

STATE  
OF THE DREAM 2013

# A LONG WAY FROM HOME

Housing, Asset Policy and the Racial Wealth Divide

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OF THE **DREAM** 2013

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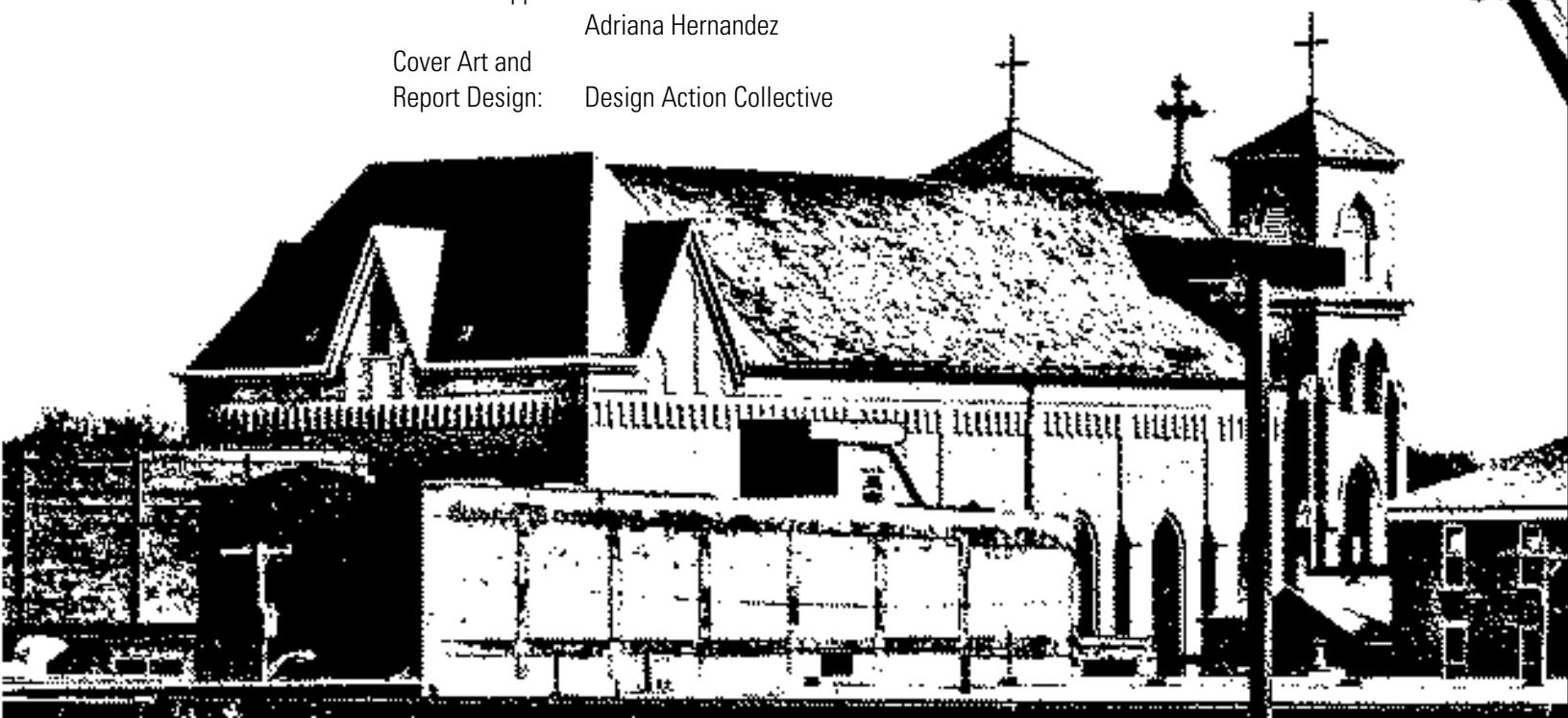
Housing, Asset Policy and the Racial Wealth Divide

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# EXECUTIVE SUMMARY & KEY FACTS

## HOUSING, ASSETS, & RACE

2013 is the 50th anniversary of the March on Washington for Jobs and Freedom. The March — organized by a coalition of civil rights, labor, and student groups, among others — drew a crowd of 250,000 to the Capitol. At this August 28, 1963 event, Dr. Martin Luther King, Jr. delivered his “I Have a Dream” speech from the steps of the Lincoln Memorial. In the following years, landmark civil rights legislation, including the Civil Rights Act of 1964 and the Voting Rights Act of 1965, was enacted.

Dr. King devoted the last years of his life to challenging economic injustice and the vast racial economic divide, but his work remains unfinished. Black and Latino families continue to face significant economic disadvantages relative to White families.

With wealth comes security, opportunity, and the ability to pass advantage on to one’s children. The racial wealth divide is among the largest, most persistent, and damaging legacies of white supremacy in the United States.

### WEALTH & DEBT

- The average, or mean, net worth of White families is more than six times higher than the average net worth of Black families, and 5.7 times greater than the average net worth of Latino families. (Figure 1, page 8)
- Black and Latino families faced a shocking loss of wealth during the Great Recession. Between 2007 and 2010, the average net wealth of White families decreased by 6.7 percent. By comparison, Black families lost 27.1% of their average net wealth and Latino families lost 41.3 percent. (Figure 2, page 9)
- Black and Latino families came out of the Great Recession much more highly leveraged (holding more debt relative to their net assets) than White families. White families on average have a debt burden equal to just 17% of their net worth, while Black and Latino families owe 53% and 58%, respectively. (Figure 4, page 11)

Our national history of racially discriminatory policies and practices created the racial wealth divide; current policy that ignores its existence perpetuates it and in some cases makes it worse. Federal policies that encourage home ownership as both housing and asset building strategies play a significant role in continuing the wealth divide.

Not only do Black and Latino families have less wealth than White families, but their wealth is far more likely be tied up in their homes, making it harder to access when they need it. Large tax expenditures — the home mortgage interest deduction, the deductibility of property taxes, and the exclusion of capital gains taxes on home

sales – account for 92 percent of the federal investments encouraging homeownership. More than one-third of the benefit of the largest of these tax expenditures, the home mortgage interest deduction, goes to the top 5 percent of the income distribution. (Page 15)

## COMPOSITION OF ASSETS

- White families hold far more wealth in assets that are easily accessed than do Black and Latino families. White families on average have over 10 times more financial assets (held in bank accounts, stocks, and bonds) than Black and Latino families. (Figure 5, page 12)
- Black and Latino families have far less saved for retirement than White families. White families on average hold over \$109,000 in retirement accounts, while Black and Latino families both own just slightly more than \$17,000 in their retirement accounts. (Figure 5, page 12)
- Housing value is more significant to Black and Latino wealth than it is to White families. Home value accounts for 51.6% of the total assets held by Latino families, 48.6% for Black families, but only 27.9% of the assets of White families on average. (Figure 7, page 14)

Federal policies that tie wealth building to homeownership helped to bring housing wealth into Black and Latino communities. However, they have left families of color more susceptible to downturns in the housing market, more indebted, and with less financial flexibility. Housing policy should be guided by the principle that housing is a right – whether rental, owner-occupied, or collectively held. Wealth building policies should be focused on asset building, not just on homeownership, to reach those with the greatest need.

## RECOMMENDATIONS

- Policy should be focused more on treating housing as housing and less on housing as asset building policy. Housing is a human right. Federal policy should be designed to ensure all people have adequate housing. (Page 17)

**Our national history of racially discriminatory policies and practices created the racial wealth divide; current policy that ignores its existence perpetuates it and in some cases makes it worse.**

- Asset building policy should be designed to reach those who need the most assistance with wealth creation rather than providing the most benefit to families who are rich enough to purchase and own a home. Children's development accounts, or baby bonds, should be instituted for all children with the largest grants going to children most in need. (Page 17)
- Alternative ownership models that build community wealth, not just individual savings and investment, should be encouraged. Cooperatives and worker ownership of businesses can decrease barriers to entrepreneurship and wealth building in communities of color. (Page 17)

We can begin to address the racial wealth divide today by pursuing these recommendations. We must also recognize that eliminating the divide requires a broad range of strategies and will not be accomplished solely through individual effort. In the words of Dr. King, "It's all right to tell a man to lift himself by his own bootstraps, but it is a cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps." The persistent racial wealth divide and extreme economic inequality have left too many Americans "bootless." We must focus our collective energy and federal policies with the utmost urgency on closing the racial wealth divide once and for all.



## IN THE WORDS OF DR. KING **FINDING THE WAY HOME**

“The hope of a secure and livable world lies with disciplined non-conformists who are dedicated to justice, peace and brotherhood.”

- *Strength to Love, 1963*

“Change does not roll in on the wheels of inevitability, but comes through continuous struggle. And so we must straighten our backs and work for our freedom.”

- *I See the Promised Land, Memphis, Tennessee, April 3, 1968*

“The question is not whether we will be extremists, but what kind of extremists we will be... The nation and the world are in dire need of creative extremists.”

- *Letter from a Birmingham Jail, April 16, 1963*



# INTRODUCTION

# THE RACIAL WEALTH DIVIDE

The economic divide between racial and ethnic groups in the United States is one of the nation's great moral failures. Its continued existence is an affront to our nation's ideal of equality for all. Stark inequalities in income, employment, education, health, imprisonment and wealth are readily apparent but are often brushed aside or completely ignored by the media and by policy makers. Glib pronouncements of a new post-racial era and the advent of a colorblind society disregard the persistence of racial inequality.

The racial divide is older than the country itself. It was born from subjugation, slavery, and slaughter and continued after slavery was outlawed by policies designed specifically to enforce the everyday practice of white supremacy as law. Despite the advancement of civil rights in the last century, much of the underlying economic inequity was left in place. The economic divide has been handed down from generation to generation and entrenched by the passage of time and the dimming of memory. It has been concealed by a transition away from the most overt practices

of racism. The divide continues to be enabled by recent policy choices that, while subtler than many atrocities of the past, work to perpetuate and even deepen the divide.

The successes of those who have overcome systemic racial bias to reach the greatest heights of political power, fame, and fortune obscure the realities of the racial wealth divide. Black and Latino families remain far behind their White counterparts economically, and the gap shows no sign of closing despite a few stories of phenomenal individual success. Wealth and all of its advantages remain overwhelmingly in White hands.

## WEALTH, FEDERAL POLICY, & HOUSING

Wealth is among the most important factors in how well families and communities are able to persevere through tough times. Wealth provides the ability to take entrepreneurial risks, to get credit on good terms – or at all – and to make large investments, including securing an education without taking on massive new debt.

Wealth can be passed down from generation to generation, entrenching and reinforcing existing inequalities. Wealth often produces passive income – including from interest, capital gains, and dividends – that allows families to be free of the demands of having to earn a paycheck.

Government policy plays a critical role in helping individuals, families, and communities to establish and build wealth. The vast, overwhelmingly White middle class that emerged in the post-WWII period did so in large part because of public policies, including the GI Bill and FHA-guaranteed loans, the benefits of which were largely denied to people of color. Massive job-creating public investments made by the federal government in science, education, and transportation infrastructure also helped to grow the middle class.

Federal policy aimed at wealth creation today is conducted to a significant degree as housing policy. Tax credits designed to encourage homeownership cost the federal government billions of dollars each year. However, subsidizing homeownership through the federal tax code provides the greatest benefit to families and communities that already have the most wealth, the best access to credit, and the greatest ability to navigate the financial system.

Housing should not be treated as merely a path toward building wealth through homeownership; it is a basic human need. Federal policy should primarily recognize that housing is a human right and treat it as such [See Box 5: Housing is a Human Right, page 14]. Housing policies should be directed at ensuring that all families have access to safe and affordable housing, while wealth creation policies should specifically target those who otherwise would not have the opportunity to build wealth.

## THE MEAN & THE MEDIAN

Throughout this report we refer to mean rather than median wealth. Looking at inequality from the perspective of the median tells the story of the family in the exact middle of the distribution for their group. Half of the people in the group will have more than the median and half will have less.

Mean wealth is an average that shows the per capital wealth for each member of the group (roughly the total wealth divided by the number of families in the group). Because wealth is so concentrated at the top, the extraordinary wealth of the wealthiest households pulls the mean up to be far higher than the median.

We chose to look at mean rather than median wealth because, while it does not show the experience of the family at the midpoint of the distribution, it shows a fuller picture of the wealth controlled by each racial and ethnic group, which is necessary in order to investigate the composition of wealth of different racial and ethnic groups.

When measured at the median the racial wealth divide is significantly larger.

For more data and analysis of wealth inequality in the United States, see: *The Wealth Inequality Reader* from Dollars & Sense and *The State of Working America* from the Economic Policy Institute.

# WEALTH DISPARITIES

# THE FACTS OF

# RACIAL WEALTH

# INEQUALITY

The basic racial and ethnic disparities in wealth (or net worth: total assets minus total debt) are immense. In 2010 – the most recent year for which data is available – White families held on average more than six times as much net wealth as Black families and nearly six times as much as Latino families [Figure 1].

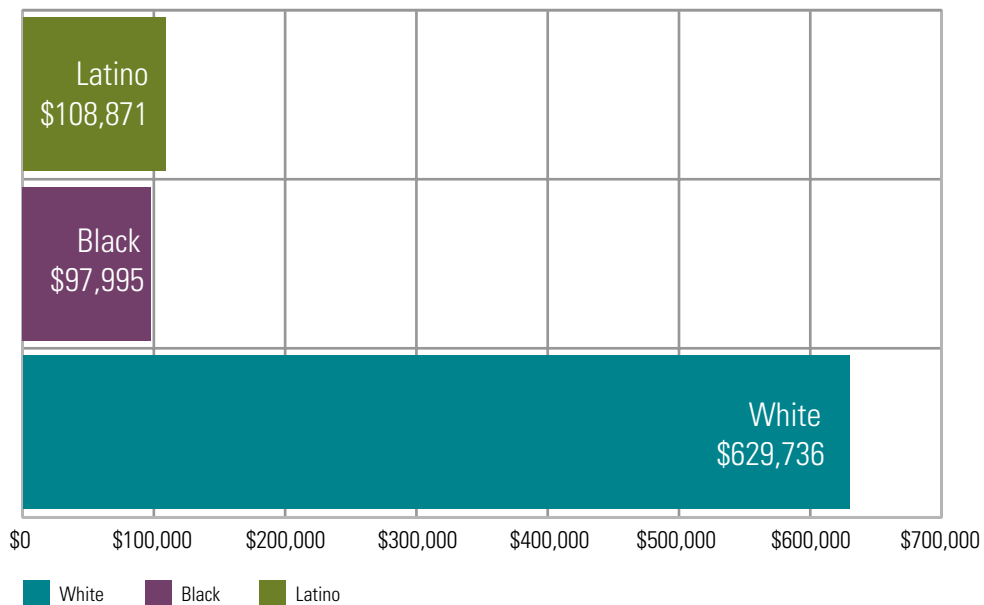
The origins of the staggering racial wealth divide in the United States are rooted deeply in the history of the nation [See Box 1: History, page 8]. Current policy choices, including the seemingly benign shift toward colorblind policies [See Box 4: Are We Colorblind?, page 12], entrench racial disparities by not addressing the underlying problems, and in some cases, these policies actually deepen the divide.

The racial wealth divide has worsened since the Great Recession, which began in 2007 and officially ended in 2009.<sup>1</sup> While its effects were felt throughout the economy, the worst economic downturn since the Great Depression produced dramatically disparate racial consequences.

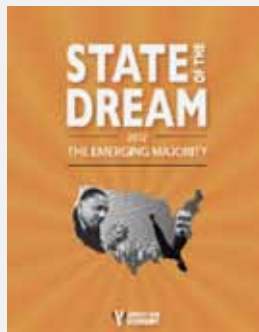
White families experienced a 6.7 percent decline in average net worth, while Black families lost more than a quarter of their wealth, and Latino families lost a staggering 41.3% of their wealth in the Great Recession [Figure 2].

The inflating and bursting of a massive, debt-fueled housing bubble triggered the Great Recession.<sup>2</sup> Homeowners – White, Black, Latino, and others – loaded up on debt by borrowing against the value of their homes. As the bubble inflated, credit was easy to access; however, predatory lenders increasingly targeted borrowers of color with higher cost loans than necessary.<sup>3</sup> As a result, subprime loans were given to Black and Latino borrowers at far higher rates than to White borrowers at all income levels.<sup>4</sup>

When the housing bubble burst, the resulting crash left Black and Latino families in a worse financial position than their White counterparts compared to where they were at the height of the bubble.

**Average Net Worth, 2010****FIGURE 1**

Original Analysis of Federal Reserve Board, Survey of Consumer Finance data.  
[www.faireconomy.org/dream](http://www.faireconomy.org/dream)

**BOX 1: THE RACIAL WEALTH DIVIDE: A HISTORY OF INJUSTICE**

Racial inequality is more than the past atrocities of slavery or the Jim Crow laws of the South in the pre-civil rights period. There are myriad other ways public policies helped to create the White middle class in America and

excluded people of color from that prosperity.

Hard work and good luck are key ingredients for individual success, but the growth of the middle class in the United States was largely the result of massive public investments and worker-friendly legislation. Land grant universities, progressive tax policies, FHA loans, Social Security, minimum wage laws, the GI Bill, and massive public works projects like the Interstate Highway system all helped to sow the seeds of a sustained time of prosperity. But the vast middle class that emerged in the post-WWII

period was a White middle class, not just because of the legacy of Jim Crow, but also because people of color were often excluded from the benefits of public investment programs.

After the passage of Civil Rights legislation in the 1960s, many of the programs that helped to build the White middle class began to be dismantled. As the public role in creating the White middle class was replaced with a false bootstraps narrative, Black families were left without the public supports that had benefited White families. Meanwhile, the financial wealth and social capital that had accumulated for the White middle class was transferred from one generation to the next, ensuring that the inequalities of the past live on.

For more on the role of government in wealth creation, see: *The Self-Made Myth* at [www.selfmademyth.org](http://www.selfmademyth.org)

For more on the history of the racial wealth divide, see: *State of the Dream 2012: The Emerging Majority* [www.faireconomy.org/dream](http://www.faireconomy.org/dream)

White families have higher debt levels than Black or Latino families; however, White families have far more assets against which their debt is borrowed [Figure 3]. Higher debt levels also reflect the ability to access credit when needed, which is one of the advantages enjoyed by those with greater wealth. Debt can be better understood as a ratio to net worth – a simple debt to equity ratio demonstrates the financial health of a family.

The debt to equity ratio (total debt divided by net worth) shows how highly leveraged families are – that is how much they owe relative to how much they own. The lower the ratio is, the better the financial position of the family is in a basic sense. On average, White families owe a far smaller percentage of their net worth than do Black or Latino families [Figure 4].

There are good reasons for families to take on debt. The effective use of credit can allow families to make investments for the future – in a business or an education for example – which will result in a higher debt to equity ratio in the short

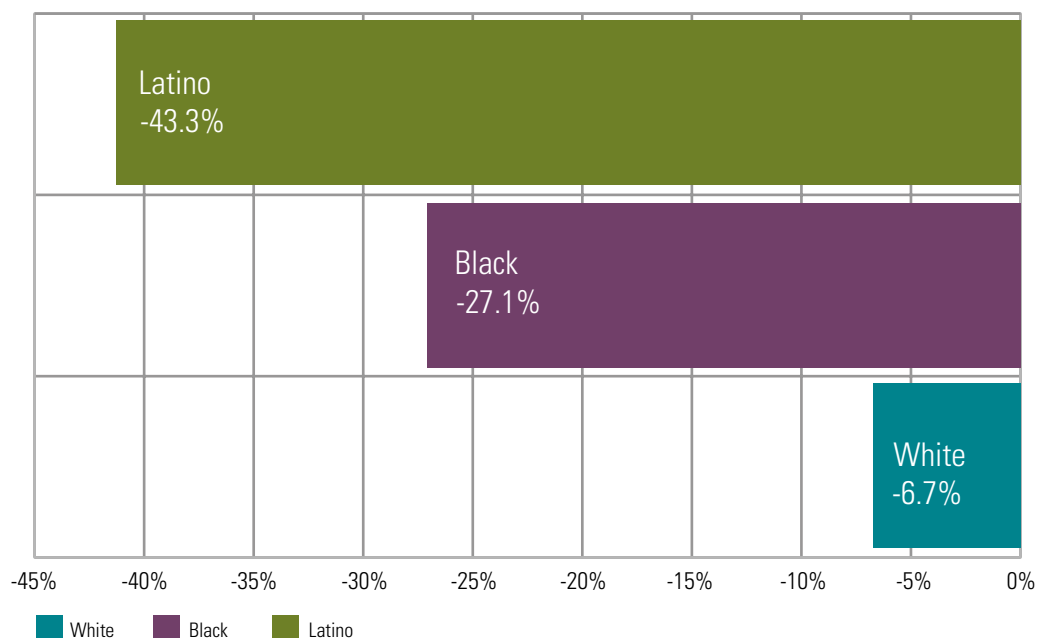
run but will produce greater benefit in the long run. However, a lower debt to equity ratio means that a family can more easily pay the debts they have and will likely have greater flexibility should they have reason to take on new debt, which often will be available to them on better terms.

In 2010, at the end of the Great Recession, the average White family was in a fairly secure financial position, as shown by a relatively low debt to equity ratio, while the relative debt load for the average Black or Latino family was dangerously high. When the bottom fell out of the housing market and home values decreased dramatically, those with higher debt to equity ratios were far more likely to end up underwater (owing more against their home than it was worth) and at risk of foreclosure.

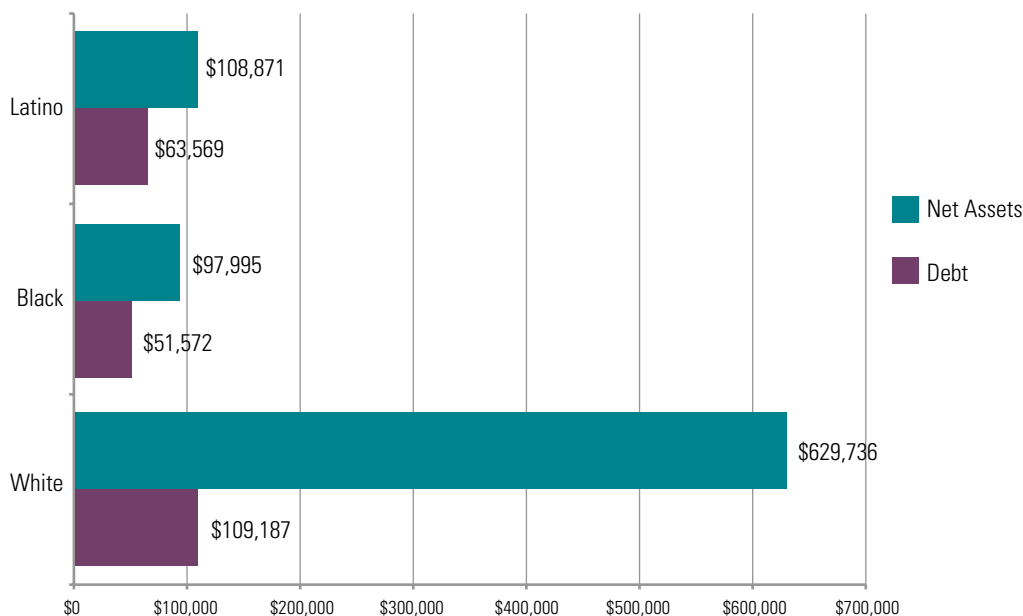
Differences in the composition of assets held by different racial and ethnic groups explain in part how and why White families are in a better financial position than their Black and Latino counterparts. On average, Black and Latino

**Change in Net Assets, 2007 to 2010 (mean)**

**FIGURE 2**



Original Analysis of Federal Reserve Board, 2010 Survey of Consumer Finance data.  
[www.fairconomy.org/dream](http://www.fairconomy.org/dream)

**Net Worth and Debt, 2010 (mean)****FIGURE 3**

Original Analysis of Federal Reserve Board, 2010 Survey of Consumer Finance data.  
[www.faireconomy.org/dream](http://www.faireconomy.org/dream)

families have comparatively few financial assets (stocks, bonds, and bank accounts), and wealth based on housing comprises the largest part of their financial assets [Figure 5].

Financial assets are more liquid and can be sold more readily than most other assets in a time of need, which means that a family can access its wealth without borrowing against its assets (including the home). Financial assets also often generate passive income in the form of interest or dividends. When assets are sold, the increase in value – or capital gain – from their original value is another form of passive income. Passive (or unearned) income in the form of dividends and capital gains generated from wealth is taxed at a lower rate than income earned from working, giving an additional advantage to the wealthy [See Box 3: Tax, Race and Wealth, page 11].

The disparities in assets are dramatic. White families, on average, hold more in their retirement accounts than Black and Latino families hold in the value of their home. And the combined value

## BOX 2: RIVERS OF INCOME & RESERVOIRS OF WEALTH



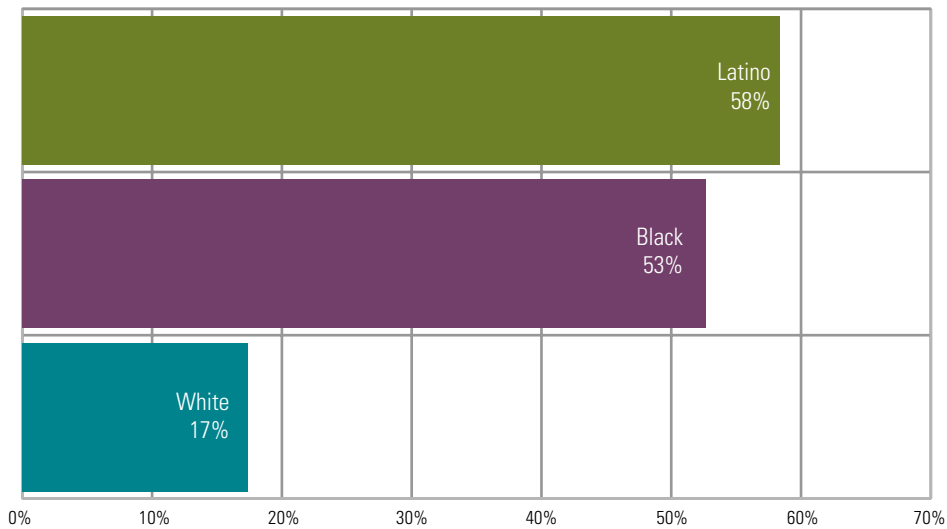
Wealth and income are different. This report specifically examines racial wealth inequities rather than income inequality. Disparities in wealth are larger, more intractable, and are connected directly to a host of other socioeconomic inequities.

Income is like a river; a flow of money from a job, business, or other source. Income above expenses pools up and is added to existing reserves; in this way, wealth is like a reservoir. Without a reservoir of wealth, families are vulnerable when the river of income runs dry.

For more on income and wealth, see:  
*State of the Dream 2010: Drained; Jobless & Foreclosed in Communities of Color*  
[www.faireconomy.org/dream](http://www.faireconomy.org/dream)

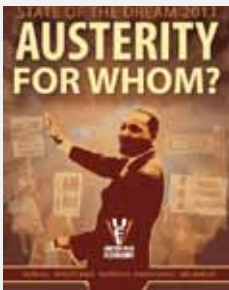
**Debt to Equity Ratio, 2010 (mean)**

**FIGURE 4**



Original Analysis of Federal Reserve Board, Survey of Consumer Finance data.  
[www.faireconomy.org/dream](http://www.faireconomy.org/dream)

**BOX 3: TAX, RACE, & WEALTH**



Wealth disparities; inequities in education, health, and job opportunities; differing composition of assets; home ownership patterns; and more all contribute to the disparate racial impact of taxation.

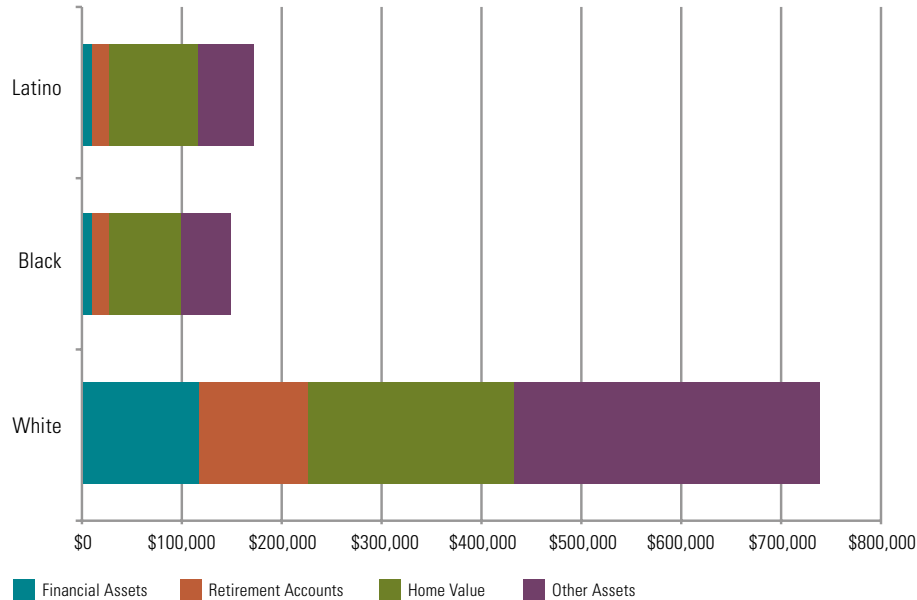
The persistence of the racial wealth divide can be partially attributed to the fact that wealth can be transferred through inheritance, ensuring that yesterday's inequalities are carried forward to each generation. Though it impacts only the wealthiest estates, the federal estate tax is one of the few limits on the intergenerational transfer of wealth.

The estates of White families are 11 times more likely than Black and Latino to have enough wealth to owe any estate tax at all. Weakening the estate tax overwhelmingly benefits wealthy White inheritors at the expense of perpetuating the racial wealth divide.

Investment income (also known as passive or unearned income) in the form of capital gains and dividends is taxed at a lower rate than income earned from labor. Black families have only 12 cents and Latinos have 10 cents of unrealized capital gains for each dollar held by White families. As a result, the reduced tax rate for capital gains income amounts to a hugely advantageous tax break for wealthier White families.

Taxes are not race-neutral. When designed poorly, without regard for their racial impact, they can deepen the racial wealth divide. Designed well, they can help close the divide and foster greater equality.

For more on taxes and race see:  
*State of the Dream 2011: Austerity for Whom?*  
[www.faireconomy.org/dream](http://www.faireconomy.org/dream)

**Composition of Assets in Dollars, 2010****FIGURE 5**

Original Analysis of Federal Reserve Board, 2010 Survey of Consumer Finance data.  
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of all assets held by Black and Latino families is less than the average home value of White families [Figure 5].

Seen as a percentage of total assets, the significance of each asset category to the average White, Black, and Latino families becomes clearer. For both Black and Latino families, housing value accounts for close to half of their total assets, while White families on average have just over a quarter of their total assets tied up in their home [Figure 7]. White families have more value on average in “other assets” – a category dominated by business holdings, which often generate income [Figure 6].

#### **BOX 4: ARE WE COLORBLIND?**

In recent years, lawmakers have largely shifted toward a colorblind approach to policy decisions. Colorblind policies specifically do not take race into account. However, as the wealth data in this report makes clear, severe racial inequities persist and in some cases they are in fact getting worse. Policy, from the first days of the nation through the present, plays a role in creating and perpetuating the racial wealth divide.

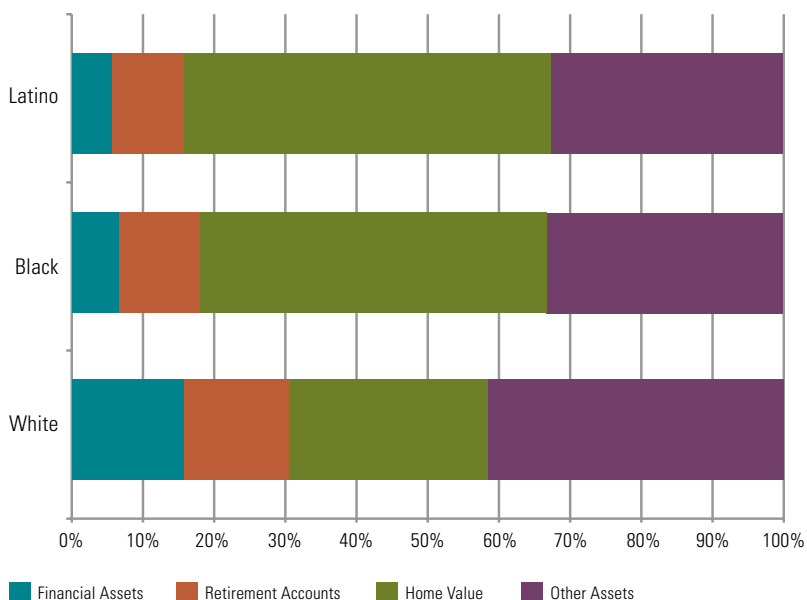
Federal policy decisions do have racial implications. The whole range of policies set at the federal level, including the structure of the tax code and asset building initiatives, should be considered not from a colorblind framework but from the perspective that morally abhorrent racial inequities should be addressed.

As long as the racial wealth divide remains and racial inequity persists, policy decisions must be made with their racial consequence in mind. We simply cannot address the racial wealth divide by ignoring it or by passing policies that are written as if it did not exist.



**Composition of Assets, by Percent of Total Assets, 2010**

**FIGURE 6**



Original Analysis of Federal Reserve Board, 2010 Survey of Consumer Finance data.  
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## COMPOSITION OF ASSETS

2010, mean

### In Dollars

	Financial Assets	Retirement Accounts	Home Value	Other Assets
Latino	\$10,195	\$17,239	\$88,956	\$56,051
Black	\$9,976	\$17,081	\$72,745	\$49,765
White	\$117,486	\$109,122	\$206,027	\$306,288

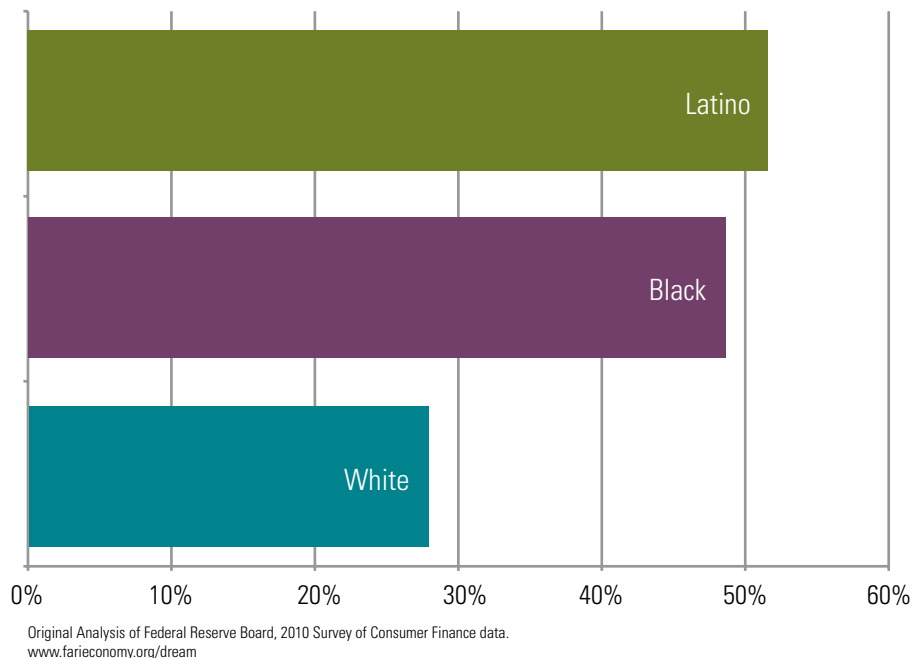
### As a Percentage of Total Assets

	Financial Assets	Retirement Accounts	Home Value	Other Assets
Latino	5.91 %	10.00 %	51.59 %	32.50 %
Black	6.67 %	11.42 %	48.64 %	33.27 %
White	15.90 %	14.77 %	27.88 %	41.45 %

**Financial Assets** include stocks, bonds, and bank accounts.

**Other Assets** include business ownership and personal property (vehicles, jewelry, furniture, art collections, etc.).

Original Analysis of Federal Reserve Board, 2010 Survey of Consumer Finance data.

**Home Value as a Percentage of Total Assets, 2010 (mean)** **FIGURE 7****BOX 5: HOUSING IS A HUMAN RIGHT**

Despite the fact that 8 million families have faced foreclosure since 2007 and double that number will join them before this crisis is over, despite the fact that 37.6 million households cannot afford basic housing and a conservative estimate of other basic essentials, despite the fact that there are 3.5 million homeless people in America while 18.5 million homes stand empty, government policy at all levels concerns itself with market values and investment returns above all else, ignoring the primary fact that housing is a human need and a human right.

The solution to this problem is a national understanding of housing as a human right, land democratically controlled by communities, and a public policy that discourages predatory speculation and encourages access to the housing that people need, regardless of income level.

Housing policies and practices should meet these principles:

**Universality:** The right to housing extends to everyone in our society without exception. Barriers and discrimination in access to basic and decent housing, whether based on income, documentation status, race, gender, sexuality, family status, or any other factor, must be eliminated.

**Equity:** Because housing is a fundamental right, and not merely a commodity, there must be equitable

utilization of housing that ensures existing housing stock is used in a way to meet the needs of all people, rather than fuel profit through market speculation. Other available resources, such as government subsidies and tax breaks that apply to the costs of financing housing, must also be shared fairly.

**Participation:** Residents and communities have a right to democratic control of local resources in an equitable manner that is inclusive of all members of the community, as well as enjoyment of the economic benefits of local development, including employment opportunities.

**Peace and Dignity:** Every person has the right to occupy their home free from harassment, forced eviction, and other threats of displacement, including those driven by development and demolition projects.

The content in this box is from the National Economic & Social Rights Initiative  
[www.nesri.org](http://www.nesri.org)

For more on housing as a human right see:  
[www.nesri.org/programs/housing](http://www.nesri.org/programs/housing)  
[www.restorehousingrights.org](http://www.restorehousingrights.org)

# CONCLUSION

## HOUSING, OWNERSHIP, & WEALTH CREATION

Homeownership and housing wealth are critically important to the overall economic well being of Black and Latino families. For White families, housing wealth is a smaller percentage of total assets but is still a major component of their wealth. The significance of housing in the accumulation of wealth in the United States is not the inevitable result of market forces, however. It is the result of deliberate policy choices at the federal level.

Both Republicans and Democrats broadly support policies designed to encourage and expand homeownership as a wealth building vehicle. There are benefits to housing as a source of wealth, but there are also drawbacks to families and communities storing so much of their wealth in the value of their homes.

Public policy that encourages homeownership is a poorly targeted approach to asset building, with much of the benefit going to families that need the least help generating wealth. Safe, accessible housing is a basic need that should be seen as a human right for all people. Lawmakers should make the first priority of housing policy be to ensure that every family is adequately housed.

### FEDERAL TAX EXPENDITURES TO ENCOURAGE HOMEOWNERSHIP

The three largest federal tax expenditures designed to encourage homeownership are:

- The home mortgage interest deduction at \$86 billion
- The deduction for property taxes at \$25 billion
- The exclusion for capital gains on the sale of primary residences at \$15 billion

These three tax expenditures account for \$126 billion of the \$137 billion spent on federal homeownership policies.

*Source: The Annie E. Casey Foundation and The Corporation for Enterprise Development, (2010). Upside down: The \$400 billion federal asset-building budget.*

The federal government spent at least \$384 billion on asset building policies in fiscal year 2009, more than a third of which was spent on programs to encourage homeownership.<sup>5</sup> By far the costliest federal homeownership policies are tax expenditures, three of which – the home mortgage interest deduction, the deductibility of property taxes, and the exclusion of capital gains

In 2003, more than a third of the benefit of the home mortgage interest deduction went to the top 5% of the income distribution.

The bottom 80 percent received only 21% of the benefit.

taxes on home sales – accounted for 92 percent of the \$137 billion annual federal investment in encouraging homeownership in fiscal year 2009.<sup>6</sup>

In 2003, more than a third of the benefit of the home mortgage interest deduction went to the top 5 percent of the income distribution, while the bottom 80 percent received only 21 percent of the benefit.<sup>7</sup> These tax expenditures, designed to encourage homeownership, provide most of their benefit to families fortunate enough to have access to credit in order to secure a mortgage, who are able to come up with a large down payment for the purchase of a home, and who earn enough to justify itemizing their federal taxes.

The benefits of homeownership for families and communities are well documented.<sup>8</sup> Federal efforts to encourage homeownership among low-income families and in economically distressed communities have increased the homeownership rates among Black and Latino families.<sup>9</sup>

But housing has several drawbacks as a store of wealth. It is relatively difficult to liquidate – it can't be sold as quickly and easily as stocks and bonds, which means that it is harder to access the wealth that is tied up in the value of a home. Homeownership also stifles physical mobility. While there can be community benefits to more stable neighborhoods, holding wealth in housing

can also prevent families from moving where there may be greater opportunities, such as more plentiful or higher-paying jobs.

Families with less wealth, disproportionately including families of color, may only be able to afford homes in poorer neighborhoods, which tend to have older, more dilapidated housing. Older homes cost more to maintain, raising the cost of living and reducing, if not eliminating, the financial benefits of homeownership. And when housing values rise overall, home values in poorer neighborhoods often increase less quickly than those in wealthier neighborhoods, which can exacerbate the wealth gap even when the economy is healthy.<sup>10</sup>

In the run-up to the Great Recession, lenders extended credit to people of color on less favorable terms than to equally credit worthy White borrowers.<sup>11</sup> The collapse of the housing bubble that crippled the economy and stripped wealth from communities of color should call into question our current approach to homeownership, the housing market, and wealth creation.

## DESIGNING A NEW POLICY FRAMEWORK FOR HOUSING & WEALTH BUILDING

Federal housing policy should be directed toward ensuring that all families have adequate, safe, accessible housing. Wealth building policies should be less focused on increasing homeownership and instead should be smarter and better targeted toward those most in need, regardless of whether or not they are homeowners.

Tax expenditures geared toward encouraging homeownership, particularly the home mortgage interest deduction, should be scaled back so that less of the benefit goes to the richest taxpayers. Currently, interest paid on up to one million dollars borrowed to purchase a home is tax deductible, which is a major reason that the top five percent of income earners receive more than a third of the benefit.<sup>12</sup> Reducing the amount

of mortgage debt to which the home mortgage interest deduction applies, as well as limiting the amount that top earners can claim as a deduction, will generate significant new federal tax revenue.

The increased revenue that the federal government would collect from limiting tax breaks for the wealthiest homeowners should be put into better housing policies that ensure housing for all and wealth creation strategies that are better targeted and more efficient.

## HOUSING AS HOUSING

Housing policy should focus more on the housing needs of lower- and middle-income families and communities for whom homeownership may not be the best option. The federal government should invest more in housing policies for renters in addition to supporting homeownership. Federal policies that subsidize homeownership provide little benefit to the third of the overall population who are not homeowners.<sup>13</sup> Black and Latino families, less than half of whom own their home,<sup>14</sup> receive even less benefit proportionally. Policies directed at improving and increasing access to affordable rental housing should be increased in order to reach more of the population.

Additionally, the wait for public housing units is typically more than a year, and 15 percent of local public housing authorities are so overwhelmed with demand that they cannot even accept new applicants.<sup>15</sup> The federal government should also invest more in public housing.

## SMARTER WEALTH CREATION POLICY

Asset building policies should be designed to better reach those who need the most assistance with wealth creation. Policies that encourage homeownership necessarily provide their benefit to families who are financially secure enough to purchase a home. Effective wealth building policies would be at least as accessible to poorer and middle-income families as they are to more wealthy families.

One solution that has been successful in preliminary trials is to establish children's development accounts, or baby bonds. Small-scale demonstration projects in the United States and a large-scale program in the United Kingdom, in which each newborn child is given a trust that is accessible later in their life of up to £500 (roughly \$800), have been very successful.<sup>16</sup>

A broad-based program in the United States could provide a grant with an average value of \$20,000 to each baby that he or she could access upon turning 18; this would cost the federal government roughly \$60 billion per year.<sup>17</sup> While a \$60 billion price tag is high, it is significantly less than the annual cost of the home mortgage interest deduction. An adequately funded baby bond program could go a long way toward reducing the racial wealth gap and counteracting the racial disparities in inherited wealth. Funding the program by increasing the federal estate tax on the largest fortunes would add an element of fairness to our asset building policies and our tax code.

## A BETTER APPROACH TO OWNERSHIP

Alternative ownership models geared toward building community wealth – more than individual savings and investment – can also play a role in addressing the racial wealth divide. Worker-owned cooperatives are a business model with particular benefits for building wealth in communities of color (see Case Studies in the Appendix). One of the main barriers to business ownership for people of color is access to start-up capital. Individuals with limited capital pool their assets together with other workers, making business ownership more accessible because ownership and control of worker-owned cooperatives is shared equitably among the workers.

Through shared ownership, worker cooperatives extend the asset building benefits of individual business ownership to the workforce as a whole,

creating wealth for the workers, their families, and the community. Worker-owned cooperatives often provide products and services that are connected to the community in which they create jobs, and they often pay higher than average wages. Federal policies that encourage the formation of cooperatives in rural communities are already in place. Extending similar incentives to urban communities would increase the prevalence of cooperatives and help to address the racial wealth divide.

There are no quick solutions to the racial economic divide. The problem is too large and

intractable to be resolved easily, and it is also too large to ignore. Not addressing it will not solve it. These recommendations, including separating housing and wealth creation policies, implementing better targeted asset building strategies, and encouraging alternative ownership models, can be a starting point toward addressing the role of the federal government in the wealth disparity that plagues our country. We can and must take bold action to begin to address the racial wealth divide if we are to live up to our national ideals.

# APPENDIX

## CASE STUDIES: SOLUTIONS IN ACTION

Changes to federal law are necessary to truly solve the racial wealth divide. However, there is not the political will necessary in Washington D.C. to address the issue. At the local, state, and regional levels, action is being taken to address issues of racial equity in housing and wealth creation.

### **ORGANIZING, ACTION, AND EDUCATION TO PREVENT FORECLOSURES**

City Life / Vida Urbana is one of the most successful organizations at dealing with the foreclosure and housing crisis in communities of color. Their approach is a model for the nation.

City Life builds working class power through direct action, coalition building, education, and advocacy. They promote tenant rights and prevent housing displacement. In response to the devastating impact of the foreclosure crisis on communities in Boston, City Life launched a major campaign in 2007, the Post-Foreclosure Eviction Defense campaign to help keep people

Victories won by hundreds of organized families have created public and political pressure, which is driving legislative reform and has inspired the emergence of similar campaigns across the region.

facing foreclosure in their homes. Victories won by hundreds of organized families have created public and political pressure, which is driving legislative reform and has inspired the emergence of similar campaigns across the region.

Learn more, including how to get involved in actions to prevent foreclosure, at [www.clvu.org](http://www.clvu.org).

## COOPERATIVE SUCCESS STORIES

Many strategies for closing the racial wealth gap focus on asset building as a pathway toward economic security in communities of color. Home and business ownership approaches to asset building are typically based on creating more opportunities for individual ownership as a way to build wealth over time. The increasingly unequal distribution of wealth and power in the United States requires a more broad based approach to community wealth building than is offered by individual savings and investment. Worker-owned cooperatives are a strategy that can do more toward building wealth in communities of color.

One of the main barriers to entrepreneurship and business ownership in communities of color is access to start-up capital. In a worker cooperative, ownership and control of the business are shared equitably amongst the workers. This enables individuals with limited capital to pool their assets together with other workers, making business ownership more accessible. Through shared ownership, worker cooperatives extend the asset building benefits of individual business ownership to the workforce as a whole, creating wealth for the workers, their families and the community. As owners of the cooperative, workers also have a direct say over decisions that affect their workplace, share in the profits and losses, and enjoy the dignity and security that comes with having a direct stake and a voice in the business.

For over 150 years, worker cooperatives have thrived in a range of industries around the globe, from large-scale manufacturing to neighborhood-based bakeries, providing a proven model for addressing social and economic inequality. Worker-owned cooperatives are typically owned by members of the local community. Cooperatives are typically anchored in the local community, which strengthens the municipal tax base, prevents capital flight, and ultimately contributes to a more stable and sustainable economy. Worker cooperatives also tend to create

dignified local jobs that pay higher wages with better working conditions and more personal and professional development opportunities.

In the midst of ongoing economic insecurity, fueled by widespread unemployment, foreclosures and government budget cuts, many people are seeking solutions that go beyond business as usual. Cities and regions across the country are experimenting with worker cooperatives as the basis of a more inclusive economy rooted in the principles of shared ownership and democratic control.

In 2008, the Evergreen Cooperatives started as an attempt to create jobs and economic stability in Cleveland, Ohio. Focusing on wealth and asset building in six low-income neighborhoods of the Greater University Circle area of Cleveland, feasibility studies were conducted by the Democracy Collaborative. Evergreen Laundry Cooperative is one of the worker-owned cooperatives that emerged from this project. Cleaning 10 to 12 tons of industrial linen a year, it is one of the greenest industrial laundry facilities in Ohio. The Evergreen Cooperative Initiative includes two more cooperatives: Evergreen Energy Solutions, a large-scale solar panel installation service, and Green City Growers, a hydroponic lettuce greenhouse. The initiative also houses Evergreen Business Services, a for-profit cooperative development service. The Evergreen Cooperatives are thriving. "It's great," says Regina Massey, a worker-owner at Evergreen Laundry Cooperative, "I get to own my house, stay in my house, pay my bills." The Evergreen Model, as the strategy is being called, is now receiving interest nationwide for its success in identifying supply chains and business opportunities that build wealth and assets for local communities in economically depressed areas.

In Austin Texas, Dahlia Green Cleaning Services is helping to build the regional cooperative economy. Dahlia grew out of a partnership between Cooperation Texas, a nonprofit dedicated to the development and support of worker cooperatives, and the Workers' Defense Project,



a membership-based organization that empowers low-income workers to achieve fair employment. Dahlia consists of four worker-owners, some of whom initially came to Workers' Defense Project having suffered abuse under previous employers. "Now, we work together to make decisions," says Eva Marroquín, a worker-owner of Dahlia Green Cleaning Services. "We are like family to each other. We get along, and we find solutions to everything." The worker-owners at Dahlia earn a living wage and have a say over how their business is run. Their mission is to expand in order to offer economic opportunity to others.

## STATE-LEVEL HOUSING POLICIES THAT WORK

Housing policy is broader than just federal tax expenditures. Housing policy is conducted at the federal level and at the state and local levels of government.

Through hard work and organizing, a coalition of organizations, activists, community groups, and dedicated individuals worked with lawmakers to establish a successful lending program in Massachusetts.

The Massachusetts Affordable Housing Alliance (MAHA) organized to create a successful program:

"Twenty years ago, a determined group of women fought hard to reverse a decades-long pattern of disinvestment in low and moderate income homebuyers and communities. These MAHA members successfully negotiated for the SoftSecond loan program, an innovative, affordable mortgage program for low- and moderate-income homebuyers that has changed the lending landscape in Massachusetts."

<http://mahahome.org/campaignsuccess>

The Massachusetts Housing Partnership (MHP) describes the results:

"Since 1990, MHP's one-of-a-kind loan pool has grown to over \$1.1 billion. Through 2009, it has used these private-sector funds to provide over \$643 million in low-interest, long-term loans and commitments for the financing of over 15,000 rental units."

<http://www.mhp.net/homeownership/homebuyer/>

## ENDNOTES

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*Survey of Consumer Finances data tables are available on request.*

## ADDITIONAL RESOURCES

# ORGANIZATIONS MENTIONED IN THIS REPORT

**City Life / Vida Urbana** - [www.clvu.org](http://www.clvu.org) - City Life / Vida Urbana fights for racial, social and economic justice and gender equality by building working class power through direct action, coalition building, education and advocacy. In organizing poor and working class people of diverse race and nationalities, we promote individual empowerment, develop community leaders, and are building a movement to effect systemic change and transform society.

**Cooperation Texas** - [www.cooperationtexas.coop](http://www.cooperationtexas.coop) - Cooperation Texas is an Austin-based non-profit committed to the creation of sustainable jobs through the development, support and promotion of worker-owned cooperatives. We believe everyone deserves equal access to dignified employment, which is why we place those most directly affected by social and economic inequality at the center of our work. Cooperation Texas is the only worker cooperative development center in Texas. We provide education, training and technical assistance to existing and start-up worker cooperatives in all sectors of the economy, helping launch and strengthen Texas businesses that put people and the planet first.

**Dahlia Green Cleaning Services** - [www.dahlia.coop](http://www.dahlia.coop) - Dahlia Green Cleaning Services is a worker-owned and operated business dedicated to providing reliable, high-quality and eco-friendly cleaning for Austin residences and businesses. Cleaning for your health and the health of the community!

**The Evergreen Cooperatives** - [www.evergreencooperatives.com](http://www.evergreencooperatives.com) - The Evergreen Cooperatives of Cleveland, Ohio are pioneering innovative models of job creation, wealth building, and sustainability. Evergreen's employee-owned, for-profit companies are based locally and hire locally. They create meaningful green jobs and keep precious financial resources within the Greater University Circle neighborhoods. Worker-owners at Evergreen earn a living wage and build equity in the firms as owners of the business.

**The Massachusetts Affordable Housing Alliance (MAHA)** - [www.mahahome.org](http://www.mahahome.org) - Through our grassroots organization of tenants, homebuyers and homeowners, we fight for both public and private sectors to increase their support for affordable and sustainable homeownership. When MAHA challenges banks, insurance companies, mortgage companies, developers and elected officials to do more, low and moderate income buyers and owners can see the results.

**The Massachusetts Housing Partnership** - [www.mhp.net](http://www.mhp.net) - MHP champions new financing tools and new local strategies for the development of affordable housing in Massachusetts --- and backs that commitment with a billion dollar bank loan fund that's the only one of its kind in the U.S.



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