Barr Foundation

RACIAL WEALTH EQUITY PRIMER

OVERVIEW

The Barr Foundation commissioned this primer on racial wealth equity for three reasons:

- To inform our baseline understanding of the topic
- To be a resource for others who want to learn more.
- To guide our conversations and learning about opportunities to engage and potential priorities.

The primer synthesizes the **current and historical context, definitions, and approaches to advancing racial wealth equity**. It draws on leading sources in the field - spanning academic and policy research and reports, media, and philanthropy evaluations. It provides current definitions of racial equity and related terms; information on the racial wealth gap in the U.S. and Massachusetts; a discussion of the history and root causes; an overview of racial wealth drivers; and snapshots of key approaches to promote racial wealth equity.

Recently, we have seen a growing awareness of the underlying issues related to racial wealth equity. There has also been a surge in public commitments to do more to advance racial wealth equity - from community leaders of all types — in business, government, philanthropy, and nonprofits. **Barr and many others aim to help catalyze transformational change that not only advances wealth accumulation for people of color, but also drives innovation and thought leadership to influence other sectors.**

A long history of institutional and cultural practices has shaped the wealth landscape in the United States. Accordingly, it will take time and significant concerted resources and effort to alter the current trajectory of racial wealth equity. Doing so also requires an accounting of U.S. historical context and the root causes of racism and wealth inequities in the United States. **Understanding the deep and structural inequities that created and perpetuate racial wealth disparities is critical for advancing racial wealth equity in the future.**

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I. BASELINE DEFINITION

A shared understanding of definitions is important to any effort to advance racial wealth equity. The following definitions – derived from diverse reports and research – are both established and also open to refinement as Barr continues to learn from its grantees and other leaders in the field.

Our working definition of "Racial Wealth Equity" is that an individual's race does not predict capacity to deal with financial adversity or take advantage of economic opportunities, including those related to home ownership, business ownership, or other economic factors contributing to asset accumulation and wealth.

Equity is the core concept that underpins racial wealth equity. It is important to understand its definition and how it differs from equality.

Equity

Ensures that outcomes in the conditions of well-being are improved for marginalized groups, lifting outcomes for all. Equity is a measure of justice.

Equality

Is sameness; everyone gets the same thing. Equality focuses on everyone getting the same opportunity, but often ignores the realities of historical exclusion and power differentials among whites and other racialized groups.[1]

Wealth inequality in the United States is high and continues to grow. Racial wealth inequality in the United States is even greater. For every dollar held by a white American, a Black and Hispanic American has just 12 and 21 cents, respectively. Since the 1950s, progress in closing racial wealth gaps has been virtually nonexistent, with gaps widening since the 1980s. A growing body of research has demonstrated that "when it comes to the most important, bread-and-butter economic issues of income, wealth, and mobility, progress in ending racial inequality is stalling – or even reversing."[2]

1 What is racial equity?. Race Forward. (2023, March 10). https://www.raceforward.org/about/what-is-racial-equity-key-concepts

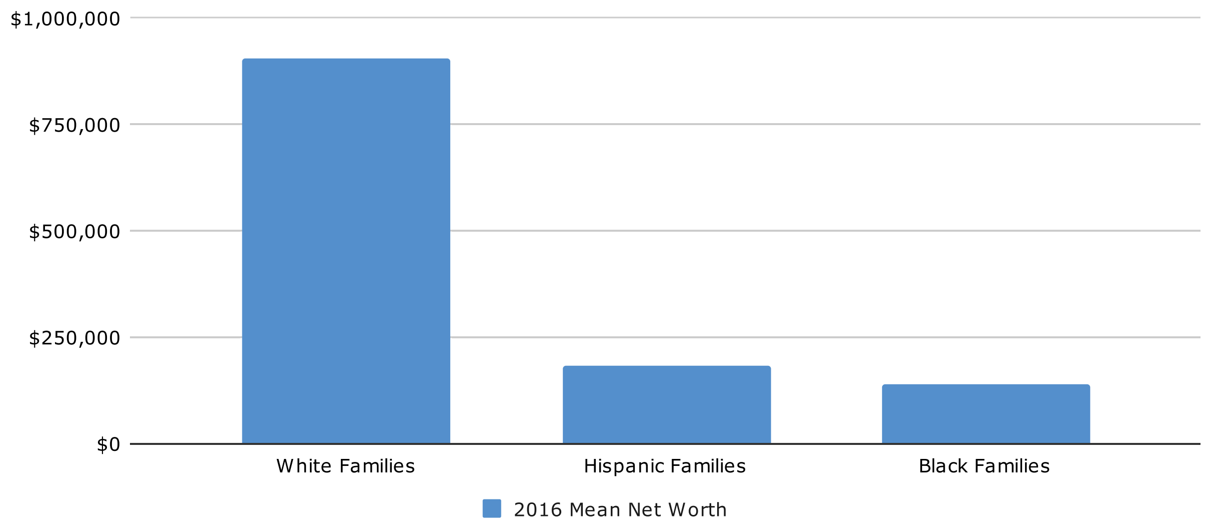
2 Rosalsky, G. (2022, June 14). Why The Racial Wealth Gap Is So Hard To Close. NPR.org. https://www.npr.org/sections/money/2022/06/14/1104660659/why-the-racial-wealth-gap-is-so-hard-to-close

II. RACIAL WEALTH GAP OVERVIEW

Racial Wealth Disparities

Wealth inequality in the U.S. has been growing for decades and especially within the past decade. The top 1% of American adults now hold more wealth than the entire middle class. The top 20% of earners hold more than three-quarters of the nation's wealth, or 3x that of the middle class and 38x that of the bottom 20% of earners.[3] With income and savings as primary drivers of wealth, wealth disparities are reflected in levels of income inequality: the top 1% earn 20% of the nation's income, while the bottom 50% earn ~13%. Additionally, income inequality in the U.S. is significantly higher than in other advanced democracies globally.[4]

Wealth and income disparities in the U.S. are also more pronounced for people of color. In absolute terms, wealth differences between white, Black, and Hispanic families are significant: in 2016, **the mean net worth of white families in the U.S. was $904,000, compared to a mean net worth of $182,000 for Hispanic families and $140,000 for Black families.** Black and Hispanic families are also 2x as likely to have zero wealth, and these disparities persist when controlling for differences



3 Note: Income groups are defined by usual income, a measure of family income that smooths the influence of economic shocks. Top 20 Percent Holds More Wealth than the Middle Class. (2019, June 25). Brookings Institution. https://www.brookings.edu/?simplechart=wealth-shares-by-usual-income-group

4 Schaeffer, K. (2021, May 27). 6 facts about economic inequality in the U.S. Pew Research Center. https://www.pewresearch.org/fact-tank/2020/02/07/6-facts-about-economic-inequality-in-the-u-s/

between racial groups. One study modeled wealth outcomes across racial groups, controlling for variables such as demographics, labor force participation, education, health, local real estate market conditions, and inheritance. The findings? The wealth of the average white and Hispanic families is at least twice that of the average Black family.[5]

Indigenous peoples have the lowest incomes of all U.S. racial and ethnic groups. American Indian and Alaska Native households hold only 8 cents of wealth for every $1 held by the average white American household (according to a 2000 study, the last time the wealth of Native populations was measured systematically).[6]

While Asian and Pacific Islander (AAPI) income and wealth is relatively high, it belies significant inequality within the AAPI community that has not been studied extensively. AAPI is a group of 21 million different people from 48 different countries, each with different contexts of immigration and wealth. In three and a half decades, income distribution among Asian Americans has gone from one of the most equal to the most unequal among the major racial groups in the U.S.[7]

In Massachusetts and Greater Boston, income inequality is particularly stark, with Massachusetts ranking 6th among all states and Boston ranking 7th among all major metropolitan areas. Statewide, the average income of the bottom 99% in MA is $62,000 as compared to an average income of $1.9 million for the top 1%. In Boston, the income of the 20th percentile is $18,000 as compared to $262,000 for the top 95th percentile.[8]

White household income in Greater Boston is roughly two times higher than other racial/ethnic groups, and median family wealth shows larger disparities: **In 2015, the median family wealth for white families in Greater Boston was $247,500 compared to $8 for Black families and $1,907 for Hispanic families** .[9] Massachusetts' and Greater Boston's racial income and wealth divide – more acute than most U.S. states and metropolitan regions –.

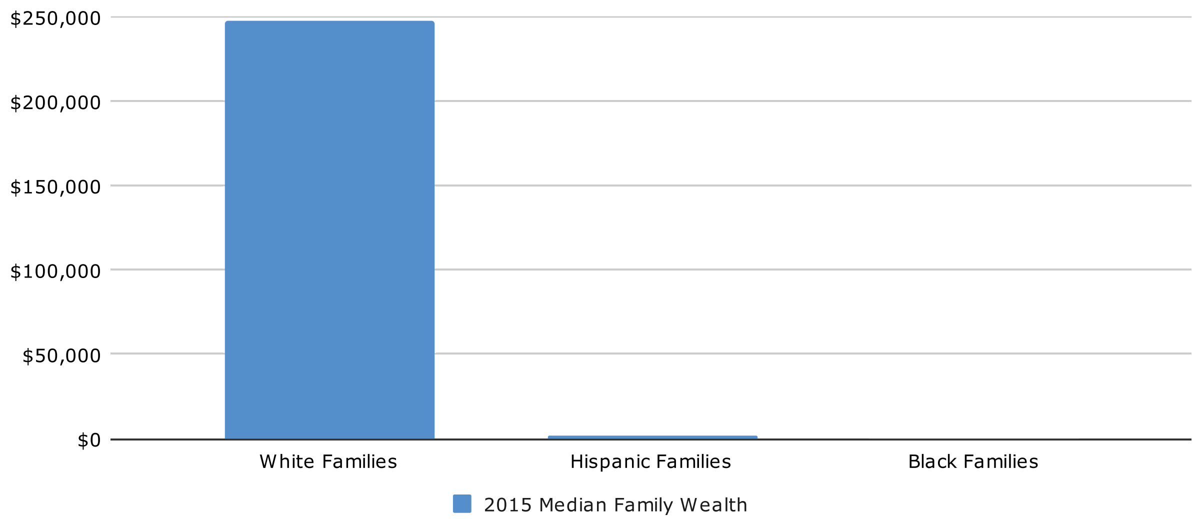
5 Thompson, P. & Suarez, A. (2019, December 6). Accounting for Racial Wealth Disparities in the United States. Federal Reserve Bank of Boston. https://www.bostonfed.org/publications/research-department-working-paper/2019/accounting-for-racial-wealth-disparities-in-the-united-states.aspx

6 Native Households Make 8 Cents for Every Dollar a White Household Has. (2021, April 6). NICOA - National Indian Council on Aging. https://www.nicoa.org/native-households-make-8-cents-for-every-dollar-a-white-household-has/

7 Kochhar, R. & Cilluffo, A. (2020, August 21). Income Inequality in the U.S. Is Rising Most Rapidly Among Asians. Pew Research Center's Social & Demographic Trends Project. https://www.pewresearch.org/social-trends/2018/07/12/income-inequality-in-the-u-s-is-rising-most-rapidly-among-asians/

8 Schuster, L. & Ciurczak, P. (2018, October). Boston's Booming. . . But For Whom?: Building Shared Prosperity in a Time of Growth. Boston Indicators. https://www.bostonindicators.org/-/media/indicators/boston-indicators-reports/report-files/bostons-booming-2018.pdf?la=en&hash=94DE67E74983CB7DF3EBCB4EFA80F02346719C8B

9 Ibid.; Duke University, The New School, and the Federal Reserve Bank of Boston. (2015, March 25). The Color of Wealth in Boston. Federal Reserve Bank of Boston. https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx

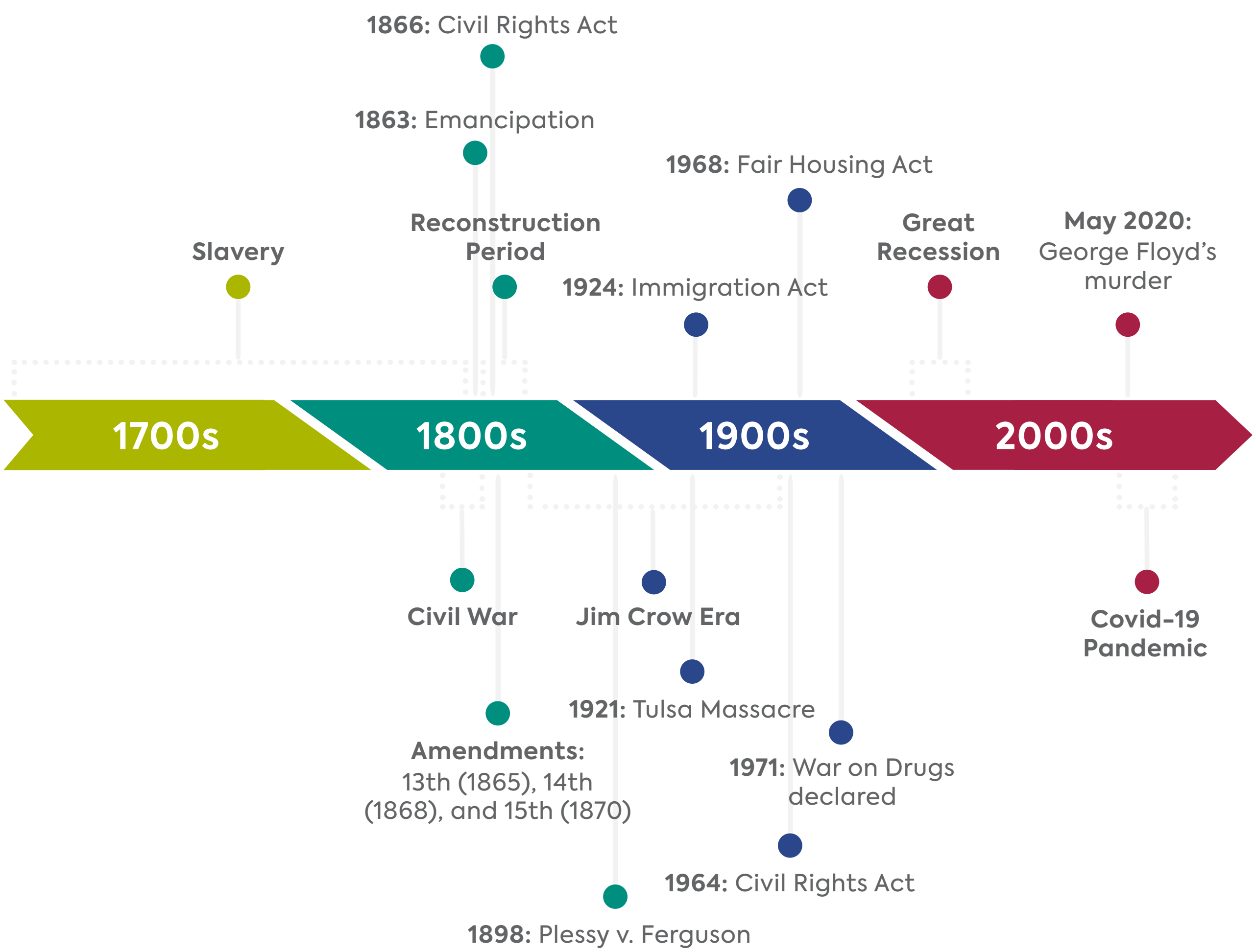


As Barr continues to explore how to augment research and data efforts in support of advancing racial wealth equity, research to inform this primer underscored an important finding: existing racial wealth data focuses largely on the gap between white and Black Americans, including more sophisticated modeling that explores how to reach wealth convergence across racial groups. While this paper seeks to include all racial and ethnic groups, it is constrained by data availability beyond the Black-white divide.

Numerous studies indicate that if parity in income and savings growth across racial groups were achieved over the past 160 years, the racial wealth gap would still persist given a range of factors: unequal starting points, the time it takes to amass wealth, and continued unequal treatment (i.e., racism). The historical context of wealth accumulation across distinct racial and ethnic groups in the United States will continue to be essential to understand and elevate as part of efforts to advance racial wealth equity.

Brief History of the Racial Wealth Gap

Many events in U.S. history have contributed to the racial wealth gap. In the following, we highlight key moments in history that have contributed disproportionately to the racial wealth gap. While these critical moments perpetuated racial wealth gaps for Black, Latino, Indigenous, Asian, and all other non-white groups, the following synthesis is by no means fully representative of every decision, policy, or incident that has led to the current, severe racial wealth gap in the United States.



1700s

The enslavement of Africans and Indigenous people provided a cheap source of labor for European colonists. Enslaved people not only built wealth for European immigrants, but they enriched the wealth of their owners, as – "slaves themselves were a form of wealth – other people's wealth."[10] During the period in which Africans were enslaved, the white-to-Black wealth ratio was 56:1, or less than two cents for each enslaved African for every $1 of wealth held by a white colonist.

In addition to building white Europeans' wealth, Black people and other racial and ethnic minority groups (especially Indigenous people) were denied basic property and contract rights, further separating wealth accumulation levels between white and non-white people. The ongoing conquest and colonization of Indigenous people and their land through violent and political disenfranchisement stripped them of their rights to sell land and undermined their political authority.[11]

1800s

1848 and the Mexican-American War marked the sizeable increase of Mexican Americans living in the U.S. after over half of Mexico's territory became part of the U.S. as a result of the war's concluding Treaty of Guadalupe Hidalgo. This is commonly cited as the beginning of discrimination against Latinos in the U.S., which remains entrenched and persistent today, 175 years later.

The Civil War broke out in 1861 after decades of slavery and political unrest came to a head with the election of Abraham Lincoln, who ran on an anti-slavery expansion platform, as President of the United States. Although the Emancipation Proclamation declared all enslaved people free in 1863, it took several years for the war to end, ultimately abolishing slavery and freeing four million enslaved Black people.

The Civil War was followed by a period of new rights and protections for African Americans. Three key Amendments to the Constitution – the Thirteenth (legal end of slavery), Fourteenth (full citizenship granted to enslaved persons), and Fifteenth (voting rights for Black men) – as well as the Civil Rights Act of 1866 (all persons born in the U.S. are citizens, regardless of race, color, or previous condition of slavery) allowed Black people to vote, actively participate in the political process, acquire the land of former owners, seek employment, and use public

10 Rosalsky, 2022

11 Native American | History, Art, Culture, & Facts. (2022, August 24). In Encyclopedia Britannica. https://www.britannica.com/topic/Native-American/The-Plains-and-Plateau-culture-areas

accommodations.[12] This era – known as the "Reconstruction Period" – included a host of promises made to newly freed Black Americans in service of building their wealth. For example:

- Land ownership via "40 acres and a mule," in which freed slaves received land confiscated from Confederate landowners along with a mule to harvest the received land;
- Access to education, including through the Black Church and the provision of literacy and vocational education by various organizations;
- Participation in the political process, including as state legislators.[13]

In parallel with new rights afforded to Black Americans, Latino immigration continued to grow throughout the 19th Century in response to the demand for cheap labor. At the same time, anti-Latino sentiment grew. While Latino discrimination was not codified in law like Jim Crow was for Black populations, Latinos nonetheless faced widespread segregation in schools, the workplace, and other public places across the country.

Opponents of post-Emancipation progress soon rallied against former slaves' freedom and began to find means to erode gains for which many had shed their blood.[14] Pro-Black policies were reversed swiftly under President Andrew Johnson (including returning land to Southern planters) and, as W.E.B. DuBois put it, the Black community was "left to shift for himself amid new and dangerous social surroundings."[15] Despite progress being stalled and even reversed, Black people started amassing wealth through earned income, savings, and investing, and the white-Black wealth gap dropped from 56:1 to 23:1. Of note, only about 25% of this wealth gap decline was attributed to white's loss of slave-related wealth (that represented ~15% of their total wealth).

The late 19th Century was marked by a growing dominance of racism and white supremacy, leading to the disenfranchisement of Black Americans and Indigenous peoples. Jim Crow laws legalized and legitimized racial segregation and, more specifically, anti-Black racism across the country. These laws limited ethnic minorities' access to land, education, jobs, unions, and many other elements of society that enable advancement up the economic ladder, and that contribute significantly to wealth creation. Mandated racial segregation in public facilities in

12 Reconstruction and Its Aftermath - The African American Odyssey: A Quest for Full Citizenship | Exhibitions (Library of Congress). (n.d.). https://www.loc.gov/exhibits/african-american-odyssey/reconstruction.html

13 Ibid

14 Ibid

15 Rosalsky, 2022

the former Confederate states of the South was another example of institutional racism that, when challenged in the Plessy vs. Ferguson case, was upheld with a "separate but equal" doctrine.

During this time, Indigenous people were also subjected to a period of dispossession and being "civilized" through assimilation tactics or confinement to a reservation. These actions contributed to the extreme poverty that still afflicts many Native populations today. Asian Americans also faced dispossession and the first serious restriction of free immigration in the U.S. during the late 19th Century.

1900s

Despite Jim Crow and countless other injustices perpetuated against Black Americans, the first 50 years after Emancipation (through ~1910) saw the greatest progress in American history in narrowing the racial wealth gap. By 1920 the racial wealth gap had fallen from 56:1 white-to-black wealth gap to a 10:1 gap ($1 to $0.10).[16] However, the progress of the early 1900s in closing the racial wealth gap slowed, and starting in the 1980s, the racial wealth gap started widening again.

Understanding the myriad activities and issues related to racial equity and wealth equity in the 20th Century is complicated. There were steps backward and steps forward. The Immigration Act of 1924 expanded immigration restrictions for more Asian groups. The Latino community faced brutal violence through the 1920s, and then over 2 million Americans of Mexican descent were removed ("repatriated" or deported) when the Great Depression hit.[17] Meanwhile, the 20th Century also saw civil rights flourish, including the establishment of the Civil Rights Acts in 1964. This law sought to curb discrimination based on "race, color, religion, sex, and national origin." Title VII specifically prohibited racial wage discrimination. Yet, a continuation of policies that blocked ethnic minority groups from acquiring wealth in the mid to late 1960s diminished the impact of the Civil Rights Act. Federal programs like the New Deal (aimed at supporting Americans during the Great Depression) did not support Americans of color equally or equitably. Housing laws excluded racial and ethnic minorities from buying homes outside of certain communities, if at all. The practice of "redlining" was commonplace, whereby areas of sizable Black populations were noted on maps with red ink as a means of signaling to mortgage lenders who typically avoided investments in such areas. While The Fair Housing Act of 1968 was passed to end redlining definitively, the practice had already prevented generations of families from accessing equitable homeownership, the cumulative ramifications of which continue to

16 Ibid

17 Blakemore, E. (2019, August 29). The Brutal History of Anti-Latino Discrimination in America. History.com. https://www.history.com/news/the-brutal-history-of-anti-latino-discrimination-in-america

reverberate today.

The second half of the 20th Century was marked by a 50-year "War on Drugs," defined and led by the U.S. federal government. This led to mass incarceration of Black males and upended individual, family, and community stability in ways that still reverberate into the 21st Century. Mass incarceration and the War on Drugs are now considered one of the starkest examples of structural racism.[18]

The collective impact of the above actions – and many others left unexplored here – limited the ability of people of color in America to build wealth in the 20th Century and created numerous challenges to achieving racial wealth equity in the 21st Century.

2000s

The start of the 21st Century was marked by two recessionary periods that contributed to the persistence of racial wealth gaps in the United States. The first was triggered by the collapse of the dot-com bubble in 2000 and was relatively short-lived. The Great Recession (2007-2010) was more entrenched and disproportionately impacted racial and ethnic minority populations - both during the recession and in recovery. The mean and median wealth during this period declined for all families. Yet, the net worth of nonwhite families continued to fall even beyond 2010, while the wealth of white families started to recover. This served to further widen the racial wealth gap.[19]

The COVID-19 pandemic also impacted underrepresented populations with broad and enduring ramifications that are only just being defined and understood. At a minimum, the pandemic exacerbated racial inequities – including wealth inequities – in communities across the United States. An October 2021 report by the Brookings Institute states the sobering findings that "[a]s a result of this pandemic, U.S. life expectancy declined by a full year-and-one-half, according to The National Center for Health Statistics. But for specific racial groups, the drop in life expectancy has been more pronounced. Black and Latino or Hispanic people experienced a staggering 2.9- and 3-year downturn in life expectancy, respectively, compared to 1.2 years for white people."

18 Levins, H. (2021, June 7). The War on Drugs as Structural Racism [Video]. Penn Leonard Davis Institute of Health Economics. https://ldi.upenn.edu/our-work/research-updates/the-war-on-drugs-as-structural-racism/

19 Mizota, M. (2020, May 1). Coronavirus and Racial Wealth Inequality: How Will the COVID-19 Pandemic and Recession Affect the Racial Wealth Gap in the United States [Research Paper]. The Samuel DuBois Cook Center on Social Equity, Duke University. https://socialequity.duke.edu/wp-content/uploads/2020/05/Mizota.pdf

Underlying this tragic data are health inequities that are inextricably linked to wealth inequities. As COVID-19 afflicted populations of color disproportionately, it compromised their ability to work, access healthcare, manage housing insecurity, participate in remote learning, and more. In a different example of the pandemic's adverse effect on racial wealth equity, Asian businesses faced overt racism and discrimination that affected their ability to maintain and generate income, in addition to the challenging social-emotional effects of such discrimination. The pandemic showed how systemic inequities – across healthcare, technology access, wealth, and housing – are interrelated, and can have deep and lasting adverse effects on populations of color in the United States.

While the health crisis devastated communities across the country, in the spring of 2020, the U.S. simultaneously experienced a racial reckoning following multiple episodes of lethal violence against unarmed Black people, including Ahmaud Arbery in Georgia, George Floyd in Minnesota, and Breonna Taylor in Kentucky. In many cases, these acts of violence were perpetrated by police officers. This led to unprecedented levels of giving toward racial justice and equity across philanthropic and private sectors. Whether that interest in and commitment endures at scale remains to be seen. Many hope that the catalytic events of these recent years might represent a tipping point for meaningful and coordinated efforts to advance racial equity – and racial wealth equity – with a greater understanding and acceptance of the systemic barriers that have undermined most progress heretofore.

Root Causes of the Racial Wealth Gap

Systemic racism and a long history of exclusionary legal, business, and social policies are the predominant root causes, especially in the case of Black wealth gaps. Understanding and accepting the deep historical context for racism in the United States is an essential step toward meaningful action in support of racial wealth equity. So, too, is an authentic understanding of the root causes of the racial wealth gap in America.

The U.S. has a long history of legal discrimination against non-white Americans, including the legalization of racial segregation through Jim Crow laws and the process of "redlining," which allowed the Federal Housing Association to refuse to back loans to Black Americans, denying them the opportunity to build wealth through their homes.[20]

20 Kent, A., Lanier, N., Perkis, D., & James, C. (2022, March 1). Examining Racial Wealth Inequality. Economic Research, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/publications/page1-econ/2022/03/01/examining-racial-wealth-inequality?utm_term=latest+Page+One+Economics+essay

- Despite redlining being outlawed by the Fair Housing Act of 1968, its impact persists today with households of color being more likely to live in neighborhoods characterized by higher poverty rates, lower home values, and a declining infrastructure compared to neighborhoods inhabited predominantly by white residents.[21]

The Tulsa Massacre in an Oklahoma neighborhood saw white mobs eliminating the wealth amassed by a predominantly Black community—dubbed the "Black Wall Street" because of the financial success realized by the community— through the physical destruction of their homes and businesses.

After the 15th Amendment granted Black men the right to vote, many states incorporated a poll tax to restrict this newly gained right.

The legacy of many historical racist and discriminatory policies and practices continues to affect people of color today - contributing to disparities in access to a wide range of resources and opportunities, including education, jobs, capital, healthcare, and childcare. Examples include:

- School Segregation: historical segregation in schools and residential neighborhoods resulted in current-day racial disparities in access to high-quality elementary and secondary education, contributing to lower levels of educational attainment for people of color.

- Employment Discrimination: people of color face more hurdles in seeking employment – and especially for high-paying jobs – than their white counterparts. Race discrimination also contributes to higher unemployment, lower wages, and less access to high-quality training and benefits.[22]

- Homeownership Discrimination: people of color historically face significant barriers in obtaining financing for home purchases and improvements. A recent study found that racial gaps in loan denial have declined only slightly over the last 40 years and racial gaps in mortgage cost have not declined at all, suggesting persistent racial discrimination. Loan applications by Black and Hispanic borrowers are more likely to be rejected

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21 Sullivan, L., Meschede, T., Lars Dietrich, L., & Shapiro, T. at Institute for Assets & Social Policy, Brandeis University and Traub, A., Ruetschlin, C., Draut, T. at Demos. (2015). The Racial Wealth Gap. https://www.demos.org/sites/default/files/publications/RacialWealthGap_2.pdf

22 Weller, C. (2019, December 15). African Americans Face Systematic Obstacles to Getting Good Jobs. Center for American Progress. https://www.americanprogress.org/article/african-americans-face-systematic-obstacles-getting-good-jobs/

or are only approved for a high-cost mortgage.[23] Lastly, strong evidence suggests that people of color are subject to bias in home appraisals, resulting in significant financial disadvantage as home appraisals are central to the financial aspect of both home sales and purchases.[24]

- Access to Business Financing: entrepreneurs of color have difficulty accessing capital to start and grow businesses, with Black and Hispanic founders receiving only 3% of venture capital investment. Nearly half of U.S. Black and Hispanic entrepreneurs (49% and 39%, respectively) are denied financing or receive much less than what they apply for, as compared to 22% of white entrepreneurs.[25] Another study found that loan officers ask people of color for more information, are less helpful, and sometimes ask for information that violates fair lending laws (such as information about a spouse's employment status).[26,27]

- Healthcare Inequities: disparities in access to and quality of healthcare are pervasive in communities of color. Black communities have disproportionately low access to quality healthcare, are the largest uninsured population in the United States, and have the highest rates of maternal mortality in childbirth. Contributing factors include higher rates of unemployment and lower representation in higher-paying jobs that include health insurance; racial segregation of neighborhoods; and discrimination by healthcare workers.[28]

Many myths perpetuate unfounded causes and solutions to the racial wealth gap, thus acting as significant barriers themselves to understanding the root causes and identifying meaningful solutions. While evidence-based research has debunked various myths, research often neglects to address another key challenge of myths, which is that they either oversimplify very complex issues, OR

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23 Quillian, L., Lee, J. J., & Honoré, B. (2020). Racial Discrimination in the U.S. Housing and Mortgage Lending Markets: A Quantitative Review of Trends, 1976–2016. Race and Social Problems, 12, 13-28. https://doi.org/10.1007/s12552-019-09276-x

24 Kamin, D. (2018, August 18). Home Appraised with a Black Owner: $472,000. With a White Owner: $750,000 - NYTimes.com. New York Times. https://www.nytimes.com/2022/08/18/realestate/housing-discrimination-maryland.html

25 Mattos, T. & Brewster, M. (2021). The Color of the Capital Gap: Increasing Capital Access for Entrepreneurs of Color in Massachusetts. Boston Indicators. https://www.bostonindicators.org/search?q=The%20Color%20of%20Capital

26 Blanchflower, D., Levine, P., & Zimmerman, D. (1998, February 2). Discrimination in the Small Business Credit Market (NBER Working Papers 6840). National Bureau of Economic Research, Inc. https://ideas.repec.org/p/nbr/nberwo/6840.html

27 Naranchimeg, M & Bernasek, A. (2013, December). Decomposing Racial and Ethnic Differences in Small Business Lending: Evidence of Discrimination. Review of Social Economy, 71(4), 443–473. https://doi.org/10.1080/00346764.2012.761751

28 Taylor, J. (2019, December 19). Racism, Inequality, and Health Care for African Americans. The Century Foundation. https://tcf.org/content/report/racism-inequality-health-care-african-americans/?session=1

they express a bias about an individual's status that is inherent to that individual's race. For example, the oversimplifying myth that more financial literacy improves wealth among black and brown populations; or, the bias that all individuals of certain races make poor financial decisions.

The following myths are among those commonly cited as reasons for racial wealth inequities:

"Education and Employment are great equalizers."

While education tends to lead to higher employment income, a Black household with a college-educated head has less wealth than a white family whose head of household did not even obtain a high school diploma. Employment leads to higher median household wealth; however, white households with an employed head have more than 10x higher wealth than similar Black households.

"Poor financial decisions have led to the [wealth] gap, and financial literacy training is the solution."

Meager economic circumstances constrain choices for asset-poor individuals. For example, asset-poor individuals with few or no options often use predatory and abusive alternative financial services.[29] Lack of assets also prevents would-be entrepreneurs from starting businesses and would-be homeowners from buying homes due to lack of savings for down payments.

"Family disorganization is a cause of the racial wealth gap."

While there is evidence that growing up in a home with two, married parents results in significant benefits to children's outcomes, the median single-parent white family has more than twice the wealth of the median Black or Latino family with two parents.[30]

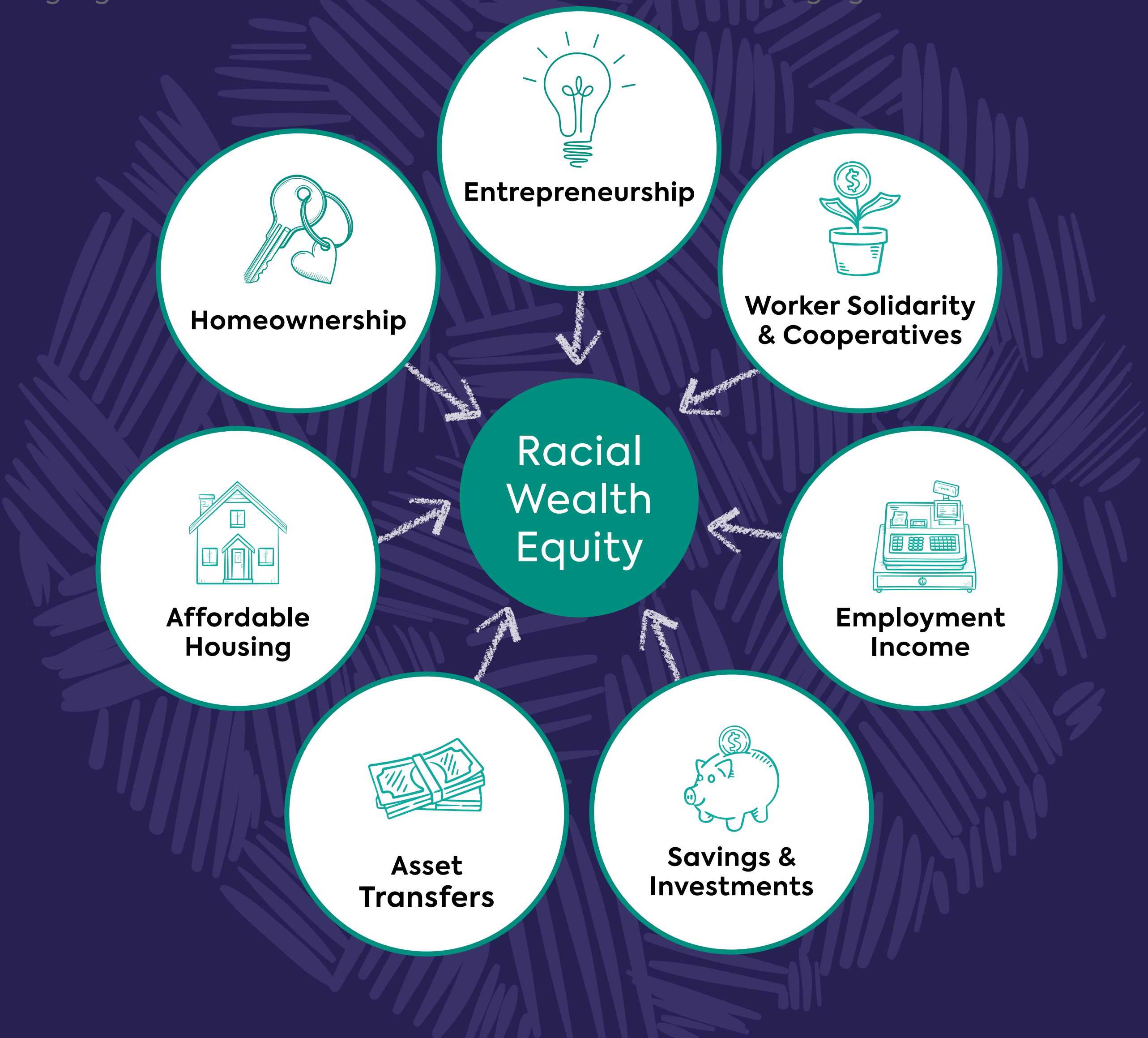
29 Darity, W., Hamilton, D., Paul, M., Aja, A., Price, A., Moore, A., & Chiopris, C. (2018, April). What We Get Wrong About Closing the Racial Wealth Gap. Insight Center for Community Economic Development, Samuel DuBois Cook Center on Social Equity, Duke University. https://socialequity.duke.edu/portfolio-item/what-we-get-wrong-about-closing-the-racial-wealth-gap/

30 Ibid

APPROACHES TO PROMOTE RACIAL WEALTH EQUITY

Our conversations and research to date have also helped us see how complex, multifaceted, and interconnected all the different approaches to building wealth are. There is no single solution or cure-all. Based on our initial conversations, we heard the most about five key levers people are pursuing: entrepreneurship, homeownership, asset transfers, employment income, and savings and investments. These are the big categories, to be sure, with lots of opportunities. But we are also aware of other levers, like affordable housing, worker solidarity, and cooperative efforts.

This section briefly summarizes key wealth drivers, approaches to promote racial wealth equity, and evidence of their efficacy. Approaches listed here are highlighted because of some evidence base – either emerging or established –



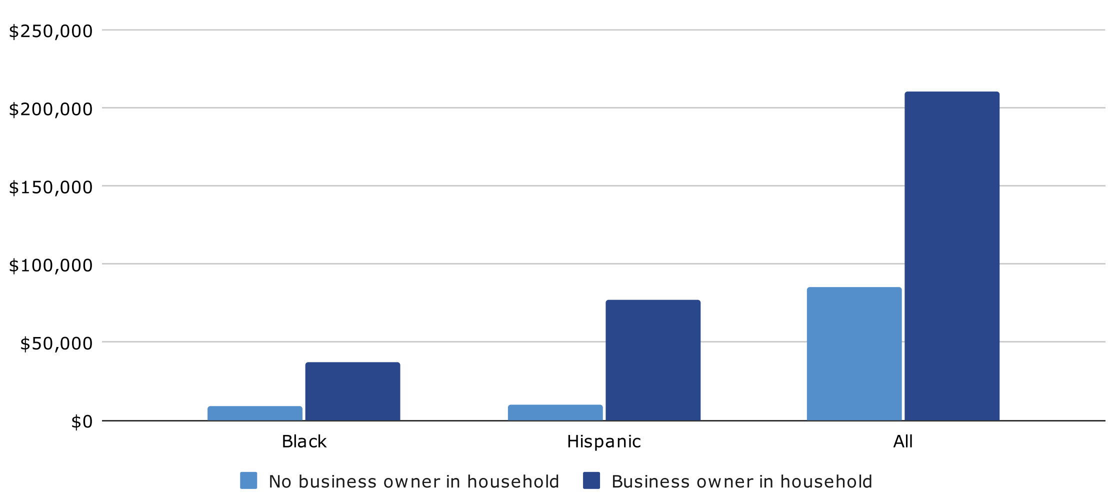
that warrants further exploration and understanding. The approaches included here are neither exhaustive, definitive, nor prescriptive.

Best practices in structural change suggest that racial wealth building will similarly require a mix of approaches from a broad range of institutions and sectors. **This section is focused on programmatic approaches that directly contribute to the accumulation of assets that translate to wealth building**. This primer does not include details on various important efforts to continue to limit unequal treatment and discrimination (e.g., lending discrimination), given they are primarily regulatory.

Wealth Driver: Entrepreneurship

Entrepreneurship creates wealth as companies amass value and founders invite others to acquire partial or total ownership. U.S. households with business owners have 148% greater net worth than households without business owners ($211,000 versus $85,000). This difference increases for Black and Hispanic households: Black households with business owners had 311% greater net worth than Black households without business owners ($37,000 versus $9,000) and Hispanic households with business owners had 670% greater net worth than Hispanic households without business owners ($77,000 versus $10,000).[31]

MEDIAN NET WORTH OF US HOUSEHOLDS
WITH BUSINESS OWNERS BY RACE AND ETHNICITY



31 2008 Survey of Income and Program Participation Microdata. US Census Bureau. Calculations by Dr. Robert Fairlie, University of California, Santa Cruz.

A recent study found that while Black entrepreneurs have a higher probability of rising to the top wealth tercile (39%) compared to Black workers (31%), Black-owned businesses are less likely to survive compared to white-owned businesses. As a result, Black business owners are more likely to experience downward economic mobility and less likely to experience upward mobility as compared to white counterparts. The authors suggest that improving the rate at which Black entrepreneurs succeed, rather than increasing the rate of Black entrepreneurship, should be the target of efforts to leverage business ownership to reduce the racial wealth gap.[32] These programs can often be categorized broadly as entrepreneurial training, technical assistance, and business financing programs.

Approach: Entrepreneurial Training and Technical Assistance

Training and technical assistance programs seek to increase the rate of business formation and business growth by increasing the business acumen of and direct resources for entrepreneurs of color.

The Small Business Administration (SBA)'s largest program is the Entrepreneurial Development (ED) Program, which works with third parties to provide a variety of management and training services to small business owners (e.g., Small Business Development Centers, Women Business Centers). Various state agencies provide additional funding for entrepreneurial training and technical assistance programs, including the Massachusetts Growth Capital Corporation, which administers the Small Business Technical Assistance Program that funds nonprofit programs.

Studies demonstrate that these programs lead to business growth and increased profitability. SBA ED program clients reported that assistance led to increased profit (27% of clients), increased sales (29%), hiring of new staff (13%), and retention of current staff (19%). Clients outperformed control groups on all measures. Additionally, independent nonprofit programs report triple-digit revenue and job increases among clients. While these programs cite goals of racial wealth building, and business and employment growth, evidence of wealth creation for business owners remains largely anecdotal.

Despite the effectiveness of these programs, entrepreneurs of color represent a minority of the clients reached. For example, a relatively small portion of SBA ED's historical program clients are people of color (77% White, 11% Black, 7% Hispanic/Latino, 4% Asian, and 2% American Indian/Native Alaskan).[33] Conversely,

32 Kroeger, T., Wright, G. Entrepreneurship and the Racial Wealth Gap: The Impact of Entrepreneurial Success or Failure on the Wealth Mobility of Black and White Families. Journal of Economics, Race, and Policy 4, 183–195 (2021). https://doi.org/10.1007/s41996-021-00081-6

33 Impact Study of Entrepreneurial Development Resources – 2009-2010. (2011). Concentrace Consulting Group

independent nonprofits with a focus on entrepreneurs of color are more effective at reaching those communities (e.g., 43% of clients of Massachusetts' state-funded technical assistance programs are entrepreneurs of color). The SBA has not historically targeted entrepreneurs of color, but in early 2022, the agency released an Equity Action Plan[34] with an explicit aim to increase the participation of entrepreneurs of color in SBA programs.

Approach: Entrepreneurial and Business Financing

Entrepreneur and business financing programs and funds aim to increase business growth by injecting capital into businesses owned by people of color. Two-thirds of entrepreneurs leverage personal or family savings to start a business. Entrepreneurs who cannot tap financial resources through family members or social networks may otherwise pursue equity or debt financing options, including angel investors, venture capital, banks, or credit unions. Despite these options, entrepreneurs of color are both less likely to have access to sufficient personal or family savings and are less likely to obtain traditional financing, even when controlling for creditworthiness. As noted earlier, nearly half of Black and Hispanic entrepreneurs are denied loans or receive much less than the amount for which they applied. Consequently, less than 3% of venture capital flows to Black or Hispanic founders.

In response to these statistics, both government and private programs focus on promoting access to business financing for people of color and ensuring equitable access to funds. The SBA's second-largest program, the Capital Access Program, funds initiatives to increase access to capital for small businesses. The largest category of financing options funded by the SBA Capital Access Program are loan guarantees (7a and 504 Programs) that guarantee loans issued by participating banks and other lenders. Several smaller SBA programs (Community Advantage, Microloan) focus explicitly on historically underserved entrepreneurs, including entrepreneurs of color. The State Small Business Credit Initiative (SSBCI) Program, originally established in 2010 and replenished in 2021, funds various state-administered and private-sector contractors to increase small business access to capital. SSBCI 2.0 (2021) includes up to $2.5 billion allocation (of $10 billion total) for businesses owned by socially and economically disadvantaged individuals ("SEDI-owned" businesses). An independent evaluation of SBA partner lending showed that the annual revenue of borrowers increases between 42% and 82% three years after receiving capital.

Many mission-driven small business financial institutions, including Community

34 Equity Action Plan. (2022). U.S. Small Business Association. https://assets.performance.gov/cx/equity-action-plans/2022/EO%2013985_SBA_Equity%20Action%20Plan_2022.pdf

Development Finance Institutions (CDFIs), prioritize entrepreneurs of color. CDFIs are specialized financial institutions certified by the U.S. Treasury Community Development Financial Institutions Fund to provide financial services to low-income communities across the United States. While the evidence suggests that banks and other traditional financial institutions may systemically underserve entrepreneurs of color, CDFIs and similar mission-driven financing institutions are more effective at reaching entrepreneurs of color. Most CDFI financing to small businesses goes to entrepreneurs of color (68% nationally and 63% in greater Boston).[35]

Lastly, various independent for-profit and nonprofit impact investment funds target entrepreneurs of color, ranging from venture capital funds to loan funds.

Despite the high potential of business financing to contribute to owner wealth, the impact on entrepreneurs of color remains limited. Black- and Hispanic-owned businesses appear to receive a disproportionately small share of SBA-guaranteed loans. Black and Hispanic businesses represent 9% and 13% of businesses, respectively, yet they received 3% and 6% of SBA-guaranteed loan dollars in 2018.[36] In response to financial disparities, the Community Reinvestment Act (CRA) federal law aims to address "persistent systemic inequity in the financial system for low- and moderate-income (LMI) and minority individuals and communities."[37] Nonetheless, CRA evaluations do not explicitly consider the race or ethnicity of customers in bank performance evaluations, nor do they require reporting of race or ethnicity in loan transaction data. Consideration of race and ethnicity by bank regulators is a potential strategy to increase transparency and uncover inequitable practices, potentially increasing funding of entrepreneurs of color.

Wealth Driver: Homeownership

Homeownership continues to be the largest asset on the balance sheet of households. It is also the largest asset across racial and ethnic demographics, with primary residence accounting for more than 30% of household wealth for non-white and Hispanic households. Homeowners in the U.S. have a net worth over 40 times the median net worth of renters ($255,000 vs. $6,300).[38]

35 Ibid

36 Mattos & Brewster, 2021

37 Bernanke, B. (2007, March 30). The Community Reinvestment Act: Its Evolution and New Challenges. In Board of Governors of the Federal Reserve System [Speech]. https://www.federalreserve.gov/newsevents/speech/bernanke20070330a.htm

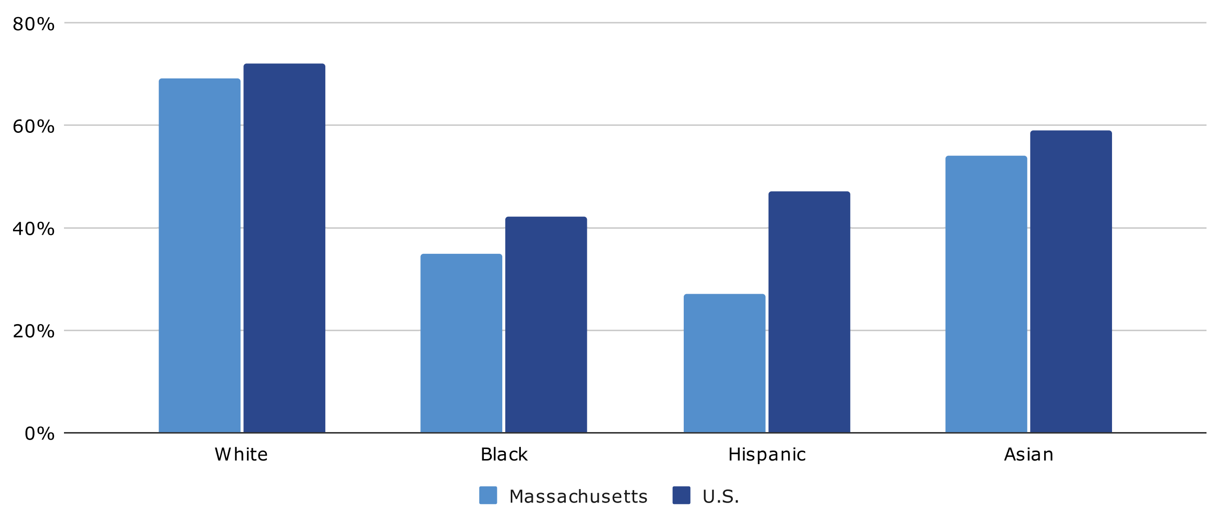
38 Homeownership Remains Primary Driver of Wealth. (2021, February 18). National Association of Home Builders. https://www.nahb.org/blog/2021/02/homeownership-remains-primary-driver-of-household-wealth/

Historically, homeownership has proven to be a reliable, long-term investment that appreciates. Though markets vary, home prices have grown for decades at average rates of 3-5% per annum, creating valuable home equity that increases owners' net worth.

A study that followed 1,700 individuals from 1984 to 2009 found that homeownership explains 27% of the racial wealth gap because the largest contributor to differences in wealth accumulation is the ability to build home equity.[39] Homeownership is often discussed as the key to closing the racial wealth gap. Yet, some (significant) degree of wealth is required to achieve homeownership. Additionally, white homeowner households hold more net worth than Black homeowner households. This same disparity holds true for white and Black households that are not homeowners, suggesting that the simple act of homeownership alone will not overcome existing wealth gaps.

The housing crisis of 2008 impacted the Black community more than any other racial group, and they did not benefit as much as white families from the post-crisis period of economic recovery, contributing to a significant decline in Black homeownership rates. More recent data shows that white families are 10.2% more likely to own their own home than Black families, and Hispanic families are 1.4% more likely to own. Sixty-four percent (64%) of white households hold home equity, compared to only 38% of Black households.[40]

RATE OF HOMEOWNERSHIP IN MASSACHUSETTS AND THE U.S. BY RACE AND ETHNICITY



39 Shapiro, T., Meschede, T., & Osoro, S. (2013, February). The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide. Institute for Assets & Social Policy, Brandeis University https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf

40 Aliprantis, D., Carroll, D. R., & Young, E. R. (2019, February 28). What Is Behind the Persistence of the Racial Wealth Gap? Federal Reserve Bank of Cleveland. https://www.clevelandfed.org/publications/economic-commentary/2019/ec-201903-what-is-behind-the-persistence-of-the-racial-wealth-gap

Various approaches focus on helping individuals and families purchase homes in order to benefit from the wealth-building asset of homeownership. A combination of these efforts – in addition to aggressive campaigns to end housing and lending discrimination – may narrow the racial homeownership gap.

Approach: First-time Homebuyer Counseling

Several steps can help first-time homebuyers in navigating a home purchase. These include financial education, homeownership preparation, and post-purchase counseling for homeowners. First-time homebuyer education typically provides participants with a thorough understanding of the various steps and elements of the home purchasing process, including an introduction to the mortgage process, understanding credit standards and conventional lending criteria, and preparing for loan closing. Some courses include presentations from industry professionals including a home inspector, real estate broker, lending officer, real estate lawyer, home insurance agent, and fair housing specialist.[41] Beyond addressing this "knowledge gap," homebuyer education programs also address the "trust gap" – caused by the historic exploitation of Black Americans that has prevented many from obtaining affordable and sustainable mortgages.[42] Counseling in communities historically excluded from fair and equitable housing markets helps encourage greater participation in the home purchasing process for Black Americans and other people of color. Homebuyer education is a proven method in the successful purchase of new homes. Research from the past decade has shown that participating in homebuyer education decreases the likelihood of delinquency, default, and home foreclosure.[43]

Approach: Down Payment Assistance and Mortgage Assistance Programs

Another factor in increasing racial equity in homeownership is ensuring that people of color have sufficient liquidity to compete in the home purchasing process. With lower incomes, savings, and a lower likelihood of having inherited

41 First-Time Homebuyer Education and Pre- and Post-Purchase Counseling. (2021, February 25). Urban Edge. https://www.urbanedge.org/program/first-time-home-buyer/

42 Closing the African American Homeownership Gap. (2021, March 20). The Edge. Office of Policy Development and Research, U.S. Office of Housing and Urban Development. https://www.huduser.gov/portal/pdredge/pdr-edge-featd-article-032221.html

43 Turner, B. (2019, February 15). Does Homebuyer Education Make a difference for homebuyers? Clinch-Powell. https://www.clinchpowell.net/content/does-homebuyer-education-make-difference-homebuyers#:~:text=Homebuyer%20education%20is%20a%20proven,required%20by%20many%20mortgage%20programs

wealth,[44] many households of color are less likely to have the cash for the down payment and closing costs associated with a home purchase.

Researchers estimate that more than 1.7 million mortgage-ready young Black renters could afford a median-price home in the most populous metropolitan statistical areas if they could secure a 10% down payment.[45] The U.S. has experimented with ways of providing down payment assistance (DPA) to cash-constrained first-time homebuyers for nearly 25 years with varied success.

After the Great Recession, most Housing Finance Authorities (HFAs) added DPA, targeting borrowers underserved by other lenders. HFAs fund DPA programs from various sources (e.g., bond premiums, internal and state resources), but proceeds from the secondary market sales are among the most important. Nearly three-quarters of the single-family mortgages HFAs funded in 2019 carried DPA. Federal Home Loan Bank programs have also expanded homeownership set-aside programs to make grants to respective financial institution members who provide funds for down payments, closing costs, or counseling assistance to LMI first-time homebuyers.

Increasing the visibility, access, and types of down payment assistance programs is critical to closing the racial homeownership gap. In 2020, the federal government proposed measures to expand DPA that sought to improve racial equity without raising mortgage payments. These measures include: tax-exempt savings accounts that go toward a down payment and closing costs ("American Dream Down Payment Act"); grants to first-generation homebuyers in lower-income communities (e.g., "Down payment Toward Equity Act of 2021"); and mortgage rate subsidies that shorten the term (e.g., "LIFT Act").

Forgivable down payment assistance grants or tax credit programs that significantly reduce loan amounts at origination would provide more home equity for new homeowners up-front. A 2020 report shows that if Black households had the same debt at origination as white households, roughly $14,500 of additional home equity would have been added to Black household net worth in 2019. Going forward, estimates are that this would inject $4 billion into Black households annually, and in 10 years, Black households would have approximately $40 billion more wealth in home equity.[46]

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44 Stegman, M., & Loftin, M. (2021, April). An Essential Role for Downpayment Assistance in Closing America's Racial Homeownership and Wealth Gaps. Housing Finance Policy Center, Urban Institute. https://www.urban.org/sites/default/files/publication/104134/an-essential-role-for-down-payment-assistance-in-closing-americas-racial-homeownership-and-wealth-gaps_0.pdf

45 Ibid

46 McCargo A. & Hyun Choi, J. (2020, November). Closing the Gaps: Building Black Wealth Through Home Homeownership. Housing Finance Policy Center, Urban Institute. https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf

Directly buying down principal balance at origination and providing cash for closing costs could also help Black families address the intergenerational wealth deficits. Funds set aside to help build reserves may also empower new homeowners with a safety net from losses during times of hardship.[47]

Wealth Driver: Asset Transfers

Direct transfers of assets from public or private sources to BIPOC individuals or families increase wealth. Asset transfers include various existing and proposed government programs, family inheritance and other gifts, and other transfers. Ample evidence exists to support the intuitive observation that asset transfers lead to wealth. The nature of the asset transfer is an important factor in how significant are any impacts on the racial wealth gap. For example, researchers estimate that between 10-20% of the racial wealth gap can be accounted for by inheritances. If Black households had the same inheritances as white households, estimates show that the wealth gap could be closed by an additional 5%.[48] Asset transfer programs with an explicit goal to promote racial wealth typically feature progressive distribution criteria, where recipients' incomes, wealth, and/or explicit racial-eligibility factors come into play.

Approach: Reparations

Reparations to descendants of African American slaves have long been proposed as a remedy and form of restitution. Precedent for reparations in the U.S. do exist, including reparations paid to Japanese Americans interned during World War II, and reparations for Jewish Americans affected by the Holocaust. Reparations for all Black Americans have been attempted at least once, directly after the Civil War, when Union General William Sherman signed Field Order 15. This order allocated 400,000 acres of confiscated Confederate land to recently freed slaves. Each family was to receive 40 acres of land, and some received mules left over from the war; hence the term "40 acres and a mule." However, after President Abraham Lincoln's assassination, Confederate leaders returned land back to former slave owners.[49]

A recent study estimated that reparations payments of approximately $267,000 per person to the 40 million eligible Black descendants of the American enslaved

47 Ibid

48 Aliprantis & Carroll, 2019

49 Ray, R., & Perry, A. M. (2021, March 4). Why we need reparations for Black Americans. Brookings. https://www.brookings.edu/policy2020/bigideas/why-we-need-reparations-for-black-americans/

(a total cost of approximately $10.7 trillion) would eliminate the racial wealth gap caused by systematic discrimination of the Black population prior to and after Emancipation.[50] However, others assert that reparations alone would not eliminate the racial wealth gap – since not all assets received in reparations would be invested in ways that convert them to wealth. The authors ultimately recommend investment subsidies to increase investment risk-taking that can generate future wealth.

A recent national political attempt at reparations was a national bill led by U.S. Senator Cory Booker (NJ), which failed to receive sufficient support in the Senate. In 2020, California became the first state to establish its own reparations commission. In 2021, eleven U.S. mayors[51] formed the Mayors Organized for Reparations and Equity (MORE), pledging to pay reparations for slavery to a small group of Black residents in their cities with the goal of modeling a national reparations program. For example, the City Council of Evanston, Illinois, voted to pay $400,000 to eligible Black households, part of a pledge to spend $10 million over the next 10 years. Qualifying households would get $25,000 to use for investments such as home repair or a down payment for a property purchase.

Approach: Baby Bonds

Asset transfers tied to household wealth (instead of race) is another approach that some believe holds promise as a way to promote racial equity. In 2010, researchers proposed a universal public 'baby bonds' program aimed at reducing generational wealth disparities.[52] The proposal called for the provision of a trust fund to every newborn in the U.S. that could be accessed in young adulthood. The amounts paid to each individual in the researcher's original proposal would range between $500 and $50,000, varying inversely with the net worth of the household at the child's birth. Additional economic modeling has concluded that baby bonds would narrow racial wealth inequalities considerably, while simultaneously improving the net asset position of young adults and alleviating asset concentration. In short, the program estimated a potential reduction in the Black-white wealth disparity measured by median wealth from a factor of 15.9:1 to

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50 Darity, W. A. & Mullen, K. A. (2022, September 20). From Here to Equality, Second Edition: Reparations for Black Americans in the Twenty-First Century. The University of North Carolina Press

51 Mayors and cities include: Eric Garcetti, Los Angeles, CA; Tishaura Jones, St. Louis, MO; Jorge Elorza, Providence, RI; Elaine O'Neal, Durham, NC; Quinton Lucas, Kansas City, MO; Melvin Carter, St. Paul, MN; Michael Tubbs, Stockton, CA; Michael Hancock, Denver, CO; Keisha Currin, Tullahassee, OK; Steve Adler, Austin, TX; Esther Manheimer, Asheville, NC; Darrell Steinberg, Sacramento, CA; Damon Seils, Carrboro, NC.

52 Hamilton, D. & Darity, W. Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America? The Review of Black Political Economy, 37, 207–216 (2010). https://doi.org/10.1007/s12114-010-9063-1

1.4:1.[53]

In 2021, Washington, D.C. launched the first Baby Bonds program in the country, with a specific aim to promote racial equity. The program calls for the provision of cash payments to families on Medicaid that make less than 300% of the federal poverty line. At birth, each fund will be seeded with $500, with up to an additional $1,000 being paid into the fund annually for as long as the parent(s)' income falls below the ceiling. Such funds can accrue annually until the child reaches the age of 18, at which time the total funds could be accessed and for wealth-building purposes. The total cost of the initial program pilot is $32 million.[54] Nationally, the Opportunity Accounts program proposal, spearheaded by U.S. Senator Cory Booker of New Jersey and Representative Ayanna Pressley of Massachusetts, would provide every child in America an account seeded with anywhere between $1,000 to $3,000, allocated in inverse proportion to a child's family's income. Each subsequent year, children would be eligible for additional contributions into the fund based on family income. When a child reaches the age 18, they would be able to access their funds for specified uses including education, homeownership, and retirement. Researchers estimate that the average Baby Bond account for Black Americans would be approximately $29,000 at age 18 whereas the equivalent white Baby Bond account would contain about $15,800. The current proposed cost is approximately $82 billion annually.[55]

Approach: Universal Basic Income

Universal Basic Income ("UBI"), or more broadly guaranteed income, is an asset transfer strategy that has gained momentum nationally and locally in recent years. UBI is defined as a cash transfer given to all members of a community on a recurring basis regardless of income level, and with no restrictions. Most proponents suggest that the size of cash transfers should cover essential living costs; $1,000 per month is a commonly cited figure.[56]

While a true (universal and unconditional) basic income has never been

53 Zewde, N. (2020). Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults. The Review of Black Political Economy, 47(1), 3–19. https://doi.org/10.1177/0034644619885321

54 $1,000-A-Year "Baby Bonds" Created by the Council. (2021, October 20). Council of the District of Columbia. https://dccouncil.gov/1000-a-year-baby-bonds-created-by-the-council/

55 Cassidy, C., Heydemann, R., Price, A., Unah, N. & Darity, W. (2019, December). Baby Bonds: A Universal Path to Ensure the Next Generation Has the Capital to Thrive. The Samuel DuBois Cook Center on Social Equity, Duke University. https://socialequity.duke.edu/wp-content/uploads/2019/12/ICCED-Duke_BabyBonds_December2019-Linked.pdf

56 Hasdell, R. (2020, July). What we know about Universal Basic Income: A cross-synthesis of reviews. Stanford Basic Income Lab. https://basicincome.stanford.edu/research/papers/what-we-know-about-universal-basic-income/

implemented at scale, several pilot programs exist in U.S. cities, as do reparations pilots. The City of Stockton, California, started a guaranteed income demonstration program in 2019. The program provided $500/month for 18 months to 125 randomly selected Stockton residents of neighborhoods with a median household income of $46,000 or less. A 2018-2019 pilot program in Jackson, Mississippi operated by Magnolia Mothers Trust provided $1,000 per month to 100 Black mothers living in extreme poverty. The program sought to address racial and gender-based income and wealth disparities. Results from the first year showed a positive impact on families: the number of households preparing most of their food at home doubled and recipients collectively paid off more than $10,000 in debt.[57]

Evidence consistently demonstrates that unconditional cash payments to individuals in low- and middle-income countries leads to a measurable decrease in poverty. Additionally, simulations can be used to illustrate some immediate effects of UBI. One analysis found that without UBI, the median white family has $6.45 for every $1 held by the median Black family, but under a $1,000 monthly UBI payment, this falls to $3.49 for every $1, and further down to $2.64 with a $2,000 monthly payment.[58] Others have proposed adaptations of UBI that target racial wealth gaps more directly. Community Change President Dorian Warren proposed a "Universal PLUS Basic Income" model that would provide additional payments to Black families.[59]

The concept of guaranteed income has gained momentum in Massachusetts. A 2020 report by Boston Indicators proposed a package of reforms to the Massachusetts Earned Income Tax Credit (EITC) that would help it to function more like a minimum guaranteed income. Taken together, the reforms would provide all families earning up to $70,000 a credit of at least $1,200 a year (and often much more). Reforms would also cover households with no income at all that are currently excluded from the state EITC. The authors found that the policy would disproportionately benefit people of color because Massachusetts' lowest-income residents are more likely to be residents of color. The estimated cost would be approximately $1 billion annually.[60]

57 Mattos, T., Schuster, L., Baxandall, P. & Neighly, M. (2020, July 22). A Guaranteed Income for Massachusetts. Boston Indicators. https://www.bostonindicators.org/reports/report-website-pages/guaranteed-income#:~:text=Taken%20together%2C%20these%20reforms%20would,excluded%20from%20the%20state%20EITC

58 The effect of universal basic income on a novel measure of the racial wealth gap. (2021, February 28). UBI Center. https://www.ubicenter.org/racial-wealth-gap-ks

59 Bhattacharya, J. (2019, June 19). Exploring Guaranteed Income Through a Racial and Gender Justice Lens. Roosevelt Institute. https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_UBI-Racial-Gender-Justice-brief-201906.pdf

60 Mattos, Schuster, Baxandall, & Neighly, 2020

Wealth Driver: Employment Income

Income from employment can provide the opportunity to save, which increases individual or family net worth, and enables investments that can foster additional and ongoing wealth accumulation. Different approaches focus both directly and indirectly on increasing employment income in ways intended to help close racial income and wealth disparities. These approaches typically fall into either educational attainment support programs or workforce development programs. While approaches targeted at increasing educational attainment and skills mostly commonly target employment income as their goals, these approaches may also contribute to other drivers, such as entrepreneurship, savings, and investments.

These approaches share a common goal of increasing levels of educational and/or skills attainment to result in higher employment income, given the strong correlation between education and skill levels and wages. Wide racial disparities exist in educational attainment for both U.S.-born adults and those born in other countries. Latino immigrants are the least likely to have attained an associate degree or higher, with just 15% of adults reaching that threshold, followed by Native Americans (24%) and U.S.-born Black people (27%). In contrast, white immigrants (55%) and U.S.-born white people (45%) have a much greater likelihood of reaching those same levels of educational attainment.

Differences in education and skill levels alone do not fully explain racial income disparities. Black Americans are substantially more likely to experience unemployment than White Americans regardless of educational attainment. Black adults earn lower wages across all attainment levels, including apprenticeships, certificates, associate degrees, and bachelor's degrees.[61] Black and Latino Americans are also more likely to be involuntary part-time workers or underemployed.[62] Growth in educational attainment over generations has not translated into equivalent employment gains and security for Black and Latino Americans.[63] This indicates that hiring bias or discrimination is a likely factor in driving such disparities, with research providing some supporting evidence . For example, one study sent fictitious resumes in response to job ads in Boston and

61 Equity Indicators: Wages – Median – United States, Median hourly wage by race/ethnicity and education: United States. (2015). [Dataset; Website]. In National Equity Atlas. PolicyLink and the USC Equity Research Institute (ERI). https://nationalequityatlas.org/indicators

62 Cajner, T., Radler, T., Ratner, D., & Vidangos, I. (2017, June). Racial Gaps in Labor Market Outcomes in the Last Four Decades and over the Business Cycle. Finance and Economics Discussion Series, Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/econres/feds/racial-gaps-in-labor-market-outcomes-in-the-last-four-decades-and-over-the-business-cycle.htm

63 Austin, A. (2011, December 14). A jobs-centered approach to African American community development: The crisis of African American unemployment requires federal intervention. Economic Policy Institute. https://www.epi.org/publication/bp328-african-american-unemployment/

Chicago in 2001 and 2002 and found that resumes with names more prevalent among white people received a 50% higher callback than identical resumes with names more common among Black people.[64]

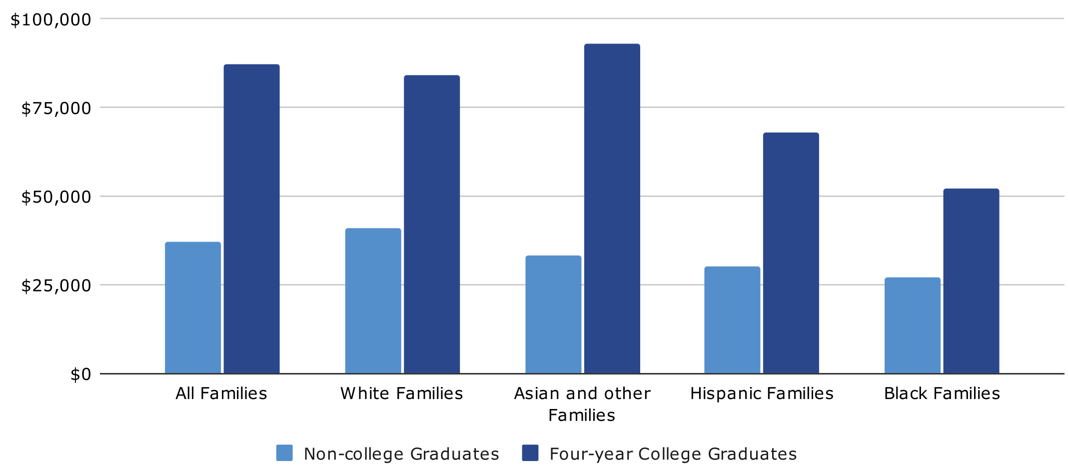
EDUCATIONAL ATTAINMENT, UNEMPLOYMENT, AND WAGES BY RACE/ETHNICITY

64 Cajner, T., Radler, T,. Ratner, D. & Vidangos, I., 2017

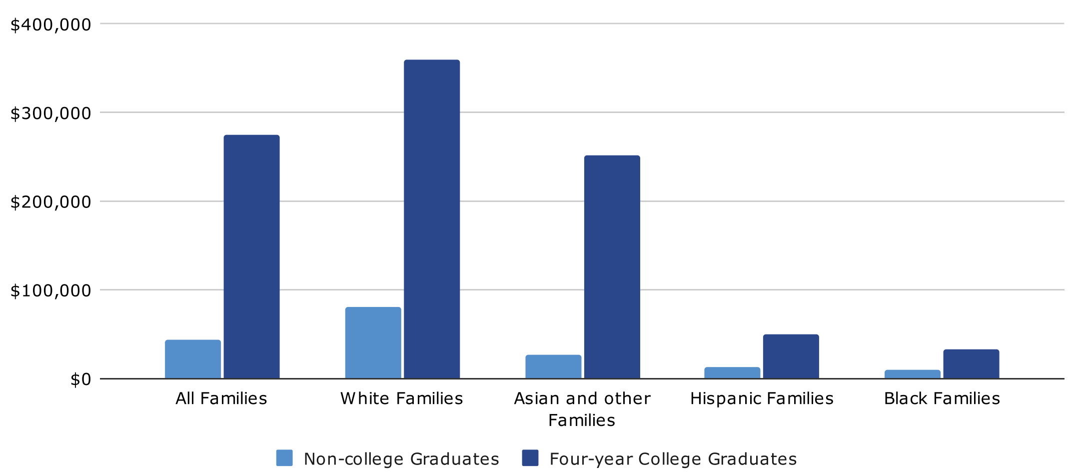
Approach: Educational Attainment Support Programs

A variety of programs seek to promote educational attainment at the elementary, secondary, and post-secondary levels.Students who attend high-quality elementary and secondary schools or have significant extracurricular support are better positioned to achieve success in the college, workforce, and beyond.[65] The typical college-educated family has between 2-3x more income and 3-10x more wealth than its racial or ethnic counterpart without a degree.[66]

MEDIAN FAMILY INCOME BY COLLEGE EDUCATION AND RACE/ETHNICITY



MEDIAN FAMILY INCOME BY COLLEGE EDUCATION AND RACE/ETHNICITY



65 Greenstone, M., Looney, A., Patashnik, J & Yu, M. (2013, June). Thirteen Economic Facts about Social Mobility and the Role of Education. The Hamilton Project. https://www.hamiltonproject.org/papers/thirteen_economic_facts_social_mobility_education

66 Emmons, W., & Ricketts, L. (2017, February 15). College Is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps. Federal Reserve Bank of St. Louis Review, First Quarter 2017, 99(1), 7–39. https://doi.org/10.20955/r.2017.7-39

The level of attribution that education receives for income and wealth differences within racial/ethnic groups varies and is subject to much debate. Some researchers have concluded that cognitive skills and levels of education can explain nearly all the Black-white wage gap, though they also acknowledge some racial discrimination in the labor market.[67] While most academics agree that education is a strong driver of income and wealth growth, many also point to "non-observable" factors (e.g., labor market discrimination, lower returns on education for people of color) to explain disparities that remain after controlling for education levels.

The income and wealth returns on education for people of color appear to have declined over time. One study found that the median Black college-graduate family in 2013 had 56% less wealth than the median Black college-graduate family in 1992, and the median Hispanic college-graduate family had 27% less wealth in 2013 than its 1992 counterpart (both adjusted for inflation). By comparison, the median white college graduate family in 2013 had 86% more wealth than the median white college-graduate family in 1992.[68]

Many government programs seek to promote educational attainment within low-income groups. For example, the Federal Pell Grant Program provides need-based grants to low-income undergraduate and eligible postbaccalaureate students to promote access to postsecondary education. Evaluations of the program have determined that these grants increase college graduation rates and earnings. One study found that earnings were 5-8% higher for Pell grant recipients four years after the award.[69] Nearly half (46%) of Black undergraduate students receive federal Pell Grant awards and Black students account for approximately one quarter of all Pell Grant recipients.[70] However, some government programs have embedded racial inequities. For example, the G.I. Bill's tuition benefits resulted in much greater educational levels of educational attainment for white veterans than Black veterans because of school segregation imposed by federal and local governments that severely limited school choice and access for Black veterans.[71,72]

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67 Neal, D. A., & Johnson, W. R. (1996). The Role of Premarket Factors in Black-White Wage Differences. Journal of Political Economy, 104(5), 869–895. http://www.jstor.org/stable/2138945

68 Emmons & Ricketts (2017)

69 Denning, J. T., Marx, B. M., & Turner, L.T. (2017, September 1). ProPelled: The Effects of Grants on Graduation, Earnings, and Welfare. Working Paper 17-280. W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/wp17-280

70 Pell Grants: The Cornerstone of African-American Higher Education. (2010). The Journal of Blacks in Higher Education. https://www.jbhe.com/features/65_pellgrants.html

71 Luders-Manuel, S. (2019, June 18). The Inequality Hidden Within the Race-Neutral G.I. Bill. JSTOR Daily. Retrieved October 21, 2022, from https://daily.jstor.org/the-inequality-hidden-within-the-race-neutral-g-i-bill/

72 Turner, S. E. (2002, July 5). Closing the Gap or Widening the Divide: The Effects of the G.I. Bill and World War II on the Educational Outcomes of Black Americans. NBER. https://www.nber.org/papers/w9044

Different nonprofit and some government programs seek to increase educational attainment, and many do so by targeting "non-school" factors such as: reducing unintended pregnancies; improving prenatal and postnatal maternal health; improving parenting practices among parents of infants and young children; improving childhood nutrition; enhancing the quality and availability of educational childcare, preschool, pre-kindergarten, and full-day kindergarten; connecting students with mentors; providing high-quality educational after-school and summer programs. A myriad of evidence shows that these approaches are proven to contribute to positive educational outcomes. Several examples include:

High-quality early childhood education is linked directly to short-term increases in cognitive, language, social-emotional, and learning skills, and long-term to economic productivity. Children who enter kindergarten behind their peers are academically likely to stay or fall behind; high-quality preschool is shown to close the achievement gap in kindergarten, especially for Black and Latino families. A recent study concluded that universal high-quality preschool could reduce the achievement gap at kindergarten entry between students from low-income families and students from higher-income families 27% in math and 41% in reading. The gap in math could be reduced 78% for Hispanic students and 45% for Black students.[73]

High-quality educational after-school and summer programs demonstrate a significant positive impact on youth outcomes, such as academic achievement and achievement-oriented behaviors.[74]

Parental skills training and parent-child involvement programs have shown great promise in improving children's academic achievement. Parental skills training programs help parents to develop and sustain some of the basics of good parenting, such as discipline, monitoring, limit-setting, and communication.[75]

Many important and valuable efforts aimed at improving educational outcomes and degree attainment for students of color exist in the United States, and the continuation of such efforts is foundational to addressing the wealth gap.

73 Friedman-Krauss, A. & Barnett, S. (2020, June). Access to High-quality Early Education and Racial Equity. National Institute for Early Education Research. https://nieer.org/wp-content/uploads/2021/02/Special-Report-Access-to-High-Quality-Early-Education-and-Racial-Equity.pdf

74 Ling, T & Moore, K.A. (2008, May). What Works for Education: Lessons from Experimental Evaluations of Programs and Social Interventions to Enhance Educational Outcomes (Publication #2008-21). Child Trends. http://www.childtrends.org/wp-content/uploads/2013/03/Child_Trends-2008_05_28_FS_WWEducation.pdf

75 Terzian, M. A. (2021, February 8). What Works for Parent Involvement Programs for Adolescents: Lessons from Experimental Evaluations and Social Interventions. (Publication #2009-48). Child Trends. https://www.childtrends.org/wp-content/uploads/2009/12/What-Works-for-Parent-Involvement-Programs-for-Adolescents-February-2010.pdf

Approach: Workforce Development Programs

Workforce development programs offer education and/or training, including apprenticeships. Their goal is to increase employment and wages for program participants. Researchers who studied the outcomes of three workforce training programs found that over the course of the two-year study, program participants earned 18% more money than control group participants. Program participants were more likely to be engaged in work over the course of the study period and to remain employed for all 12 months of the year. Program participants also earned higher wages than control participants and were more likely to work in jobs that offered benefits such as health insurance or paid leave. The study concluded that mature, nonprofit-led sector-focused programs can increase the earnings of disadvantaged populations.[76] Another similar study corroborates these findings with a similar approach that showed 14% higher earnings for program participants versus a control group.[77]

While the programs studied did not demonstrate disproportionate impact for program participants of color, their focus on low-income communities has had a relatively strong impact on communities of color, because communities of color are disproportionately low-income. Many policy experts recommend that workforce programs explicitly focus on people of color.

While current and future workforce training programs hold promise, it is important to note that federal and state workforce training programs have historically focused predominantly on white populations and at times excluded or limited participation by people of color. For example, several of the earliest workforce bills excluded agricultural and domestic workers — at a time when the workforces within these sectors were predominantly Black.[78]

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76 Note: Programs studied included Wisconsin Regional Training Partnership in Milwaukee, Jewish Vocational Services in Boston, and Per Scholas in New York City. Maguire, S., Freely, J., Clymer, C., Conway, M., & Schwartz, D. (2010). Tuning In to Local Labor Markets: Findings from the Sectoral Employment Impact Study. Public/Private Ventures. https://ppv.issuelab.org/resources/5101/5101.pdf

77 Hendra, R., Greenberg, D. H., Hamilton, G., Oppenheim, A., Pennington, A., Schaberg, K., & Tessler, B. (2016, August). Encouraging Evidence on a Sector-Focused Advancement Strategy: Two-Year Impacts from the WorkAdvance Demonstration. MDRC. https://www.mdrc.org/publication/encouraging-evidence-sector-focused-advancement-strategy-0/file-full

78 Minson, C. (2021, February 19). The Workforce Development Field or a Conduit for Maintaining Systemic Racism? (No. 2021–01). Center for Workforce and Economic Opportunity, Federal Reserve Bank of Atlanta. https://www.atlantafed.org/-/media/documents/cweo/workforce-currents/2021/02/19/the-workforce-development-field-or-a-conduit-for-maintaining-systemic-racism.pdf

Wealth Driver: Savings & Investments

Saving and investing money received from employment income, asset transfers, and other sources is an important way to increase net worth and enable asset purchases to build and perpetuate individual wealth (e.g., home, stocks, bonds, and other financial investments).

The importance of investments in wealth building is unequivocal. Since the 1950s, the return on stocks has been approximately 5x that of real estate investments. This trend has of course created more wealth for those who hold a greater share of stocks relative to real estate and other assets. According to a 2019 Federal Reserve Board survey, only 34% of Black American households owned equity investments, as compared to 61% of white families. The average value of stocks Black Americans owned amounted to only $14,400, nearly a quarter of the value of investments held by white peers.[79]

Despite this evidence, many researchers point to a concern of reverse causality. They contend that financial health and behaviors are at least as much a product of wealth as they are a predictor of wealth.[80] Another body of research suggests that people of color make superior financial decisions given their circumstances. For example, after accounting for household income, several studies show that Blacks tend to save more than Whites.[81]

Approach: Financial Literacy Programs

Financial literacy is commonly defined as the ability to understand and effectively use various financial tools. It includes personal financial management, budgeting, and investing. Financial literacy can lead to greater rates of savings and investment, and increased investment returns. People of color tend to have lower financial literacy scores than their white counterparts.[82]

79 Note: Furthermore, these dollar amounts refer only to those families who own stocks, not all families. Bhutta, N., Chang, A. C., Dettling, L. J., & Hsu, J. W. (2020, September 18). Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances. Division of Research and Statistics, Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.html

80 Hamilton, D. & Darity, Jr., W. (2017, February 2). The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap. Federal Reserve Bank of St. Louis Review, First Quarter 2017, 99(1), pp. 59-76. http://dx.doi.org/10.20955/r.2017.59-76

81 Ibid

82 Al-Bahrani, A., Weathers, J., & Patel, D. (2018, June 23). Racial Differences in the Returns to Financial Literacy Education. Journal of Consumer Affairs, 53(2), 572–599. https://doi.org/10.1111/joca.12205

Approach: Individual Development Accounts (IDAs)

Individual Development Accounts (IDAs) emerged in the 1990s as an asset-building strategy. IDAs provide matching funds to low-income recipients to promote savings for later spending on eligible uses such as higher education, microenterprise, or homeownership. Most IDA programs are limited to low-income individuals (usually 200% of the federal poverty level) and may also require meeting a limited net worth threshold. Participants are typically enrolled in an IDA program for one to five years and receive matched savings at anywhere from a 1:1 to an 8:1 ratio.[83]

After successful small scale demonstration projects, The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 included IDAs as an eligible use of federal funds. In 1998, the U.S. Department of Health and Human Services (HHS) created the Assets for Independence Program to provide nonprofit organizations with grants to implement IDA programs in partnership with government and financial institutions.[84] Today, more than 250 IDA programs exist across the country.

Several studies demonstrate that IDAs help participants build wealth and do so disproportionately for people of color.[85] After three years, IDA program participants are 35% more likely to be homeowners, 84% more likely to be business owners, and nearly twice as likely to pursue secondary education as non-participants.[86] The majority of IDA program participants were women, people of color, and unmarried people; participants also skewed toward individuals who were employed and had attained some level of college education.[87]

83 Haygood, R. P., Baer, D., & Lewis, B. (2019). Reclaiming the American Dream: Expanding Financial Security and Reducing the Racial Wealth Gap Through Matched Savings Accounts. New Jersey Institute for Social Justice. https://d3n8a8pro7vhmx.cloudfront.net/njisj/pages/1235/attachments/original/1554236355/Reclaiming_the_American_Dream_Digital_compressed.pdf?1554236355

84 Assets for Independence Program Summary. (2021, November). AFI Fact Sheet, the Administration for Children and Families. https://www.acf.hhs.gov/ocs/fact-sheet/afi-fact-sheet

85 Mills, G., Patterson, R., Orr, L., & DeMarco, D. (2004, August). Evaluation of the American Dream Demonstration: Final Evaluation Report. Abt. Associates, Inc. https://prosperitynow.org/sites/default/files/resources/Evaluation%20of%20the%20American%20Dream.pdf

86 Mills, G., Lam, K., DeMarco, D., Rodger, C., & Kaul, B. (2008, February 22). Assets for Independence Act Evaluation Impact Study: Final Report. Abt. Associates. https://www.acf.hhs.gov/sites/default/files/documents/ocs/afi_impact_evaluation_full_report.pdf

87 Ibid

Approach: Investment Subsidy Programs

Investment subsidy programs provide an incentive for individuals and families to invest their income and savings with a goal of asset and wealth building. Large scale examples of investment subsidy programs include 401(k) plans[88], Individual Retirement Accounts (IRAs)[89], and 529 College Savings Plans.[90] Federal and state governments subsidize investments by forgiving or deferring tax on income that is contributed to investment accounts.

Given the return on stock market investments has been so much greater than most other household assets, including homes, many advocates have proposed investment subsidy programs for people of color to help close the racial wealth gap. Evidence suggests that low-income individuals (especially in the lowest income quartile) are up to 3x more likely to contribute to an IRA than higher-income individuals.[91] Some economists argue that people of color have a lower appetite for risk, and suggest that investment subsidies targeted to people of color (especially Black Americans) would be more effective than asset transfers in eliminating the racial wealth gap.[92]

88 Note: A 401(k) is a feature of a qualified profit-sharing plan that allows employees to contribute a portion of their wages to individual accounts. 401k Plans | Internal Revenue Service. (n.d.). https://www.irs.gov/retirement-plans/401k-plans

89 Note: IRAs are tax-advantaged savings plans that allow individuals to defer taxes on investment contributions until retirement. Individual Retirement Arrangements (IRAs) | Internal Revenue Service. (n.d.). https://www.irs.gov/retirement-plans/individual-retirement-arrangements-iras

90 Note: A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. 529 plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code SEC.gov | An Introduction to 529 Plans. (2018, May 29). https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html

91 Duflo, E., Gale, W., Liebman, J., Orszag, P., & Saez, E. (2005, September). Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block (Working Paper 11680). National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w11680/w11680.pdf

92 Boerma, J. (2021, February 15). Reparations and Persistent Racial Wealth Gaps. National Bureau of Economic Research. https://www.nber.org/papers/w28468

IV. CONCLUSION

Hundreds of years of racist institutions, policies, and practices have exacerbated racial wealth gaps in all parts of the U.S., including Massachusetts. **As we work to correct these historical injustices and communities of color continue to grow in our region, our collective economic prosperity is inextricably intertwined with the economic destiny of those most harmed by the racial wealth gap**

Making progress towards racial wealth equity requires large and sustained investment from all sectors of our society and economy. **The social sector has a unique role to play in catalyzing and stewarding such change, and doing so in ways that engage, listen to, and support people of color in building wealth.** Simultaneously, the social sector must drive innovation and thought leadership to influence public and private sector strategies that advance racial wealth equity in ways that are meaningful in both action and investment.

APPENDIX

Key Terms

Economic Mobility is a measure of how one's economic well being changes over time. Most commonly, economic mobility is defined as earning more income or accumulating more wealth than the household into which one was born.

Income is the amount of money received by an individual or household over a stated period of time (e.g., a one-year salary). Stable income provides or contributes to the opportunity for a decent standard of living as well as for additional wealth accumulation through savings and investment.

Racial equality is a state in which people of all races, ethnicities, and physical traits access and enjoy the same status, treatment, rights, and opportunities. This includes the absence of racial discrimination. Equality does not consider outcomes. Two people given equal treatment or opportunity could have very different outcomes given different starting points or needs.[93]

Racial equity is a state in which resources and opportunities are allocated differently to different racial and ethnic groups to achieve equal outcomes for all groups. Equity treats members of society differently by recognizing that no two people share the same circumstances, therefore requiring different types and amounts of resources, opportunities, and supports to reach the same outcome. Racial equity would be achieved if racial disparities were eliminated and one's racial or ethnic identity did not determine or correlate to outcomes.

Giving two people of different heights the same size ladder to reach an apple on a tree is an equal approach, whereas adjusting the ladder size based on their respective heights so that they can both reach the apple is an equitable approach.

93 Racial Equality. Encyclopedia.com, https://www.encyclopedia.com/history/dictionaries-thesauruses-pictures-and-press-releases/racial-equality.; The Annie E. Casey Foundation. (2022, July 24). Equity vs. Equality and Other Racial Justice Definitions. https://www.aecf.org/blog/racial-justice-definitions?gclid=CjwKCAjwx7GYBhB7EiwA0d8oe35WqfemeIQaL3AVFtCioPw0wNErGqTCcvca7x2Is73oG_Jq69qLPBoCc-UQAvD_BwE

Racial wealth equity is a state in which resources and opportunities are allocated differently to racial and ethnic groups to achieve equal wealth for all racial and ethnicity groups. In a state of racial wealth equity, an individual's racial or ethnic identity does not predict or restrict their capacity to deal with financial adversity, care for themselves and their family, or take advantage of economic opportunities, including home ownership, business ownership, and asset accumulation. To achieve racial wealth equity, racial wealth gaps (differences in wealth between racial or ethnic groups) must be eliminated.

Wealth is the amount of valuable economic assets accumulated at a point in time. Wealth is often used interchangeably with "net worth," calculated as the value of assets owned by an individual or household (e.g., a house, savings account, investments) minus outstanding debt (e.g., a mortgage, student loans). Wealth often protects households from economic shocks by serving as a financial cushion or resource during times of hardship. Gains from investments are an important means to additional wealth creation.[94]

94 Mineo, L. (2021, June 17). Racial wealth gap may be a key to other inequities. Harvard Gazette. https://news.harvard.edu/gazette/story/2021/06/racial-wealth-gap-may-be-a-key-to-other-inequities/

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