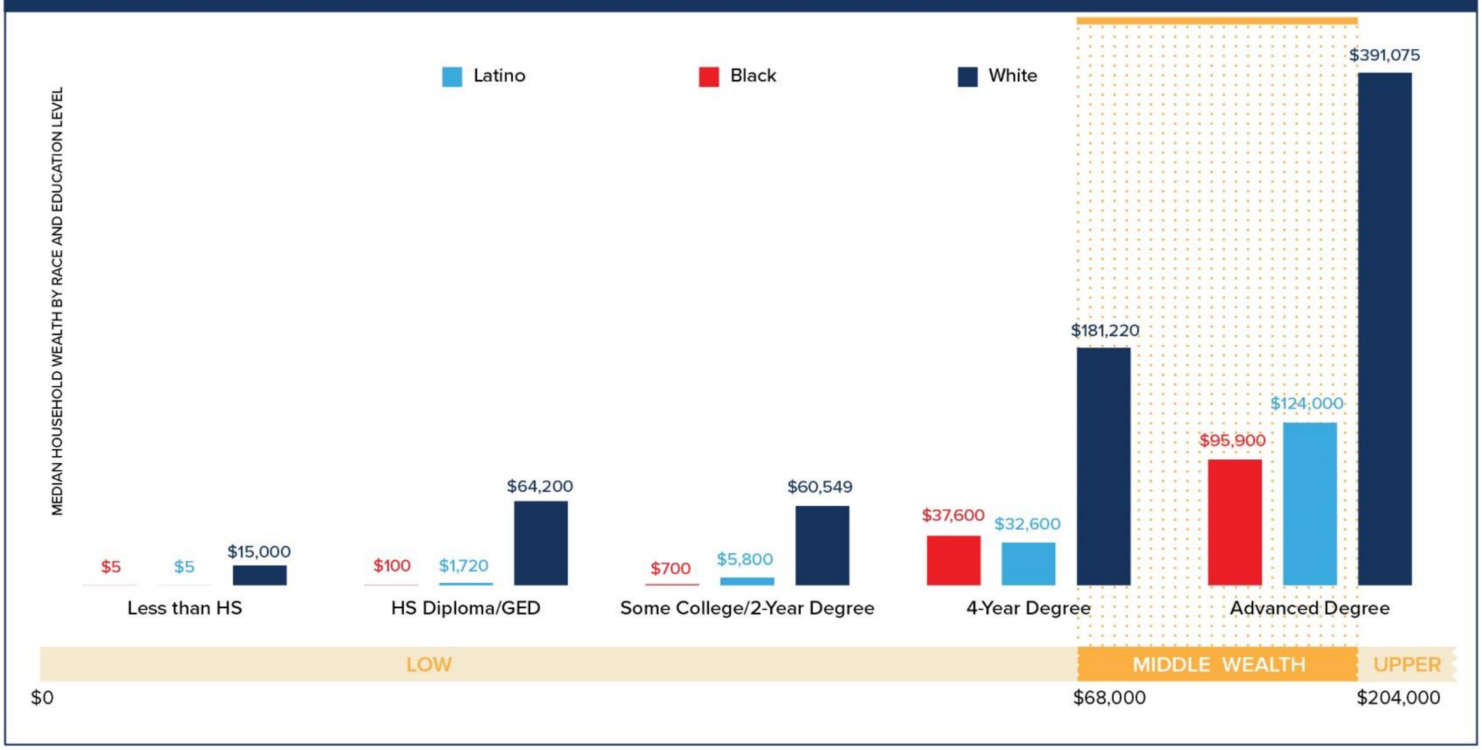
While the estimates derived in this report are generally consistent with and representative of the population at large, the percentage of the population with wealth below or above the "middle-class wealth" range previously defined varies widely. By our estimates, roughly 70% of Black and Latino households fall below the $68,000 threshold needed for middle-class status, while the same can be said of only about 40% of White households. On the other end of the spectrum, about 13% of Black and Latino households could be considered to have "upper-class wealth" (meaning they own at least $204,000 in wealth), compared to 40% of White households who meet this threshold.

Percentage of Population with Wealth Below or Above "Middle-Class Wealth"

	White	Black	Latino
Asset Poor/Working Class	42.22%	72.12%	72.26%
Middle-Class Wealth	18.77%	15.19%	14.22%
Asset Strong/Upper-Class Wealth	39.01%	12.69%	13.60%

If we consider educational attainment— often considered as the "great equalizer" between the rich and the poor and between families of different racial and ethnic backgrounds—White families whose head of household holds a high school diploma have nearly enough wealth ($64,200) to be considered middle class. A typical Black or Latino family whose head of household has a *college degree* however, owns just $37,600 and $32,600, respectively, in wealth. In fact, only Black and Latino households at the median with an advanced degree have enough wealth to fit into our middle-class definition. By contrast, all White households except those who fail to attain a high school diploma could be considered middle class.

Having a College Education Is Not Enough to Guarantee Many Black and Latino Families Middle-Class Wealth



Source: U.S. Census Bureau, Survey of Income and Program Participation, 2014. Wealth figures depicted above exclude durable goods.

Running Out of Time: The Racial Wealth Divide in the Trump Era

The racial wealth divide is not a new phenomenon, nor can a single presidential administration or other policymaking body expect to ameliorate the racial wealth divide overnight. However, since the inauguration of President Trump in early 2017, two phenomena give cause for concern that the trends of the past 30 years might become even more pronounced in the near future. First, less attention has been paid to the growing racial wealth divide compared to previous administrations. Second and more alarmingly, there have been a bevy of policies proposed or championed by President Trump—from health care to immigration to housing and financial services reform—that would inevitably and exponentially exacerbate racial wealth inequality.

In this section, we look ahead to 2020 and 2024 to see what the racial wealth divide will look like if no proactive measures are taken to address the problem. These projections do not, of course, account for the disproportionate impact of the aforementioned policies on communities of color if President Trump is successful in bringing those initiatives to fruition.

The Racial Wealth Divide in 2020

By 2020, if current trends continue as they have been, Black and Latino households at the median are on track to see their wealth decline by 17% and 12% from where they respectively stood in 2013. By then, median White households would see their wealth rise by an additional three percent over today's levels. In other words, at a time when it's projected that children of color will make up most of children in the country,[14] median White households are on track to own 86 and 68 times more wealth, respectively, than Black and Latino households.

The Racial Wealth Divide in 2024

Current trends suggest that by 2024, median Black household wealth will have declined by a total of about 30% from where it stands today. In that same timeframe, the median Latino family can expect to see their net worth decline by a total of 20% over today's levels. By then, median White household wealth will have increased by about five percent over today's levels.

Overall, this dizzying decline in Black and Latino household wealth would mean that seven years from now, median Black and Latino households would own 60-80% less wealth than they did in 1983. Put differently, by the end of the next presidential term (in January 2025), median White households would own 99 and 75 times more wealth, respectively, than Black and Latino households. By then, the racial wealth divide will have increased by more than $6,000 from where it stands today.

Change in Median Household Wealth, 1983 to 2024

	Black	Latino	White
Median Household Wealth, 1983	$6,800	$4,000	$102,200
Median Household Wealth, 2013	$1,700	$2,000	$116,800
Median Household Wealth, 2020	$1,403	$1,767	$120,342
Median Household Wealth, 2024	$1,233	$1,633	$122,366

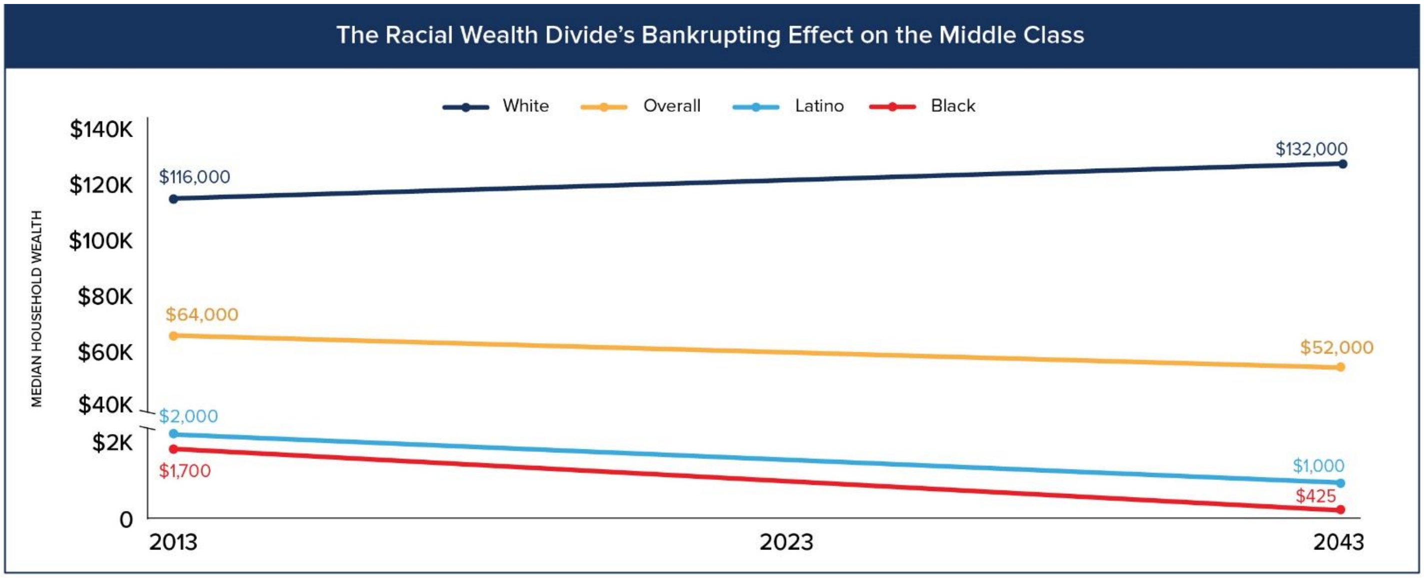
These projections assume that the racial wealth divide would be left unattended and that it would not be exacerbated between now and then; the numbers above reflect current policy. However, the proposals put forth by the current administration and by Congress could catalyze an even more significant divide than what is reflected in the table above. For example, as we highlight in more detail later in this report, the tax code already plays an outsized role in fueling economic inequality, as the wealth-building tax benefits that flow from it overwhelmingly go to wealthy—mostly white—households while providing little wealth-building support to the people who need it most.

According to a recent study by the Tax Policy Center, President Trump's current tax plan would give families earning $25,000 or less annually a tax cut of only $40 tax cut, while those earning more than $3.4 million annually would receive a $940,000 tax break.[15] As a result, the passage of this tax plan into law would only serve to double-down on the upside-down nature of the tax code, boosting wealth inequality to even more outrageous heights.

The Racial Wealth Divide Beyond 2024

Looking past 2024 to 2043, when Americans of color are projected to outnumber White Americans, the declining wealth for Black and Latino households will account for a projected loss of an additional $11,000 in overall household wealth. At this rate, the country's median household wealth (excluding durable goods and adjusted for inflation) will be just $52,300 in 2043—32% less than what it was in 1983.

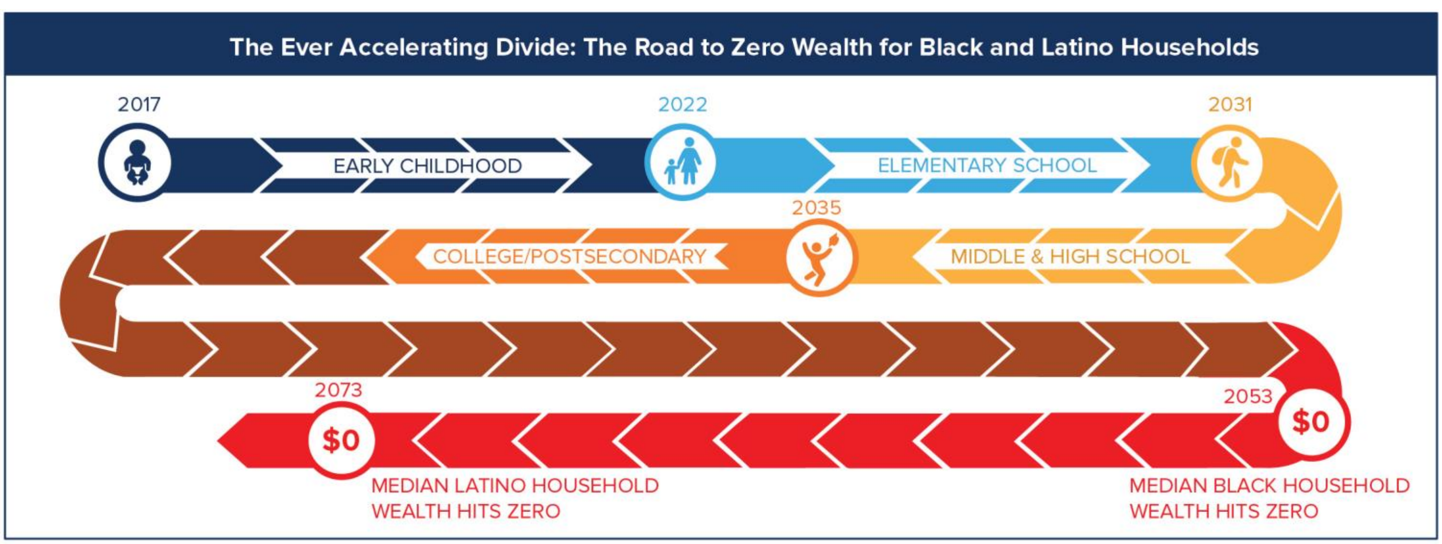
To be clear, there's no need to wait until then to know the impact of the racial wealth divide on the middle class. Overall median wealth of households today ($63,800) already falls short of the $68,000 threshold required to be considered middle class.



Source: Author's calculations based on data from Edward Wolff's "Household Wealth Trends in the United States, 1962-2013: What Happened Over the Great Recession?" The wealth figures depicted above exclude durable goods.

Looking beyond 2043, the situation for households of color looks even worse. While these families are expected to sustain significant losses in wealth in the next few decades, they are actually projected to hit zero wealth just ten years after people of color become the majority in the United States. If unattended, trends at the median suggest Black household wealth will hit zero by 2053. In that same period, median White household wealth is expected to climb to $137,000. The situation isn't much brighter for Latino households, whose median wealth is expected to reach zero by 2073, just two decades after Black wealth is projected to hit zero. By this time, the median wealth of White households is projected to have reached $147,000.

For Black and Latino communities that already find themselves consistently on the edge of financial insecurity, this steep and steady slide to zero median wealth will only serve to compound the already-sizeable challenges facing these communities. Wealth is an inter-generational asset—its benefits passed down from one generation to the next— and the consequences of these losses will reverberate deeply in the lives of the children and grandchildren of today's people of color.



Of course, Black and Latino households having zero wealth isn't just an issue for future generations to be dealt with later. Already today, we have significant portions of these households owning zero wealth. As of 2013, 30% and 24% of Black and Latino households, respectively, had zero or negative net worth, amounting to 7.6 million households.

Racial Wealth Inequality Doesn't Just Plague Black and Latino Families

Often, discussions about racial equity and economic inequality focus exclusively on Black and Latino communities. Even in this report, we have focused thus far on Black and Latino families and not other racial groups. In part, the focus on Black and Latino groups can be attributed to the fact that the economic insecurities facing these particular communities is much easier to see. However, the lack of compelling data about other racial and ethnic minorities should not be treated as evidence that they do not face mounting economic inequality. To the contrary, there are often significant gaps between their wealth and the wealth of their White counterparts.

Declining Asian American Wealth: The Forgotten Racial Wealth Divide

When it comes to Asian American communities, their struggles with economic inequality are often overlooked due to prevailing stereotypes and the oversimplification of economic data, which consolidates 21 million culturally diverse people[16] from 48 countries, each with different contexts of immigration and wealth, into a single group. This consolidation further perpetuates the "model minority" myth of Asian households as being unequivocally better off than other communities of color.

Beyond serving as a wedge in conversations about race and economic mobility, aggregating economic data about Asian American communities obscures clear social and economic differences within the Asian communities in the US, particularly when it comes to wealth. To this point, recent research by the Center for American Progress has found that overall affluence and economic well-being associated with Asian Americans is not shared across the entire community, and that in fact, many face serious wealth inequality challenges.[17] When economic data for Asian Americans are disaggregated, wealth inequality is actually more significant among Asian American households than compared to White households. For example, between 2010–2013, the top 10% of Asian Americans owned $1.4 million in wealth, while the bottom 20% of Asian Americans owned about $9,300. By comparison, the top 10% of White households owned $1.2 million, while the bottom 20% of White households owned a little more than $10,000.[18] Overall, the richest Asian Americans held 168 times more wealth than the poorest Asian Americans, while the richest White households owned 121 times more wealth than the poorest White households.[19]

Although median Asian American households are generally more affluent than the median White households, these disaggregated data reveal both a greater concentration of Asian American households at the bottom, and a highly skewed average due to wealth distributions at the top. For example, in addition to bringing further attention to the level of wealth inequality experienced within the Asian American community itself, researchers at the Center for American Progress found that the poorest Asian Americans own far less wealth than their White counterparts. Today, among households in the bottom half of the income distribution, White households owned more than twice the wealth ($42,238) held by their Asian American peers ($18,270). All of these data point to a significant wealth divide between White and Asian American households over the past 25 years that is often overlooked.[20]

Declining Native American Wealth: The Unaccounted Racial Wealth Divide

Not unlike Asian Americans, our collective focus on the social and economic issues facing Native Americans is also influenced in part by availability of and methods for collecting economic data that shed light on these communities. However, when it comes to Native American data, the issue for these communities is less often about *how* they are seen and more often about *if* they are seen. Whereas aggregated economic data about Asian households are often skewed, Native American economic data are often outdated, difficult to collect and/or insufficient to interpret reliably. In turn, the unique economic experiences of Native Americans are often overlooked, even though these experiences tend to be comparable or worse than those of Black and Latino households.

While we do have access to a range of current data on income, including median household income ($38,530, 30% less than the than the national median)[21] and poverty rates (26.6%, roughly twice the national rate),[22] when it comes to Native American net worth, scant data are available to illustrate to the current state of wealth within these communities. In fact, when it comes to wealth, the most recent data available for Native American communities are seventeen years old. In 2000, the last time Native American wealth was systematically measured, the median net worth of Native households stood at just $5,700.[23]

Ultimately, the problematic nature of data on Asian American wealth and the dearth of data on Native American wealth complicate our discussion of the racial wealth divide in three important ways. First, and most obviously, these challenges mean we lack the data needed to fully understand—and therefore design solutions to—the unique problems facing these communities. Second, and closely related, insufficient, unreliable and aggregated data prevent us from seeing the full scope of the racial wealth divide and its inevitable impact on the middle class if left untreated. Third and finally, in the absence of these data, we make generalizations about groups of people that not only perpetuate problematic narratives, such as that of the "model minority," but also fail to see the urgency with which some of our neighbors are suffering the effects of decades or centuries of economic exclusion. Hence, any solution to growing racial wealth inequality will demand that we also refine our abilities to collect and interpret data that shed light on the lived economic realities of these communities.

How Government Policies Built & Preserve the Racial Wealth Divide

Across most economic indicators, White families today fare significantly better than families of color. As scholars like Thomas Shapiro, William “Sandy” Darity, Darrick Hamilton, Mariko Chang and others have argued, this disparity is rooted in our social systems and structures, not in individual behaviors. And, although emphasis has recently been placed on the role that public policies have played in the economic pain suffered by White working-class communities, there is no shortage of evidence that public policies and practices throughout our history have worked to benefit White families at the expense of communities of color.

Today, the legacies of these policies and practices have metastasized across a whole range of economic inequities, leaving communities of color far short of their economic needs and unable to achieve financial security, let alone build wealth.

Falling Short: Economic Needs Versus Reality

	Economic Need	Reality for White Households	Reality for Households of Color
Living Above the Poverty Line	Earn more than $24,250 per year in 2015 for a family of four.	90% of White households live above the federal poverty line.[24]	78% of households of color live above the federal poverty line.[25] *By Race:* • *Asian: 87%* • *Black: 75%* • *Hispanic: 78%* • *Native American: 74%*
Basic Emergency Savings	$6,150 in cash saved for a family of four to subsist at the federal poverty line for three months in the event of an unexpected disruption in income—a measure we refer to as “liquid asset poverty”.	28% of White households live in liquid asset poverty. [26]	51% of households of color live in liquid asset poverty.[27] *By Race:* • *Asian: 31%* • *Black: 57%* • *Hispanic: 61%* • *Native American: N/A*
Access to Higher Education	$24,610 to cover one year’s tuition and fees—including room and board, books and supplies, transportation and other expenses—at a four-year public college for an in-state student.[28]	On average, 65% of White undergraduate students took on student debt to finance higher education.[29]	On average, 71% of Black, Latino and Asian undergraduate students took on student debt to finance higher education.[30] *By Race:* • *Asian: 51%* • *Black: 90%* • *Hispanic: 72%* • *Native American: N/A*
Access to Homeownership	$51,660 for a 20% down payment on a home, based on the median sales price of existing homes of $ 258,300 in July 2017.[31]	71% of White households are homeowners.[32]	45% of households of Color are homeowners.[33] *By Race:* • *Asian: 58%* • *Black: 41%* • *Hispanic: 45%* • *Native American: 53%*
Affordable Rental Housing	Spend 30% or less of a household’s income on rent and utilities—a measure we refer to as “housing cost burden”.	47% of White renters are burdened by their housing costs.[34]	55% of renters of color are burdened by their housing costs.[35] *By Race:* • *Asian: 46%* • *Black: 58%* • *Hispanic: 57%* • *Native American: 49%*
A Secure Retirement	Save 10 times one’s salary by the full retirement age of 67.[36]	In 2013, median White families (age 32-61) had $73,000 saved in a retirement account. [37]	In 2013, median Black and Hispanic families (age 32-61) had $22,000 saved in a retirement account.[38]

Ultimately, how communities of color arrived at many of these and other harsh economic realities can be directly traced to institutional and pervasive racial discrimination across a series of systems, policies and practices from our very beginnings throughout present day, which together have systematically worked in favor of the wealth-building potential of White households at the exclusion and expense of the wealth-building potential of communities of color.

The Foundation of the Divide Has Deep Roots in Our National History

While the racial wealth divide can be largely attributed to the effects of discriminatory and exclusionary policies and practices put in place in the years after the Great Depression and World War II, the foundation for this divide had been forged long before we reached either of these points in our history. From the earliest days of our country's infancy through the late 19th century, a range of policies and practices laid the foundation for this divide include.

African Chattel Slavery and Wage Theft: Throughout the 246 years when slavery was an institution in the United States, the forced and free labor extracted from enslaved men, women and children allowed White slave owners to accumulate massive amounts of wealth. To crystalize what this free labor meant to the wealth-building potential of White slaver owners, and what it cost those who actually earned it, consider that by 1860, the lower Mississippi Valley—land about the of size Maine—had more millionaires per capita than anywhere else in United States.[39]

Racially Exclusive Land Redistribution: Through the Homestead Act, approximately 270 million acres, or about 10% of all land in the United States, was given to over 1.6 million homesteaders.[40] Today, research finds 46 million adults, or about 20% of the U.S. population, can potentially trace their family's history of building wealth to this one public policy.[41] Yet, despite the impact of the Homestead Act and the fact that it allowed for any adult—including Black adults—to claim a 160-acre parcel of land, it still disproportionately benefited White households. For example, African Americans, who ran into a series of legal obstacles put in place by White southerners to block former slaves from becoming property owners, couldn't claim legal ownership of the land offered to them by the Homestead Act.[42] Of course, we would be remiss if we did not acknowledge that the Homestead Act was possible because of land stolen by the U.S. government from indigenous people, marking another dark spot in the long history of colonization, wars, genocide, deceptive practices and forced expulsions that prevent Native peoples from thriving still today.

Denying Access to the Asset of Citizenship: The Chinese Exclusion Act was enacted in 1882, placing a 10-year ban on Chinese workers immigrating to the US and naturalizing in order to appease economic and cultural concerns raised by White Americans at the time. In 1892, the Geary Act extended the original ban for another 10-year period before it was made permanent in 1902. As a result, these communities could not take advantage of land-owning opportunities or build long-term financial security because citizenship was often a requirement for owning property under the Homestead Act and state laws that mirrored it. The experience of Chinese immigrants is far from unique for communities of color, for whom denying the benefits of citizenship has more often been the rule than the exception. In fact, racially discriminatory immigration policy was the norm from 1790 until 1965, when it became illegal to deny people access to citizenship on the basis of their race. Still today, we see how immigration laws use race as a justification for discrimination, even if it is illegal to grant citizenship status on the basis of race.

Early 20th-Century Policies Unleashed the Racial Wealth Divide

Although the foundation of the racial wealth divide was laid during America's formative years, it wasn't until first part of the 20th century when the racial wealth divide we have come to know today was accelerated. Three practices in particular contributed to this acceleration.

Denial of Social Security to Farmworkers and Domestic Workers: In 1935, the groundwork for the nation's social safety net infrastructure was laid with the passage of Social Security Act. Yet, despite the significance and importance of the legislation, the Social Security Act of 1935 excluded a third of all American workers, including farmworkers and domestic workers—who were predominately people of color—from coverage under the legislation.[43] For African Americans, the cost of exclusion from the Social Security Act of 1935 resulted in a loss of benefits totaling $143.20 billion in 2016 dollars.[44] To be sure, White workers were also denied the benefits of Social Security—to the tune of $461 billion, in fact. However, although White farmworkers and domestic workers were excluded, African Americans and other minority workers bore the brunt of the impact as they comprised a much larger share of those excluded—about two-thirds—compared to White workers.[45]

Federally Sanctioned Housing Discrimination: Between 1934 and 1968, the Federal Housing Administration (FHA), along with other public- and private-sector actors like the federal Home Owners' Loan Corporation (HOLC), intentionally shut out households of color from the opportunity to purchase a home through the practice of redlining. Despite FHA's goal of making homeownership accessible to more American households, the underwriting practices it implemented during its first 35 years resulted in homebuyers of color receiving just two percent of the government-backed mortgages issued over that period of time.[46] The practice of being denied access to traditional credit pushed many would-be homebuyers of color into wealth-stripping "land contracts," a predatory and costly arrangement in which buyers paid an exorbitant price to purchase a home and in which a missed payment would lead to eviction from the home and the loss of all equity. In cities like Chicago, where redlining was rampant, the practice of "land contracts" led African American families to pay an average of $20,000 more for their homes than the prices paid by White families, ultimately stripping more than $500 million in wealth (about $3 billion in 2017 dollars) from families of color over a 30-year period.[47] Ultimately, this practice not only set the stage for homeownership to become the largest driver of the racial wealth divide today, it also shaped—figuratively and literally—the communities in which many people of color live today.[48]

Denial of Economic Opportunities for Servicemembers of Color: By and large, the G.I. Bill of 1944 is credited with providing millions of returning World War II veterans with the opportunity to access wealth-building opportunities, including low-cost home mortgages, low-interest business loans and tuition assistance. Although the bill did not include discriminatory language or directives, it delegated administrative authority to the states with minimal federal oversight. The result was pervasive racial discrimination in which Servicemembers of color were more likely to be denied access to a range of benefits that greatly expanded the American middle class that arose during the second half of the century.[49] As with redlining, discriminatory lending practices among Servicemembers of color were prevalent, leaving veterans to face racially biased administrator that were unwilling to extend G.I. benefits, as well as banks that were unwilling to extend credit to people of color.[50] For example, three years into the administration of the law, a survey of 13 Mississippi cities found that African American Servicemembers received just two of 3,229 loans made by the Department of Veterans Affairs to support homeownership, business and farming.

Current Public Policies Are Preserving the Racial Wealth Divide

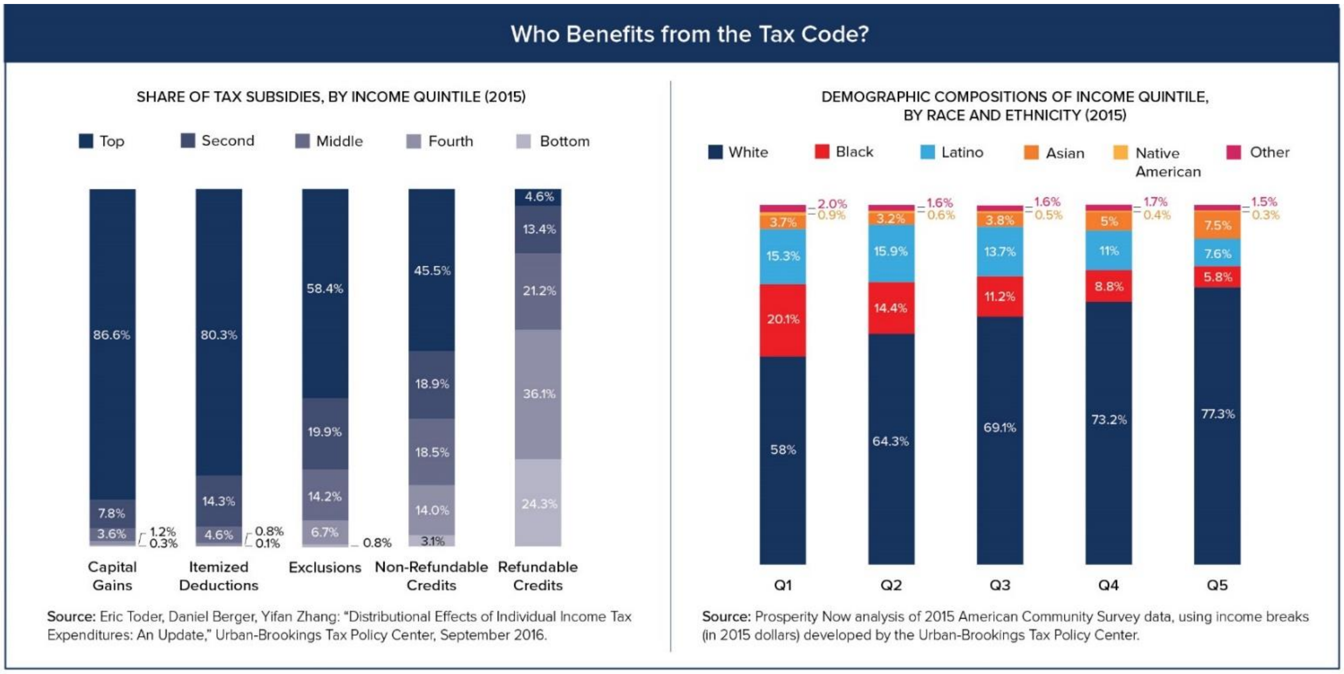
Even though many policies and practices that have impacted the economic potential of communities of color have been outlawed or corrected, today there remains a whole host of policies and systems that either limit the ability of households of color from building wealth or strip away what little wealth they might have. The policies discussed below are just a few of the most enunciated examples.

The Punishment of Our Most Vulnerable for Trying to Get Ahead: Despite the fact that social safety net programs are designed with the explicit purpose of helping families climb out of poverty, many public benefits programs—in which households of color are more likely to participate than their White counterparts[51]— punish families for even modest savings that might help them get ahead. These savings penalties are often called "asset limits," and they limit eligibility for many means-tested government assistance programs to those with very little or no savings.[52] In some states, as little as $1,000 in a savings account earmarked for a child's college education results in families losing access to critical public assistance programs like SNAP (Supplemental Nutrition Assistance Program, formerly food stamps) or TANF (Temporary Assistance for Needy Families). Even owning a car—an asset that many workers need to get to their jobs, remain employed and move off of public assistance—that is valued above a certain threshold (currently $4,650 for the Supplemental Nutrition Assistance Program) can disqualify a family from these critical safety net programs.[53] Although many states have taken advantage of the flexibility they have to lift or remove these penalties entirely, many other states have failed to leverage this flexibility and there continue to be efforts at the federal level to take away that flexibility entirely.

The Perpetuation of Financial Insecurity by the Criminal Justice System: Today, 70-100 million Americans have a criminal record.[54] Given that communities of color make up a disproportionate amount of the incarcerated population (African Americans and Latinos alone account for more than half of the prisoners in 12 states)[55] and that these communities are more likely to interact with and be affected by the sprawling criminal justice system,[56] its impact on the racial wealth divide cannot be ignored. For example, the debts generated by a system of fines and fees can often leave individuals who interact with this system in an unsettling economic situation, even after they have repaid their debts to society or have been cleared of any wrongdoing. In Washington—a state with lower incarceration rates than 39 other states[57]—criminal debts stripped 36-60% of the income of formerly incarcerated men.[58] At the national level, the burden of the more $50 million in criminal debts are held by just 10 million people, or about three percent of the population.[59] Unfortunately, criminal debts are often compounded further by a number of other challenges, including difficulties in securing employment. To this point, the American Bar Association has found that of the more than 46,000 collateral consequences or civil penalties of federal and state criminal convictions, 60-70% are employment-related.[60]

An Upside-Down U.S. Tax Code That Overwhelmingly Favors Wealth-Building for Wealthy—Mostly White—Households Over Everyone Else: Our tax code is—by leaps and bounds—the single largest tool the federal government uses to provide families with the support they need to boost economic outcomes and build lifelong wealth. To achieve these goals, the federal government spent $677 billion through the tax code in 2016 to help families purchase a home, go to college, and save and invest for the future. Together, this amount surpasses the budgets of all federal agencies *combined*, save for the Department of Defense. While the government's goal of helping families build wealth is laudable, the problem is how the tax code disburses the bulk of this spending—the support ends up going almost exclusively to the already wealthy, providing very little or no support to low- and moderate-income families, particularly those of color.

Despite the IRS not collecting data on tax filers' race, in 2014, PolicyLink published a study that provided for the first time an approximation of which racial groups benefit most from tax expenditures. In it, researchers found that White households represented the majority of income earners in each income quintile, including in the top three quintiles. It is in these three income quintiles where a lion's share of available tax breaks were claimed, including exclusions, itemized deductions and investment credits. An updated representation of those findings is depicted in the graphs that follow.



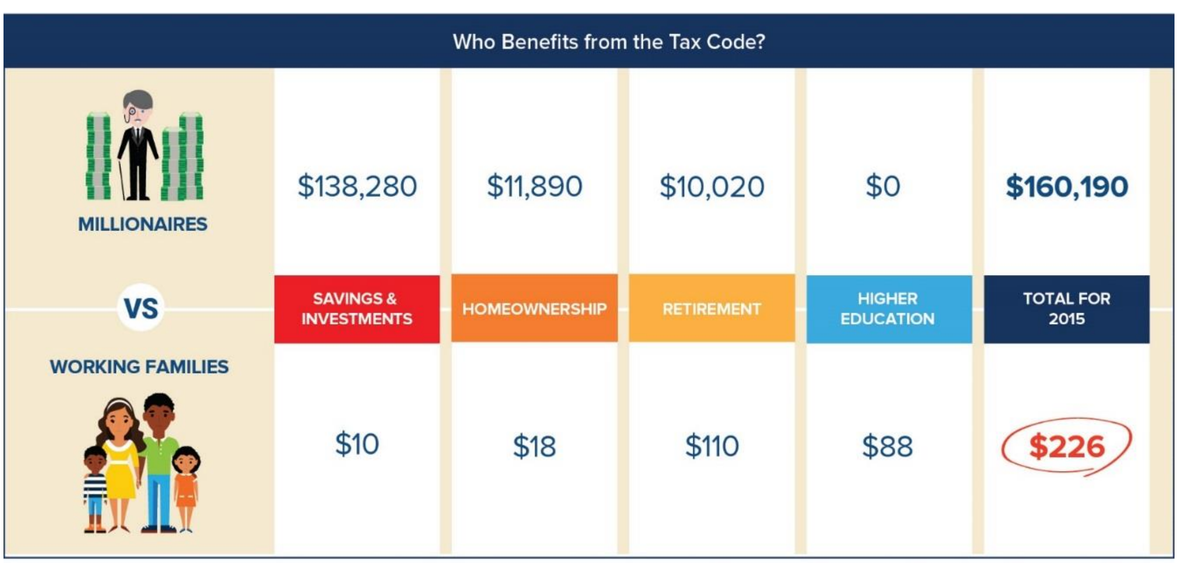
Source: Eric Toder, Daniel Berger, Yifan Zhang: "Distributional Effects of Individual Income Tax Expenditures: An Update," Urban-Brookings Tax Policy Center, September 2016.

Source: Prosperity Now analysis of 2015 American Community Survey data, using income breaks (in 2015 dollars) developed by the Urban-Brookings Tax Policy Center.

The income quintiles used in the graphs above were developed by the Urban-Brookings Tax Policy Center and are as follows (in 2015 dollars): bottom quintile ($0–$22,800); second quintile ($22,801–$43,511); middle quintile ($43,512–$72,001); fourth quintile ($72,002–$112,262); top quintile ($112,263 and up).

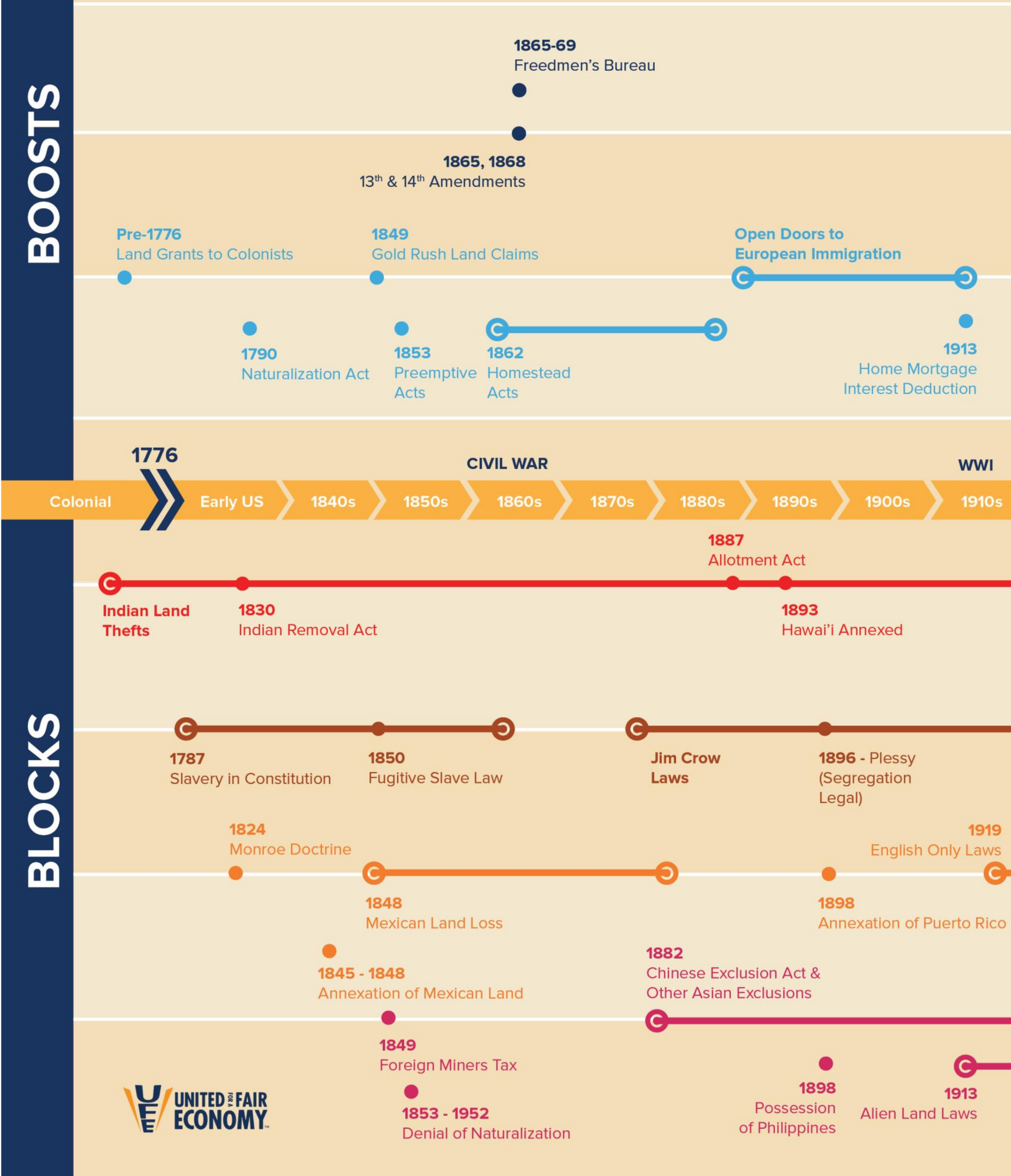
For a specific example of how the tax code is making the problem of wealth inequality worse look no further than the tax provisions that encourage homeownership, which makes up the largest share of a household's wealth. In 2015, the federal government spent $51 billion on public housing assistance programs, which was a little less than half of what was spent through the tax code to support homeownership during the same year through the Mortgage Interest Deduction and the Property Tax Deduction ($90 billion).[61] Although both programs support families in their efforts to secure a roof over their heads, families earning $100,000 or more took 90% of the $90 billion available through tax-related housing assistance, while those earning $50,000 received only about one percent of these benefits.[62] In other words, despite the shared goal of boosting housing opportunities for Americans, wealth-building tax programs are designed to help the wealthy become even wealthier.

At the heart of the disparities perpetuated by the tax code are several flaws, including the fact that most of our most valuable wealth-building tax benefits—such as the Mortgage Interest Deduction—are only available to tax filers who itemize their deductions. According to recent research by the Urban Institute, high-income earners were overwhelmingly more likely to itemize their deductions than lower-income earners. In fact, as of 2014 (the most recent year data are available from the IRS), more than 80% of tax filers earning $100,000-$499,000 itemized their deductions, while 92% earning $500,000 or more did the same. By comparison, only 22% of those earning $30,000-$49,000 and just seven percent of those earning less than $30,000 itemized their deductions. Adding to this structural problem is that taxes are complicated. When we understand how this system works, it becomes clear that the vast amount of spending done through it goes to help wealthy families build more wealth, instead of helping those are struggling to get ahead.



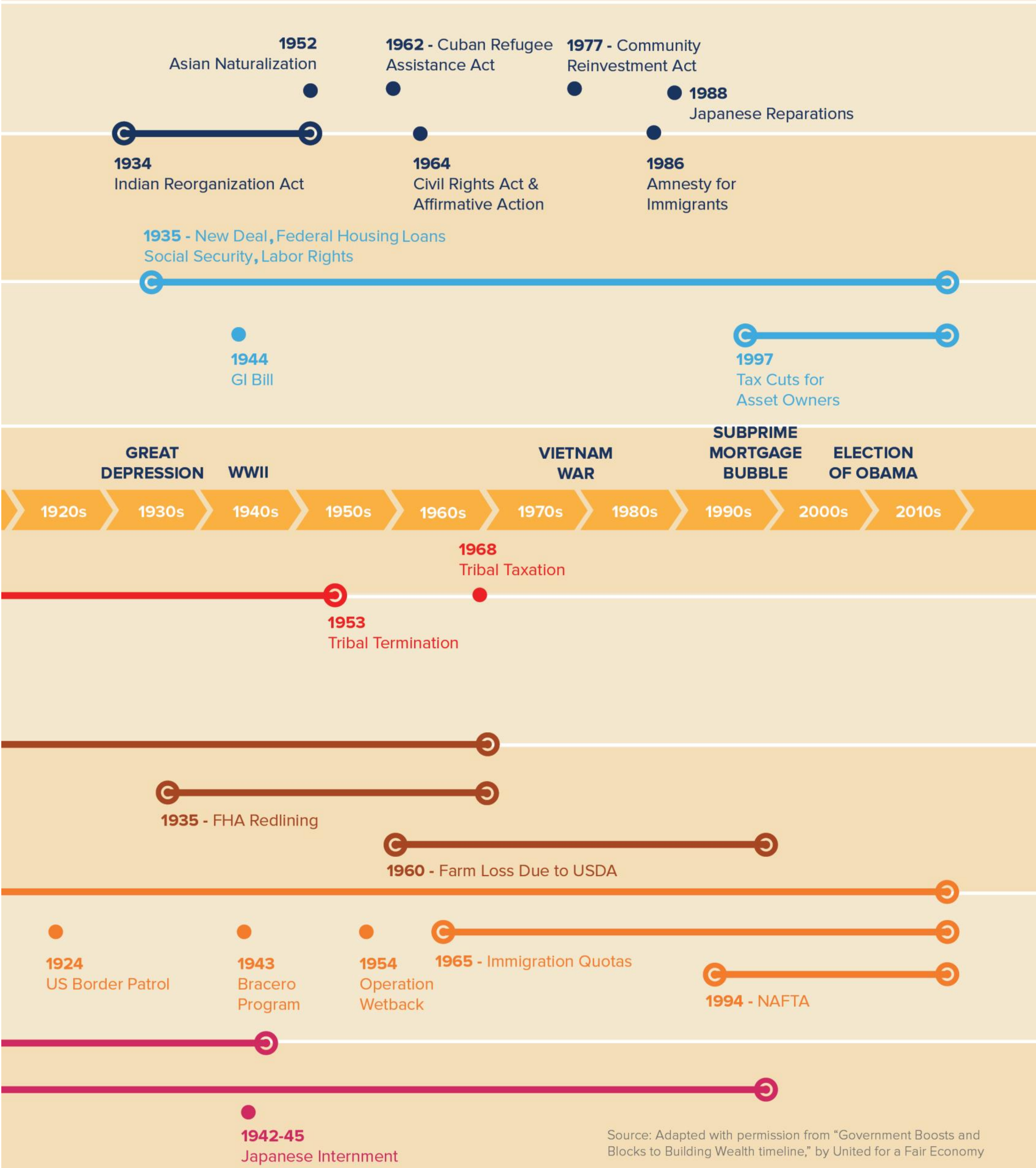
Source: Calculations based on data from Urban-Brookings Tax Policy Center (2016), "Working families" defined as those with $50,000 or less in income. Dollar amounts reflect the average benefit in 2016 from several tax programs for tax united in the two income categories.

GOVERNMENT BOOSTS AND



UNITED FOR A FAIR ECONOMY

BLOCKS TO BUILDING WEALTH

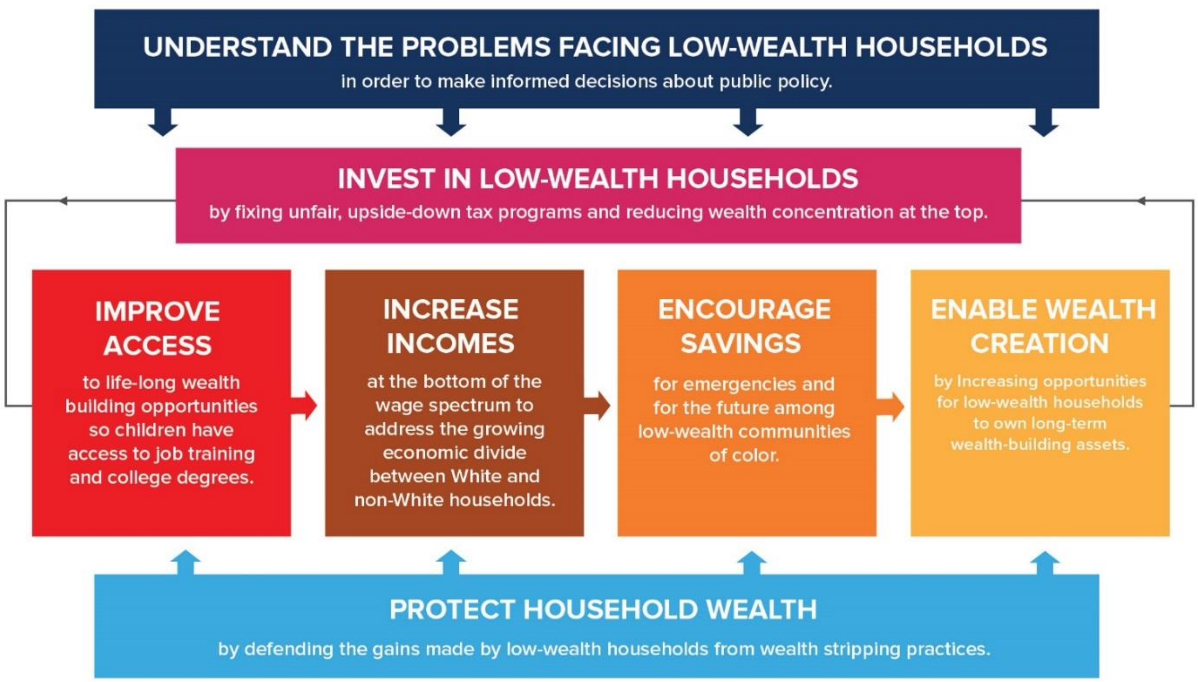


Source: Adapted with permission from "Government Boosts and Blocks to Building Wealth timeline," by United for a Fair Economy

Policy Interventions to Address a Growing Crisis

The growing racial wealth divide documented in this report is not a natural phenomenon, but rather the result of contemporary and historical public policies that were intentionally or thoughtlessly designed to help White households get ahead at the expense and exclusion of households of color. In other words, this crisis is not the result of individual behavior, but rather of structural and systemic forces. Although public policy has been a significant contributor to the divide, the good news is that public policy can also help to close the divide.

However, if we are to be successful in designing policies that ultimately close this growing gap, then we must operate within a different framework than the one that led us to this point. In this section, we discuss what this framework should look like, acknowledging both that no single policy will suffice, and that our policy prescriptions must emphasize benefits based on existing wealth needs and barriers, including taking proactive steps that disproportionately benefit low-wealth communities of color.[63]



UNDERSTAND THE PROBLEMS FACING LOW-WEALTH HOUSEHOLDS

Gathering enough information to make informed decisions about public policy is critical to ensuring to solving the problems outlined in this report.

Racial Wealth Divide Government Audit: In our 2016 report, *The Ever-Growing Gap,* we described in detail a plan for an audit of existing public policies to determine their impact on the racial wealth divide. This audit, we argue, should be government-wide and evidence-based, with a special advisor or ombudsperson overseeing the project. The Institute on Assets and Social Policy at Brandeis University has created an empirical tool for conducting a racial wealth audit.[64] It's critically important that the findings of such an audit are made public and paired with actionable options for administrative reforms. Policies found to be intensifying the racial wealth divide should be critically re-evaluated, while policies that reduce the divide should be expanded. Creating a racial wealth audit is well within the authority of the Executive branch and should be implemented in concert with a legislative agenda that changes policies found by the audit to be unduly hurting communities of color.

Improve Data Collection on Economically Disenfranchised People: Access to high-quality data is critical to understanding the economic trends outlined in this study. However, a major limitation of the study results from the dearth of nationally representative data on a wider range of ethnic and racial groups. For instance, while much information is available on White, Black and Latino families, comparably little information is available about Native American household finances. More data, specifically those which disaggregate Asian American communities and those which shed light on Native Americans' economic lives, would enable a deeper discussion of the role of race in economic inequality.

INVEST IN LOW-WEALTH HOUSEHOLDS

Invest in low-wealth households by fixing unfair, upside-down tax programs, reducing wealth concentration at the top and generating significant funding to be reinvested in the wealth-building potential of low-wealth individuals and families.

Turn Upside-Down Tax Expenditures Right-Side Up: When most people think about government spending, they think about what the government buys with its money, not about the discounts it gives. In effect, these discounts—what are commonly referred to as tax expenditures—function in the same way that public spending programs do, albeit with much less scrutiny. The impact of tax expenditures is quite large and could make up the basis for shifting public investment in asset generation for low-wealth families. As described previously in this report, the existing federal tax expenditures add up to $677 billion spread across efforts to boost savings, homeownership, retirement and higher education. Currently, we spend:

- **$251 billion to boost savings and investments** by actively increasing accessible savings through investments and inheritances.
- **$220 billion to support homeownership** through tax programs that primarily enable households to take on more mortgage debt and buy bigger homes.
- **$178 billion to support retirement** through tax-preferred treatment of retirement plans, such as defined benefit plans, 401(k)s and IRAs.
- **$28 billion to support higher education** through after-purchase subsidies and support for college savings

Due to the massive amount of money spent through these wealth-building tax programs and their far reaches, shifting these tax expenditures toward wealth-building programs for low-wealth people would have a monumental impact in reducing the racial wealth divide and solving economic inequality more broadly.

Expand Existing Progressive Taxes: In addition to broad reforms to our wealth-building tax programs, other solutions for generating significant revenue while reducing the democracy-distorting impact of concentrated wealth include:

- **Robust Estate and Inheritance Taxation.** Over the last decade, the federal estate tax has been weakened through higher exemptions and the increased use of loopholes, such as the Granter Retained Annuity Trust. Closing these loopholes and instituting a graduated rate structure would generate additional revenue and reduce the distorting impact of concentrated wealth. Reform proposals under consideration in Congress, like the Responsible Estate Tax Act, would generate between $161-200 billion in estimated additional revenue over the next 10 years.[65]
- **Net Worth Tax on Fortunes.** Lawmakers should explore the creation of an annual net worth tax on wealth over $50 million or a similarly high threshold, at a low rate of 1-2%. Annual net worth taxes have existed in other OECD (Organisation for Economic Co-operation and Development) countries and are part of a constellation of policies to reduce concentrated wealth and generate revenue for opportunity investments.[66]
- **State-Level Estate and Wealth Taxation:** In 2001, Congress phased out the linkage between state and federal estate taxes, leading to the expiration of estate taxes in over 30 states. Eighteen states and the District of Columbia proactively retained their estate taxes, although they've been under attack ever since. In Washington, state estate tax revenue capitalizes the Education Legacy Trust Fund, which funds K-12 and higher education in the state. If states without estate taxes reinstituted them, they could generate $3-6 billion per year that could be invested in expanding opportunity.[67]

Fix the Hidden Wealth Problem: Efforts to reduce the racial wealth divide run headlong into the growing practices of hiding wealth from taxation and accountability. New research suggests that households in the top 0.01% (i.e., those with wealth in excess of $40 million) evade 25-30% of personal income and wealth taxes.[68] By comparison, the general population has an evasion rate of just three percent.

The use of "off shore" tax havens –or secrecy jurisdictions –is becoming more widespread in the last few decades, both for transnational corporations and wealthy individuals. Economist Gabriel Zucman estimates that about 8 percent of the world's individual financial wealth –almost $8 trillion –is hidden in these off-shore centers. Wealthy U.S. citizens have an estimated $1.2 trillion stashed off-shore, avoiding $200 billion a year in lost tax revenue.[69] This estimate is probably low. Jim Henry, a former economist at McKinsey, calls the offshore financial world the "economic equivalent of an astrophysical black hole," holding at an estimated $21 trillion of the world's financial wealth, more than the gross domestic product of the United States.[70]

Dealing with this hidden wealth problem will require legislative action, international diplomacy, and sanctions and penalties aimed at banks, tax haven jurisdictions and the wealth defense industry professions that facilitate the process.

The US has enormous responsibility and leverage in fixing this broken system, given our oversized role in the global economy. In doing so, the US should require transparency reforms and shared reporting as part of international trade agreements. Moreover, foreign banks and corporations should be held to higher standards of reporting in order to have access to U.S. markets. Several promising ideas for tackling this challenging problem include:

- **Transparency Reforms:** As part of global trade negotiations, countries should establish treaties requiring uniform disclosure and transparency, both of banks and capital flows. Private bank accounts should be required to disclose ownership of different accounts. And, states like Delaware and Wyoming should have higher transparency and disclosure requirements.

- **Reforms to the Off-Shore Corporate Tax Haven System**: Some of the policy actions that would greatly reduce corporate tax haven abuses include:

    - **Global Registries of Beneficial Ownership.** International treaties should require banks and corporations to register their beneficial owners, ending one of the hallmarks of secrecy in the offshoring system.

    - **End Deferral of Foreign Source Income**. The Corporate Tax Fairness Act would require U.S. companies to pay taxes on all of their income by ending the deferral of foreign source income.

    - **Stop Tax Haven Abuse Act**. Introduced by Senator Sheldon Whitehouse (D-RI) and Representative Lloyd Doggett (D-TX), the "Stop Tax Haven Abuse Act" (H.R.1932/S. 851) is an omnibus bill that would close a number of loopholes and empower the IRS to identify and close foreign tax shelters.[71]

    - **Outlawing Certain Practices and Trusts.** While respecting principles of privacy, certain practices deliberately designed to mask ownership of wealth, bank accounts, corporations and transactions must be declared illegal—along with the intent to design new loopholes and mechanisms that have yet to be discovered.

    - **Exposing and Penalizing the Enablers**. One approach is to focus on holding the wealth defense practitioners directly responsible for aggressive tax avoidance, including criminal charges for aiding and abetting services.

IMPROVE ACCESS TO LIFE-LONG WEALTH-BUILDING OPPORTUNITIES

Improving life-long wealth building opportunities so children have access to job training and college degrees is key to reducing barriers to wealth creation.

Establish Children's Savings Accounts: Imagine if every child in the United States started off with a small nest egg for her future in the form of a Children's Savings Account (CSA) opened automatically at birth. CSAs are rather simple in design: children receive an initial deposit at birth that, along with contributions from families and the children themselves, accrues interest throughout their childhood and becomes available to them as an adult. Uses for the funds can be limited to education, homeownership, starting a business or retirement. The idea for CSAs has been around for a long time, although CSAs have never been implemented at the national level in the United States.[72] That is a particular shame in light of a 2016 report from the Annie E. Casey Foundation showing that if Congress had instituted a robust universal CSA program in 1979, the White-Latino wealth gap would be fully closed by now and the White-Black wealth gap would have shrunk by 82%.[73]

GENERATE MORE INCOME AT THE BOTTOM OF THE WAGE SPECTRUM

To address the growing economic divide between White and non-White households, opportunities for generating more income need to be available to those at the bottom of the wage spectrum.

Strengthen the Earned Income Tax Credit (EITC): The EITC is not well understood for families who've never received it or for folks who don't spend their days contemplating tax policy. In large part, the credit's complexity is often a major barrier for low- and moderate-income households to claim it in the first place. As a result, about one out of every five eligible tax filers do not claim the credit.[74]

Given the important role the EITC plays as the country's largest and most effective anti-poverty program,[75] it is critical that we expand, improve and simplify the credit. Today, the full benefit of the EITC currently only extends to parents, a policy that should change to include low-wealth workers without dependents. Another smart refinement would be to allow and incentivize families to save a portion of their EITC for a rainy day later in the year. Benjamin Harris and Lucie Parker of the Tax Policy Center found in a 2014 study that Black families disproportionately live in ZIP codes with high rates of poverty and high rates of EITC claims. Thus, improving the EITC would bring direct benefits to the families in these communities.[76]

Significantly Raise the Minimum Wage: The minimum wage is too low to afford the basic cost of living in any major city in the country. Despite the fact that workers are significantly more productive today, the federal minimum wage has not increased since 2009 when it rose to $7.25 per hour ($2.13 an hour for tipped workers). Federal efforts to raise the minimum wage to $15 per hour backed by the national "Fight for 15" campaign would significantly reduce the racial economic divide.

Studies conducted on cities that dramatically raised their minimum wage have shown significant economic benefits for the low-wage workers, as well as for the communities as a whole. Michael Reich and his colleagues at the University of California at Berkeley looked at the impact of raising the minimum wage in cities that had done so, including Chicago, San Francisco, Oakland and Seattle.[77] They found that higher wages boosted worker pay, contrary to concerns that higher minimum wages would cause either a loss of jobs or a slowdown in economic growth. Other research has shown that there are more benefits to raising the minimum wage, including increasing worker productivity,[78] reducing poverty and reliance on public assistance programs,[79] and improved infant health and adult mental health, including a significant reduction in depression.[80]

Guarantee Employment: On their own, raising wages and tweaking the tax code cannot sufficiently enable low-income people to earn their way out of poverty. Unemployment rates for Black workers are consistently higher than those of their White counterparts. A federal job guarantee would address this problem. Championed by a number of economists including Darrick Hamilton and William "Sandy" Darity, a federal jobs guarantee would function similarly to the Works Progress Administration of the 1930s.[81] A federal jobs guarantee would also help address the growing infrastructure crisis in the United States to fix the nation's crumbling roads and bridges.

ENCOURAGE AND ENABLE SAVINGS

Encouraging and enabling savings for low-wealth communities of color is a critically important role for public policy. The key savings vehicle for most families is their retirement savings, which very few low-income people are able to build.

Create a National Automatic-Enrollment Individual Retirement Account (Auto-IRA) Program: Employees of color are more likely to lack access to and less likely to participate in work-based retirement plans.[82] Even more unfortunate is that even those who do save for retirement don't have enough saved to live out their golden years in dignity. Today, median Black and Latino families (age 32-61) have just $22,000 saved in a retirement account, compared to $73,000 for the median White family.

To address the retirement gap facing communities of color, Congress should make it easier for any American to save for their retirement by enacting a national Auto-IRA program in which workers have the ability to opt out if they choose. At minimum, research has shown that a policy solution such as this would dramatically increase participation rates in retirement savings plans by 90%.[83] Some other ideas for encouraging retirement savings for low-income people include expanding the Saver's Credit—a tax credit aimed at encouraging lower-income households to save for retirement—into a refundable credit, making it accessible to more low-wage families.

INCREASE OPPORTUNITIES TO OWN WEALTH-BUILDING ASSETS

Homeownership has been a pillar of the middle class for decades, yet incentives for buying a home or generating other assets are skewed by a tax expenditure system that privileges the already wealthy.

Increase Access to Homeownership & Housing Opportunities: The Mortgage Interest Deduction is considered a "third rail" in Washington policy discussions, meaning it can't be touched. However, this particular program is worth singling out as its current design exacerbates inequality by utilizing public dollars to benefit wealthy households at the expense of low-wealth households. Over $75 billion is spent annually on the deduction.[84] Congress should consider a meaningful cap on homeownership tax support and use the savings from such a cap to help low-wealth families access homeownership and affordable housing—rather than helping the wealthy afford their second or third homes. These funds could be redirected in several ways, including by:

- Reinstating the First-Time Homebuyer Tax Credit and making it permanent.
- Creating a refundable housing credit that would allow more taxpayers—both homeowners and renters—to enjoy the housing benefits of the tax code.
- Create a matched-savings program for downpayments to help more would-be homeowners overcome financial barriers to purchasing a home.

Reforms like these could be used to greatly reduce the racial homeownership disparity that exists today, which research has shown could narrow the racial wealth divide by as much as 31%.[85]

PROTECT HOUSEHOLD WEALTH AGAINST WEALTH-STRIPPING PRACTICES

Defending the gains made by low-wealth households from wealth stripping and other attempts to undermine their asset-building efforts is critically important.

Maintain the Effectiveness & Independence of the Consumer Financial Protection Bureau (CFPB): Although there are a number of different agencies that regulate all aspects of the financial industry, the CFPB is the only agency dedicated solely to protecting consumers. Over the past six years, the Bureau has not only done a tremendous amount to protect consumers against predatory financial practices and foster fairer industry practices, it has also secured about $12 billion in relief for 29 million consumers, including $400 million dollars returned back to consumers that have fallen victims of fair lending abuses.[86]

Beyond the billions returned to consumers through enforcement actions, the CFPB has introduced strong new mortgage disclosure forms, has helped millions of consumers through its consumer complaint portal and has conducted research and outreach to millions of people so they better understand their finances and can access good financial products. All of these and other Bureau functions have gone a long way toward improving consumer financial markets and rectifying the predatory lending practices that were rampant before the financial crisis. Unfortunately, despite the Bureau's high level of effectiveness, numerous efforts have been undertaken to undermine the only watchdog on the side of everyday consumers. Given that communities of color and other vulnerable populations are often the victims of unfair, deceptive and predatory practices, we need to ensure that the CFPB is maintained as an independent and effective government agency.

Stop Wealth-Stripping Practices: In recent years, there has been a resurgence of predatory and wealth-stripping scams, many backed by large Wall Street firms. These include the return of "contract for deed" transactions that preyed on Black homebuyers excluded by traditional government-backed mortgage lenders in the 1950s and 60s. Contract for deed transactions are sale agreements in which the seller finances the transaction. CFDs are not inherently predatory, but opportunities for abuse are plentiful. Most CFDs are not recorded nor subject to the Truth in Lending Act and other consumer protections enjoyed by most traditional mortgage borrowers. Under a CFD arrangement, the buyer has all of the responsibilities and headaches of a homeowner, including making repairs, paying property taxes and securing insurance, without actually owning anything. These buyers have even fewer rights than the typical renter, who can at least call the landlord to fix a busted toilet or broken lock.[87]

To mitigate the risk for abuse associated with these transactions, state laws should ensure that until buyers have all the rights of homeownership, they at least have the protections afforded to tenants. The National Consumer Law Center has suggested a number of public policies that states could implement to stem the tide of growing CFD abuses. One reform would be to require sellers using a land contract to stop pushing provisions that require buyers to make repairs in order to make the house habitable. It is unfair that a buyer who doesn't even hold the deed to a property is saddled with the responsibility of expensive repairs. This reform would eliminate one of the driving forces behind Wall Street firms pushing land contracts—the ability to manipulate low-income buyers into providing an income stream to investors while shouldering all the burdens of home repairs.[88]

At the federal level, although the Consumer Financial Protection Bureau (CFPB) cannot alter state property laws, it could issue regulations requiring CFD transactions to abide by consumer protection laws against deceptive practices. In May 2016, six members of Congress, led by Senator Richard Blumenthal (D-CT), wrote to CFPB Director Richard Cordray, "Because CFDs can lead to increased debt, financial instability and eviction for hard-working American Families," the Bureau should "examine the use of CFDs and determine how the Bureau may provide consumer protections to cover these transactions." Shortly after this request, the CFPB began investigating Harbour Portfolio—a company sued by the City of Cincinnati in 2017 for "intentionally fail[ing] to disclose known defects about properties, including building code order and other violations." In February 2017, a federal judge ordered Harbour to comply with the Bureau's subpoena for documents.[89]

Finally, as federal lawmakers have already called for, the Federal Housing Finance Agency should stop Fannie Mae and Freddie Mac, the two mortgage-finance companies in federal conservatorship, from selling foreclosed homes to firms such as Vision Properties and Harbour Portfolio that are engaged in predatory CFD practices.[90]

Conclusion

More than 50 years ago, at the March on Washington, Dr. Martin Luther King, Jr. began his famous "I Have a Dream" with an account of the state of African Americans 100 years after the Emancipation Proclamation. In those initial and often-forgotten words, Dr. King not only spoke to the issues of segregation and discrimination that African Americans continued to face long after slavery ended, but also to the economic state of these communities, which as he described as "living in the lonely island of poverty in the midst of a vast ocean of material prosperity." In elevating this reality further, Dr. King brought to bear that the country had defaulted on its foundational promissory note of opportunity when it came to its citizens of color, writing checks to African Americans that had been returned as having "insufficient funds."

More than half-century after Dr. King delivered his speech from the steps of the Lincoln Memorial, the metaphor of racial economic injustice he spoke of holds true today, despite the progress we've made since 1963. Given the rapidly changing demographics of our country, the economic problems facing communities of color will soon undoubtedly have an economic impact on all Americans, including White households. While we acknowledge that the issue of economic inequality today is not unique to any one group, particularly as the wealthy few are doing extremely well compared to the rest of the population, ignoring the opportunity gap facing communities of color is not something we can afford to do much longer. Ultimately, as we've highlighted in this report, in the absence of substantial efforts to address and ultimately close this ever-accelerating gap, then what holds for the next 50 years and beyond will be a continual reiteration of Dr. King's stark economic symbolism. The precarious state of our collective economic well-being, coupled with the reality that our future economic prosperity will depend much more on the prosperity of communities of color, means tackling the racial wealth divide should be a priority for all of us now before it is too late.

Methodology

The wealth data trend figures presented in this report were calculated using the Federal Reserve Board's Survey of Consumer Finance (SCF) net worth figures, as calculated using Edward Wolff's framing in *Household Wealth Trends in the United States, 1962-2013: What Happened Over the Great Recession?* The main difference in this framing from the standard SCF definition of net worth is the exclusion of consumer durable goods (i.e., automobiles, electronics, furniture, etc.). This definition is rooted in the idea that wealth should be readily converted to cash (i.e., fungible), and durable goods are not.[91]

The wealth and income figures presented in this report as part the discussion about "middle-class wealth" were calculated using the U.S. Census Bureau's most recent Survey of Income and Program Participation net worth and income data. These data were calculated to exclude consumer durable goods.

Figures are in 2013 dollars except when specified.

Tables

Change in Median Household Wealth, 1983 to 2013 (Wolff Methodology)

	Black	Average Annual Percent Change	Percent Change, 1983-2013
Median Household Wealth, 1983	$6,800	-2.5%/yr.	-75%
Median Household Wealth, 2013	$1,700		

	Latino	Average Annual Percent Change	Percent Change, 1983-2013
Median Household Wealth, 1983	$4,000	-1.66%/yr.	-50%
Median Household Wealth, 2013	$2,000		

	White	Average Annual Percent Change	Percent Change, 1983-2013
Median Household Wealth, 1983	$102,200	+0.43%/yr.	+14%
Median Household Wealth, 2013	$116,800		

	Overall	Average Annual Percent Change	Percent Change, 1983-2013
Median Household Wealth, 1983	$78,000	-0.6%/yr.	-18%
Median Household Wealth, 2013	$63,800		

Change in Median Household Wealth, 2013 to 2073 (Wolff)

	Black	Latino	White	Overall
Median Household Wealth, 2013	$1,700	$2,000	$116,800	$63,800
Median Household Wealth, 2020	$1,403	$1,767	$120,342	$61,120
Median Household Wealth, 2024	$1,233	$1,633	$122,366	$59,589
Median Household Wealth, 2043	$425	$1,000	$131,980	$52,316
Median Household Wealth, 2053	$0	$667	$137,040	$48,488
Median Household Wealth, 2073	($850)	($0)	$147,160	$40,832

Median Household Wealth by Income Quintiles and Race (Wolff)

	Black	Latino	White	Overall
1st Quintile: Under $18,420	$0	$0	$3,000	$300
2nd Quintile: $18,421 - $37,200	$350	$437	$39,700	$13,003
3rd Quintile: $37,201 - $61,368	$11038	$8600	$86,100	$51,668
4th Quintile: $61,369 - $104,508	$49,500	$45,720	$159,570	$127,900
5th Quintile: More than $104,509	$185,110	$137,000	$444,502	$393,700

Median Wealth by Education Level and Race (Wolff)

	Black	Latino	White	Overall
Less than HS	$5	$5	$15,000	$800
HS Diploma/GED	$100	$1,720	$64,200	$25,100
Some College/2-Year Degree	$700	$5,800	$60,549	$30,300
4-Year Degree	$37,600	$32,600	$181,220	$133,719
Advanced Degree	$95,900	$124,000	$391,075	$304,201

Percentage of Population with Wealth Below or Above "Middle-Class Wealth" (Wolff)

	White	Black	Latino
Asset Poor/Working Class	42.22%	72.12%	72.26%
Middle-Class Wealth	18.77%	15.19%	14.22%
Asset Strong/Upper-Class Wealth	39.01%	12.69%	13.60%

Share of Tax Subsidies by Income Quintile, 2015

	Exclusions	Capital Gains and Dividends	Itemized Deductions	Non-Refundable Credits	Refundable Credits
Bottom Quintile: $0–$22,800	0.8%	0.3%	0.1%	3.1%	24.3%
Second Quintile: $22,801–$43,511	6.7%	1.2%	0.8%	14.0%	36.1%
Middle Quintile: $43,512–$72,001	14.2%	3.6%	4.6%	18.5%	21.2%
Fourth Quintile: $72,002–$112,262	19.9%	7.8%	14.3%	18.9%	13.4%
Top Quintile: More than $112,263	58.4%	86.6%	80.3%	45.4%	4.6%

Demographic Compositions of Income Quintiles by Race and Ethnicity, 2015

	Black	Latino	White	Asian American/ Pacific Islander	Native American/ Alaskan Native	Other
Bottom Quintile: $0–$22,800	20.1%	15.3%	58.0%	3.7%	0.9%	2.0%
Second Quintile: $22,801–$43,511	14.4%	15.9%	64.3%	3.2%	0.6%	1.6%
Middle Quintile: $43,512–$72,001	11.2%	13.7%	69.1%	3.8%	0.5%	1.6%
Fourth Quintile: $72,002–$112,262	8.8%	11.0%	73.2%	5.0%	0.4%	1.7%
Top Quintile: More than $112,263	5.8%	7.6%	77.3%	7.5%	0.3%	1.5%

Black, Latino and White Households with Zero Net Worth

	Black	Latino	White
Percentage of Households with Zero or Negative Net Worth	30.1%	23.7%	13.1%
Total Households with Zero or Negative Net Worth	4,250,113	3,367,484	10,571,593

Median Wealth by Wealth Quintiles and Race (Wolff)

	Black	Latino	White	Overall
Bottom Quintile: Under -$50	($13,500)	($13,000)	($18,600)	($16,250)
Second Quintile: -$49 - $20,405	$175	$500	$2,775	$1,200
Middle Quintile: $20,406 - $128,600	$59,750	$59,030	$66,002	$64,200
Fourth Quintile: $128,601 - $403,200	$208,400	$216,755	$230,600	$227,084
Top Quintile: More than $403,201	$667,163	$756,000	$861,600	$848,300

Proportion of Wealth Quintile Composed of Race/Ethnicity (Wolff)

	Black	Latino	White
Bottom Quintile: Under -$50	18.3%	16.7%	58.2%
Second Quintile: -$49 - $20,405	20.1%	22.4%	49.2%
Middle Quintile: $20,406 - $128,600	13.3%	13.1%	67.4%
Fourth Quintile: $128,601 - $403,200	8.3%	8.5%	77.8%
Top Quintile: More than $403,201	3.9%	4.1%	84.4%

Proportion of Race/Ethnicity in Each Wealth Quintile (Wolff)

	Black	Latino	White
Bottom Quintile: Under -$50	28.7%	25.8%	17.3%
Second Quintile: -$49 - $20,405	31.5%	34.6%	14.6%
Middle Quintile: $20,406 - $128,600	20.9%	20.2%	20.0%
Fourth Quintile: $128,601 - $403,200	12.9%	13.1%	23.1%
Top Quintile: More than $403,201	6.0%	6.3%	25.0%

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