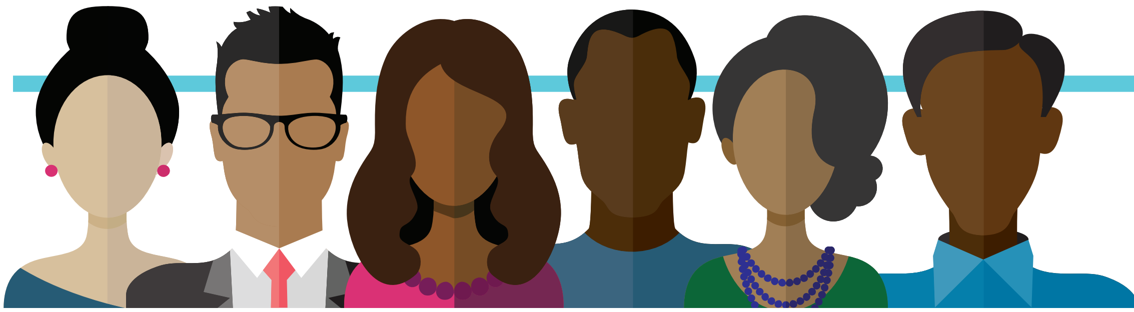


A Policy Agenda for Closing the Racial Wealth Gap

Closing the racial wealth gap requires concerted policy action designed to advance bold, comprehensive solutions. To achieve this, The Closing the Racial Wealth Gap Initiative asked its 200 Experts of Color Network (ECON) members to define their policy priorities and develop proposals for addressing these wealth disparities. The following agenda, framed within the context of the Asset House (page 15), is a result of that process and serves as the basis for an advocacy agenda to advance the Initiative's mission at the federal and state levels.

GUIDE FOR ACHIEVING POLICIES

• Short:1-5 years

• • Intermediate: 5-10 years

• • • Long: 10+

Expand Access to Jobs and Higher Wages

One of the factors at the heart of the racial wealth gap is the issue of employment fragility. Black and Latino communities, in particular, experience higher rates of unemployment, more frequent and extended bouts of joblessness, and when employed, significant wage disadvantages. These circumstances create a reality in which individuals have only a significantly limited capacity to invest in wealth-building vehicles or even to amass emergency wealth reserves to meet daily needs during periods of unemployment. To address these issues, the following recommendations are put forth:

Major Infrastructure Investment • •

Across the nation, basic infrastructure requirements remain unfulfilled. Bridges, roads, water mains, and other key public goods are in need of maintenance and repair. Forward-looking essentials such as broadband expansion could at once meet a critical need while also serving as a key source of job opportunities nationwide. In order to maximize the effectiveness of infrastructure investments in disadvantaged communities, it is critical that any such jobs policy include targets for ex-offenders or "returning citizens" and contain mandated subcontracting opportunities for businesses owned by people of color.

93% of ECON members believe saving and investing is important for closing the racial wealth gap.

Raise the Minimum Wage •

As an interim step toward the provision of a living wage for all, at least in the short term, it is critical that the minimum wage be increased for all workers (included tipped workers). We propose that the minimum salary for jobs be adjusted to move with the median wage and, thus, call for an increase in the minimum wage to at least $15 an hour.[1] It must also be indexed for inflation so that, as overall costs increase, this vital part of the American workforce won't be left behind.

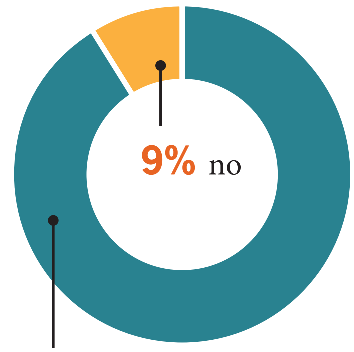
Ban Barriers to Employment •

Every American who wants to work should be given a fair chance to gain employment. Unfortunately, blanket assessments squash employment hopes for countless Americans before they even have the opportunity to demonstrate what they have to offer to potential employers. To address this problem, blanket credit checks and criminal background checks should be banned immediately. Regarding criminal background check specifically, we favor the full implementation of the 2012 guidance issued by the Equal Employment Opportunity Commission (EEOC), which requires that employers: (1) make individual assessments when performing background checks rather than blanket exclusions, (2) consider the time passed since the offense and whether the offense relates to the job, (3) give candidates an opportunity to explain their records since background-check results are at times inaccurate. Lastly, we support affirmative action as a proven method for maximizing access to jobs and higher wages for people of color and women.

Implement a Federal Jobs Guarantee • • •

Communities with the greatest need for jobs programs are those with high, persistent unemployment and poverty rates as well as those with severe job losses due to private sector failures and regional economic stress. To address the lingering jobs crisis, we propose the formation of a National Investment Employment Corps that would focus on employment opportunities tailored to the nation's human and physical infrastructure needs. The Employment Corps would provide job opportunities in the building and restoration of roads, highways, dams, museums, parks, the postal service, childcare centers, health clinics, and schools. It could serve as a pilot site for the implementation of innovative green technologies that would enhance our environmental health. The jobs could offer decent pay and benefits. We propose that the minimum salary for jobs in the employment corps would be $23,000, with the same benefits package offered to all federal employees. After years of zero jobs growth in the public sector, the time is past due for a significant investment in the employment future of the American people.

DO YOU BELIEVE THAT JOB CREATION AND QUALITY ARE IMPORTANT FOR CLOSING THE RACIAL WEALTH GAP?



91%

of ECON members believe job creation and better job quality are important for closing the racial wealth gap.

94%

of ECON members believe access to credit is important for closing the racial wealth gap.

Update Federal Guidelines Governing Minority Contracting • •

The Office of Federal Contract Compliance Programs guidelines seek to enforce the contractual promise of affirmative action and equal employment opportunity that is required of those who do business with the federal government. But, unchanged since their institution in 1981 under President Jimmy Carter, these essential guidelines are clearly outdated. In fact, they still describe race and ethnicity as a distinction between "White" and "non-White" individuals, while women are left out of the language completely. In order to enforce contracting equality for people of color and women, this language needs to be updated to reflect today's vibrant and diverse labor force.

Increase Savings and Improve Financial Services

Since communities of color are more likely to be unbanked, they often lack access to affordable financial services that most others take for granted. As a result, basic needs such as check cashing, loan acquisition, bill payment, and access to basic checking and/or savings accounts are either non-existent or come at an exorbitant price. The following recommendations fill this critical need:

Baby Bonds Trust Program • •

A baby bonds trust program would seek to mitigate intergenerational barriers to wealth accumulation for people of color. For example, an asset development program could be created in the United States by which children would be endowed with a trust at birth that would rise progressively from $50,000 to $60,000[2] for those born into households in the lowest wealth quartile. The accounts would grow at a federally guaranteed rate of 1.5 percent to 2 percent and could be accessed by the child when he turns 18 for "asset-enhancing events" such as purchasing a home or starting a business. In this way, a baby bonds trust program would lay the foundation for strong asset-building and wealth accumulation potential for all Americans.

Provide Financial Services Through a Federal Institution, Such as the United States Postal Service (USPS) • •

Some 68 million Americans lack bank accounts[3] and, thus, rely heavily on costly forms of assistance like payday loans and check cashing and bill pay services to meet daily needs or short-term financial crises. A new proposal put forth by the USPS Inspector General would expand access to affordable financial alternatives by offering key services through existing post office locations. By partnering with banks, the USPS could offer a wide range of basic banking products including access to small loans at an affordable rate. It could also provide reloadable prepaid debit cards with features to promote savings, mobile transactions, and products to enable underserved communities to engage in e-commerce—a physical link to the ever-expanding digital economy. This proposal could help reach Americans who currently find the options in the communities where they live and work limited to predatory banking services.[4,5,6]

Offset Processing Fees Associated with Government-Issued Debit Cards • •

Federal, state, and local government agencies should be encouraged to assist in helping the unbanked—adults who do not have their own bank accounts—to gain full access to low-cost financial services. We propose, for example, that when a recipient of any federally supported program such as the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), or Unemployment Insurance, receives funding through a government agency, such assistance be provided according to the following procedures:

- If the person is unbanked, the payment should be made with an electronic transfer fund card, but it would be unlawful to withhold any of the full benefit to cover the cost of delivering the card. The recipient must be given full access to the entire amount of the legally eligible benefit.

- The federal, state, or local government agency could enter into affinity agreements with financial institutions to issue electronic transfer fund cards, and could use proceeds from such agreements to cover the administration of issuing the cards; but, any proceeds in excess of the actual costs of distributing, administering, and maintaining the cards derived from such agreements must be shared directly with the recipients of the benefits.

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- In lieu of such cards, federal, state, and local government agencies should be encouraged to issue benefits through the establishment of Postal Savings Accounts to be deposited and accessed through local U.S. Post Offices; again, the amount placed in the Postal Savings Accounts must be the full amount of the legally eligible benefits.

Many states have agreements with banks whereby the state collects the two-cent, three-cent, or five-cent rebates that affinity card members would otherwise receive. While states should be able to use that money to offset the cost of issuing the cards, affinity point rewards should directly transfer to the card holders of these public benefits programs.

Expand the Range of Financial Services Offered by Community Development Financial Institutions (CFDIs) •

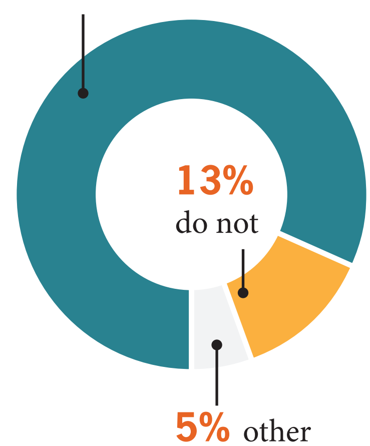
CDFIs use small-scale and locally developed strategies to expand financial opportunities for communities that are underserved by traditional banking services. By investing in low-income communities, they enable individuals to purchase first homes or start businesses and support local organizations in developing affordable housing or community programming.[7] There are multiple types of CDFIs:

- Depository institutions such as for-profit community development banks and nonprofit community development credit unions;

- Loan funds that are nonregulated, nonprofit institutions that focus on capital

82%

of ECON members believe entrepreneurship is important for closing the racial wealth gap



access and community development;

• Community development venture capital funds that are for profit or nonprofit institutions that deliver equity capital to businesses in distressed communities; and

• Community development intermediaries that connect large investors and community development corporations, CDFIs, or nonprofit organizations to facilitate revitalization.[8]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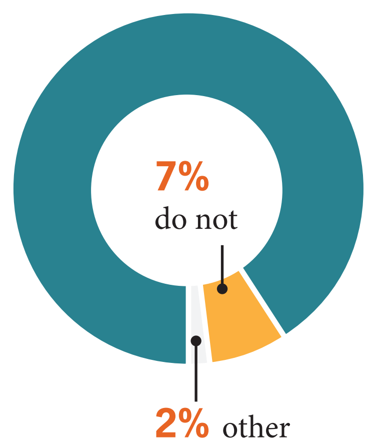
The CDFI Fund finances these organizations with loans, financial services, and technical assistance, as well as a New Markets Tax Credit to attract investment from the private sector. Because this process is very competitive, it would be prudent to add application criteria to ensure that financial institutions that apply for funding are focused on aiding low-income populations.[9] It is most important to expand the availability of funding while ensuring that the goal of CDFI remains tailored to underserved populations.

Further, government should support affordable and lucrative banking services for underserved populations. CDFIs do not currently have the capacity to offer small-dollar loans needed by many low-income consumers. Expanding the services at CDFIs to provide small-dollar loans and savings accounts could offer low-income communities advantages similar to those available to the wealthy.

91%

of ECON members believe homeownership is important for closing the racial wealth gap



Create an American CommonWealth Fund • • •

The United States needs a new social contract to address the twin issues of economic insecurity and economic inequality, one that would allow everyone to benefit from our market-based economy without increasing taxes or welfare. We propose the creation of an American CommonWealth Fund that would distribute money from federal assets to everyone who has a Social Security number. The Fund would have no means test or restrictions on use, and dividends from the Fund would be distributed directly to the people through the Social Security Administration.[10]

Revenue for the Fund would not come from taxes, but from services or material goods that are owned, created, or subsidized in whole or in part by the government.

Examples are leases and sales of public resources and fees on securities transactions. This would give all households a greater stake in the U.S. economy and reduce the cost of public benefit programs over the long term.

Alternative Credit Models •

The current FICO credit score is used essentially as an exclusive credit assessment model, yet many experts question the ability of the FICO score to fully ascertain an individual's risk profile.[11] Contrasting models use alternative risk profiles such as rent, childcare, utilities, and medical care to better understand a client's risk-taking behavior. These models provide consumers with alternatives to prove their creditworthiness; people of color, young people, and women are predominantly among those who have no credit file. Advocates must be vigilant to ensure that new systems include people of color and low-income workers and to consider the effects some types of information collection will have on these populations. If new systems are poorly constructed, people in these groups could become more vulnerable to scams and unscrupulous lenders.[12]

Expand Access to Entrepreneurship

Entrepreneurship provides an essential avenue toward wealth accumulation and an important source of job creation within communities of color. Even though recent trends suggest that people of color are increasingly making the choice to start their own business, distinct challenges often arise. The following recommendations address these obstacles and sow the seeds of entrepreneurial activity within diverse communities:

Modernize the Community Reinvestment Act (CRA) to Include Business Lending and Investment Services •

Create a pooling mechanism for bank CRAs that expands access to capital for entrepreneurs of color by providing business lending and investment services. In this way, the CRA can help to encourage product and service development by making funding available across industries.

Expand the Proliferation of and Funding for Minority Business Development Centers •

Minority Business Development Centers provide a one-stop source for programs to assist entrepreneurs of color with funding, and technical, legal, and marketing services. This program should be expanded and aggressively resourced. Such resources might include lending for secondary education opportunities, such as vocational training in entrepreneurship and business development, or offering minority business equity funds as a way to increase access to capital.

Develop an Independent Office of Minority Business Advocacy • •

The Office of Small Business Advocacy, which is supposed to advance the interests of small business before federal agencies, also currently handles minority business advocacy. However since not all minority businesses are small businesses, there is a crucial need for a separate agency that is not restricted to advocating for "small business." An independent Office of Minority Business Advocacy within the Department of Commerce could be responsible for reviewing government contracts or loans for their impact on minority-owned businesses of any size, shape or configuration.

Provide a Tax Credit to Promote Venture Capital Investments in Minority Businesses •

Entrepreneurs often lack the social capital and informal networks that are critical for attracting venture capitalists to help support their business pursuits. Providing tax incentives for venture capitalists who invest in businesses owned by people of color could help to overcome this significant barrier to growth. Additionally, the State Small Business Credit Initiative at the Department of Treasury does not currently require reporting of data on lending to people of color. The collection of such statistical information should be mandatory to ensure access to expanded business and venture capital funding for minority businesses.

Improve Minority Business Development Centers (MBDC) Data-Tracking Mechanisms •

The Minority Business Development Agency works out of the U.S. Department of Commerce to create sustainable jobs within businesses owned and operated by minority entrepreneurs.[13] This agency also conducts research to advocate for minority-owned business with elected officials, policymakers, and business leaders. Groups such as the National Advisory Council on Minority Business Enterprise recommend that the accuracy, availability, and frequency of economic data on MBDA target businesses be improved.[14] This data would facilitate assessments of minority-owned businesses and inform future policy change. It would include financial statements, income statements, balance sheets, deductible expenses, demographics and other data sources.[15]

Improve Housing Policy

In the wake of the housing meltdown, it has become clear that communities of color absorbed the bulk of the damage. Yet home equity remains a key component of wealth acquisition and growth for most Americans. Therefore, the following proposals are put forth to ensure that diverse communities are restored and ultimately regain footing in this critically important arena:

Systemic Risk Insurance

Insulation against housing market collapses, which disproportionately affect communities of color,[16] is an important need of cities and towns that is currently unmet. Wall Street was largely responsible for the financial crisis and, therefore, should be taxed to create a safeguard against such crashes in the future. A financial transaction tax on Wall Street firms could finance a public risk insurance program that would protect localities against financial catastrophes that have a disproportionately negative impact on their infrastructure and economy.

Principal Reductions and Loan Modifications through Freddie Mac and Fannie Mae •

As a result of the housing crisis, communities of color were more likely than other groups to have mortgages with higher value than their homes—one persistent cause of the racial wealth gap. In 2010, the Treasury Department expanded the Home Affordable Modification Program to include principal forgiveness, which reduces what borrowers owe and allows for the potential of increased home equity.[17] However, Fannie Mae and Freddie Mac do not currently allow for principal reductions, even though they own or guarantee more than half of the outstanding mortgages in the United States.[18] To remedy this situation, the Federal Housing Finance Agency, which regulates Fannie Mae and Freddie Mac, should not only allow principle reduction and other appropriate loan modifications, it should also develop a comprehensive housing finance system to rebuild communities, create jobs, and provide targeted opportunities for vulnerable populations.

Strengthen and Enforce the Fair Housing Act of 1968 •

Evidence abounds that discrimination in the housing industry is not yet a thing of the past. To overcome these challenges and ensure that communities of color have access to funding that would put home ownership within reach, it is critical that the Fair Housing Act be strengthened and strongly enforced. For example, the Office of Fair Housing and Equal Opportunity, which enforces the Federal Fair Housing Act and other civil rights laws aimed at ensuring equal housing opportunity, might implement programs to guarantee access to moderate-income homeownership and affordable rental housing opportunities.

Encourage Shared-Equity Loans between Private Investors and Struggling or First-Time Homeowners •

The recent housing crisis and prolonged economic downturn has resulted in lingering damage to the credit and savings of current and former homeowners as well as aspiring homebuyers. Allowing a shared-equity option would provide many people with the ability to at least gain a foot-hold within the housing market, without which, a path to homeownership and any equity potential would be highly unlikely.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Use Alternative Credit Models Rather Than Relying on the Exclusive Use of FICO Scores for Homeownership Credit Assessments •

For many, the primary barrier that stands between homeownership and a perpetual existence within the renter's market is the FICO score. Yet studies suggest that alternative models of credit worthiness are often more reliable in predicting future behavior than the traditional credit score standard. A move toward the full scale implementation of alternative credit models is essential for closing the homeownership gap.

95%

of ECON members believe education is important for closing the racial wealth gap

Adopt a 21st Century Homestead Act • • •

Although the United States pioneered the expansion of asset ownership with the Homestead Act of 1862, there has been no modern equivalent despite rising wealth inequality. When homeownership is supported by responsible lending practices and regulation, it remains a proven method for wealth accumulation. A 21st century Homestead Act that would give home purchasers liberal access to a government-backed, preferred-rate, 30-year fixed mortgage; the right to "first position" on purchasing foreclosed homes for those who have lost homes due to proven mortgage fraud, purchasers who participate in HUD-approved counseling programs, and those who serve(d) in the military; and capital improvement grants to (non-investor) purchasers of foreclosed homes in areas depressed by the mortgage crisis. Furthermore, such an act would strengthen the secondary mortgage market, working to stimulate housing recovery by ensuring reliable sources of credit, internalizing risks of housing finance, furthering equal credit access, promoting homeownership for underserved borrower groups, and supporting comprehensive community investment efforts. Such a system, like the Homestead Act before it, would reinstate sustainable access to housing for all Americans.

First-Time Homebuyer Tax Credit With Income Scale • •

Communities of color will comprise 70 percent of first-time homebuyers in the next 10 to 20 years.[19] These individuals, many of whom are low- and moderate-income, would benefit from federal assistance to incentivize homeownership. The first-time homebuyer tax credit was included in the Housing and Economic Recovery Act of 2008, and later amended and extended through the American Recovery and Reinvestment Act of 2009 (ARRA) and 11the Worker, Homeownership, and Business Assistance Act of 2009. Those currently eligible for the credit must have a home bought in 2008, 2009, or 2010 as their principal residence. While eligibility depends on the year of purchase, generally the loan has a maximum credit amount of $8,000, an income phase-out, and a maximum home purchase price.[20] Another First-time Homebuyer Tax Credit should be put in place, similar to previous versions. This credit should be refundable and have an income-scale to allow low- and moderate-income first-time homebuyers to benefit the most from the credit. Further, this proposal should only be implemented as a supplement to reforms made to the mortgage interest deduction.

Mortgage Settlement Data Collection •

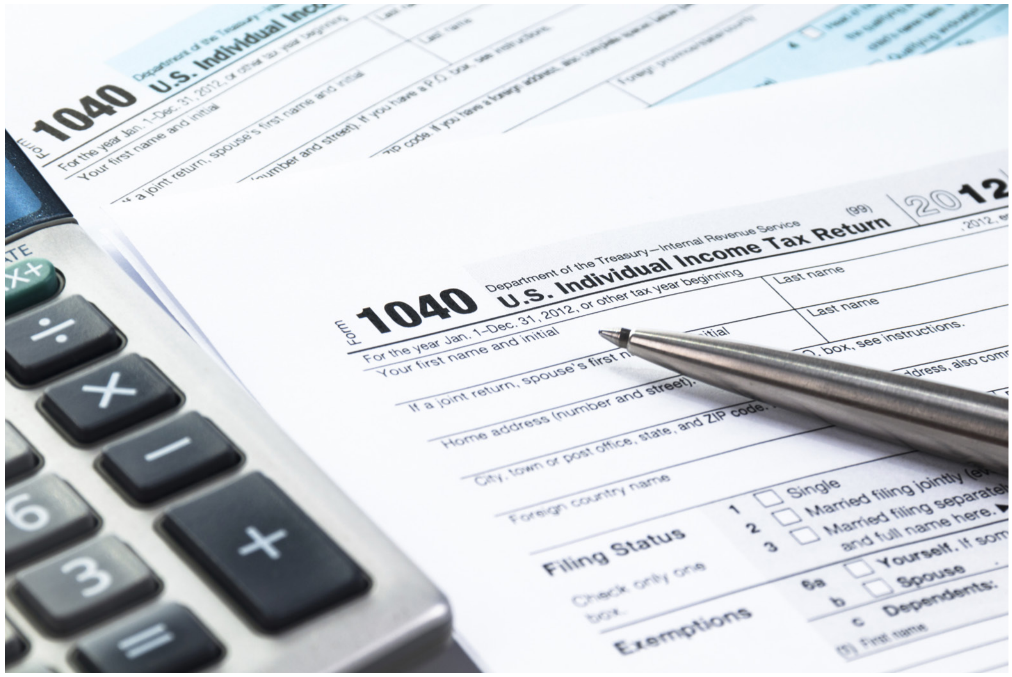
In 2012, the attorney general of every state (except Oklahoma), the federal government, and five major banking and mortgage servicers reached agreement on a National Mortgage Settlement that provided relief to distressed homeowners and created new servicing standards such as better communication, a single point of contact, adequate staffing levels and nondiscrimination. The Office of Mortgage Settlement Oversight monitors the servicers' participation and compliance. However, more information about the geography and demographics of borrowers must be collected to ensure compliance with non-discriminatory conduct requirements. Congress and the Obama Administration should call upon the Office of Mortgage Settlement Oversight, as well as federal and state agencies, to create and implement demographic metrics in their data collection plans. This same standard should be in place for every negotiated mortgage settlement agreement.

Expand Access to Quality Education

There are few assets more basic to the ability to acquire wealth than that of education. As a critical public good and, once acquired, a key individual asset, education is one of the most pivotal of resources required for the development of a strong Asset House. Still, great disparities remain in access and quality to educational acquisition in America. The following recommendations address this absolutely critical resource:

Implement Universal Pre-K • •

Universal pre-K is a crucial tool for reducing poverty and improving educational and economic outcomes, particularly among vulnerable youth. A 2013 study shows that low-income children randomly assigned to a two-year, center-based early childhood education intervention benefited to a much greater degree when compared to high-income children—evidence that early childhood education could help eliminate the achievement gap between socioeconomic groups.[21] Other research by the National Institute for Early Education Research clarifies that a meta-analysis of 123 studies found that the average effect of pre-K education remains substantial even after entering third grade. They also highlight the findings of the Chicago Longitudinal Study that pre-K programs had an 11-to-1 benefit-to-cost ratio in dollars.[22] States should adopt, with federal support provided in the form of revenue and subsidies, pre-K educational systems and provide every young child with quality, publicly funded preschool. States and the federal government would fund the program jointly, with the federal support designed to help states, local agencies, and governments to build educational components and expand access while maintaining quality.[23]



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96% of ECON members believe tax reform is important to closing for closing the racial wealth gap

Provide Equitable Education Quality in K-12 Public Schools • • •

Today, education beyond a high-school diploma is necessary for the majority of high-growth jobs, especially in STEM fields, yet the United States has one of the highest high school dropout rates among industrialized nations and ranks 12th in college attainment.[24] This national challenge is paired with a severe achievement gap between white students and students of color, who disproportionately attend schools with fewer resources and poorer educational quality.[25] Adequate resource allocation, with equitable financing for schools and districts across each state as well as improved support for and distribution of highly qualified and effective teachers and principals, is essential for leveling educational disparities. Such reforms would involve building a robust teacher pipeline through ongoing education, training, preparation, and mentoring; establishing model programs, such as teacher-residency programs or master-teacher corps; and, ensuring that all public school facilities and learning tools are state-of-the-art. Finally, creative and thoughtful solutions to 21st century educational reforms should include more magnet schools for careers of the future—such as entrepreneurship, business, technology, and health care—and the ubiquitous use of digital learning platforms and strategies in vulnerable communities.

Curb Tuition Increases at Public and Private Universities and Hold Future Tuition Hikes to the Rate of Inflation • •

In the face of a multiyear, nationwide fiscal crisis, many states have increased tuition and fees at public universities, reduced state financing, and cutback on enrollment and university resources. These spending cuts and revenue increases have diminished access to and the quality of higher education without addressing the need to focus on reducing internal inefficiencies and costs within universities while limiting spending increases that do not lead to significant gains in educational quality.[26] With college costs outpacing inflation and family income stagnant or reduced, policymakers must prioritize affordable and equitable access to higher education.[27] Tuition increases and fee hikes should also be frozen or kept to the rate of inflation to limit the financial burden placed on students.

Integrate Age-Appropriate Financial Education into K-12 Public Education •

As public schools continue to cut essential courses from their curricula, school systems need to emphasize the importance of financial literacy courses that teach students the skills necessary for effective money management, including budgeting, saving for emergencies, and investing. Financial education classes should be customized for each age group and should be a requirement at the high school level.

Student Debt Forgiveness •

In the face of heavy and increasingly unsustainable student debt, policymakers should expand early debt assistance programs that allow graduates to cap monthly federal loan payments at a percentage of monthly income. Furthermore, opportunities for graduates to receive debt forgiveness and loan modifications to reduce their debt should be expanded.

Increase Access to Higher Education •

People of color face significant barriers to higher education due to economic constraints and the historical and contemporary effects of racial discrimination. Unfortunately, legislatures in states such as Indiana, Ohio, and Tennessee are tightening eligibility criteria at America's public four-year institutions by adopting performance-based admissions policies, which have the effect of restricting admissions to these institutions for applicants of color.

When state funding for public universities is based on performance measures, universities box out the students they were designed to serve. While higher standardized test scores and grade point average requirements, along with a decrease in the number of admitted students, may allow universities to appear more competitive on state performance measures and public rankings, they have a disproportionately negative impact on students of color,[28] who tend to have a poorer quality K-12 educational experience [29] and less access to test-preparation services. In order to remain in keeping with their historical mission of serving all students, state universities and colleges must reverse their reliance on performance-based admissions and consider more inclusive criteria that can help the greatest number of students from diverse backgrounds.

Endow Opportunity Colleges Committed to Serving the Most Vulnerable Students • •

In an effort to prioritize affordable and equitable access to higher education, an endowment should be established for public universities (including tribal colleges) in which more than 65 percent of the students qualify for Federal Pell Grants. A private school would also be able to apply for such funding if it was founded as a nonprofit or to expand opportunity for low-income communities prior to 1975.

Make Tax Policy Work for Working Families

It's no secret that, in the general sense, tax policy is overwhelmingly tilted in favor of the wealthy. Yet, there are some key, common sense actions that have improved the financial positioning of low- and moderate-income workers. To expand on what we already know works and to do even more to level the playing field, the following proposals are prescribed for tax policy:

Increase EITC for Non-Custodial Parents and Childless Families •

Low-income, childless workers (including childless adults and non-custodial parents), are severely disadvantaged by the federal tax code. A childless worker earning a wage equal to the federal poverty line would face $1,978 in federal taxes, while a worker with children would not have a tax burden. Moreover, childless workers under the age of 25 are ineligible to receive EITC benefits, and those 25 through 64 years of age can only receive a maximum of $270. These forgotten workers, who are ineligible for the EITC simply because they do not have children, should receive the assistance they need to live above poverty. We should reform the EITC in the following ways: (1) lower the eligibility age from 25 to 21, (2) raise the maximum credit to $1,350, and (3) increase the phase-in rate and increase the income level where the credit starts to phase out to about $11,000.

Create a Renters Credit and Increase the Estate Tax •

With multiple surveys indicating that the number of homeowners and rates of homeownership are falling, most likely due to the subprime mortgage crisis, we need to ensure that today's renters are able to afford inflating rents, particularly in inner city areas. The number of renters eligible for rent subsidies increased by 21 percent to 19.3 million from 2007 to 2011, yet only 4.9 million actually receives assistance.[30] Federal tax code expenditures are significantly higher for homeowners than for renters. Since high-income households are more likely to be homeowners, this results in high-wage earners receiving four times more housing benefits than low-wage households.[31] A federal Renters' Tax Credit, with a national budget cap of $5 billion, would give states the ability to allow low-income renters to pay no more than 30 percent of their income in rent with an income eligibility of 60 percent of the local median income. This federal credit could be distributed by states in various ways, including to tenants, projects/development, or lenders.[32]

Costs associated with this change could be offset through increases to the Estate Tax. Unfortunately, recent action in this area has proceeded in a direction directly counter to the nation's broader revenue needs. In fact, as of January 2014, the amount of money that could be passed down during life or upon death, completely free of federal estate tax, was increased by an additional $90,000, raising the tax-free transfer amount to a whopping $5,340,000 (up from $5,250,000 for gifts made and estates of decedents dying in 2013).

Make the Savers Tax Credit Universal, Refundable, and Inclusive of a Match or Other Incentives • •

The Saver's Tax Credit was introduced by the Economic Growth and Tax Relief Reconciliation Act of 2001 and extended by the Pension Protection Act of 2006. Eligible households receive a credit up to 50 percent of their savings in tax-preferred retirement accounts, including 401(k) plans, individual retirement accounts (IRAs), and other savings vehicles.[33, 34] The savings limit is $2,000 for individuals ($4,000 for joint filers), which means the maximum credit amount is $1,000 ($2,000 for joint filers). However, because communities of color lack ownership in retirement and savings—only 32 percent of African Americans own a retirement account and only 55 percent own a checking account—the Saver's Tax Credit should be reformed to be refundable and to allow a federally matched component up to the savings limit, which could be increased to allow for a credit of $1,500.[35, 36] This refundable credit would give low-income families additional income that could be automatically deposited into savings accounts. The Saver's Tax Credit could also expand eligible accounts to include traditional deposit accounts, such as checking and savings accounts in federally insured financial institutions. This could help expand the credit to those families who do not own retirement accounts, but do own traditional accounts. The Savings for American Families' Future Act of 2013 (H.R. 837) includes several provisions similar to this proposal.

First-Time Homebuyer Tax Credit With Income Scale • •

Communities of color will comprise 70 percent of first-time homebuyers in the next 10 to 20 years.[37] These individuals, many of whom are low- and moderate-income, would benefit from federal assistance to incentivize homeownership. The first-time homebuyer tax credit was included in the Housing and Economic Recovery Act of 2008, and later amended and extended through ARRA and through the Worker, Homeownership, and Business Assistance Act of 2009. Those currently eligible for the credit must have a home bought in 2008, 2009, or 2010 as their principal residence. While eligibility depends on the year of purchase, generally the credit has a maximum credit amount of $8,000, an income phase-out, and a maximum home purchase price.[38] Another First-time Homebuyer Tax Credit should be put in place similar to previous versions. This credit should be refundable and have an income scale to allow low- and moderate-income, first-time homebuyers to benefit the most from the credit. This proposal should only be implemented as a supplement to the reforms made to the mortgage interest deduction.

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98%

of ECON members believe retirement security is important for closing the racial wealth gap

Reform the Home Mortgage Interest Deduction • • •

The mortgage interest deduction (MID) is one of the largest federal tax exemptions, costing at least $70 billion annually. However, in 2012, 77 percent of its benefits went to homeowners with annual incomes over $100,000, while a near majority of low- and middle-income homeowners received no benefits.[39] Many have proposed scaling back or eliminating the MID for homes above a certain value. Our suggestion is to eliminate the MID for second homes and divert these savings into a refundable tax credit for low- and moderate-income homeowners. A refundable mortgage interest credit would benefit taxpayers whether they itemize or claim the standard deduction, and would be a fixed percentage of a household's mortgage interest; this would limit benefits for higher income households and expand them for lower income households.[40, 41] It is also imperative that the MID distinguish between a $500,000 home owned by an individual and a $17 million home owned by an exceedingly wealthy individual or a corporation. To account for this difference, we propose charging individuals and corporations who own expensive properties a tax based on the owners' equivalent rent of property—that is, the amount the owner would pay to rent or would earn from renting the home in a competitive market.

Increase the Tax Rate on Capital Gains • •

The American Taxpayer Relief Act of 2012 raised the maximum tax rate on long-term capital gains from 15 percent to 20 percent for individuals earning over $400,000—a rate which is half of the capital gains tax rate in 1977 and 1978.[42, 43, 44] Capital gains are also taxed at a lower rate than regular income, such as wage earnings from employment, with a maximum tax rate of 39.6 percent for those making over $457,600 in 2014.[45] This is a clear case of preferential tax treatment, giving the highest earners a lower tax rate than low- and moderate-income families. In fact, 94 percent of the beneficiaries of this tax preference are individuals who earn over $200,000. The capital gains tax is one of the most expensive tax expenditures in the tax code, with a cost of $120 billion per year.[46] A low tax on long-term capital gains is a likely contributor to the racial income and wealth gap; therefore this preferential tax treatment should be replaced by taxing capital gains as ordinary income.[47] Preferably, the top tax rate would be 45 percent for those earning over $1 million, but it could also be returned to the 28 percent rate used under the Reagan Administration.

Make Retirement Secure for All

Due to the wide and persistent wealth gap, communities of color experience retirement years that are especially likely to be economically perilous. In order to create a retirement future that is secure for all, we propose the following actions:

Establish Universal Retirement Accounts and Universal Matched Retirement Accounts • •

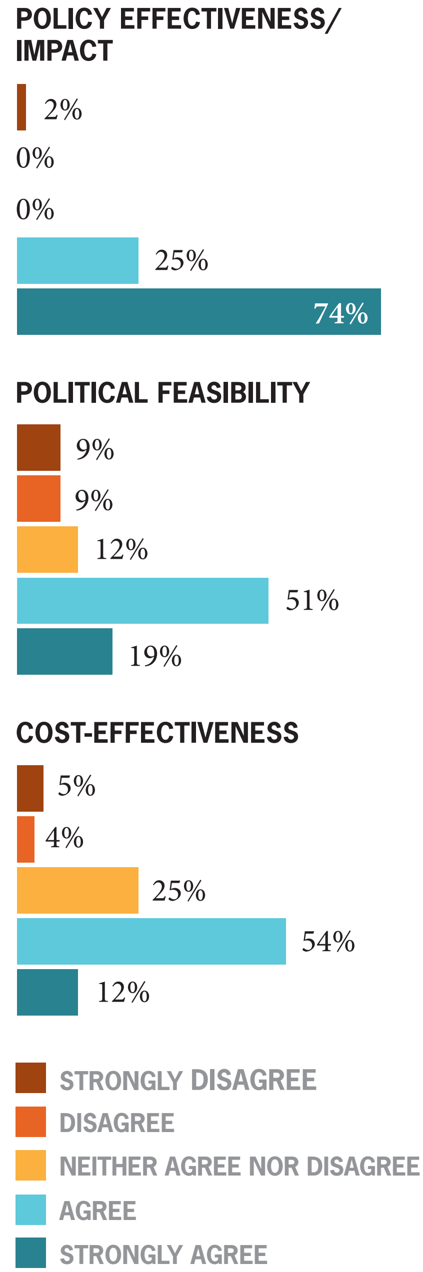
Studies demonstrate that low-income families, and communities of color in particular, are less likely to have access to workplace retirement plans than the general population. Universal retirement accounts, under federal oversight, should be established and workers automatically enrolled with the option to opt-out. Ideally, these accounts should have a federal matching component of up to $1,000 annually or a percentage of a worker's annual income for low- and moderate-income workers meeting specified eligibility criteria.

Boost Social Security for the Very Old as Well as the Very Poor and Reinstate Benefits for Post-Secondary Students • •

Social Security is the bedrock of retirement security for many low- and moderate-income families, and its disability and survivor protections are especially important for families of color who have a heavier reliance on these program elements. Social Security benefits should be increased to help those beneficiaries who are economically insecure and do not have the necessary savings or income

ECON members believe that considering policy effectiveness and impact is most important when developing public policies.

HOW STRONGLY DO YOU FEEL ABOUT PURSUING PUBLIC POLICIES BASED ON:



in the event of retirement, disability, or early death. The Commission to Modernize Social Security—comprised primarily of members of the Closing the Racial Wealth Gap Experts of Color Network—developed a plan for extending Social Security's solvency while improving benefits for the vulnerable.[48] The Commission's plan raises revenue by lifting the cap on wages and flattening benefits for high earners, gradually increasing the payroll tax by 1 percent over 20 years among other strategies, while expanding benefits for the very old and the very low-income and students. Additionally, the plan reinstates Social Security benefits for students over the age of 18 attending college and provides credits for workers who take time out of the workforce for caregiving purposes.[49]

Remove the Cap on Social Security Payroll Tax • •

In order to extend the solvency of Social Security and make the necessary adjustments that will ensure that the program better meets the needs of the nation's most vulnerable citizens, the cap on the Social Security payroll tax should be eliminated so that high-wage workers can contribute more to the program's overall bottom line.

Protect Defined-Benefit Public Pension Plans •

A significant portion of the private sector has shifted from defined-benefit (DB) pension plans to defined-contribution (DC) plans or cash balance plans. In 1979, 28 percent of private sector workers participated exclusively in a DB plan, compared to 7 percent who participated in a DC plan. By 2011, exclusive DB plan participation reached a low of 3 percent, compared to 31 percent for DC plan participation.[50] As states face high funding ratio deficits for their state and local pensions, public pension systems are also shifting away from DB plans. Despite these shifts, DB plans are more effective at ensuring individuals have the necessary savings for retirement because they offer higher benefits and deliver payments almost exclusively through annuities. There should be federal guarantees to protect current and future DB pension holders, particularly those who work in the public sector. The Pensions Benefit Guaranty Corporation (PBGC) could insure public DB and cash balance plans similar to the way it does this for the private sector. The PBGC could also strengthen the funding requirements and expand this regulation to state and local public plans. While it is understandable that states must implement innovative strategies to decrease actuarial deficits, these reforms cannot be put on the backs of individuals in or near retirement.

Structural Unemployment Credit • •

Stagnating wages, the effects of the Great Recession, and structural unemployment and underemployment have imposed financial hardship on all workers but have had an especially detrimental effect on vulnerable workers—particularly younger adults, low-income workers, and workers of color. Workers who have experienced persistent unemployment are disadvantaged by the Social Security retirement benefit formula when they are forced to work part-time or take time out from the formal economy as a result of structural economic factors beyond their control. The years of part-time work or formal unemployment reduce the benefits of these workers upon retirement and, for workers of color especially who also experience lifetime pay disparities compared to whites, make them especially vulnerable to poverty. Social Security can be strengthened for workers by establishing a Structural Unemployment Credit, for up to five total service years, with imputed earnings equal to one half of that year's average annual wage. Eligible beneficiaries would have to demonstrate that any earnings received in their Structural Unemployment year(s) amounted to less than 50 percent of that year's average annual wage. Imputed earnings would be used to close the gap between actual earnings and the 50 percent of average annual wage threshold.

A Structural Unemployment Credit should also reconfigure the social insurance benefit formula to allow those with shorter work histories, such as workers ages 25 and under, to access benefits. This is particularly important in times of recession when younger workers are unable to access unemployment benefits. Instead, younger workers should be able to receive income support based on the amount earned in 20 hours of work per week at minimum wage. This would create a guaranteed income program during times of recession.

Targeted Policy Prescriptions Are a Must

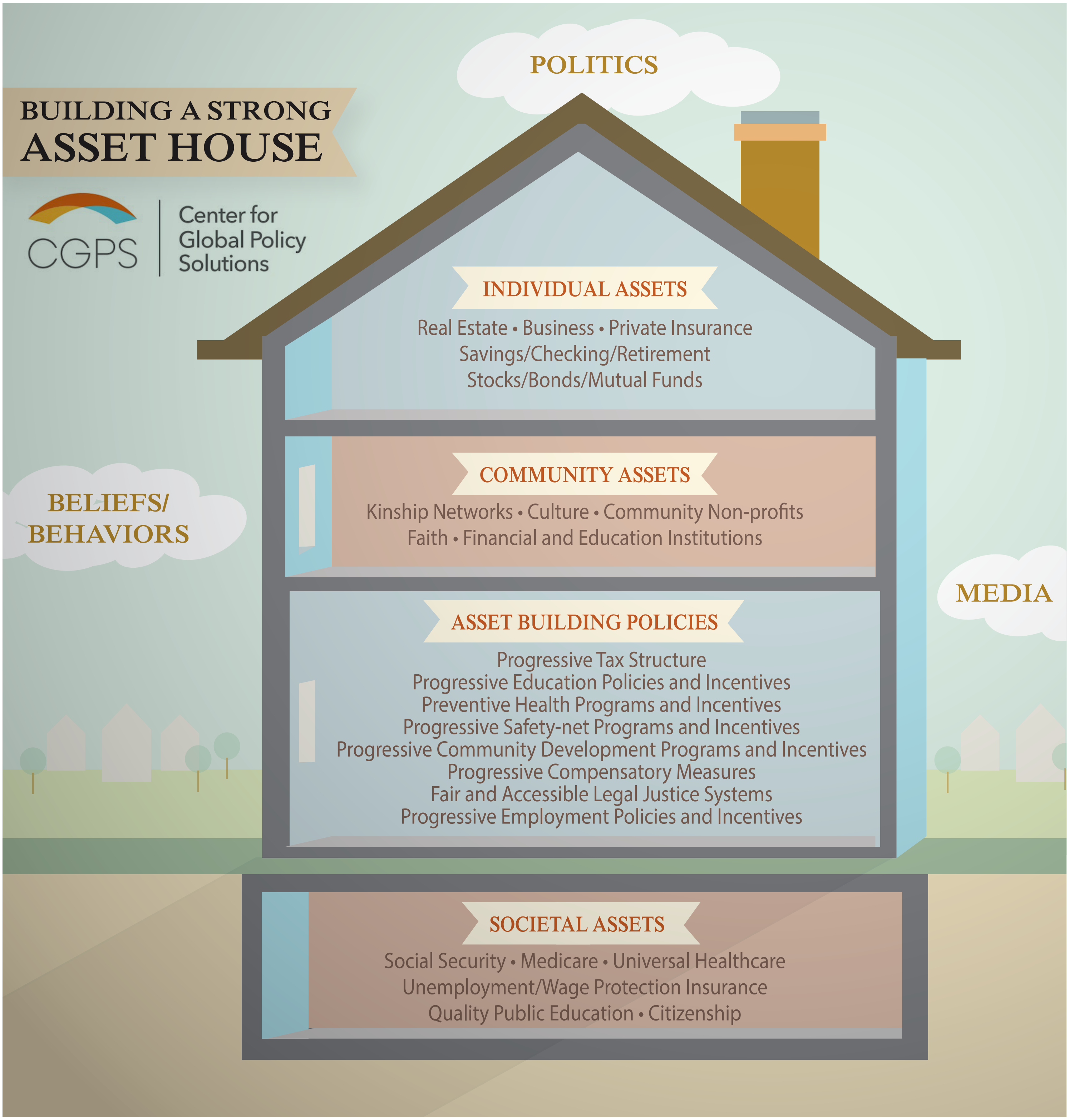
If there is one issue that the continued existence of the racial wealth gap emphasizes, it is the complete inadequacy of universalism to correct the implications of centuries of discriminatory policy. As President Lyndon B. Johnson rightly pointed out decades ago, "You do not take a man who for years has been hobbled by chains, liberate him, bring him to the starting line of a race, saying, 'you are free to compete with all the others,' and still justly believe you have been completely fair..." As such, universal policies, though beneficial to all, provide no means for those who have been historically disadvantaged to "catch up." Still, with the limitations of the current political climate in mind, programs targeted by race, are largely a non-starter. As such, the concept of targeted universalism provides a feasible middle ground that is worthy of aggressive pursuit. While ostensibly providing benefits to all, such an approach would be tilted to favor the most disadvantaged, and in the process, disproportionately provide race-specific results.

Enact a Version of the 10-20-30 plan •

The 10-20-30 plan is an effort to strategically end poverty by designating at least 10 percent of federal funding towards communities where 20 percent or more of the population has lived below the poverty line for the last 30 years. The plan does not require any new funding, as it simply reallocates funding through federal agencies to locations where it will have the greatest impact. A 10-20-30 amendment was included in the 2009 American Recovery and Reinvestment Act (ARRA), and was responsible for 4,655 projects totaling near $1.7 billion in persistent poverty communities according to the USDA.[51] The policy was included in the 2014 House Democratic Budget, bringing it into the public dialogue and in front of the House Budget Committee.[52]

Conclusion

The above prescription embodies a comprehensive examination of the key policy avenues that could prove most beneficial for closing the racial wealth gap. Included are policies that represent each of the key pillars that make up a strong Asset House. Social insurance policies and communal assets (e.g. Social Security and quality public education) are the foundation. Important too are key policies promoting individual and group asset accumulation (e.g. universal retirement accounts, saver's tax credit, shared equity loans, etc.), and policies that promote community assets as well as individual assets (e.g. Minority Business Development Centers, increased homeownership through Fair Housing Act enforcement, etc.). Each of these tools and more are essential for building a future that improves economic empowerment across racial and ethnic divides, and one day relegates the existence of America's racial wealth gap to a mere historical fact, rather than a lingering contemporary reality.



SOURCE: BUILDING AN ASSET HOUSE: POLICIES TO CLOSE THE RACIAL WEALTH GAP (ROCKEYMOORE, 2006).

Center for Global Policy Solutions

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