S. HRG. 117–77

EXAMINING THE RACIAL WEALTH GAP IN THE UNITED STATES

VIRTUAL HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE

OF THE

CONGRESS OF THE UNITED STATES

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

MAY 12, 2021

Printed for the use of the Joint Economic Committee

Available via the World Wide Web: http://www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
45–210 WASHINGTON : 2021

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[Created pursuant to Sec. 5(a) of Public Law 304, 79th Congress]

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EXAMINING THE RACIAL WEALTH GAP IN THE UNITED STATES

WEDNESDAY, MAY 12, 2021

UNITED STATES CONGRESS,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The WebEx virtual hearing was convened, pursuant to notice, at 10:00 a.m., before the Joint Economic Committee, Hon. Donald S. Beyer Jr., Chairman, presiding.

Representatives present: Beyer, Schweikert, Arrington, Beatty, Herrera Beutler, Peters, Pocan, Estes, and Trone.

Senators present: Klobuchar, Hassan, Warnock, Lee, Cassidy, and Cotton.

Staff present: Vanessa Brown Calder, Ismael Cid-Martinez, Carly Eckstrom, Tamara Fucile, Colleen J. Healy, Jeremy Johnson, Vijay Menon, Adam Michel, Alex Schunk, Rachel Sheffield, Nita Somasundaram, Jackie Varas, and Emily Volk.

OPENING STATEMENT OF HON. DONALD BEYER JR., CHAIRMAN, A U.S. REPRESENTATIVE FROM THE COMMONWEALTH OF VIRGINIA

Chairman Beyer. Good morning. This hearing will come to order. I would like to welcome everyone to today's hearing focused on the racial wealth gap. I want to thank our distinguished witnesses for sharing their expertise today. We have an all-star panel, and I am excited to hear from them.

As everyone here knows, wealth, and the accumulation of wealth, enables opportunity. Wealth makes it easier to pursue an education, buy a car or a home, or even take a chance on an idea and start a business. Wealth is security, and having a financial cushion allows families to absorb at least some financial blows like, for example, those experienced because of COVID–19, or medical emergencies, or a loss of a job.

And wealth begets more wealth, and is often passed from one generation to the next. Indeed, our tax policies have made these transfers much easier to execute. Our estate tax provisions alone enable couples to pass up to $23 million tax-free to their heirs.

Unfortunately, the inverse is often true. With minimum or negative wealth, avenues for opportunities are too often closed, a problem that is perpetuated from one generation to the next. Our Nation is plagued by persistent and growing income and wealth inequality. And this inequality is particularly tenacious along racial lines.

According to the most recent data from the Federal Reserve in 2019, a median White family had a wealth of eight times the wealth of the median Black family. The absolute differences are far greater if you look at the average, or the mean.

One other statistic helps shine a spotlight on the inequities, while up to 25 percent of white households have a net worth in excess of $1 million, only 4 percent of Black households have this. And that racial wealth gap disadvantages Black and Brown families, individuals, and communities. As persistent inequities evolve, they manifest in all kinds of ways.

For example, Black students are going to take on a lot more student debt than White students, and they are a lot more likely to see their debt grow as they enter the workforce. Black families have much lower homeownership rates. Fewer than one-half of Black families own their homes, compared to three-quarters of White families. And even the Black homes that they own are disadvantaged because those home values are lower than those of the homes of the White families, about a third lower.

Beyond the damage the racial wealth gap does to Black and Brown communities and families, it also constrains the U.S. economy as a whole—because we are leaving an awful lot of very talented, very bright, very creative people out of the most productive parts of our labor force. It limits our growth and our productive capacity.

How did we get there? Well, most of the racial wealth divide is explained by the inability of Black families to transfer wealth from one generation to another. And this is the product of decades of systemic racism and exclusion in our country with policies such as red-lining, restrictive covenants, and other forms of housing discrimination playing a role.

But the racial wealth gap is also a result of the Tax Code that disadvantages Black Americans in the way that it exempts gains of home sales, in treatment of the income for married couples, and even the tax incentives provided for employer-sponsored retirement plans.

The gap is a result of dramatically unequal access to credit and financial services. Black Americans much more likely than White Americans to lack access to these basic services provisions.

There are proposals, though. The racial wealth gap is pernicious. It requires sustained, multi-pronged efforts, and we will hear a lot of the good ideas from our panel today. Baby bonds provide every child with an interest-bearing account at birth that would ensure that when they are 18 they have assets to use on education, or to start a business, or other productive uses.

We also need to do a lot more to improve access to education with strong pre-K to 12 opportunities, married with improved access to affordable post-secondary education. Tuition-free community college is part of that, and student loan forgiveness is another part of that puzzle.

We also need to acknowledge that education is far from a panacea. The typical Black family with a bachelor's degree, a Black man or woman with a bachelor's degree, has less wealth than the typical White family with a high school degree. Disparities persist even after accounting for income or family structure, reminding us that we need to be intentional about asset building.

The House passed out of committee legislation, H.R.40, which was named after the failed promise to provide former slaves 40 acres and a mule. And this legislation called for creating a committee to study reparations. This is an important step to face up to our Nation's past, to begin the process of providing compensation and restorative justice.

We have a long way to go in our country to close this racial wealth gap. We are only going to get there if we dramatically intensify our efforts. And this is why I look forward to the testimony of all of our witnesses today.

Now I would love to turn it over to Senator Lee for his opening statement.

Senator Mike Lee.

[The prepared statement of Chairman Beyer appears in the Submissions for the Record on page 34.]

OPENING STATEMENT OF HON. MIKE LEE, RANKING MEMBER, A U.S. SENATOR FROM UTAH

Senator Lee. Thank you. Thanks so much, Mr. Chairman. Good morning to all of you, and thanks, Chairman Beyer, for convening our hearing today.

The heart of the American Dream is when we find the ability to build a productive and happy life for oneself and for one's family. It is always necessary to that endeavor to have the opportunity to build wealth. And unfortunately, while average wealth for all American households has fortunately risen in recent years, it remains a fact that Black and Hispanic households have consistently held less wealth than White households. Wealth is built, of course, through the accumulation of assets, and this can include the accumulation of homes, of savings, and in many cases of inheritance. But accumulating assets requires income. And income requires opportunity.

One of the critical questions we therefore have to ask in order to address the racial wealth gap is one that deals with how best can we increase opportunity for those with less wealth so that they can build more. And one of the things that tend to get in the way of opportunity, and especially upward mobility, as Martin Luther King wisely observed: A productive and happy life is not something you find; it is something you make.

But it is of course something you make with other people. Indeed, supportive relationships and institutions are vital to facilitating opportunity. The Social Capital Project of the Joint Economic Committee has for the past few years studied the health of families and communities and institutions of civil society. And what we have done through that effort is to try to document changes in social capital over time. And it is sometimes uneven distribution geographically across the country.

Often there are historical injustices that can have far-reaching consequences for future generations. One of the project's striking early findings was that there is a connection between those counties with large enslaved populations in 1860 and the counties with the lowest rates of marriage and intact families today.

You see, slavery stole agency from Black Americans, and it did so for generations, tearing apart one of the most vital supports that exists for humans flourishing. That is, the institution of the family.

This horrific legacy that it left, as well as just the horrific legacy of racism as a whole, undoubtedly led to far-reaching consequences for Black opportunity. But other policies have also weakened social capital and opportunity.

Many Black Americans have paid the price for government-sanctioned red-lining, for lack of lending resources for homes and businesses, and union job discrimination that their parents and grandparents may have faced. These policies made it much harder to build intergenerational wealth.

Today there are still other policies that present barriers to opportunity, enduring policies that lock so many out of affordable housing, of good quality education, and good job opportunities. For example, unequal access to quality education plays a large role in upward mobility and economic success. Unfortunately, because of public school zoning and residential zoning policies, many minority children from low-income families are required to attend lower-performing public schools. As a result, they are less likely to do as well on standardized tests, graduate from high school, than they would otherwise be, and also less likely to have other opportunities to move on to college.

They are more likely to end up unemployed at one point or another, and more likely to end up in lower skilled jobs with lower earnings, especially if they have not gone to college.

Occupational licensing laws are often a needless barrier to work, especially for disadvantaged Americans. Many states have onerous requirements for jobs that can be done with little risk to the workers themselves and to those they serve, including jobs performed by florists, hair braiders, and barbers. And those requirements also make it hard to earn a living.

Similarly, zoning and land use regulations prevent the formation of home-based businesses that would allow for more Black entrepreneurship. And zoning segregates Americans by race and by class. Our current safety net programs included some disincentives for work and for marriage, keeping many minorities trapped in a cycle of dependence and poverty, and preventing wealth accumulation and stable family formation, which very often go together.

Family stability also plays a key role in affecting long-term opportunity. White children are nearly three times more likely than Black children to be born into married households. And children born into married households are in turn less likely to be in poverty, and more likely to achieve upward mobility.

In fact, one study found that the greatest predictor of young Black children's ability to move up to a new income class often involves the presence of Black fathers in their neighborhoods.

In these and other areas we have much room for improvement to address existing barriers and to enhance opportunity. But it is important to add that, as far as we have to go, as far as we have remaining left to go in making progress, we have made some progress, too.

Personal agency is not lost, and many Black Americans have advanced and have flourished in spite of the barriers and discriminatory legacies they have faced. As my friend and colleague, Senator Tim Scott, recently said, quote, "Just before COVID we had the most inclusive economy in my lifetime, the lowest unemployment ever recorded for African Americans, Hispanics, and Asian Americans, the lowest for women in nearly 70 years. Wages were growing faster for the bottom 25 percent than the top 25 percent. That happened because we focused on expanding opportunity for all Americans." Close quote.

Together, I believe we can continue working to expand opportunity, to help all Americans build a happy and productive life for themselves and for their families, and thereby make savings and wealth accumulation a reality for all.

Abraham Lincoln in his message to Congress on July 4th, 1861, wrote that the leading object of government was, quote, "to elevate the condition of men; to lift artificial weights from all shoulders; to clear the paths of laudable pursuit for all; to afford all an unfettered start and a fair chance in the race of life." Close quote.

It is my hope that this hearing will help us do the same. Thank you, Mr. Chairman.

[The prepared statement of Ranking Member Lee appears in the Submissions for the Record on page 35.]

Chairman Beyer. Senator Lee, thank you very much. We really appreciate that.

Now let's move to introducing our witnesses. We have four distinguished witnesses. We have Professor Dorothy Brown. She serves as Professor of Law at Emory University School of Law. She is a nationally recognized scholar in tax policy, race, and class. Professor Brown's legal scholarship includes co-written books on critical race theory and taxation, Federal income taxation. In March of 2021, she published "The Whiteness of Wealth," which examines how the Tax Code disadvantages Black Americans and perpetuates the racial wealth gap. Professor Brown graduated with a Bachelor of Science from Fordham University, a J.D. from Georgetown Law, and an LLM in Tax from New York University School of Law.

Then we will have Professor Darrick Hamilton, a Professor of Economics and Urban Policy, a Founding Director of the Institute on Race and Political Economy at The New School. He is one of the leading researchers in the field of stratification economics. His work on the racially disparate effects of public policy and structural disadvantages in the U.S. economy has led him to advocate for a number of proposals to make wealth more equitable. These include baby bonds or trusts, and a Federal job guarantee. Professor Hamilton earned his B.A. from Overland College, and a Ph.D. from the University of North Carolina at Chapel Hill.

Professor Mehrsa Baradaran is a Professor of Law at UCI Law. In July 2020, she was named as the Law School's Associate Dean of Diversity and Inclusion. She is a distinguished scholar who has published work largely focused on banking law, financial inclusion, inequality, and the racial wealth gap.

She has written two books, "How The Other Half Banks" and "The Color of Money: Black Banks and The Racial Wealth Gap," the latter of which was best book of the year for the Urban Affairs Association.

Professor Baradaran earned her Bachelor's Degree from Brigham Young University, and her J.D. from NYU.

And then finally, Mr. Ian Rowe, a Resident Fellow at the American Enterprise Institute, and a Senior Visiting Fellow at the Woodson Center. He is also the Founder and CEO of Vertex Partnership Academies, which is a new network of character-based international baccalaureate high schools opening in the Bronx in 2022. Previously, Mr. Rowe was CEO of Public Prep, a nonprofit network of public charter schools. He served as the Deputy Director of Post-Secondary Success at the Bill & Melinda Gates Foundation, and in a senior role as an MTB and at the White House USA Freedom Board. Mr. Rowe has an MBA from Harvard Business School, and a B.S. in Computer Science Engineering.

Professor Brown, let's begin with your testimony, and then we will continue in the order each of you was introduced. Professor Brown, the floor is yours.

STATEMENT OF DOROTHY A. BROWN, ASA GRIGGS CANDLER PROFESSOR OF LAW, EMORY UNIVERSITY SCHOOL OF LAW, ATLANTA, GA

Professor Brown. Thank you for inviting me to share these views on the role that our tax system plays in perpetuating the racial wealth gap.

In my testimony today, which draws upon research in my book, "The Whiteness of Wealth: How The Tax System Impoverishes Black Americans—And How We Can Fix It," I will discuss three ways that tax policies are increasing the racial wealth gap.

The one thing that I would like you to remember is that the racial wealth gap will not be eliminated without a fundamental change in our tax laws.

First, marriage. Roughly 9 in 10 married couples have their taxes changed because of marriage. Half get a tax cut, 40 percent pay higher taxes. My research shows that the half most likely to pay lower taxes are disproportionately White, while the 40 percent most likely to pay higher taxes are disproportionately Black. It is largely a function of the joint return combined with spousal contribution to household income.

A study of Black and White families over 25 years showed that a marriage significantly increased the wealth holdings for White families, but had no statistically significant impact on African Americans. I believe the marriage penalty disproportionately paid by Black married couples was part of the reason why.

While the 2017 Tax Act temporarily eliminated the marriage penalty for many married couples, it left intact the significant marriage penalties found in the Earned Income Tax Credit. Along with high-income households, Black Americans are still more likely than their white peers to pay higher taxes.

My proposed solution is a repeal of the joint return. It would immediately eliminate the marriage penalty and singles penalty currently being paid by hard-working Black taxpayers who would have more money available to save toward building wealth.

Second, student debt. Black students leave college with more student debt than their White peers. Over time, Black debt grows, while White debt decreases. And the Black/White student debt gap is present across income levels. Not even wealthy Black taxpayers can protect their children from higher student loan debt the way their White peers can. Tax policy does not help. The deduction for interest on student loan debt is limited to $2,500 per return, and subject to income limits. By my calculations, the gap in debt means that there are years where Black Americans are unable to deduct all of their interest. White Americans with lower debt loads are more likely to be eligible to deduct all of their interest.

Researchers have placed student debt at roughly 10 percent of the racial wealth gap when a college graduate is 25 years old. But by age 30 to 35, it explains about 25 percent of the gap. I have two solutions:

Increase Pell Grants, and student debt forgiveness. Pell Grants cover only 29 percent of the average cost of tuition fees at public four-year colleges. Increasing the amount of Pell Grants should enable future generations of Black college students to graduate with significantly less debt. I support targeted debt forgiveness of 100 percent of student loan debt for households with below-median wealth. Congress must also ensure that any debt forgiveness is tax free.

The median household wealth of a White high school dropout is greater than the median wealth of a Black college graduate. Part of the explanation lies in a family's financial transfers, which is my third example.

Research shows that gifts and inheritances explain about 5 percent of the racial wealth gap. White Americans are five times more likely to inherit than Black Americans. And for each dollar inherited, White families were able to use 91 percent to increase their wealth, compared with only 20 percent used to increase Black wealth.

When it comes to gifts, Black college graduates are more likely to send money to their parents, while White college grads were more likely to receive money from their parents. Once again, tax policy makes it worse. Gifts and inheritances are received tax free, while transfers by Black Americans that help support family members are not tax deductible.

While there is no single tax policy change that could eliminate the racial wealth gap, I propose a wealth tax credit for all taxpayers in households with below-median wealth.

I appreciate the opportunity to testify before the committee today, and look forward to your questions.

[The prepared statement of Professor Brown appears in the Submissions for the Record on page 37.]

Chairman Beyer. Thank you, Professor Brown, very much. And you will provoke many questions, I am sure, with that. Let's move on now to Professor Hamilton. We have enjoyed our wonderful conversations with you early last year and the floor is yours.

STATEMENT OF PROFESSOR DARRICK HAMILTON, Ph.D., HENRY COHEN PROFESSOR OF ECONOMICS AND URBAN POLICY, FOUNDING DIRECTOR OF THE INSTITUTE ON RACE AND POLITICAL ECONOMY, THE NEW SCHOOL, NEW YORK, NY

Dr. Hamilton. Good morning, Chairman Beyer, and good morning Ranking Member Lee and other esteemed members of the committee.

Our enormous and persistent racial wealth gap is an implicit measure of our racist past, a past rooted in a history in which White Americans have been privileged by government, political, and economic interventions, as well as entitlements that have afforded them access to resources, and the interactive and intergenerational accumulation that comes with those resources.

This is in contrast to a history for Black and Indigenous Americans where their personhood, and whatever capital they may have been able to establish, has always been vulnerable to the exploitation and extrapolation by state-complicit confiscation, disruption, fraud, theft, terror, and other acts of violence.

As a result, Blacks as a group have very little ownership in America's land or means of production, and remain in fear of violent incarceration and state-facilitated exploitation. Still, much of the framing around the racial wealth gap focuses on the poor choices and financial decisions on largely Black, Latinx, and poor borrowers. That framing is wrong. The directional emphasis is wrong. It is more likely than meager economic circumstance, not poor decisionmaking or deficient knowledge, that that constrained choice itself and leads poor borrowers with little to no financial options, but to attain and use predatory financial services. These last-resort death traps render the recipients of them, these predatory products, modern-day indentured borrowers.

What's more, high-achieving Black Americans, as measured by education, still exhibit large economic and health disparities relative to their White peers. What we do is we overstate the functional role of education, to the detriment of understanding the functional roles of both wealth and power in the first place.

Racial inequality and despair are not inevitable. This is good news. Rather, they are the results of political choices, and likewise we can make different political choices to change them. To achieve racial justice, we need an honest and sobering confession about historical sins for slavery, appointed American history in which Blacks were literally capital assets for White land-owning plantation class, and for sharecropping, White-capping, Jim Crow, and the exclusion of Blacks from New Deal and Post-War policies by both design and implementation. Those policies built an asset-based White middle class.

Reparations provide a retrospective direct and parsimonious approach to redress the Black/White wealth gap. Moreover, it would require the U.S. to take public responsibility and atone for that long history of racial injustice. As a complement, baby bonds are a seed capital prospective approach, a program that in perpetuity would establish an economic birthright to capital for everyone. The account from these baby bonds would be held in public trust, similar to Social Security, and be used as a capital foundation when every child reaches adulthood to access an appreciating asset like a home, like a new business, all those attributes that generational wealth affords Americans.

The extent of our dramatic and unjust racial disparity is at least as much a problem of politics as it is a problem of economics. Public provisions of baby trusts, or baby bonds, would go a long way toward eliminating the transmission of economic advantage or disadvantage across generations, and establish a more moral and decent economy that facilitates assets, economic security, and social mobility for all its citizens, regardless of the race and family economic position in which an individual is born.

And in my last minute, I just want to bring up the word "opportunity." I fear that that word has become a political ruse; that it has become a distraction; that it has become a mechanism by which we can put the onus of the structural barriers right back on the individual, while absolving the state of responsibility as it related to creating some of these structural inequities.

Like I said, the good news is that we can redress this past. We can do things by lessons from the past, where we pursue anti-racist, anti-sexist, economic rights so that every American has the necessary ingredient so that they can truly have authentic agency and achieve their self-determined goals based on a good concept of economic freedom. Thank you.

[The prepared statement of Dr. Hamilton appears in the Submissions for the Record on page 45.]

Chairman Beyer. Professor Hamilton, thank you very much. And now we will hear from Professor Mehrsa Baradaran, from the University of California, Irvine.

Professor.

STATEMENT OF PROFESSOR MEHRSA BARADARAN, PROFESSOR OF LAW, UNIVERSITY OF CALIFORNIA, IRVINE SCHOOL OF LAW, IRVINE, CA

Professor Baradaran. Thank you, Chairman Beyer, and Ranking Member Lee, for the opportunity to testify today.

When the Emancipation Proclamation was signed in 1863, the Black community owned less than one percent of the U.S.'s total wealth. More than 150 years later, that number has barely budged. The gap between average White wealth and Black wealth has increased over the last decade. Today, across every socioeconomic level, Black families have a fraction of the wealth of White families.

Without targeted policies to close this wealth chasm, it will continue to grow. The racial wealth gap was created, maintained, and perpetuated through public policies. Federal, state, and local laws and policies enforced segregation and created a race-based bifurcated economy. Black men and women have been shut out of most avenues of middle-class wealth creation. Black homes, farms, and savings were not given the full protection of law.

Even as these properties were subject to racial terrorism in employment, education, housing, farm loans, even patent rights, racist policies and practices have either shut Black communities out of the market entirely, or offered them separate but subpar services.

The American middle class was created principally through a government-supported credit infrastructure that did not cross the red lines that policymakers drew around Black neighborhoods. Those very same redlined communities were targeted, then, with the most toxic loans during the subprime crisis. This time without the Federal guarantees.

Those communities had yet to recover from that blow when they were hit yet again with the devastation of the COVID crisis and the unequal distribution of the PPP loans. This is a system that can accurately be described as Jim Crow credit, separate and unequal. Many of these discriminatory policies of de jure exclusion have faithfully been abandoned, and some have faced—others have faced scrutiny. Yet, the racial wealth gap remains because the damaging effect of these policies have not been directly remedied and counteracted.

The wealth gap that those redlines put into motion continue, and will continue unless it is disrupted by the same policymakers—namely, Congress and the regulators it oversees. In order to achieve true racial justice, we must reckon with the fruits of our Nation's history.

In fact, I believe it is the myths that we tell about our history and economy that present the biggest hurdles to achieving economic justice—myths that blame those who were the targets of the discrimination for disparities that they did not create, and myths that offer personal responsibilities instead of justice.

In my own work, I have tried to debunk two of these myths in particular. One, the myth of self-help finance as an avenue to wealth creation. I call this "The George Bailey Myth."

And, two, the myth of personal decisionmaking, the bootstrap myth. There are no amounts of individual spending decisions and savings decisions, no amount of lattes, avocado toast, or sneakers, and no amount of hours worked can counteract the forceful headwinds of historic inequalities.

People do work hard, and people do make hard financial decisions. And yet they still face the legacies of racist policies and segregated schools, neighborhoods, and access to mobility. No matter what the family structure, the wealth gap exists. Black and White families who do everything, quote, "the right way," get married, get an education, buy a home, start a business, save their money, and still the racial wealth gap persists.

In fact, the gap is highest at the very top of the income and education ladder. And just to be clear, investing, working hard, getting an education, starting a business, are all great things to do. My point is not that these things are not worth doing; it is that they have been done for centuries, from investing hard-earned wages into the Freedman's Bank, to marching for jobs, to taking out a mortgage, to prudent financial decisions, were often taken amidst the history of exclusion, exploitation, violence, and virulent racism.

Black institutions have been creative and innovative in serving those communities in hostile climates. There is a long history of entrepreneurship, self-help, and mutual uplift. HBCUs have provided a stellar education. Black banks have lent to Black businesses, churches, and families. They have offered credit where the FHA refused to guarantee loans, and Black families have invested in these homes at great personal cost, as these homes had differences in value.

The racial gap in home values is just one example of the tangible effects of the history of exclusion. The racial wealth gap is what past injustice breeds present suffering.

In order to move forward, we need public policy to destruct these patterns of sustained disparities to wealth. The racial wealth gap was created by exclusionary policies coordinated across the government. It was created systematically to tax, banking, and housing laws, and private markets sustained by Federal subsidies.

This is exactly the level of holistic coordination across government agencies that is necessary to close the gap. As President Biden said, we need to make the issue of racial equity not just an issue of any one department of government; it has to be the business of the whole government.

In my written testimony elsewhere I have suggested several steps, and I am running out time here. But I will say that policies must provide a meaningful path toward capital creation, access to low-cost credit, financial inclusion, tax justice, and homeownership grants. In other words, the same programs provided to White families over the last century.

And I will conclude, again, with the words of President Biden: It is time to act now, not only because it is the right thing to do, but because if we do we will all be better off for it. Thank you.

[The prepared statement of Professor Baradaran appears in the Submissions for the Record on page 49.]

Chairman Beyer. Thank you, Professor. And we have circulated all of your written testimony to all the members of the committee, too, which I am sure we have all diligently read.

Now let me move on to our final witness, Mr. Ian Rowe. Mr. Rowe, the floor is yours.

STATEMENT OF MR. IAN ROWE, FOUNDER AND CEO, VERTEX PARTNERSHIP ACADEMIES; SENIOR VISITING FELLOW, WOODSON CENTER; RESIDENT FELLOW, AMERICAN ENTERPRISE INSTITUTE, NEW YORK, NY

Mr. Rowe. Chairman Beyer, Vice Chair Lee, and Distinguished Members of the Joint Economic Committee, good morning.

I am a proud product of the New York City Public School System, kindergarten through 12th grade, and a graduate of Brooklyn Tech High School, Cornell University College of Engineering, and Harvard Business School.

I am a Founder of Vertex Partnership Academies, a new network of international high schools that we are opening in the Bronx next year. And for the last 10 years, I led a nonprofit network of public charter elementary and middle school in the heart of the South Bronx and Lower East Side of Manhattan, educating more than 2,000 students, with nearly 5,000 on the wait list, primarily low-income Black and Hispanic kids.

Our parents knew their children would likely face discrimination in their lives, but they chose our schools because they wanted their children to develop the skills and habits to become agents of their own uplift and build a better life, even in the face of structural barriers.

In District Eight, where our schools are, only 2 percent of the nearly 2,000 public school students beginning high school in the South Bronx in 2015 graduated ready for college four years later. By contrast, at our all-boys school in the South Bronx in 2018–19, nearly 70 percent of our students passed the state math exam.

As we as a country have crucial conversations about racism, it is easy to forget that the racial disparities we are seeking to close now originate early in life, long before they show up as statistical gaps in financial wealth, or homeownership, or educational achievement.

According to the Federal Reserve's 2019 Survey of Consumer Finances, the wealth gap between Black and White Americans was $164,000. As a result, today's public discourse is dominated by the disempowering narrative that unless institutional barriers are removed, Black Americans will remain trapped in a perpetual cycle of economic victimhood.

"The New York Times" reporter Nicole Hanna Jones argues that, quote, "None of the actions we told that Black people must take if they want to lift themselves out of poverty and gain financial stability: not marrying, not getting educated, not saving more, not owning a home, can mitigate 400 years of racialized thundering." End quote.

Imagine you are a 12-year-old Black boy living in the South Bronx with aspirations of working hard to achieve the American Dream, yet you are repeatedly told there is nothing you can do individually to achieve that goal because you are Black.

Not only does this message of hopelessness depress human motivation, it also ignores the tremendous public investment that has been made to fight poverty. U.S. spending on poor children has increased 17-fold since the 1960s. Federal spending on means-tested programs are now more than $300 billion per year.

Consumption-based measures for the U.S. child poverty rate are at less than 5 percent today, yet the racial wealth gap does persist for certain communities. But what is interesting is that the same 2019 Survey of Consumer Finances shows that when family structure and education are considered, on an absolute basis the median net worth of Black married two-parent college-educated households is nearly $220,000. And more than three times that of the typical White single-parent household, which is $60,000. That $160,000 gap is almost equal to the racial wealth gap we often discuss, but in reverse.

As we consider strategies to create an opportunity society and upward mobility for people of all races, I submit to you the two-pronged philosophy we practice in our schools: start early with the end in mind, and study the success of those who have achieved excellence, not just equity. It we know there are factors beyond race, such as education and family stability that can make a difference in generating wealth, we should promote empowering policies like school choice, and launching national campaigns to encourage young people of all races to adopt a new cultural norm—encouraging education, work, and responsible parenthood in order, instead of the defeatist messages.

I look forward to your questions, and thank you for this opportunity.

[The prepared statement of Mr. Rowe appears in the Submissions for the Record on page 64.]

Chairman Beyer. Mr. Rowe, thank you very much.

We will now turn to questions for our various participants. And as chair I get to begin. So I will start with five minutes, and then we will be followed by Senator Lee.

Professor Brown, if I can begin, you explain that for every dollar inherited White families were able to use 91 percent of their wealth of that inheritance to increase their wealth, but Black families with only 20 percent. Why is that difference? What are Black families doing with that other 71 percent?

Professor Brown. They are often helping to support family members who were born during Jim Crow and did not have opportunities that others did. So Black families are more likely to have extended family members—Black Americans are more likely to have extended family members who need financial support because the government had programs that systematically excluded them.

In addition, Black Americans are paying higher taxes.

Chairman Beyer. I was also surprised that inheritance explains so little of the wealth gap, only 5 percent. Yet my impression was that, you know, the White families were getting a lot more from, especially Baby Boomers like me, from parents than Black families were.

Professor Brown. So part of that is, most Americans do not get inheritances. So there is a smaller slice of Americans that get inheritances, and that smaller slice though disproportionately benefits White Americans. So part of why it is only 5 percent is that many Americans do not get any inheritance.

Chairman Beyer. Thank you. Professor Hamilton, I know you are a huge champion of baby bonds, which Senator Booker and Ms. Presley, and even Chairman Neil are all working on.

One of the arguments I have heard for baby bonds is that it has a universality to it; that it is not specifically for Black families, but that anyone who is significantly below the wealth line would qualify.

Do you see this as being helpful, especially in anticipating potential White backlash to programs that are focused on Black families?

Dr. Hamilton. You know, wealth inequality is not a problem unique to Black households. It is amplified by the fact that we had that long history. So making it universal I think is akin to our most successful public—arguably, our most successful public policy, which is Social Security.

We have something for people when they age into the elder part of their life, but nothing for young adults at a key point where they are building a lifetime of economic security.

What makes it anti-racist, even though it is universal, it is still anti-racist. The reason why it is anti-racist is because the domain for inclusion, as well as the outcome that is intended from the policy, is very tied to wealth, which a distribution in America for the most disparate. So, you know, just going back real quick to the inheritance question that you asked, Dorothy—I say that—inheritance bequests account for more of the racial wealth gap than education, than household structure, or any other characteristic. But what's more, race is more determinate of one's wealth position than class itself. And baby bonds would redress that.

Chairman Beyer. Thank you, Professor, very much. And, Professor Baradaran, you focused a lot on the millions of Black or Brown Americans who are underbanked, or have no banking at all. Can you explain how this leads them to be in a disadvantaged position in every other way?

Professor Baradaran. Yes. The banking system, you know, besides access to credit, it is also a public system whereby you can engage in financial transactions. So the merger wave of the last several decades has made it such that many communities, especially LMI communities in the rural West, in the South, and just LMI communities in general, have lost bank branches, which means that they have to pay extra through payday lenders and check cashers. So it is the fee that is collected upon people who are at the bottom of the income and wealth scale. And it is a tax, really, that the wealthy do not pay.

On top of that, there are the fees that the banks charge, themselves, on overdrafts, and that subsidize the higher accounts of the customers. And so there really is an unequal banking system, and really the banking system itself is supported by vast public infrastructure. And so having these unbanked, I do not think is just an economic problem, it is a problem of democracy. If we are going to support the banking system, we should make sure that it provides people access for all.

Chairman Beyer. Thank you very much, Professor. My time is about up. I would like to recognize Senator Lee, but I fear that he is voting. Senator Lee, are you with us?

[No response.]

And if not, I believe Congressman Schweikert is next—David, if you are here, I would love to recognize you.

[No response.]

And failing that—oh, David, there you are. Our Ranking Republican Member on the House side.

Representative Schweikert. Thank you, Mr. Chairman. Can you skip me for a moment? I am having to deal with one other group that needed an answer on something. You know the chaos we live in, because I do have some questions for the panel.

Chairman Beyer. I do. Not a problem. Is Mr. Arrington with us?

[No response.]

Jodey, I know you are around.

[No response.]

Let me move on——

Representative Arrington. I am here.

Chairman Beyer. Oh, Jodey, you are here. So, Congressman Arrington from Texas, due to various missing Senators you are up.

Representative Arrington. Wow, that was quick. I was not prepared, but I enjoyed hearing everybody's testimony. I want to thank the witnesses. And, Chairman, thank you for holding this important discussion. And it is important. I do not have to be Black to be concerned about the disparity, the gap in wealth for my fellow Americans who happen to be Black, or of any color. I want Americans to succeed. And I think this is the prevailing view of Americans, by the way, is we want everybody to realize their greatest God-given potential, and feel like they can pursue their dreams, and realize as much success as the next person by putting in the hard work, et cetera, et cetera.

But the reality is there is a gap. And I acknowledge that. What I am trying to discern is how much of that is based on systemic policies, laws, systemic societal sort of public policy issues, versus the, you know, other factors, systemic factors in the Black community.

And I have read the data, like everybody else, about children born out of wedlock, and the marriage rates that were the same as Whites, and Hispanics, in the 1960s, now significantly lower. I have read about the higher, disproportionately higher crime rates among Black Americans. And so, you know, for me, my first question is what can—I think all too often, folks, we think that the Federal Government is going to solve all this. You know, just because we pass laws that said it is illegal to discriminate does not mean that we were able to change the hearts of people.

And so there were lingering effects in our society. And, by the way, racism, discrimination, segregation, deplorable! Intolerable! And by the way, illegal.

So what, Mr. Rowe—let me just ask you—what do you, if you were going to sort of gauge the factors of law and policy versus systemic issues, familial issues, norms in the Black community, where would that fall? Is it 50–50? Is it half, the laws need to be changed, and then half the Black community norms that need to change at the grassroots in terms of family, community, institutions?

So I will stop there, because that is a long-winded question. I hope that made sense.

Mr. Rowe. Well thank you for the question. Let me just first say that in 2019, only one-third of all 8th grade students in our country scored proficient on the National Assessment of Progress in Reading, often referred to as the Nation's report card.

And since it was first administered in 1992, less than half of the Nation's White students in 4th, 8th, and 12th grades scored proficient in reading. I mean, consider that. There has never been a majority of White kids reading at grade level.

So the sad irony, if you look at education as one example of the gap, the sad irony is that closing the Black-White achievement gap in terms of academic outcomes in reading would simply mean that Black kids are going from sub-mediocrity to full mediocrity. So this obsession with the gaps ignores the fact that a lot of kids of all races are not doing well. And that is the foundation.

And so we have to be careful, because it is not because of systemic racism that the majority of White kids in our country for generations have not been able to read at grade level. There must be other factors, both policywise and norm-wise. I mean, in terms of family structure, it certainly is true that non-marital birth rates are a factor.

My research focuses on non-marital groups to women aged 24 and under. In 2019, for the 10th consecutive year, at least 70 percent of births to all women in that age group were outside of marriage, according to the CDC. By race, the non-marital group rate for Black women 24 and under was 9.1 percent. It was 61 percent for White women aged 24 and under. This is an equal opportunity tsunami.

In addition, nearly 40 percent of unmarried women aged 24 and under who gave birth in 2019 were already mothers, giving birth to at least their second child.

Given these multiple births, unmarried women aged 24 and under who gave birth in 2019 alone were raising an estimated 850,000 to 1 million children, according to CDC. And, look, there is no guarantee that being a single mom means that you are doomed to failure, nor does it mean that being a child of married two-parent households is a guarantee for success. But the data is overwhelming.

This pattern of out-of-wedlock childbearing is often established at a young age. Almost two-thirds in 2019, 6 percent of first out-of-wedlock births were to women 24 and under. Like kids of teen mothers, these children are at much greater risk of experiencing child poverty, poor education, lack of upward mobility, traumatic stress, and many other adverse childhood experiences that impede their ability to generate wealth later in life.

We just have to be honest about these conversations. If we want to reduce such risks and mitigate the economic distress that usually ensues for both parent and child of all races—this is not just a Black problem—we must educate adolescents about the likely outcomes associated with different behaviors, and encourage them to think critically about the steps and timing of family formation.

Representative Arrington. Well said. Thank you so much, Chairman, for your indulgence, and again to the witnesses. Thank you guys, and God Bless.

Chairman Beyer. Thank you very much. Thanks, Mr. Arrington. I now will yield five minutes to the Chairman of the Congressional Black Caucus, a wonderful member of this committee, Ms. Beatty.

Representative Beatty. Thank you so much, Chairman Beyer, for not only hosting this committee, but bringing in witnesses that have been able to speak to this issue. Whether I agree 100 percent or not, it has certainly been educational.

When I think about the words I have heard, better life, race versus class, disparities, education, choice, gifts of inheritance versus not. A lot of data. A lot of information. But we are still, in my opinion, hitting the headwinds of systemic racism. We are still looking at the data that tells us, when we look at examining the wealth gap in the United States, no matter what factors you believe in—I can give you a story of both sides. I can tell you about the teen mother that birthed her first or second child before she was 18, that now sits on a powerful corporate board. And I can tell you about another one like that same female that is still living in poverty.

But, conversely, I can tell you about the well-educated child with advanced degrees that was denied because of redlining buying a home, that was not able to get her car financed in a rate that many of us would see. So these stories go both ways, because racism is racist. This is extremely important to me today because, as you know, I chair the Subcommittee on Diversity and Inclusion. And next week we will be holding a hearing I think at the end of the month in the House Financial Subcommittee, Mr. Chairman. And it is holding a hearing that talks about the legacy of George Floyd and the examination of financial services industries comments to economic racial justice.

And you cannot talk about economic racial injustices without talking about the wealth gap, without looking at much of what, thank goodness, you have brought before us today.

So I have a question to the panelists. If I go into this hearing next week talking about the injustices, of the injustices that we are facing in the Nation, the injustices because of this pandemic that none of us had ever lived through with COVID–19. We know it is health care. We know it is the economy. And we know it is social injustices.

What do you think that I should focus on to get the attention of the Nation as we talk about the wealth gap, the economy in relationship to social justice? And I am going to start with you, my good friend, Darrick Hamilton. I had to get that in, Mr. Chairman, because he has spent a lot of time in Ohio, and we had an opportunity to spend a lot of time together. So the first question goes to you, Darrick. And we will follow up with Professor Baradaran.

Dr. Hamilton. Good friend, indeed. Thank you, Representative Beatty. I am going to jump right into it and say I would focus on history. I would focus on the fact that the Federal Government created this problem, and we need an honest conversation to recognize that.

And likewise the Federal Government can redress this problem. So that is the good news. This is not all dismal. We can do something about it.

I would also like to point out that a lot of this conversation—you know, Representative Arrington made the point that in 1950 marriage was similar across race. But certainly we would argue that racial disparity and racism existed in 1950. If we fast-forward, the reason we got this marriage gap is we incarcerate Black people en masse. And also, if we think about the causality, family structure is as much, if not more, affected by family resources than vice versa. And that is the point of this whole conversation.

The agency did resources forward, and it is linked to history that has limited Black people the resources so that they can intervene into getting a good education. You know, I will say that umbrellas do not make it rain. We observe people with umbrellas when it is raining, so similarly we observe people that are Black with high educations have a better outcome. But if we compare across race, we know that the same college degree for a Black person does not afford the same income, the same health status, the same wealth status as it does a White person.

In fact, disparities across race rise with education, not decrease with education. So we need to really understand the functional roles of power, wealth, and resources as really giving people agency so that they can have economic freedom regardless of race.

Representative Beatty. Thank you so much. And thank you for that overstatement of the function of education, because I agree with that.

Professor, any comments you would like to add?

Professor Baradaran. Just amen to what Darrick said. I mean, the thing with the history and the data reveals, look at it honestly and the data and the history is there exactly as Darrick said. And the myths—and the causes have changed over time.

So now we are talking about maybe family structure, but before it was racial mapping. We really had some really pernicious myths about biological differences, about Divine right, about what Christianity deemed as master and slave. So these myths have changed alongside.

So let's look at this history very honestly, and look at this data, and look at the umbrella versus the rain.

Representative Beatty. Thank you so much, Mr. Chairman. I know I am over my time, but if I could ask all of the witnesses to give me a written statement on their opinion of the direction we should be looking at at the Tulsa massacre, 100 years ago with the Black Wall Street that deals directly with today's topic, I would be interested in any of their thoughts on how we move forward. Thank you. And I yield back.

Chairman Beyer. Thank you, Congresswoman Beatty, very much. I now recognize Congresswoman Jaime Herrera Beutler, from Washington State, for your questions.

Representative Herrera Beutler. Thank you so much, Mr. Chair. This has been a really interesting discussion for me. You know, having grown up—I am actually—grown up on the West Coast with an Hispanic father who came from total poverty, and a Caucasian mother, I have seen pieces of this, but not all of it. And I can tell you, when I look at my dad and how he grew up, I mean there were 10 kids and there was not always running water in the house. Like it was a very different situation.

And then I think about, when I look at my two sides, who was able to leave money to the next generation of kids, on my mom's side versus my dad's side, it is a difference. And when you speak about wanting—you know, adults today needing to take care of their parents, that is true across this country. We are seeing that in a lot of areas, but it certainly makes sense that if you are taking care of a generation that grew up in Jim Crow, or grew up in a situation where the government really just literally made certain things illegal, that those are going to be burdens that this generation has to bear.

And so how do we fix some of those inequities that were put into place and that we are still living with? One of the things I wanted to ask Ms. Brown about was, you mentioned the paying—sorry, I was writing notes in those little places—paying for having to help elderly parents, I have a bill with Congresswoman Katie Porter from California that would change the Dependent Care Accounts to bring them up to inflation. So I think about it often in terms of child care help, because that is expensive for the middle and working class families—it is expensive for everybody, but on either end there tends to be some either help or ability to do it. But it is those middle working class people who get really squeezed.

But this also would allow you to then pay for dependent care for parents, for the generation ahead of you. And I did not know if you had heard about it. I have looked at some of those ideas, but that is another way to use the Tax Code to empower families to meet their own needs without the government saying this is how you have to use it. And I wanted to ask that, because tax policies have been obviously in your wheelhouse.

And the other thing I wanted to ask about—oh, go ahead.

Professor Brown. No, I had not heard about that. And to the extent that Black Americans would be able to avail themselves of that policy, that would be forward progress.

Representative Herrera Beutler. If there is a way that we can make sure that that—I mean, I would love for you to look at it and provide your feedback to me, because I would love to hear that.

Professor Brown. And I would love to look at it.

Representative Herrera Beutler.And then, Mr. Rowe, you spoke of starting early with the end in mind, and as part of a philosophy for creating opportunities of upward mobility. And we know that early education during key points of a child's development are crucial for addressing gaps for low-income families that are often contributing to the wider racial wealth gap.

And I represent an area that also has a very poor rural White population, so we see some of these gaps in early education there as well. And according to recent analysis, public school enrollment has dropped nationwide with the sharpest decline evident in pre-K and in kindergarten.

A recent poll in 20 states showed an average of kindergarten enrollment down—a drop of 60 percent. And I was hoping maybe you could speak to how the pandemic might exacerbate that gap for disadvantaged children who have been forced out of the classroom. And how can we address some of their learning loss and opportunity loss?

You know, I will say I am very frustrated with the State of Seattle, Washington, only returned to in-person teaching within like the last two weeks. And we know that some of the children that they serve are some of the most—either they are some of the poorest or the most disadvantaged, certainly where more of the Brown and the Black families live. And now they are being put up to a year behind.

I was just hoping you could help speak to how we change that.

Mr. Rowe. That is a very good question. I mean one of the things coming out of the pandemic is that many parents got a much more direct view of what was happening in their kids' education, and they are not happy. And so this idea of school choice I think is going to be much more in demand for families who want a high-quality education for their kids.

In our schools, again in the South Bronx, we are educating more than 2,000, but we had nearly 5,000 families on the wait list. Those families do not have time to wait for some rezoning to occur. They do not have time to wait for suddenly White people to show up and suddenly that is going to make their schools better.

These are segregated schools, but that does not diminish our expectation of excellence. The thing that parents want now is a high-quality educational option for their kids today. And so they can see—like, for example, in our schools we started with pre-K. In fact, we started with a program where we partnered with the parent-child home program. So the 18-month-old younger siblings of our current scholars had 2 years of home visits by an early learning specialist who would go to the home of the parent and the toddler two times per week, 30 minutes per visit, a book every week. The early learning specialist sits with the parent to build their capacity to be the at-home reading coach for two years. So by the time that toddler enters pre-K, their level of social/emotional readiness, their vocabulary acquisition, is so much higher. That is the kind of policy we need.

And the other reason for starting early with the end in mind, part of the reason we also talked about family structure, we need kids born into family situations that are much more likely to be stable so they get nurturing experience and access to high-quality education early.

Representative Herrera Beutler. Thank you, Mr. Chairman, and thank you for that. I yield back.

Chairman Beyer. Thank you very much. We next recognize Mr. Pocan from the State of Wisconsin.

[Pause.]

Mark, we cannot hear you yet.

[Pause.]

While you are fooling with that, let's move on to Mr. Peters from San Diego. And then, Mark, we will come back to you. Hopefully we will figure out the audio.

Congressman Peters.

Representative Peters. Thank you, Mr. Chairman. I have to laugh because the last time you had someone from Duke, this time from NYU Law School, it's like you are working off my resume. So I appreciate that.

I have a question for the very well-educated Professor Baradaran about the PPP loans. We had a story on our NPR affiliate in San Diego, KPBS, that detailed the racial gaps of recipients of the Paycheck Protection Program. Many of my colleagues have similar stories in their districts regarding COVID relief funding.

Minority business owners have often struggled to get relief because they did not have existing banking relationships. So in response, in a subsequent round Congress set up a minority set-aside for those businesses so they could get access to loans without fear of the tap being shut off before they could get a loan.

Currently the PPP is out of funds, but there is still funding left for community development and financial institutions that serve low-wealth areas.

I wonder if you could touch on the success of these set-asides for under-served businesses. And if you think there are other things Congress should be doing to improve the racial disparities in this type of Federal aid.

Professor Baradaran. Thank you for the question. It is always nice to see another NYU alum. You know, I think the spirit in which these set-asides were done is exactly the kind of thing that we need to recognize.

Recognizing that a program that allows banks to choose the recipients of these subsidies, and among their existing customers, is always going to have an outcome that is both disparate impacts race-wise, and also is going to exclude people who are unbanked, under-banked, or at the lower income.

And so I think if we want to get the thing that we want, which is, you know, Black and Brown businesses and communities to get those loans, then we have to be very thoughtful about it, and target those communities specifically.

So I do think the way that the Fed and Congress have adjusted has been exactly the right kind of responses. And I would hope to see a lot more of that. I think it has been great.

Representative Peters. Okay, I want to follow up with a housing question, too, for you also. In San Diego, we look back, has a history of redlining and exclusionary zoning, like a lot of communities where Black and Brown residents were shut out from certain areas because the Federal Government would not back home loans there. And if you look at a map of the redlined neighborhoods and see the ultimate 30s, it is not surprising that you see the same socioeconomic status of those neighborhoods reflected today.

Can you tell me what you think of the importance of homeownership as a way to create generational wealth in the African-American or in the Latino-American communities? And what do you think our policy response should be today, given where the country is?

Professor Baradaran. Yes, and I think that is exactly the right question. I think homeownership is at least one of several pillars of wealth building. It is still the number one asset for most middle class families, and it is a number one cause, or at least one of the top three causes, of the racial wealth gap today.

These redline maps, as you say, you can go on a website mapping inequality and you can see exactly—I have looked at the San Diego map, because I live right up the street, and you can see where the White flight occurred. You can look at those redlined areas. You can put the Census tract on them today across the country, and you have those communities remaining intact. And that is where the low-funded schools, the schools that do not get the tax money, the neighborhoods that do not retain their home values, and the places that have issues with all sorts of environmental hazards are in those formerly redlined areas. And it is a result of the lack of access to political—the political enterprise. It is lower wealth that self-perpetuates. And so I think those red lines are a great place to start.

Homeownership is not the only thing. I think there are student—as Professor Hamilton and Professor Brown have talked about, taxation; student lending; baby bonds. All sorts of holistic responses that I do think homeownership is at least a key pillar.

Representative Peters. Do you have an idea, though, of what policy responses we might take to encourage more homeownership among those underserved communities?

Professor Baradaran. Well, I am glad you asked. I did write up a 21st century Homestead Act, which looks at green financing. It looks exactly at those redlined communities, and puts in money exactly where it is needed. It is called A Homestead Act for the 21st Century, and it is online for free.

Representative Peters. Alright, great. I appreciate it, Professor. And, Mr. Chairman, I yield back.

Chairman Beyer. Thank you, Mr. Peters, very much. And I now recognize Mr. David Schweikert from Arizona.

Representative Schweikert. And I apologize to you, Mr. Chairman. The nature of our lives when we are juggling a handful of things at once.

Mr. Chairman, without any objection, I would like to actually submit a number of my charts, because this format is a little hard holding up charts in front of a camera.

So, with no objection.

[The Charts referred appears in the Submissions for the Record on page 82.]

Representative Schweikert. Thank you, Mr. Chairman.

Chairman Beyer. Without objection.

Representative Schweikert. I would like to run through, because oddly enough I am actually fairly familiar with Professor Brown, from her writing. I wanted to touch on a couple of things and make sure I have my head around it.

In 2017, we eliminated much of the marriage penalty. Professor Brown—and I know it is such a short window—but did you see anything in your data, or is there a reference point out there in 2018, 2019 that the changes in the marriage penalty were actually helping?

Professor Brown. So actually what I said in my testimony was, while the marriage penalty for many couples was temporarily eliminated with the 2017 Act, it still remains in the Earned Income Tax Credit community, as well as high-income households. And in high-income households, Black Americans are still more likely to pay a penalty than their White peers.

Representative Schweikert. But that was—as you have seen the charts—but that is actually sort of a thin, very much more wealthy stratus. What I have been hunting for is trying to see, before the pandemic, because as some of the charts I just submitted show, it was really our first time that wealth inequality was really, really fairly steeply changing in 2018 and 2019, which is a personal fixation of mine.

But I have also seen African-American, Hispanic families, their percentage in poverty in 2018–2019. Now I think a lot of that was finally a more egalitarian value of labor. You have also written about, and we probably should take a real serious look at the ability to itemize deductions, because that actually does skew for——

Professor Brown. Higher income.

Representative Schweikert [continuing]. Yes. Are you still of that mindset?

Professor Brown. Oh, absolutely. And right now we have only 1 in 10 Americans who are itemizing deductions. Why do we need to keep it?

Representative Schweikert. Alright, you will be happy to know there is someone even on my side who reads much of your stuff.

Professor Brown. And I am very happy. Thank you.

Representative Schweikert. It is a fascinating subject, and I am hoping, Chairman Beyer, in the coming weeks we can actually have a discussion of how much of the spending in the United States is actually subsidizing the very, very, very rich.

We are actually working on a small project that demonstrates that when we discuss change in capital gains taxes and some of those things, we may create some distortion in the economy that produces productivity, that therefore really hurts working people's wages. But on the other hand, we spend a trillion-plus dollars subsidizing the rich. So the subsidized flood insurance for your multimillion dollar house on the coast.

Mr. Rowe, or Dr. Rowe, I am fascinated because, being from Arizona, you know, my ethnic breakdowns are a little bit different. I represent a couple of Tribal communities. My Hispanic population, which I think sometimes are the Census definition of Hispanic, is a little bit more complex, has been becoming very entrepreneurial.

With what you are doing with education, are you seeing a model than I can bring that to my Native American communities, to my Hispanic communities, or even those out in the Southwest. What can we do to help sort of this class stratification that we seem to be going back to?

Mr. Rowe. Well that is a good question. Again, I will start with my own personal experience in the South Bronx. So right now there are 5,000 families waiting on a wait list to get into a great school. And if you had a great idea, if you had the idea to launch a great school today, you could not do it because there is a cap on the number of charter schools.

There are incredible people—incredible Black leaders, who want to start amazing schools for kids, and they cannot. It is crazy. School choice exists for middle and upper class families across the country, but for some reason we want to restrict choice for the very people who need it most.

And as one example of what choice can matter to the school system that we are launching next year, Vertex Partnership Academies, will be an international baccalaureate program that both has a diploma pathway which is a pathway to college, and the international baccalaureate careers pathway which will be a pathway where you can have an industry credential with labor market value upon graduation.

Both are of equal status, but it recognizes the fact that we want to create options for kids no matter what they choose to do. And the more that we build in these kind of apprenticeship models, internship models, in the 11th and 12th year of high school, that is what gives kids more choice and a pathway to building wealth.

But we cannot get there if parents do not even have the ability to choose the great schools for their kids.

Representative Schweikert. And there becomes our great battle. Will our brothers and sisters be willing to take on the teacher's unions.

So, Mr. Chairman, thank you for your patience with us.

Chairman Beyer. Thank you very much, Mr. Schweikert. I now recognize Mr. Pocan.

Representative Pocan. Is this working?

Chairman Beyer. You are good. Go right ahead.

Representative Pocan. Sorry about that. We tested it in the beginning, but something happened. Thank you, Mr. Chairman, and thanks to all of our witnesses.

I am going to slightly change the order, because I was watching the last questions, and I serve on the Education and Labor Committee as well as the Appropriations for Education. And my experience with charter schools, especially private charter schools, is they have a dismal rate of success. Many get money and never open.

I was watching Professor Hamilton's head nodding during that. Would you like to make some comments about that? Because I do not think taking money from public schools is in the best interest of solving the racial wealth gap.

Dr. Hamilton. Thank you for that. And there is a certain amount of irony that Mr. Rowe began his comments by touting his credentials in being a public school graduate, and always going to public schools.

He also pointed out the fact that he graduated from Brooklyn Tech, which is the centralized high school in New York City that, one might argue, has a talented and gifted curriculum.

I think at issue is we need to have pervasive, talented and gifted curriculum throughout the school system so that we are not engaged in zero-sum battles about some schools offering it and others not. So I think an investment in public schools, and we can do this. You know, America—you know, I do not have to tell you all—is a very powerful country with a great deal of resources. We can get committed teachers throughout the public school system that are empathetic to the experiences of students, and make sure everybody has a talented and gifted curriculum and not segregated within and across schools where Black students do not have access to that curriculum but White students do.

Representative Pocan. Thank you, Professor Hamilton.

Professor Rowe, I am giving you a thumbs up. So that is good. That is the best. Public schools, I agree. Let me ask a question about the Child Tax Credit. You know, we in the American Rescue Plan have a Child Tax Credit in there, and often we know that a lot of Black children have not been able to receive the maximum Child Tax Credit because it was not fully refundable, and people were unable to get the full credit.

We made it fully refundable. I am looking at—Professor Brown, you are nodding your head. This is apparently how I ask questions if I see nodding.

Can you just talk a little bit about that? Is that something we should make permanent? And would that help the racial wealth gap?

Professor Brown. Yes. Absolutely. And I just want to say, I was born and raised in the south Bronx, so Mr. Rowe is not the only one. I just want to say that.

Okay, so absolutely it should be made permanent. But because it was not fully refundable, there were a lot of Black and Latinx children who should have been valued and were not able to benefit from it.

Representative Pocan. Great. Thank you. And then also, Professor Brown, because you brought this up in your opening comments, I am a huge proponent of Pell Grants. Having been a recipient, growing up in a lower middle class family. I do not want to take the ladder up with me, but I think that Pell Grants—right now, working with Bobby Scott on a very significant bill in the next few weeks when it will be released.

Can you talk a little more about the Pell Grants and fixing some of the problem when it comes to higher education access, as well as the treatment of student loan debt that currently exacerbates the wealth gap. And if you wanted to talk a little about interest rates, because I have got a bill to allow people to refinance student loans.

Can you answer that group of questions?

Professor Brown. Yes. So Pell Grants, right now 70 percent of Black college students receive Pell Grants, as opposed to something like 30-something percent of White college students. Pell Grants have not kept up with inflation.

When they were first proposed, Pell Grants paid for roughly 70-something percent of college. And right now it pays for 20-something percent. So increasing Pell Grant significantly is going to be important to Black college graduates in the future graduating with significantly lower debt. Because right now, college student debt is crippling the Black community not only because Black students graduate with more debt, but there is a significant percentage of Black students who start college who never graduate, but they leave with high amounts of debt.

So anything to decrease the amount of college debt would be a great thing going forward.

Representative Pocan. Great. Thank you. And I do not know if I can give this justice—I know I can't in the 36 seconds—but we have not talked about reparations. Sheila Jackson Lee has a bill that I am going to try to have a commission to study reparations.

Does anyone want to take a quick 26-second crack at it, please? Professor Hamilton, I see you nodding.

Dr. Hamilton. I mean, at the end of day reparations is a necessary ingredient if we are ever going to get beyond the historical sin at our inception that has devalued Black lives.

America needs to take account, atone for it, and redress it. I mean, also it will benefit poor people, writ large, because it will ground inequality in what it is actually grounded in, not deficit behavior, not deficit attitude, but rather resources, and ensure that every American, Black or White, is properly resourced so that they can truly benefit from the activities of a market, or whatever agency they want to offer to attain their self-determined goals.

Representative Pocan. Thank you. Mr. Chairman, thank you for the indulgence. I yield back.

Chairman Beyer. Absolutely. Thank you, Congressman Pocan. And now we get to hear from the former Secretary, or Treasurer of Kansas who has had a lot of responsibility for resources, Mr. Estes.

Representative Estes. Well, thank you, Mr. Chairman.

America remains a beacon of hope for millions around the globe who live without freedom or opportunity. And while hurdles certainly exist for many in our country, including family instability, unaffordable housing, and as mentioned earlier failing schools, the United States remains a leader in economic opportunity and entrepreneurial drive.

Our country provides Americans an equal opportunity to improve their economic situation through things like hard work, self-discipline, education, and a committed family. This success sequence goes beyond helping Americans with their financial goals, but to truly achieve the American dream.

Yet, many Americans do face real hurdles, and I believe we will find solutions for those. We need to understand why housing is so expensive, and what is causing the epidemic of family instability in our culture.

The National Association of Home Builders recently said that building homes cost an average of $36,000 more than last year, and a fourth of that price is due to regulations. This includes higher lumber prices, wages, and a labor shortage.

If owning a home is a key to building wealth and passing it down to children and grandchildren, which I believe it is, we need to look at policies that help Americans save money on homes, like less regulations and lower taxes.

Rather than punish Americans who have climbed up the corporate economic ladder, we need to look for ways to help open the doors of opportunities for all Americans.

One example of common-sense policy to help create economic opportunity was a recent reform in my home State of Kansas that will decrease occupational licensing requirements for military families who move in to Kansas. It will cut down wait times from 60 to only 15 days for military members and their families, allowing military spouses to return to work sooner after relocating.

This is an example of a simple reform that is focused on expanding opportunity by cutting red tape, and ultimately helping to increase the wealth of others.

I think it is important that we point out that in America wealth is not a pie. If someone works hard and does well, they are not taking away from someone else's piece of the pie. In fact, they may be helping create an even bigger pie by creating a job for them.

Unfortunately, we are pursuing policies today that make it harder for that to happen. Tax hikes and more regulations will combine to form barriers to affordable housing for Americans who are trying to build wealth.

I want to turn to Mr. Rowe and ask a few questions. Mr. Rowe, your work has helped many succeed. What are some of the key ingredients to creating more of these success stories?

[Pause.]

I believe you are on mute.

Mr. Rowe. Thank you for the question. I will once again proudly say I am a graduate of the New York City Public School System, and Brooklyn Tech. And it is, it is one of the specialized high schools in New York, and there is frustration that there are not enough Black and Hispanic kids going to Brooklyn Tech.

So what has been the idea? The idea is to somehow increase the number of Black and Hispanic kids, is to eliminate the objective standard. Eliminate the assessment. It is reducing the standard, so instead of saying how do we improve the quality of education K through 8 so that more kids can compete to be successful in these specialized high schools, and why don't we create more great high schools, as I am doing, launching Vertex Partnership Academies so that kids in the Bronx, those 5,000—and that is just for our network—tens of thousands of families are desperate, desperate for a great chance to go to a school like Brooklyn Tech. I agree. We need all of our public schools.

I champion public schools. That is why I run public charter schools. And you mentioned the success sequence. I do think it is important for folks to know, you know, in 2017 there was a report called the Millennial Success Sequence that found that a stunning 91 percent of Black people avoided poverty when they reached their prime young adult years, aged 28 to 34, if they followed what is called the Success Sequence—and again, that is no guarantee, but that is the term—but essentially they earned at least a high school degree, worked full time so they learned the dignity and discipline of work, and married and had children, in that order.

And this is not the only study, "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States." He studied intergenerational mobility of more than 40 million children and their parents. He found hyper willful factors, most notably measures that father and marriage rates in a given location drive upward mobility. If we know that, we have to make that part of the conversation.

Representative Estes. Well thank you. Because you are, I am also a proud graduate of public schools, and I insisted that my kids go to public schools. I wanted them to get a good education there.

I also want to make sure that when public schools are failing, that we can come up with opportunities to make those work right and improve, and hold them accountable so that they can help all children.

So I appreciate the time and, Mr. Chairman, I yield back.

Chairman Beyer. Congressman Estes, thank you very much. And now I will recognize my good friend, the Congressman from Maryland, Mr. Trone.

Representative Trone. Thank you, Chairman Beyer, and Ranking Member Lee for holding this hearing. And thanks to the witnesses for joining us.

I want to talk a little bit about equity. Professor Hamilton, it is clear that COVID had a disproportionate negative impact on our minority-owned businesses. And during these difficult times, many Americans have had to make really impossible decisions about how to support their families, and keep their companies afloat.

We have been working with our colleagues to find solutions to support these struggling businesses. The Paycheck Protection Plan literally saved 50,000-some jobs in my district alone. But when you looked at the numbers, it was clear that Black, Hispanic, women-owned businesses in Maryland's Sixth District were disproportionately excluded from this important program.

That is why we helped lead efforts to increase the outreach to small business, people of color, women, with the Jobs and Neighborhood Investment Act, which was an almost $18 billion investment to provide eligible community development, financial institutions, and minority deposit institutions with capital, liquidity, operational capacity to expand the flow of credit into low-income and minority communities. In recent months, the vaccine is beginning to work and more people are getting vaccines and we are returning to a new normal. So in this new phase of this pandemic, how do we best support minority-owned businesses?

Dr. Hamilton. Thank you for that. You know, the biggest preexisting condition of them all is what we are talking about today, and that is wealth. Minority businesses were under-capitalized to start with. Those with capital are better protected during a pandemic. Those with capital are better positioned to benefit from government policies that are enacted. And the PPP provided an example.

My colleague, Professor Brown, has pointed out that because of existing banking relationships certain businesses were better positioned to benefit than others. So we need to do things to redress this.

And let me also point out some of the good things. We saw with the PPP, it was effectively grants, not just loans, it was distributed in the form of loans, but they were forgivable loans. We need only look at history to show that government can direct capital in a way to provide a foundation so that businesses can flourish.

I think what we need to be cognizant of is that we need to be intentionally inclusive based on race and gender in pursuing these capital finance products. So what does that mean?

It means to recognize that if we are going to do it through banks, that some businesses will have better banking relationships than others. There is no reason that we cannot establish the right to an account not only for every American, but every business. In a modern-day 21st century, we can do things like that. So, you know, I would argue that we need to see more providing capital to these businesses, and distributing it in a way to recognize the history of ways they have been excluded, and intentionally be inclusive going forward.

Representative Trone. I agree. The lack of capital is a major, major issue here. Let's jump over to Professor Baradaran—I am sure I got that wrong—quickly here, how can we ensure investments in the American Families Plan, the American Jobs Plan, can be targeted at these long-standing racial wealth gaps that we have in this country?

Professor Baradaran. Yes, thank you for the question. Ba-rad-a-ran. You know, I think if we want to target them through the communities, we can just do it directly. You know, the redline map leaves racial gaps, and they were not created accidentally.

The FHA mapping of this country, the way that these policies were created were not race-neutral. They were not color-blind. And they were explicit about if there were Black people that live in this neighborhood, we will not lend to that neighborhood.

And that was true through racial covenants, and they were very, very explicit. Now obviously we cannot be very explicit anymore, but those explicit racial exclusions still remain. Those effects remain. And so you really do have to target those places and bring up that meaning here, right. I mean the same thing with the PPP loan. If you kind of throw water in a valley, it is going to accumulate at the bottom. And so any program we put atop an unequal system, you are going to have unequal results until you change the playing field, the topography of the country. And that is what we need to do.

Representative Trone. It makes a lot of sense. Mr. Chairman, I yield back.

Chairman Beyer. Thank you, Mr. Trone, very much. I now recognize the good Senator, Mr. Cassidy.

Senator Cassidy. Thank you, Mr. Beyer.

Mr. Rowe, do the reparations effectively address the wealth gap?

Mr. Rowe. I am much more of a fan of encouraging entrepreneurship in the Black community, because we have a rich history of doing so. But as the others have said, getting access to initial capital is part of the big problem.

So how do we actually——

Senator Cassidy. I accept that. I accept that. But that is not reparations. So I just have limited time. I don't mean to cut you off. And I don't know quite how it is supposed to be structured, but is there financial literacy pervasive enough in the African-American community that could, if given a large lump sum of money, an individual or a family would be able to handle that money wisely? I say that not pejoratively, but just because financial literacy is so important to do so.

Mr. Rowe. Well I think financial literacy is important for people of all races. It is not just——

Senator Cassidy. Absolutely. Absolutely.

Mr. Rowe. So one of the interesting things that is happening is that there are many new models emerging around how to encourage entrepreneurship, particularly in the Black community.

Senator Cassidy. I am going to cut you off, because I have some questions. I will note that financial literacy—I spoke to a man yesterday who was very engaged in creating it within the African-American community, but again folks, particularly who are lower socioeconomic, typically have poor financial literacy. So just to point that out. I am not quite sure—Dr. Hamilton.

Dr. Hamilton. Well simple choice can help there, too, because there are great schools that are teaching financial literacy. We in our own schools——

Senator Cassidy. Hang on. I'm sorry, I am coming back to you. Dr. Hamilton, are you really opposed to school choice?

Dr. Hamilton. I am opposed to diverting resources from establishing a public school system that entitles every American to a high-quality education.

Senator Cassidy. Dr. Hamilton, let me stop you for a second. So during the pandemic, teacher's unions would not allow public schools to open, but private and parochial did. And many charter schools did.

Now should we have kept the resources in the public schools that did not open? Or should we have allocated them to the schools that actually opened? Because we know that people in poverty, and children of color, were particularly impacted by not having in-person experience.

So over this last year, should we have just given everything to the public schools that did not open? Or should we have given some to those that did?

Dr. Hamilton. So I have got two quick responses. One is, going back and saying financial literacy is practically useless for families with no finances to manage in the first place.

Going back to the——

Senator Cassidy. I will come back to that, but if you would answer the question I asked you, please?

Dr. Hamilton. Sure. I think the pandemic posed some nuanced questions that require a more nuanced answer than a simple yes or no to the question you posed.

Senator Cassidy. It was not a yes or no. Should the money have stayed in a public school system that did not open and did not serve the children of poverty who are disproportionately affected by not having an in-person experience?

Or should it have flowed to benefit those children even if they are attending a charter, private, or a parochial school?

Dr. Hamilton. I think in a global pandemic with grave health risks, first and foremost we need to protect people and make sure they are not at risk——

Senator Cassidy. They are not——

Dr. Hamilton [continuing]. Answering the question—I am answering it directly.

Senator Cassidy. It is well established that transmission was not occurring in school settings. And public, private, and parochial—excuse me, charters, private, and parochial reopened and there was not in-school transmission. And public schools kept taking it as a dodge, and we had a whole year of life lost for these children who lacked that education.

Should the money have been diverted to those schools that were actually open, to benefit those children?

Dr. Hamilton. The answer is, the money should have been directed in a way to make all schools open safely.

Senator Cassidy. Let me stop you there. My wife is involved with a public charter school, because clearly, clearly you do not want to answer that question——

Dr. Hamilton. No, I——

Senator Cassidy [continuing]. Because I can tell you, those kids have been penalized. They have been penalized, and we supposedly are advocating for them, but, no, it is more about teacher's unions than it is about those children.

Let me just say this. My wife is involved with a public charter school for children with dyslexia. We can look at Black and Brown children, 50 percent of them do not read on grade level by grade 3. Now many of them are dyslexic. They are not diagnosed.

Should the African-American mamas who choose to send their children to that charter school have the right to send their children to a charter school which addresses their children's dyslexia, or, no, should they be stuck in a school which does not address it?

Dr. Hamilton. Well, as Representative Peters pointed out, there is no empirical evidence to suggest that charter school outcomes en mass lead to better outcomes than public school outcomes——

Senator Cassidy. But when they shut down—that is the other nice thing about them. If they fail, they close. Whereas a public failing charter—a public failing school remains open. So I will concede that point, but also point out that, but nonetheless go back to my question: Should the African-American mother have the right to send her child to a school which is open, seeing kids, and which addresses her child's dyslexia, or should she not?

Dr. Hamilton. I think the premise of your question limits the choice of a scarce response that does not recognize the more structural approach that we can do to address the problem, which is to ensure that every American has access to a quality and challenging curriculum throughout all public schools en mass.

Senator Cassidy. So I guess, since public schools are not offering specialized curriculum for dyslexia, the only way to access it would be through a charter school. But I am not sure I am going to get you to agree with that.

With that, Mr. Chair, I yield back. Thank you.

Chairman Beyer. Thank you, Senator, very much. Do we have Senator Klobuchar or Senator Warnock, please?

[No response.]

Both have been bouncing among other hearings. If we are not, we have come to the conclusion of the questions for our various participants. I just want to thank all of you very much for this. We got steered to an interesting conversation about charter schools, which may not be the most central piece of our discussion on overcoming the gap in race, but——

Mr. Rowe. But it is an important one.

Chairman Beyer. Yes. It is important that we talk about everything from banking, to baby bonds, to changing the law and the tax structure. I learned an amazing amount today, and I am really grateful for all the different perspectives that you offered.

And we have a lot to follow up on that we will be looking at. So Elizabeth Warren has a bill on postal services and banking. I would love to look at the 21st century Homestead Act. And every time I talk to Professor Hamilton, my list gets a lot longer. So we are very grateful for all you have done.

So let me just formally say——

Mr. Rowe. May I make one final comment about financial literacy?

Chairman Beyer. Yes, please.

Mr. Rowe. I just wanted to give another example of something that we do in our schools, and could be emulated. Starting in our pre-K with our 4-year-olds, we set up college savings accounts of $50. The parents would set up, and we would match every single year. And what was really interesting for our 4-year-olds, they had now a college saving account in their name.

And what our parents told us was it changed their dinner conversation about the future. And it is just so—even though they were small amounts of money, it changed the way that young people looked at their future and their level of ownership. And this idea of college was something that was really important.

So I think there are ways, even in extremely—in extreme poverty, to introduce this idea of saving, financial literacy, delayed gratification, all of these things are future orientation that can be very powerful.

Chairman Beyer. You have made a pretty good case for baby bonds. We will get you to come testify for that.

Mr. Rowe. We should talk about baby bonds.

Dr. Hamilton. Just a quick response to say that I am all for assets going toward children, but the reality is that those savings accounts as described as structured, when that child becomes a young adult and is ready to go to college, they will not nearly have enough resources so that they can afford that child a debt-free college education, despite the reorientation. This issue centers on capital.

Mr. Rowe. I would love for this to go on, but this is so great.

Chairman Beyer. I will tell you, as a long-time businessman, too, it is always more fun to count your own money than somebody else's. And it ratchets up your financial skills greatly when you have something to actually count.

So let me formally say that wealth, as we discussed today, is an enabler of opportunity. It places the promise to the American Dream within reach for generations. But the persistence of the racial-wealth gap gets in the way of this promise and hinders our Nation's economic growth.

And Congress must think about ways in which we can help Black and Brown families bridge this wealth divide. So thank you to our legal scholars, Professor Brown, Professor Baradaran, for helping us understand how public policy and our tax laws continue to perpetuate the existing racial disparities in credit, banking, and wealth. Your equity analysis and focus on solutions help us to think more creatively about how the Federal Government can help bridge the gap.

And thank you, Mr. Rowe, for sharing your expertise in education. Good luck with Vertex next year. And thank you for reminding us of the importance of delivering a quality education.

And thank you to our economist, Dr. Hamilton, for helping us see how the stratification of our economy affects the wealth of Black families. Seeing the deterministic role that wealth plays in a range of outcomes helps us to know where to begin.

I thank all of my colleagues for joining us in this important discussion. There is so much we can do to right our wrongs, to make the tax system more equitable, to facilitate banking services and credit, and to grant every child an opportunity to build wealth and follow their dreams.

So we have our work cut out for us. We hope we will be working with all of you closely again, year in and year out. Thanks for your participation today.

The record will remain open for three business days. And with that, the hearing is formally adjourned.

[Whereupon, at 11:44 a.m., Wednesday, May 12, 2021, the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. DONALD BEYER JR., CHAIRMAN, JOINT ECONOMIC COMMITTEE

This hearing will come to order. I would like to welcome everyone to today's hearing focused on the racial wealth gap.

I want to thank each of our distinguished witnesses for sharing their expertise today. We have an all-star panel and I am excited to hear what they have to say.

WEALTH ENABLES OPPORTUNITY

As everyone here knows, wealth, and the accumulation of wealth, enables opportunity. Wealth makes it easier to pursue education, buy a car or a home, even to take a chance on an idea and start a business.

Wealth is security. Having some financial cushion allows families to absorb financial blows like those experienced because of COVID–19: a medical emergency or the loss of a job.

Wealth begets more wealth. It is often passed on from one generation to the next. Indeed, our tax policies have made these transfers much easier to execute. Our estate tax provisions enable couples to pass along up to $23 million tax-free to their heirs—23 million dollars.

Unfortunately, the inverse is also true.

With minimal or negative wealth, avenues of opportunity are too often closed—a problem that is perpetuated from one generation to the next.

THE PROBLEM

Our Nation is plagued by persistent and growing income and wealth inequality. This inequality is particularly tenacious along racial lines. According to the most recent data from the Federal Reserve, in 2019, the median White family had wealth of 8 times the wealth of the median Black family.

The absolute differences are far greater if you look at the average or mean. One other statistic helps to shine a spotlight on the inequities–25% of white households have a net worth in excess of $1 million, compared to just 4% of Black households.

The racial wealth gap disadvantages Black and Brown families, individuals and communities, as persistent inequities in wealth manifest in all kinds of ways.

For example, Black students generally take on much higher levels of student debt than white students and are much more likely to see that debt grow as they enter the workforce.

And Black families have much lower homeownership rates–fewer than one half of Black Americans own their homes compared to about three-fourths of white Americans.

Even Black families who own their homes face disadvantages. They face lower home values than those of white families, about a third lower.

Beyond the damage the racial wealth gap does to Black and brown communities and families, the racial wealth gap also constrains the U.S. economy as a whole, limiting our growth and productive capacity.

THE CAUSE

How did we get here?

Much of the racial wealth divide today is explained by the inability of Black families to transfer wealth from one generation to another. This is the product of decades of systemic racism and exclusion in our country, with policies such as redlining, restrictive covenants and other forms of housing discrimination playing a role.

The racial wealth gap is also the result of a tax code that disadvantages Black Americans in the ways it exempts gains on home sales, its treatment of income for married couples and even the tax incentives provided for employer-sponsored retirement plans.

The gap is also the result of dramatically unequal access to credit and financial services. Black Americans are more likely than white Americans to lack access to these basic services.

PROPOSALS TO MAKE PROGRESS

The racial wealth gap is pernicious–and making real progress requires a sustained, multi-pronged effort. There are lots of good ideas that we'll hear more about today from our expert panel.

Baby bonds to provide each child with an interest-bearing account at birth. This would ensure that when anyone turns 18, they would have assets to use on education, to start a business and for other productive uses.

We need to do more to improve access to education with strong pre-K–12 opportunities married with improved access to affordable post-secondary education. Tuition-free community college is a part of that. Student loan debt forgiveness is also a piece of the puzzle.

But we need to acknowledge that education is far from a panacea. The typical Black family with a Bachelor's degree has less wealth than the typical white family with a high school degree.

Disparities persist even after accounting for income or family structure, reminding us that we need to be intentional about asset building.

ACKNOWLEDGING THE COUNTRY'S HISTORY

The House passed out of committee legislation (H.R.40 after the failed promise to provide former slaves with 40 acres and a mule) that calls for creating a commission to study reparations.

This is an important step to face up to our Nation's past and to begin the process of providing compensation and restorative justice.

We have a long way to go in this country to close the racial wealth gap. And we're only going to get there if we dramatically intensify our efforts.

And this is why I look forward to the testimony of our witnesses. Now I would like to turn it over to Senator Lee for his opening statement.

PREPARED STATEMENT OF HON. MIKE LEE, RANKING MEMBER, JOINT ECONOMIC COMMITTEE

Good morning and thank you to Chairman Beyer for convening today's hearing.

At the heart of the American Dream is the ability to build a productive and happy life for oneself and one's family. Necessary to that endeavor is, of course, the opportunity to build wealth.

Unfortunately, while average wealth for all American households has risen in recent years, it remains a fact that Black and Hispanic households have consistently held less wealth than White households.

Wealth is built through the accumulation of assets, including homes, savings, and inheritances. But accumulating assets requires income and income requires opportunity.

The crucial question, then, that we must ask to address the racial wealth gap is this: how can we increase opportunity for those with less wealth so that they can build more? And what are the things that get in the way of opportunity and upward mobility?

As Martin Luther King wisely observed, "a productive and happy life is not something you find, it is something you make." But it is something you make with other people. Indeed, supportive relationships and institutions are vital to facilitating opportunity.

The Social Capital Project of the Joint Economic Committee has for the past few years studied the health of families, communities, and civil society, documenting changes in social capital over time and its uneven geographic distribution across the country.

Often historical injustices have far-reaching consequences for future generations. One of the Project's striking early findings was that there is a connection between counties with large enslaved populations in 1860 and the counties with the lowest rates of marriage and intact families today.

Slavery stole agency from Black Americans for generations, tearing apart one of the most vital supports for human flourishing—the institution of the family. This horrific legacy, as well as the horrific legacy of racism, has undoubtedly led to far-reaching consequences for Black opportunity.

But other policies have also weakened social capital and opportunity.

Many Black Americans have paid the price for government-sanctioned redlining, lack of lending resources for homes and businesses, and union job discrimination that their parents and grandparents faced. These policies made it that much harder to build intergenerational wealth.

Today, there are still other policies that present barriers to opportunity—enduring policies that lock so many out of affordable housing, a quality education, and job opportunities.

For example, unequal access to quality education plays a large role in upward mobility and economic success. Unfortunately, because of public school zoning and residential zoning policies, many minority children from low-income families are required to attend lower-performing public schools. As a result, they are less likely to do well on standardized tests, graduate high school, and move on to college. They are more likely to end up unemployed, or in lower-skilled jobs with lower earnings.

Occupational licensing laws are often a needless barrier to work, particularly for disadvantaged Americans. Many states have onerous requirements for jobs that can be done with little risk to workers and those that they serve—including jobs performed by florists, hair braiders, and barbers—and those requirements make it hard to earn a living.

Similarly, zoning and land-use regulations prevent the formation of home-based businesses that would allow for more Black entrepreneurship. And zoning segregates Americans by race and by class.

Our current safety net programs include disincentives for both work and marriage, keeping many minorities trapped in a cycle of dependence and poverty, and preventing wealth accumulation and stable family formation.

Family stability also plays a key role in affecting long-term opportunity. White children are nearly three times more likely than Black children to be born into married households, and children born into married households are less likely to be in poverty, and more likely to achieve upward mobility. In fact, one study found that the greatest predictor of young Black children's ability to move up to a new income class is the presence of Black fathers in their neighborhoods.

In these, and other policy areas, we have much room for improvement to address existing barriers and enhance opportunity. But it's important to add that, as far as we have to go, we have made progress, too. Personal agency is not lost; and many Black Americans have advanced and flourished in spite of the barriers and discriminatory legacies they have faced.

As my friend and colleague Sen. Tim Scott recently said:

"Just before COVID, we had the most inclusive economy in my lifetime. The lowest unemployment ever recorded for African Americans, Hispanics, and Asian Americans. The lowest for women in nearly 70 years. Wages were growing faster for the bottom 25% than the top 25%.

"That happened because [we] focused on expanding opportunity for all Americans."

Together, I believe we can continue working to expand opportunity, to help all Americans build a happy and productive life for themselves and their families, and thereby make savings and wealth accumulation a reality for all.

Abraham Lincoln, in his message to Congress on July 4, 1861, wrote that the leading object of government was "to elevate the condition of men; to lift artificial weights from all shoulders; to clear the paths of laudable pursuit for all; to afford all an unfettered start and a fair chance in the race of life."

It is my hope that this hearing will help us do the same.

Thank you.

Testimony of

Dorothy A. Brown

Asa Griggs Candler Professor of Law, Emory University

Before the

U.S. Congress Joint Economic Committee

May 12, 2021

Chairman Beyer, Ranking Member Lee, and members of the Committee: Thank you for inviting me to share these views on the role that our tax system plays in perpetuating the racial wealth gap.

In my testimony today, I will discuss three ways that tax policies are increasing the racial wealth gap. The first looks at the tax breaks for marriage. The second looks at tax breaks for paying for college. The third looks at tax breaks for gifts and inheritances. But if there is one thing that I hope you take away from what I will be sharing with you is that the racial wealth gap will not be eliminated without a fundamental change in our tax laws.

Every year when tax returns are due, black Americans pay higher taxes than their white peers. We would never know this information however because the Internal Revenue Service does not publish statistics by race. They have published statistics by gender and age however.[1] My book *The Whiteness of Wealth: How the Tax System Impoverishes Black Americans – And How We Can Fix It*,[2] based on over two decades of research shows how tax policy advantages white Americans while disadvantaging black Americans, often when they engage in the same

[1] Jeremy Bearer-Friend, *Should the IRS Know Your Race?: The Challenge of Colorblind Tax Data*, 73 Tax L. Rev. 1, 17 n. 78 (2019) ("For example, age and gender information collected by SSA is shared with IRS and appears in IRS SOI publications.").
[2] Dorothy A. Brown, THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT (Crown Publishing Co. 2021).

activity. Those additional taxes lead to fewer dollars available for saving and investing and building wealth. Tax policy contributes to the racial wealth gap.

Tax subsidies for marriage contribute to the black-white racial wealth gap.

Tax subsidies for marriage benefit white Americans more than black Americans. "Overall, the research reveals that African Americans are the least likely to marry, when they marry, they do so later and spend less time married than White Americans, and they are the least likely to stay married."[3] The majority of white Americans are married, the majority of black Americans are not. As a result, tax subsidies for marriage will disproportionately benefit the majority of white Americans.

Now let's move to a comparison of white and black married couples. My research shows how subsidies for marriage disproportionately benefit white married couples, while disadvantaging black married couples. It begins with the marriage bonus, which provides a tax cut for married couples in single wage earner households. The single wage earner pays less taxes on their joint return, than the single wage earner would pay had they remained unmarried. My research shows that single wage earner households are more likely to be found among white married couples.[4] The marriage penalty on the other hand describes the tax increase for married couples when both work in the paid labor market. The marriage penalty is the greatest when married couples are in roughly equal wage earner households – when couples contribute 50-50 to household income. Those couples pay higher taxes when they get married, than they would have paid had they remained single. My research shows that black married couples are more likely to

[3] Patricia Dixon, Marriage Among African Americans: What Does the Research Reveal?, 13 Journal of African American Studies, 32 (March 2009).
[4] Dorothy A. Brown, THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT pp. 50-57 (Crown Publishing Co. 2021).

be equal wage earner couples than their white peers. In other words, tax policy decisions contribute to a married black couple's inability to create more wealth.

A study of black and white families over a 25 year period between 1984 and 2009 showed "getting married…significantly increased the wealth holdings for white families by $75,635 but had no statistically significant impact on African-Americans." [5] I believe the marriage penalty, disproportionately paid by black married couples during those years is part of the reason why.

And while the 2017 Tax Cuts and Jobs Act temporarily eliminated the marriage penalty for many married couples, it did so by significantly increasing the marriage bonus and by leaving intact the significant marriage penalties found in earned income tax credit households. So even if a black married couple does not pay higher taxes today, their white peers get a tax cut that they are ineligible for. In addition, the 2017 Tax Cuts and Jobs Act did not eliminate the marriage penalty for high income married couples and there is a higher percentage of high income black married couples paying the marriage penalty when compared with their high income white peers.

There is also a single's penalty in our tax laws. A single worker with $50,000 of income will pay higher taxes than a married couple with a single wage earner who earns $50,000 of income. The marginal tax rate for the single taxpayer is 22 percent compared with 12 percent for the married taxpayer. Almost half (47%) of black Americans are single, compared with just over a quarter of white (28%) and Hispanic (27%) Americans.[6] As a result, black Americans are disproportionately paying the single's penalty along with over a quarter of other taxpayers.

[5] Thomas Shapiro, Tatjana Meschede, and Sam Osoro, The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide, Research and Policy Brief 3 (Feb. 2013), Institute on Assets and Social Policy, Brandeis University https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf
[6] Profile of Single Americans, Pew Research Center, August 20, 2020; https://www.pewresearch.org/social-trends/2020/08/20/a-profile-of-single-americans/

My proposed solution is a repeal of the joint return which only entered the tax code in 1948. It would immediately eliminate the marriage penalty and single's penalty currently being paid by hard working Americans. No longer would their extra tax dollars subsidize certain married taxpayers – that are disproportionately white. The repeal of the joint return would mean that black Americans currently paying higher taxes would have more money available to save towards building wealth.

Tax subsidies for higher education contribute to the black-white racial wealth gap.

Black college students leave college with more student loans than their white peers. The average black college graduate has $7,400 more in student loans than the average white college graduate.[7] Four years after graduation however, black Americans owe an average of $52,726 in student debt compared with $28,006 for white college graduates. And the gap is present across income levels.[8] Not even wealthy black taxpayers can protect their children from higher student loan debt.

Wealthy black parents cannot protect their students from college debt the way their white peers can. Their children have higher student loan balances than their white peers.[9] That is true because black wealthy parents hold assets differently from their white peers. They have more

[7] Judith Scott-Clayton and Jing Li, Black-White Disparity in Student Loan Debt More Than Triples after Graduation, Brookings Institution, Oct. 20, 2016

[8] F.R. Addo, J.N. Houle, and D. Simon, "Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt," Race and Social Problems 8, no. 1 (2016): 64-76.

[9] Dorothy A. Brown, THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT p. 97-98 (Crown Publishing Co. 2021); Dorothy A. Brown, College isn't the solution for the racial wealth gap. It's part of the problem. The Washington Post, April 9, 2021, https://www.washingtonpost.com/outlook/2021/04/09/student-loans-black-wealth-gap/

invested in their homes and less invested in the stock market. In addition, Direct PLUS loans which have higher interest rates, are also common among black families.[10]

But why does black college debt grow over time, while white debt is paid off and reduced?

Black college graduates are more likely to attend graduate school compared with their white peers (47 percent vs 38 percent) and more likely to have graduate school debt (40 percent vs 22 percent).[11] Any college debt repayments will be deferred while the student is in graduate school increasing the principal balance over time. Coupled with income-based repayments which black college graduates use almost twice as much as their white counterparts. While created with the best of intentions, deferred debt and income-based repayments are contributing to an ever-increasing black student debt problem. Tax policy does not help matters here.

The deduction for interest on student loan debt is limited to $2,500 per return and subject to income limits. By my calculations, with black debt at $53,000 and white student debt at $28,000 in the first few years, black Americans are more likely to be unable to deduct all of their interest because it exceeds the $2,500 limit.[12] White Americans on the other hand, are more likely to be eligible to deduct all of their interest.

Student loan debt contributes to the racial wealth gap. Researchers have placed student debt at roughly 10 percent of the racial wealth gap when a college graduate is 25 years old, but by age 30-35, it explains about 25 percent of the gap.[13]

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[10] Andrew Kreighbaum, How Parent PLUS Worsens the Racial Wealth Gap, Inside Higher Ed, May 15, 2018, https://www.insidehighered.com/news/2018/05/15/report-finds-parent-plus-loans-worsen-outcomes-poorest-families-urges-policy-reforms
[11] Judith Scott-Clayton and Jing Li, Black-White Disparity in Student Loan Debt More Than Triples after Graduation, Brookings Institution, Oct. 20, 2016.
[12] Dorothy A. Brown, THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT pp. 123 (Crown Publishing Co. 2021).
[13] Id. at 125.

I have two solutions: (i) increase Pell grants; and (ii) student debt forgiveness.

According to the Center for Budget and Policy Priorities, "Pell covers just 29 percent of the average costs of tuition, fees, room, and board at public four-year colleges, … far below the 79 percent it covered in 1975."[14] Pell grants have obviously not kept up with the rising costs of college. Pell grants are awarded by income and roughly 70 percent of black college students receive them compared with 34 percent of white students.[15] Increasing the amount of Pell grants should enable future generations of black college students to graduate with *significantly* less debt.

I support targeted debt forgiveness. For example, 30 percent of people with incomes higher than $114,000 carry student loan debt. Forgiving their debt would not help decrease the racial wealth gap. But targeted debt relief to those in households with below median wealth would be preferable. Debt forgiveness should also include not just student debt, but parental debt – similarly to the way the Morehouse debt forgiveness program was structured.[16] Finally, Congress must ensure that any forgiveness is tax-free for those whose debts have been forgiven.

Tax subsidies for gifts and inheritances increase the black-white wealth gap.

The median household wealth of a white high school dropout ($82,968) is greater than the median wealth of a black college graduate ($70,219).[17] Part of the explanation lies in family financial transfers.

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[14] Spiros Protopsaltis and Sharon Parrott, Pell Grants – a Key Tool for Expanding College Access and Economic Opportunity- Need Strengthening, Not Cuts, Center on Budget and Policy Priorities, July 27, 2017, https://www.cbpp.org/research/federal-budget/pell-grants-a-key-tool-for-expanding-college-access-and-economic

[15] African American Students in Higher Education, Postsecondary National Policy Institute, June 12, 2020

[16] Kelly Tyko, Billionaire Robert F. Smith's $34 million gift to Morehouse grads includes parent loans, USA Today, Sept. 20, 2019, https://www.usatoday.com/story/money/2019/09/20/morehouse-billionaire-gift-smith-donates-34-million-pay-off-loans/2392458001/

[17] William Darity Jr., Darrick Hamilton, Mark Paul, Alan Aja, Anne Price, Antonio Moore, and Caterina Chiopris, What We Get Wrong About Closing the Racial Wealth Gap, Samuel DuBois Cook Center on Social Equity and

Research shows that gifts and inheritances explain about 5 percent of the racial wealth gap.[18] That study followed families over a 25- year period and showed that white Americans were 5 times more likely to inherit than black Americans. Among black and white Americans who actually received an inheritance, white Americans received about 10 times more wealth than black Americans. For each dollar inherited, white families were able to use 91 percent to increase their wealth, compared with only 20 percent used to increase black wealth. One explanation is that black Americans have extended family members who were alive during Jim Crow and received fewer opportunities to build wealth, because of government racial discrimination that are supported by higher income family members. Black college graduates are more likely to send money to their parents, depleting their wealth, while white college graduates were more likely to receive money from their parents enabling them to build wealth.[19] Once again tax policy exacerbates the racial wealth gap.

Gifts and inheritances are received tax-free.[20] Financial transfers by black Americans to help support family members are not tax deductible. Those without wealth do not have tax breaks to help them build wealth. I believe tax-free family financial transfers helps explain why white households with a high school dropout have more wealth than that found in the households of black college graduates.

Wealth Tax Credit as a Proposed Solution

Insight Center for Community Economic Development, April 2018, https://socialequity.duke.edu/portfolio-item/what-we-get-wrong-about-closing-the-racial-wealth-gap/

[18] Thomas Shapiro, Tatjana Meschede and Sam Osoro, The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide, Institute on Assets and Social Policy, Research and Policy Brief, February 2013, https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf

[19] Tatjana Meschede, Joanna Taylor, Alexis Mann and Thomas Shapiro, "Family Achievements?": How a College Degree Accumulates Wealth for Whites and Not For Blacks, Federal Reserve Bank of St. Louis *Review*, First Quarter 2017, *99*(1), pp. 121-37, https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/family-achievements-how-a-college-degree-accumulates-wealth-for-whites-and-not-for-blacks.pdf

[20] Internal Revenue Code section 102.

While there is no single tax policy change that can eliminate the racial wealth gap, I propose a tax credit that can help reduce the racial wealth gap. As explained in more detail in Chapter Six of *The Whiteness of Wealth*, I advocate for a wealth tax credit for all taxpayers in households with below median wealth. If your tax liability is lower than the credit, the taxpayer would receive the difference in the form of a refund, every year. If your tax liability is higher, the taxpayer would pay the difference, but that taxpayer would still pay less than those with the same income but with above median wealth. It would disproportionately benefit black taxpayers, because 83 percent of black households have wealth below the white median wealth, but it would also benefit taxpayers regardless of race and/or ethnicity with below median wealth. This proposal seeks to directly help those with the least wealth.

The Whiteness of Wealth discusses many other areas where our federal tax policies disadvantage black Americans in their quest to build wealth, but they all lead to the conclusion that our tax laws need a fundamental overhaul that places racial equity at the center in order to significantly reduce the racial wealth gap.

Reducing the racial wealth gap requires systemic change. It will not be easy, and it will not happen quickly. But I believe anytime we shine a spotlight on the complexity of the problem we make a positive step forward.

Chairman Beyer, (Ranking Member Lee), Vice Chair Heinrich and other esteemed members, Thank you for having me here today.
I am Darrick Hamilton, Henry Cohen Professor of Economics and Urban Policy and University Professor at The New School and Director of the Institute on Race and Political Economy.

Since our nation's inception, the immoral devaluation of Black lives has been ingrained in America's political economy, and manifested in a persistent, unjust, and enormous racial wealth gap.

We often think of wealth as an outcome, but its true essence is functional. Wealth empowers individuals to consume and invest in different ways. And wealth is iterative: wealth often generates more wealth, both within and across generations.

Wealthier families are better positioned to finance elite educations, access capital to start a business, *finance expensive medical procedures*, reside in higher amenity neighborhoods, exert political influence; purchase better counsel if confronted with an expensive legal system, leave a bequest, and withstand financial hardship resulting from any number of emergencies, **including as a global pandemic!**

Our unjust racial wealth gap is itself is an implicit measure of our racist past that is rooted in a history in which whites have been privileged by government complicit political and economic intervention that have afforded them access to resources and iterative and intergenerational accumulation.

This is in contrast to a history in which blacks (and indigenous people) the personhood and whatever capital and resources they may have established, have been vulnerable to exploitation and extrapolating by ***state complicit*** confiscation**,** destruction**,** terror, fraud, theft and other acts of violence.

As a result, blacks as a group have very little ownership in America's land or means of production, and remain in fear of violence, incarceration and literally bondage.

At issue, is our government's complicity in generating and facilitating this racial wealth gap.

This history of disenfranchisement -- **from slavery, to the Homestead Act to sharecropping to the foreclosure crisis**. Policies like Redlining, highway construction, and exclusionary zoning have all worked in tandem with restrictive covenants and regulatory controls to marginalize black Americans and constrain their economic participation and political power.

We use words like "choice" and "freedom" to describe the benefits of a proverbial "market," but choice is an illusion if individuals lack basic resources.

It is literally wealth that gives us choice, freedom and optionality.

E*conomic freedom* and *authentic agency* in rooted in resources (political and material).

The iterative effect is that wealth and capital are used to capture social, economic and political power; and enable those who inherit this power to further create and concentrate their wealth and power.

Yet much of the framing of racial wealth gap focuses on the poor financial choices and decision-making on the part of, largely, black, Latinx and poor borrowers. This framing is tied to the "a culture of poverty thesis" in which blacks are presumed to have an undervalue for and low acquisition of education.

This framing is wrong – *the directional emphasis is wrong* – it is more likely that meager economic circumstance – not poor decision making or deficient knowledge – *constrains choice itself* and leaves poor borrowers with little to no financial options, but to attain and use predatory and abusive financial services.

Households with few assets and low incomes are **compelled** to turn to high cost unconventional alternative financial products. They generally are aware that these products are predatory, but they have *no alternative*s – other than these "last resort," debt traps; which render recipients **"indentured borrowers,"** having to pay higher and higher interest and fees until, ultimately, they default on the original principle.

The sad irony is that those that can least afford finance in times of dire need, end up paying the most for finance.

Financial behavior and financial literacy are practically useless for households with little to no finances to manage in the first place, the issue is capital and political codification to protect that capital from exploitation and unjust seizure.

In terms of debt, what we traditionally conceive of as good and bad debt has different implications once we consider race, and the prevailing framework of targeting unprivileged racial groups with inferior housing and educational products, predatory finance, as well as ongoing housing and labor market discrimination that limits the choice set and rate of returns to home ownership and a college degree based on race and ethnicity.

High achieving black Americans, as measured by education, still exhibit large economic disparities relative to their white peers. And, when it comes to wealth, these disparities often grow, rather than subside, at higher levels of education.

We **overstate** the functional role of education to the detriment of **understanding** the functional role of wealth and power.

Racial Inequality and despair are not inevitable; rather they are the result of political choices. Likewise we can make different choices to achieve a more economy grounded in racial and economic justice.

To achieve racial justice, we need an honest and sobering confession of our historical sins for slavery – a point in American history in which blacks were literally the capital assets for a white landowning plantation class – and for sharecropping, "whitecapping", Jim Crow, and the exclusion of blacks from the New Deal and postwar polices that built an asset-based white middle class.

However, acknowledgment alone will be empty if not accompanied by some form of material redress;

Reparations provides a **retrospective, direct, and parsimonious approach** to address the black-white racial wealth gap; moreover, it is a racially just policy because it requires the U.S to take public responsibility and atone for its long history of racial injustice.

A seed capital program, like baby bonds is an economically and racially just **prospective approach**, since it targets a domain and outcome in which whites and blacks have very little overlap, wealth.

The permanent seed capital program, would provide everyone with a capital foundation to build wealth and asset security, and, **in perpetuity**, trend towards just and egalitarian capital and wealth access.

Baby Bonds or "Baby Trusts" – provide an economic birthright to capital. The capital finance provided by "Baby Trusts" is intended to deliver a more egalitarian and "authentic" pathway to economic security, independent of the family financial position or societal patriarchy in which an individual is born.

The extent of our dramatic inequality is at least as much a problem of politics as it is a problem of economics. It is time to get beyond the false narrative that attributes inequality to individual personal deficits, while largely ignoring the advantages of wealth. Instead, public provision of "Baby Trusts" could go a long way towards eliminating the transmission of economic advantage or disadvantage across generations, and establishing a more moral and decent economy that facilitates assets, economic security and social mobility, for all its citizens, regardless of the race and family position in which they are born.

TESTIMONY OF MEHRSA BARADARAN

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before the
United States House of Representatives Joint Economic Committee Hearing on Examining the Racial Wealth Gap

INTRODUCTION

"Average wealth for white families is seven times higher than average wealth for black families."[1] Further, "median white wealth is twelve times higher than median black wealth."[2] Discriminatory federal, state, and local laws and policies, which enforced segregation and created a race-based bifurcated economy, created the racial wealth gap.[3] While the Civil Rights reforms ended explicit racial segregation and Jim Crow, the effects of those policies have never been addressed.[4] Instead, policymakers have repeatedly proposed self-help solutions rooted in the false assumption that a wealth gap created by a failure of public policy could be remedied by private markets.[5]

Without major structural reforms, the wealth gap will continue to expand. A 2016 study glibly predicted that based on the current racial wealth gap, it would take 228 years for blacks to have as much wealth as whites today.[6] The prediction, though grim, is based on a false assumption: that the wealth gap will naturally close over time—albeit a very long time—without intervention. In fact, as my previous research demonstrates, it is likely that the racial wealth gap will remain in place and continue to reproduce itself.[7] In other words, if nothing changes, no amount of time will close the wealth gap because of the self-perpetuating effects of capital accumulation. The prediction of 228 years of stagnation also underestimates the transformative effects of policy changes that could close the racial wealth gap quickly. Heretofore untried changes can close the wealth gap very quickly.

An essential first step in dealing with the wealth gap is to acknowledge that public policy created the

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*This written testimony has been adapted from my previously published law review article in the NYU Law Review.

[1] Janelle Jones, *The Racial Wealth Gap: How African-Americans Have Been Shortchanged Out of the Materials to Build Wealth*, ECON. POL'Y INST.: WORKING ECON. BLOG (Feb. 13, 2017), https://www.epi.org/blog/the-racial-wealth-gap-how-african-americans-have-been-shortchanged-out-of-the-materials-to-build-wealth.

[2] *Id.*

[3] *See* Rakesh Kochhar & Richard Fry, *Wealth Inequality Has Widened Along Racial, Ethnic Lines Since End of Great Recession*, PEW RES. CTR. (Dec. 12, 2014), https://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession.

[4] For one example of the contemporary implications of Jim Crow laws, see Trymaine Lee, *How America's Vast Racial Wealth Gap Grew: By Plunder*, N.Y. TIMES (Aug. 14, 2019), https://www.nytimes.com/interactive/2019/08/14/magazine/racial-wealth-gap.html, which discusses the effects of the exclusion of "black people from government wealth-building programs" on the wealth gap today.

[5] For a more complete history of policy responses post-Civil Rights, see MEHRSA BARADARAN, THE COLOR OF MONEY: BLACK BANKS AND THE RACIAL WEALTH GAP (2017), which examines how unequal access to banking and capital fueled and solified the modern wealth gap. *See also* KEEANGA-YAMAHTTA TAYLOR, RACE FOR PROFIT: HOW BANKS AND THE REAL ESTATE INDUSTRY UNDERMINED BLACK HOMEOWNERSHIP (2019) (arguing that HUD's efforts to mobilize the real estate industry to increase black home ownership was ineffective and only lead to greater segregation and inequality). Numerous 2020 presidential candidates have proposed policies that address "both housing insecurity and historical racial discrimination in the housing market." Brentin Mock & Kriston Capps, *Who Will Presidential Candidates' Redlining Plans Actually Benefit?*, CITYLAB (Oct. 18, 2019), https://www.citylab.com/equity/2019/10/housing-racial-discrimination-redlining-map-candidate-plans/600265; *see also* Andre M. Perry & David Hashbarger, *America's Formerly Redlined Neighborhoods Have Changed, and So Must Solutions to Rectify Them*, BROOKINGS (Oct. 14, 2019), https://www.brookings.edu/research/americas-formerly-redlines-areas-changed-so-must-solutions (reporting on Democratic candidates plan to use redlining to determine who will be eligible for certain proposed benefits).

[6] DEDRICK ASANTE-MUHAMED ET AL., THE EVER-GROWING GAP 11 (2016).

[7] *See* Mehrsa Baradaran, *Jim Crow Credit*, 9 U.C. IRVINE L. REV. 887, 946 (2019); *see also* DARIA ROITHMAYR, REPRODUCING RACISM: HOW EVERYDAY CHOICES LOCK IN WHITE ADVANTAGES 2, 4–7 (2014) (arguing that racial inequality is self-reinforcing).

wealth gap and must be used to address it. Full justice demands a recognition of the historic breach of the social contract between America's constitutional democracy and Black Americans. And contract breach requires a remedy. The post-Civil War 13th, 14th, and 15th Amendments to the Constitution promised freedmen equal protection under the law, the end of coerced labor, and the right to vote. If we envision these rights as a binding contractual promise, we can also envision a justification for a remedy to this breach. In his landmark "I Have a Dream Speech," Martin Luther King Jr. framed the Black American claim to justice as rooted in a broken promise, "a promissory note to which every American was to fall heir. . . . [A] promise that all men . . . would be guaranteed the inalienable rights of life, liberty, and the pursuit of happiness."[8] King said that "America has defaulted on this promissory note insofar as her citizens of color are concerned. Instead of honoring this sacred obligation, America has given the Negro people a bad check . . . which has come back marked 'insufficient funds.'"[9] Continuing in the framing of a broken contractual framing, he lays claim to a remedy: "we've come to cash this check, a check that will give us upon demand the riches of freedom and the security of justice."[10]

Constitutional rights are not treated like typical contractual claims, but this framing can help theorize how a remedy for centuries of racial oppression can be designed. If the promise of equality was made by the federal government and then breached, what recourse can be envisioned for Black Americans? Typically, claims of redress are called "reparations." Viewed through the lens of contractual breach, reparations are akin to "damages."[11] Without that recognition, the Constitution itself stands as a roadblock to redress because it demands that all individuals be neither harmed nor benefited based on group characteristics.[12] Black Americans have been harmed in direct contradiction to the Constitution's promise of equal treatment, yet they have still had to contend with its demand of equal treatment in seeking a remedy. We must accurately diagnose the problem before we can move forward with solutions. A full-scale reparations agenda is essential—true justice is difficult to achieve without such a commitment.

In contracts, there are three forms of damages: compensatory damages, reliance damages, and restitution damages or unjust enrichment. A forthcoming Article will discuss all of these claims in full, but in this Article, I will explore the basic outlines of a compensatory damages remediation program. Compensatory damages is the typical form of damages for most contract breaches and is a form of remedy where the breaching party makes the breached upon party whole and compensates them to put them in the position they would be in had the contract been fulfilled.[13] What would this look like for a reparations claim? Reparations could take many forms—all of which would have to be measured in monetary outcomes as are all contractual claims. One way to measure the remedy is to focus on outcomes rather than means. For example, reparations could mean that the federal government could enlist several programs and agencies at once intended to eliminate the racial wealth gap. The means of elimination would be flexible so long as within a stated amount of time, the wealth gap was eliminated. Several other government programs are designed in this way. For example, the Congressional Budget and Impoundment Control Act of 1974 created the Congressional Budget Office (CBO) tasked with analyzing congressional bills and agency programs with a focus on cost-cutting. The CBO has a mandate to score each bill and use a cost/benefit analysis. This score is put to use when passing the bill. A similar oversight committee can be devised to score each bill and agency program on its effects on the racial wealth gap. Closing the racial wealth gap can be viewed as a specific regulatory goal and each agency can design their own program or response depending on their own specific domain. The racial wealth gap has deleterious effects on black communities

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8 Rev. Martin Luther King Jr., Address at the March on Washington (Aug. 28, 1963).

9 *Id.*

10 *Id.* King was referring to the Constitution and the Declaration of Independence's promise of freedom and liberty for all, not specifically the post-Civil War amendments.

11 *See* Emily Sherwin, *Reparations and Unjust Enrichment*, 84 B.U. L. REV. 1443, 1443–50 (2004) (arguing that reparations should be analyzed as compensatory claims rather than as restitution).

12 *See* United States v. Carolene Products Co., 304 U.S. 144, n.4 (1938) (holding that "[t]here may be narrower scope for operation of the presumption of constitutionality" for laws which discriminate against groups like religious or racial minorities).

13 *See generally* JOSEPH M. PERILLO, CONTRACTS 511–14 (7th ed. 2014).

in practically every domain: environmental impact, education, credit availability, housing, and policing. Thus, a response must be multi-faceted.

This Article outlines a few of the myriad of solutions that can be deployed in a multi-pronged reparations program. This is by no means a complete list of policy goals, but a start in imagining what remedies might be available immediately. The racial wealth gap stemmed from many sources of injustice going back to slavery, but most recently and most obviously, it has stemmed from housing segregation and is thus the emphasis of this Article. Home ownership is also the main store of wealth for most middle-class Americans. Yet the focus on homeownership historically has created problems, even aside from segregated housing. The FHA's focus on housing credit built the American suburb, which led to the overdevelopment of natural land, which has resulted in damaging environmental effects. Gaps in homeownership certainly caused the racial wealth gap, but it is possible to form a remedy that does not repeat the mistakes of the past. However, because many of the other self-perpetuating forces of the racial wealth gap are linked with the long-term effects of segregation, the effects of housing segregation must be examined and targeted by policy in order to adequately remedy the racial wealth gap. Segregated housing has led to segregated schools, and even segregated tax receipts due to local zoning and tax laws. Thus, housing is a lever that can affect several other sectors. Moreover, housing credit has been a federal project since the New Deal, and it was federal agencies like the Federal Housing Administration (FHA) that explicitly created racial zoning.[14] Thus, a solution rooted in housing is most directly linked to the harm in this instance thereby justifying immediate remedial action at the same agencies (and congressional bodies) that aided and abetted the racist zoning in the first place.[15]

HOUSING SEGREGATION AS A DRIVER OF THE RACIAL WEALTH GAP

The racial wealth gap was caused by the federal government's investment in white home ownership through New Deal legislation that created the credit and housing structure that is the foundation of the modern housing market.[16] Congress's century-old investment in home ownership compounded over generations and continues to affect housing value, access to credit, and economic stability.[17] Racial segregation and the racial wealth gap are a direct outgrowth of these federal policies.[18] The New Deal showed us that incredible family wealth can be created when the government acts for the benefit of people—now is the time to put it to work for those that were excluded the first time around. Just as federal housing policies created the racial wealth gap, federal housing policies can eliminate it. Describing this harm in contractual language directly links the remedy to the harm. The post-Civil War constitutional amendments promised to treat all Americans equally yet the federal government created a mortgage credit subsidy and only offered it to white Americans. Racial exclusion was explicit in the workings of the FHA and these subsidies built significant wealth for those who could participate.[19]

The effects of a race-based mortgage credit system are still in effect. According to a 2017 Pew Research Center report, "Black and Hispanic households today are still far less likely than white households

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14 *See* TAYLOR, *supra* note 5, at 3 (criticizing the FHA's practice of redlining).

15 *See id.* at 4–7 (exposing the roles of government agencies in exploiting low-income black homeowners through predatory contract and mortgage terms).

16 *See generally* Kevin Fox Gotham, *Racialization and the State: The Housing Act of 1934 and the Creation of the Federal Housing Administration*, 43 SOC. PERSP. 292, 309 (2000) ("[T]he FHA institutionalized a racially separate and unequal system of home financing that favored surburban building for whites while precluding insurance for homes in racially mixed and nonwhite neighborhoods in the inner city (citation omitted).").

17 Marisa Chappell, *The False Promise of Homeownership*, WASH. POST (July 20, 2017), https://www.washingtonpost.com/news/made-by-history/wp/2017/07/20/the-false-promise-of-homeownership (discussing the federal government's investment in home ownership through large subsidies beginning in the early 20th century).

18 Federal policies "locked people of color out of the burgeoning suburbs and denied capital to older urban and minority neighborhoods," even as policymakers praised homeownership as "an instrument for establishing political stability and as an antidote to the 'culture of poverty.'" *Id.*

19 *See* Baradaran, *supra* note 7, at 893.

to own their own homes (41.3% and 47%, respectively, versus 71.9% for whites), and the homeownership gap between blacks and whites has widened since 2004."[20] A potential remedy for the exclusion of redlined black communities would be to compensate black communities for their unconstitutional exclusion from the FHA. This remedy need not be rooted in a housing grant. In fact, most contractual remedies are simply monetary damages. A reparations program rooted in this breach would need to measure the effects of racial exclusion and then compensate those individuals, families, and communities that were left out of these subsidies. There are practical and legal obstacles to monetary damages. Each aspect of the remedy, identifying victims, measuring the effects of the breach, and payment of damages, would be complicated. However, these challenges can be overcome and should not be an obstacle toward justice. Contract damages are always difficult to measure and various courts and legal theorists have grappled with the best way to measure damages. The purpose of this Article is not to go through each of these issues, but to outline a few possibilities and challenges.

Instead of monetary damages to individuals, policymakers could target communities and neighborhoods that are currently most harmed by their historic exclusion. "Most of the neighborhoods that were initially redlined by the federal government in 1934 have been perpetually denied credit and thus remain pockets of poverty."[21] "Racial ghettos, once created, have had remarkable staying power" because the federal government has, for the most part, resisted making large investments in lower-income families.[22] These are the districts where "poverty is still concentrated, schools are segregated, and properties continue to be devalued."[23] By focusing a wealth gap program on geography as opposed to identity, policymakers can avoid Supreme Court jurisprudence on racial neutrality, but they can link economic reforms with integration.

Just as segregation and poverty can lock in and perpetuate disadvantage, so too can revitalization lock in a virtuous cycle of wealth, community building, and public infrastructure.[24] The unique success of the New Deal era mortgage programs was that once the mechanisms were in place and the initial federal investments made, the system was able to operate successfully and without further intervention.[25] Mortgage credit feuled the creation of the white suburbs of homeowners.[26] These stable communities supported thriving public schools with property taxes.[27] Educational opportunities paved the way for the next generation to attend college, accrue social capital and a buffer of wealth, which they used to reach professional success, increased wealth and on and on.[28] The redlined areas entered the reverse cycle—having been left out of the mortgage credit market by redlining, these segregated communities were

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[20] Drew DeSilver & Kristen Bialik, *Blacks and Hispanics Face Extra Challenges in Getting Home Loans*, PEW RES. CTR. (Jan. 10, 2017), http://www.pewresearch.org/fact-tank/2017/01/10/blacks-and-hispanics-face-extra-challenges-in-getting-home-loans.

[21] Baradaran, *supra* note 7.

[22] *Id.*

[23] *Id.*

[24] *See, e.g.*, Tom Condon, *City Revival – Did We Learn from the Urban Renewal Era?*, CT MIRROR (June 24, 2019), https://ctmirror.org/2019/06/24/city-revival-did-we-learn-from-the-urban-renewal-era (explaining the history of the Urban Renewal movement and the positive impact of recent revitalization efforts in Connecticut); Pete Saunders, *Detroit, Five Years After Bankruptcy*, FORBES (July 19, 2018), https://www.forbes.com/sites/petesaunders1/2018/07/19/detroit-five-years-after-bankruptcy (praising Detroit's revitalization five years after the city declared bankruptcy).

[25] *See* Adam Gordon, Note, *The Creation of Homeownership: How New Deal Changes in Banking Regulation Simultaneously Made Homeownership Accessible to Whites and Out of Reach for Blacks*, 115 YALE L.J. 186, 194 (2005) (explaining that New Deal reforms "fundamentally transformed homeownership from a short-term, consumption-driven experience for a minority of Americans to the main tool that most Americans use for asset building over the long term").

[26] *See generally* KENNETH T. JACKSON, CRABGRASS FRONTIER: THE SUBURBANIZATION OF THE UNITED STATES 195–97 (1985) (describing how the government-run Home Owners Loan Corporation's self-amortized loans helped to encourage home ownership).

[27] *See generally* Jack Dougherty, *Shopping for Schools: How Public Education and Private Housing Shaped Suburban Connecticut*, 38 J. URB. HIST. 205, 206, 211–12 (2012) (examining the connection between home ownership and school funding); John R. Logan, *Industrialization and the Stratification of Cities in Suburban Regions*, 82 AM. J. SOC. 333, 346–47 (1976) (presenting data showing that the tax base per students in suburban neighborhoods is twice that of inner city neighborhoods).

[28] Dougherty, *supra* note 27, at 208 ("During the course of the twentieth century, suburban families became more conscious of this equation: buying a home in the 'right' neighborhood, to send their children to a 'good' public school, would increase their odds of being accepted to a 'top-ranked' college and . . . land the 'perfect' job.").

deprived of home ownership, wealth, and the other positive externalities like school funding.[29] Cities entered decades of decline and blight that resulted in increased crime and a drug epidemic.[30]

These cyclical trends continue to contribute to the racial wealth gap. However, the geographic dimensions of wealth and poverty have shifted as wealthy professionals have been drawn back into a few super cities abandoning the suburbs.[31] The poor black and brown populations have been pushed out of these cities toward suburban regions bringing the problems of poverty and lack of wealth along.[32] However, the rise of cities has not been equally distributed. Rather, a few cities like New York, San Francisco, Washington, D.C., and Los Angeles are splitting at the seams with skyrocketing housing prices where only the super-rich can afford to live[33] while other cities have been abandoned due to the decline in rust belt manufacturing.[34] None of these changes have altered the racial wealth gap or patterns of segregation. Black and brown residents are still living in dilapidated communities with underfunded schools and wealthy white professionals live in wealthy enclaves with high-performing schools and access to other resources. Ferguson, Missouri is just one example of a region that has been resegregated as St. Louis has gentrified.[35] The protests erupting in Ferguson after the shooting of Michael Brown revealed a pattern of exclusion and exploitation stemming from concentrated poverty and the vulnerability of the citizens of Ferguson to abuse.[36] Compounding these trends are the environmental hazards that have plagued areas of decline. The Flint water crisis is just one paradigmatic example of this phenomenon,[37] but there are many others.[38] Remedies to tackle the racial wealth gap must take these changing dynamics into account.

The assumption on which all of these schemes is based is that the home would increase in value. This has not been the case with black homes. This is what led Emory professor Dorothy Brown to suggest that blacks avoid purchasing homes and instead focus on building wealth through stock ownership.[39] She argued that black homes have not increased in value and so homeownership has been a drain on black wealth.[40] She suggested that even though stocks may be riskier than property, for blacks, they were a safer long-term

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29 *See* U.S. NAT'L COMM'N ON URBAN PROBLEMS, BUILDING THE AMERICAN CITY 101 (1969) ("There was evidence of a tacit agreement among all groups - lending institutions, fire insurance companies, and FHA - to block off certain areas of cities within 'red lines,' and not to loan or insure within them. . . . [These] slums and the areas surrounding them went downhill farther and faster than before.").

30 *See* DAVID FARBER, CRACK: ROCK COCAINE, STREET CAPITALISM, AND THE DECADE OF GREED 2–7 (2019) (noting that in the mid 1980s, a period of supposed economic propsperity and racial progress, blacks in inner cities were disproportionally affected by despair and destruction from the crack epidemic).

31 *See generally* Rowland Atkinson & Gary Bridge, *Globalisation and the New Urban Colonialism*, *in* THE GENTRIFICATION DEBATES: A READER 51–59 (Japonica Brown-Saracino ed., 2010) (arguing that the migration back to cities is a global phenomenon with the movers across the world exhibiting similar characteristics).

32 *See* Daniel C. Vock, *Suburbs Struggle to Aid the Sprawling Poor*, GOVERNING (Feb. 2015), https://www.governing.com/topics/health-human-services/gov-suburban-poverty-gentrification-series.html.

33 *See, e.g.*, Shirin Ghaffary, *Even Tech Workers Can't Afford to Buy Homes in San Francisco*, VOX (Mar. 19, 2019), https://www.vox.com/2019/3/19/18256378/tech-worker-afford-buy-homes-san-francisco-facebook-google-uber-lyft-housing-crisis-programmers.

34 *See* DANIEL HARTLEY, FED. RESERVE BANK OF CLEVELAND, URBAN DECLINE IN RUST-BELT CITIES (2013), https://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/2013-economic-commentaries/ec-201306-urban-decline-in-rust-belt-cities.aspx (describing the population decline in Rust-Belt cities since the 1970s).

35 *See generally* RICHARD ROTHSTEIN, ECON. POL'Y INST., THE MAKING OF FERGUSON: PUBLIC POLICIES AT THE ROOT OF ITS TROUBLES, 3–4, 23 (2014), https://www.epi.org/files/2014/making-of-ferguson-final.pdf (explaining how black families had to move to St. Louis suburbs as the city embarked on a large urban renewal plan and demolished their neighborhoods).

36 *See id.* at 1–2 (reporting on how decades of government policies helped to shape segregated and impoverished suburbs like Ferguson).

37 *See What's at* Stake, NAT'L. RES. DEF. COUNCIL: FLINT WATER CRISIS, https://www.nrdc.org/flint (last visited Feb. 6, 2020).

38 *See* Emily Badger, *Pollution Is Segregated, Too*, WASH. POST (Apr. 15, 2014), https://www.washingtonpost.com/news/wonk/wp/2014/04/15/pollution-is-substantially-worse-in-minority-neighborhoods-across-the-u-s (identifying studies proving that lower income communities and communities of color are the predominant communities living near environmental hazards).

39 Dorothy Brown, *How Home Ownership Keeps Blacks Poorer than Whites*, FORBES (Dec. 10, 2012), https://www.forbes.com/sites/forbesleadershipforum/2012/12/10/how-home-ownership-keeps-blacks-poorer-than-whites.

40 *Id.* ("Put simply, the market penalizes integration: The higher the percentage of blacks in the neighborhood, the less the home is worth, even when researchers control for age, social class, household structure, and geography.").

investment.[41] This sound advice was the best indictment of the home value gap in America today.

However, there is reason to believe that homeownership can still create wealth. Despite occasional asset bubbles, home values have continued their steady rise in America.[42] Further, home prices follow a positive feedback loop such that the more people own homes in a community, the more home values rise across the board, creating more wealth.[43] "Higher wealth then leads to a bigger tax base, which leads to better schools, which in turn lead to higher incomes" down the road.[44] Children who grow up in communities of homeowners have better outcomes across the board.[45] Thus, the cycle is reversed.

Though the housing bubble created doubt about the promise that the American dream is rooted in home ownership—a promise repeated from President Hoover[46] to President George W. Bush[47]—the promise, though now cautiously qualified, remains alive. Over sixty percent of Americans own their homes, and for most Americans, especially the middle class, their home is their largest asset and their greatest source of security.[48] It is still the case that home ownership can lead to wealth, but it is now apparent that not all mortgage loans are created equal. The fallout from the subprime crisis resulted in black families losing over fifty percent of their accumulated wealth as a result of home foreclosures.[49] Black communities were targeted for the most pernicious and predatory subprime loans due to their years of credit deprivation.[50] They were particularly vulnerable to economic shock. True to the old adage that "when Wall Street gets a cold, Harlem gets the flu," the crisis rippled first through marginalized communities.[51] These communities have yet to recover their lost wealth even as Wall Street hits record profits after ten years of recovery.[52] The inequality of the recovery from the financial crisis makes closing the racial wealth gap all the more urgent.

The Twenty First Century Homestead Act

In a policy whitepaper called "The Twenty First Century Homestead Act", I have outlined one potential plan for closing the racial wealth gap through a holistic homeownership program. This initiative

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[41] *Id.*

[42] Ilyce Glink, *9 Real Estate Trends to Expect in 2017*, CBS MONEY WATCH (Dec. 19, 2016), https://cbsnews.com/media/9-real-estate-trends-to-expect-in-2017.

[43] Enrico Moretti & Per Thulin, *Local Multipliers and Human Capital in the United States and Sweden*, 22 INDUS. & CORP. CHANGE 339–62 (2013); *see also* Lawrence Yun, *Why Homeownership Matters*, FORBES (Aug. 12, 2016, 1:09PM), https://www.forbes.com/sites/lawrenceyun/2016/08/12/why-homeownership-matters (outlining collateral benefits of homeownership including improved test scores, community engagement, and health outcomes, while also noting lower crime rates and drug usage among homeowners).

[44] MEHRSA BARADARAN, THE GREAT DEMOCRACY INITIATIVE, A HOMESTEAD ACT FOR THE 21ST CENTURY 18 (2019).

[45] *See* Press Release, U.S. Dep't of Hous. & Urban Dev., Cuomo Says America's Homeownership Rate Hits Record High of 67 Percent, with 70.5 Million Families Owning Their Homes (Oct. 28, 1999), https://archives.hud.gov/news/1999/pr99-220.html ("Homeowners accumulate wealth as the investment in their homes grows, enjoy better living conditions, are often more involved in their communities, and have children who tend on average to do better in school and are less likely to become involved with crime.").

[46] *See generally* Lawrence J. Vale, *The Ideological Origins of Affordable Homeownership Efforts*, *in* CHASING THE AMERICAN DREAM: NEW PERSPECTIVES ON AFFORDABLE HOMEOWNERSHIP 19, 39 (William M. Rohe & Harry L. Watson eds., 2007) (describing one of the Hoover-era's legacies as tying home ownership to the American Dream).

[47] *President George W. Bush Record of Achievement, Expanding Home Ownership*, THE WHITE HOUSE, PRESIDENT GEORGE W. BUSH, https://georgewbush-whitehouse.archives.gov/infocus/achievement/chap7.html (last visited Feb. 6, 2020) ("This Administration will constantly strive to promote an ownership society in America. . . . [A]fter all, if you own your own home, you have a vital stake in the future of our country.").

[48] The current homeownership rate is 64.8%. U.S. CENSUS BUREAU, CB19-57, QUARTERLY RESIDENTIAL VACANCIES AND HOMEOWNERSHIP, THIRD QUARTER 2019.

[49] *See* CARR ET AL., NAT'L ASS'N OF REAL ESTATE BROKERS, STATE OF HOUSING IN BLACK AMERICA 4 (2013).

[50] *See* Cecil J. Hunt, II, *In the Racial Crosshairs, Reconsidering Racially Targeted Predatory Lending Under a New Theory of Economic Hate Crime*, 35 U. TOL. L. REV. 211, 214 (2003).

[51] Emma Roller, *How the U.S. Government Locked Black Americans Out of Attaining the American Dream*, SPLINTER (Oct. 11, 2017), https://splinternews.com/how-the-u-s-government-locked-black-americans-out-of-a-1819221197.

[52] *See* Yun Li, *Here's What Happened to the Stock Market on Monday*, CNBC (Dec. 23, 2019), https://www.cnbc.com/2019/12/23/what-happened-to-stock-market-monday-sp-500-hits-another-record-high.html.

would involve coordination between federal and local policymakers and could be one remedy among many to remedy the pernicious effects of housing segregation. This program takes advantage of one the most pernicious symptoms of segregation and geographic disparities: the current oversupply of homes in certain regions. This is both a problem that leads to blight and an opportunity for public policy. There are over eleven million unoccupied properties in the United States.[53] Many of these properties are located in clusters in declining cities and regions. Once a community tips into home vacancy, the district can quickly decline as residents fear further decay and blight. Blighted homes lead to higher crime, environmental hazards, and business flight.[54] The value of a home is determined by its desirability, which is not an objective standard but is susceptible to herd mentality. Once a neighborhood is thought to be headed toward decay, the property values plummet. Detroit, Michigan; Flint, Michigan; Mobile, Alabama; Toledo, Ohio; Atlantic City, New Jersey; and other cities across the Rust Belt, South, and Northeast have seen rapid decline while others have swelled.[55] The residents that remain in these cities have seen their property values decline and public and private resources and infrastructure dwindle.[56] Homes in these towns sit empty while other cities are overcrowded and millions of Americans are homeless, endure housing instability, or wait for years to access public housing.[57]

A few programs on the local level have attempted to sell blighted properties. For example, the homes for a dollar program in Baltimore offered vacant homes to residents willing to move in and improve the home.[58] The homes were "sold" for a dollar and the residents took out loans for improvements. While some residents were able to buy and improve homes, the program failed due to inadequate financing.[59] The fatal flaw was that there was no mechanism for financing the improvement projects, and banks were unwilling to lend on properties with no value.[60] These properties were appraised too low to warrant even a home improvement loan.[61] This is why a federal financing mechanism is essential to jumpstart such a program. Only the federal government has the ability to make long-term investments by using Treasury funds, appropriations, and monetary policy. Local programs must rely on private bank lending and without federal government support, private banks are constrained in their ability to lend because they must rely on "market values" and appraisals which discount the very homes that need financing most. The New Deal was uniquely successful in spurring housing values and production because it was a federally financed program that reduced the risks and costs of private lending.[62]

If adopted, the Homestead Act proposal has the potential to revive towns with distressed housing markets and declining economic prospects through wholesale property development. Such a program could begin with a pilot of five to seven cities before expanding nationwide. Just as cities made bids for the new Amazon headquarters by offering public funds to match the investment,[63] so too can cities, states, and

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[53] *See* ALAN MALLACH, THE EMPTY HOUSE NEXT DOOR 4, 22 (Emily McKeigue & Jill Uhlfelder eds., 2018) ("The number of vacant units rose sharply after 2005, going from 9.5 to 12 million between 2005 and 2010, an increase of roughly 2.5 million units. Since then, the number has gradually declined but remains significantly higher, at 11.2 million units, than in 2005.").

[54] *See generally* Charles C. Brannas et al., *Citywide Cluster Randomized Trial to Restore Blighted Vacant Land and Its Effects on Violence, Crime, and Fear*, 115 PROC. NAT'L ACAD. SCI. 2946, 2950 (2018) (explaining how vacant land contributes to violence and fear in blighted urban neighborhoods).

[55] *See generally* Bob Bryan, *Here Are the 12 US Markets with the Most Vacant Homes*, BUS. INSIDER (Feb. 11, 2016), https://www.businessinsider.com/housing-markets-with-heaps-of-empty-homes-2016-2 (listing cities with high rates of vacant properties).

[56] MALLACH, *supra* note 54, at 3.

[57] *Id.*

[58] *See* Luke Broadwater, *Baltimore City Council Plans Hearing on Bringing Back 'Dollar House' Program*, BALT. SUN (Oct. 23, 2017) https://www.baltimoresun.com/maryland/baltimore-city/bs-md-ci-dollar-house-20171020-story.html.

[59] *See* Jacqueline Luqman, Opinion, *What's Behind America's Racial Wealth Gap?*, TRUTHDIG (Aug. 28, 2019), https://www.truthdig.com/articles/whats-behind-americas-racial-wealth-gap.

[60] *See id.*

[61] *See id.*

[62] *See* 2 HISTORIC EVENTS FOR STUDENTS: THE GREAT DEPRESSION, HOUSING 1929-1941, at 98 (Richard C. Hanes & Sharon M. Hanes eds., 1st ed.) (2002); *see also FDR and Housing Legislation*, FRANKLIN D. ROOSEVELT PRESIDENTIAL LIBR. & MUSEUM, https://www.fdrlibrary.org/housing (last visited Feb. 24, 2020).

[63] *See generally* Leticia Miranda et al., *Here Are the Most Outrageous Incentives Cities Offered Amazon in Their HQ2 Bids*, BUZZFEED NEWS (Nov. 14, 2018), https://www.buzzfeednews.com/article/leticiamiranda/amazon-hq2-finalist-cities-incentives-airport-lounge

counties make bids to be chosen as a revitalized region by offering to match federal funds or offer other tax breaks and public infrastructure investments.

Take the city of Detroit as an example.[64] The federal government in conjunction with the state would possess these properties—many of the homes are abandoned and others are priced at a few thousand dollars. Revitalization requires mass-scale purchase of all of these properties without displacing current residents.[65] Once acquired, these properties would either be torn down and rebuilt or rehabilitated. The reconstruction of the city will serve as the first employment opportunity for current area residents. Once rebuilt, the homes will be sold to residents on mortgages with a lien requiring long-term residency. The lien requires that the individual occupy the home for ten years or repay the lien. After ten years, the holder of the mortgage owns the property free and clear of the lien. The program will be open to any individual who meets the following criteria:

Residents must be low-income individuals or families, residents must either have lived in formerly redlined areas for the previous five years or in any area across the country that has been historically segregated by state or local law.[66] These residents have right of first refusal. If more homes remain available, the program should be opened to refugees and other recent immigrants. If successful, such a revitalization can be repeated in cities across the country.

In order to achieve a full revival of these cities, citizens must have access to well-paying jobs. Much of the decline of these cities was a result of their loss of major industries that employed a significant proportion of the population.[67] Instead of making unrealistic promises that these jobs will return, we must account for the changing nature of employment and create the environment, tools, and facilities that will employ the future of American labor. The future of American jobs will occur in the service sector, healthcare, and technology.[68] The new communities must account for these trends.

As the cities are revived over time, some jobs naturally will become available in the service sector. Enough funds should be provided to enable a thriving public service sector, which will have a treble benefit of providing full employment, creating a thriving community, and offering necessary services.[69] For example, if we provide funds for full-time childcare facilities, children can benefit from early educational opportunities, fathers and mothers can return to work if they choose, and childcare professionals can be employed in these facilities. Adequate funding for public schools that offer a variety of STEM, arts, and vocational training can have multiple benefits, including job creation.

In order to provide the tools for job growth, these regions should be equipped with free high-speed internet access. These services will enable residents to access jobs across the globe and will also attract technology companies. Several cities, including Chattanooga, Tennessee and Mackey, Kentucky have invested in tech infrastructure and have successfully created jobs for residents and attracted new firms to their cities.[70] These programs have also had the added benefit of driving up demand for new housing, to the

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(providing examples of different incentives offered by cities across the nation).

[64] Saunders, *supra* note 24.

[65] *Id.*

[66] *See generally* Perry & Harshbarger, *supra* note 5 (using old redlining maps to allocate government benefits to close the homeowner gap).

[67] *See* HARTLEY, *supra* note 34, at 1 (noting that population and median income decline in four Rust-Belt cities coincided with the decline in the manufacturing industry); *see, e.g.*, Ann R. Markusen & Virginia Carlson, *Deindustrialization in the American Midwest: causes and responses*, *in* DEINDUSTRIALIZATION AND REGIONAL ECONOMIC TRANSFORMATION: THE EXPERIENCE OF THE UNITED STATES 29, 31-35 (Lloyd Rodwin & Hidehiko Sazanami eds. 1989) (discussing the link between manufacturing plant closings and job losses in midwestern cities).

[68] *See* MCKINSEY GLOB. INST., THE FUTURE OF WORK IN AMERICA: PEOPLE AND PLACES, TODAY AND TOMORROW, at vi (2019).

[69] For one proposal to create public service jobs, see ECON. POLICY INST., AMERICAN JOBS PLAN: A FIVE-POINT PLAN TO STEM THE U.S. JOBS CRISIS 14–15 (2009), https://www.epi.org/files/page/-/american_jobs_plan/epi_american_jobs_plan.pdf, which proposes a large-scale block grant program to fund direct job creation in areas such as community improvement, public safety, and access to public services.

[70] *See* Sue Halpern, *The One-Traffic-Light Town with Some of the Fastest Internet in the U.S.*, NEW YORKER (Dec. 3, 2019), https://www.newyorker.com/tech/annals-of-technology/the-one-traffic-light-town-with-some-of-the-fastest-internet-in-the-us (discussing the impact of tech infrastructure investment in McKee, Kentucky); Rob Marvin, *Gig City: How Chattanooga Became a Tech Hub*, PC MAG. (May 4, 2018), https://www.pcmag.com/news/gig-city-how-chattanooga-became-a-tech-hub (discussing the city's trailblazing

surprise of city officials.[71] This is a natural benefit, however, as the housing market is determined by the availability of community resources and jobs.[72] These revived communities should therefore have access to high-speed internet as well as technical education programs.

Healthcare is another domain of future job growth. The federal government spends billions in healthcare for an aging population.[73] As baby boomers age in the coming years, many will need additional resources in order to provide adequate healthcare.[74] A program to create elderly care facilities in revitalized towns can attract elderly residents from across the country and employ current residents to provide care. Currently, many federal funds must pass through private insurance companies or hospitals before they reach the patient, inflating the price of care.[75] Funds can be streamlined by the federal government creating the care facilities and hospitals themselves.

Another one of the most urgent healthcare crises facing the country today is opioid addiction.[76] The crisis has devastated many of the same communities that suffer from joblessness.[77] In addition to funding healthcare facilities, the revival efforts should also provide drug rehabilitation facilities to serve these devastated communities. The benefits of these services cannot be overstated because they have the potential to save many lives.

These revitalized areas should also be the hub of education opportunities. Community colleges, technical colleges, schools, and daycare education facilities should be built as part of this homestead act. These programs will draw professional educators from communities from across the country, invest in the talent of the future, and retrain jobseekers for the jobs of the future.

Studies that have measured the impact of additional low-income housing on neighborhoods show that the potential gains of such a program would be exponential. Even modest housing development through the Low Income Housing Tax Credit (LIHTC) program was found to help revitalize lowincome neighborhoods with improvements in home prices, crime rates, and both racial and income diversity.[78] Further, such programs improve welfare in low-income areas by up to $23,000 per local homeowner and $6500 per local renter, with aggregate welfare benefits to society of $116 million.[79]

Creating public facilities of any kind has the potential to create jobs. As an illustrative example, the state of Georgia invested in creating a public port in Savannah to compete with the private ports of other port cities along the Eastern seaboard.[80] This port has been a phenomenal success. The state's $127 million

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investment in high-speed internet service). There are efforts in larger cities like New York to adopt such strategies. *See* Patrick McGeehan, *Technology Industry Seen Growing Fastest in New York*, N.Y. TIMES (May 9, 2012), https://www.nytimes.com/2012/05/10/nyregion/new-yorks-tech-industry-tops-us-in-growth-study-finds.html (detailing the growth of technology jobs in the city).

[71] *See* Sam Sturgis, *Why Housing Is Key to Chattanooga's Tech-Hub Ambitions*, CITYLAB (Mar. 6, 2015), https://www.citylab.com/equity/2015/03/why-housing-is-key-to-chattanoogas-tech-hub-ambitions/386776 (explaining how the city's investment in high-speed internet drove up demand for new housing in the downtown area).

[72] *See id.*; P.E. Moskowitz, *Chattanooga Was a Typical Postindustrial City. Then It Began Offering Municipal Broadband.*, NATION (June 3, 2016), https://www.thenation.com/article/archive/chattanooga-was-a-typical-post-industrial-city-then-it-began-offering-municipal-broadband; *cf.* Marvin, *supra* note 70 (attributing improvements in Chattanooga's quality of life to its technology infrastructure).

[73] Andrea M. Sisko et al., *National Health Expenditure Projections, 2018-27: Economic and Demographic Trends Drive Spending and Enrollment Growth*, 38 HEALTH AFF. 491, 494–99 (2019).

[74] *See* James R. Knickman & Emily K. Snell, *The 2030 Problem: Caring for Aging Baby Boomers*, 37 HEALTH SERV. RES. 849, 849–50 (2002) (discussing the healthcare implications of the year 2030, when the baby boomer population will be aged 66 to 84).

[75] *See* Thomas Bodenheimer et al., *Capitalizing on Illness: The Health Insurance Industry*, 4 INT'L J. HEALTH SERV. 583, 590–95 (1974) ("Under [Medicare and Medicaid], providers of health care deal directly with intermediaries rather than with the federal or state governments.").

[76] *See What Is the U.S. Opioid Epidemic?*, U.S. DEP'T OF HEALTH & HUMAN SERV., https://www.hhs.gov/opioids/about-the-epidemic/index.html (last visited Feb. 3, 2020).

[77] *See Opioid Misuse in Rural America*, U.S. DEP'T OF AGRIC., https://www.usda.gov/topics/opioids (last visited Nov. 18, 2019); ROBIN GHERTNER & LINCOLN GROVES, U.S. DEP'T OF HEALTH & HUMAN SERVS., THE OPIOID CRISIS AND ECONOMIC OPPORTUNITY: GEOGRAPHIC AND ECONOMIC TRENDS 5 (2018), https://aspe.hhs.gov/system/files/pdf/259261/ASPEEconomicOpportunityOpioidCrisis.pdf (analyzing the confluence of opioid prescriptions and drug overdoses in areas with high poverty and unemployment).

[78] *See* Rebecca Diamond & Tim McQuade, *Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low-Income Property Development*, 127 J. POL. ECON. 1063, 1114 (2019).

[79] *Id.* at 1111.

[80] *See Our History*, GA. PORTS AUTHORITY, https://gaports.com/our-port/our-history (last visited Feb. 24, 2020) (detailing the history

investment helped the port become the nation's fourth-busiest gateway, tripling its traffic since 2000 and creating tens of thousands of jobs.[81] According to *The New York Times*, it also has helped draw the manufacturing operations of foreign automakers to the region.[82] In total, these public and private investments now support more than 430,000 jobs in the state, accounting for roughly one out of every eleven jobs in Georgia.[83]

All these revitalized cities can potentially house public infrastructure projects that will yield funds, new business opportunities, jobs, and increased housing value. The public treasury can make such investments that can bring manifold returns to the people and repay the investment over time. As these cities are revitalized, residents will grow wealth through homeownership, communities will keep growing and expanding, and the cumulative effect will have many positive externalities and alleviate overcrowding in other cities across the country.

In some communities with high housing vacancies, outside investors have purchased abandoned homes with a wait-and-see strategy.[84] They purchased these homes at rock-bottom prices not with an intent to occupy them but as an investment. These investors plan to hold these homes until the prices rebound, at which point they will sell them for a profit. The federal government should make these investors whole by buying back the homes through a takings process and compensating these investors with their initial investment. Otherwise, private equity funds would reap the windfall of revived communities.

THE SECOND NEW DEAL

A process of "greenlining," or reversing the damage of redlining, can include a variety of housing and mortgage programs including down payment assistance, mortgage insurance, public housing development, and vouchers.[85] In the most direct analogy to New Deal era mortgage programs, a government entity such as HUD or the FHA would underwrite first-time mortgages for any potential home buyer who meets certain qualifications (e.g., low income, from formerly segregated communities, has not purchased a home in the previous three years).[86] However, instead of private banks issuing a mortgage, the mortgage would be issued by a special bank chartered in tandem with this legislation. Banking regulators have the power to create specific banking charters for a specific purpose.[87] These special charters would be available to public entities such as states, cities, or municipalities and would be designed as cooperative banks in the spirit of building and loan associations and credit unions. Cities and municipalities can charter banks with treasury

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of the deepwater ports in Savannah and Brunswick); *see also* Press Release, Ga. Ports Auth., Ports Draw $5B Investment, 12K Jobs to Georgia (Sept. 12, 2019), https://gaports.com/press-releases/ports-draw-5b-investment-12k-jobs-to-georgia.

[81] *See* Press Release, Ga. Ports Auth., *supra* note 80 (noting that recent port-related investments have created 12,000 jobs in Georgia); Harvey J. Gilbert, *The Port of Savannah: A Recipe for International Success*, SAVANNAH NOW (Oct. 30, 2012, 4:10 PM), https://www.savannahnow.com/article/20121030/BUSINESS/310309806; Patricia Cohen & Natalie Kitroeff, *Booming Savannah Port Sees Trade Tensions as Just a Hiccup*, N.Y. TIMES (May 18, 2018), https://www.nytimes.com/2018/05/18/business/economy/savannah-port-trade.html (discussing the $127 million investment).

[82] Cohen & Kitroeff, *supra* note 81 (noting that Kia, Toyota, BMW, and other car companies have opened factories in the Southeast).

[83] DeAnn Komanecky, *Study: One in 11 Georgia Jobs Related to Savannah, Brunswick Ports*, SAVANNAH NOW (Mar. 26, 2018, 6:16 PM), https://www.savannahnow.com/business/20180326/study-one-in-11-georgia-jobs-related-to-savannah-brunswick-ports.

[84] SARAH TREUHAFT ET AL., POLICYLINK, WHEN INVESTORS BUY UP THE NEIGHBORHOOD: PREVENTING INVESTOR OWNERSHIP FROM CAUSING NEIGHBORHOOD DECLINE 3 (2010) ("[A]s . . . neighborhood stabilization strategies begin to take hold, . . . private investors . . . have seen a business opportunity in the foreclosure crisis and are rapidly buying up properties to sell or rent out for a profit.").

[85] *See* Sharon Velasquez, *The Community Reinvestment Act at 40: It's Hard to Fight Redlining If You're Colorblind*, GREENLINING INST. (Oct. 31, 2017), https://greenlining.org/blog-category/2017/community-reinvestment-act-fight-redlining.

[86] *See, e.g.*, Rochelle E. Lento, *Community Development Banking Strategy for Revitalizing Our Communities*, 27 U. MICH. J.L. REFORM 773, 792 (1994) (providing the successful example of Opportunity Lands Corporation, a real estate development corporation that "bought this dilapidated group of twenty housing units from The Resolution Trust Company for $125,000, negotiated $250,000 worth of mortgages and, with a $143,000 grant from the city of Pine Bluff and assistance from HUD's rental rehabilitation program, rehabilitated the units").

[87] *See, e.g.*, *Exploring Special Purpose National Bank Charters for Fintech Companies*, OFFICE OF COMPTROLLER OF CURRENCY (2016), https://www.occ.gov/topics/supervision-and-examination/responsible-innovation/comments/pub-special-purpose-nat-bank-charters-fintech.pdf.

funds.[88] The municipality itself owns the shares of the bank instead of a group of private shareholders.[89] These public banks would issue the loan, which would be guaranteed against default by the federal government. These banks will be limited in their product offerings and will be regulated by bank regulators.[90] They will be able to receive deposits and must follow FDIC regulations if they choose to operate as a depository. These banks will be able to offer mortgages and small business loans. All loans must meet standard requirements. These requirements will be adjusted to enable low-income residents to purchase homes without a large down payment. These loans would have to be made available to current residents of the area so as not to displace residents and induce outsiders to take advantage of the guarantees.[91] In the event of loan default, the bank will foreclose on the property and re-sell the loan.[92]

III
Down Payment Assistance Fund

One of the major barriers to home ownership is the burden of coming up with a sufficient down payment. Lower down payment rates are available in some circumstances, but they typically require the borrower to purchase additional borrower's insurance which drives up the price of the mortgage while extending the amount of time for the debt interest to compound, leading to a much more expensive home for the purchaser.[93]

The federal government should create a revolving down payment assistance fund.[94] Qualified borrowers can use funds to purchase a standard mortgage anywhere in the country. The mortgage loans will be structured by the federal government as fifteen-year mortgages with low interest. The loans will be insured by the FHA. The down payment will be repaid to the revolving down payment fund during the loan term.

The main benefit of a flexible down payment program is that it would disrupt historic segregation patterns. The program would need to be designed as a housing voucher program, which has already been tested by some municipalities.[95] To date, these vouchers have only applied to rental properties or section 8 housing. However, in order to build wealth, these vouchers would need to be tied to a wealth-creating property.

IV
Shared Equity Mortgages

The federal government or interested states, cities, and municipalities will create "shared equity mortgages" (SEMs) or "shared appreciation mortgages," a hybrid debt/equity mortgage.[96] The essential

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[88] *See* Mario Koran, *California legalized public banks. But can they work?*, GUARDIAN (Oct. 15, 2019), https://www.theguardian.com/us-news/2019/oct/14/california-public-banking-san-francisco-los-angeles.

[89] *See* Sarah Jones, *Why Public Banks Are Suddenly Popular*, NEW REPUBLIC (Aug. 10, 2018), https://newrepublic.com/article/150594/public-banks-suddenly-popular.

[90] *See id.*

[91] *See* JASON JUDD & HEATHER MCGHEE, DEMOS, BANKING ON AMERICA: HOW MAIN STREET PARTNERSHIP BANKS CAN IMPROVE LOCAL ECONOMIES 6–7 (2011).

[92] *See id.* at 15.

[93] *See What Is Private Mortgage Insurance?*, CONSUMER FIN. PROTECTION BUREAU (July 28, 2017), https://www.consumerfinance.gov/ask-cfpb/what-is-private-mortgage-insurance-en-122 (noting that private mortgage insurance, commonly required when the down payment accounts for less than twenty percent of the home's purchase price, may increase the overall cost of the loan); *see also* Sebastian Obanda, *PMI – 4 Things You Should Know About Private Mortgage Insurance*, FORBES (Feb. 3, 2020, 9:41 AM), https://www.forbes.com/advisor/mortgages/pmi-4-things-you-should-know-about-private-mortgage-insurance (noting the additional costs associated with private mortgage insurance, and recommending that borrowers avoid it if at all possible).

[94] *Cf.* N.Y.C. DOWN PAYMENT ASSISTANCE FUND, https://www.nycdownpaymentfund.com (last visited Mar. 23, 2020) ("With flexible down payment loans, **DPAF** will assist pre-qualified **nonprofit** developers to move more rapidly into contract for vacant properties, eliminating a growing obstacle to development on privately-owned sites.").

[95] *See* Press Release, MIT Sloan Sch. of Mgmt., Reducing Segregation and Increasing Upward Mobility in American Cities, One Housing Voucher at a Time (Aug. 4, 2019), https://mitsloan.mit.edu/press/reducing-segregation-and-increasing-upward-mobility-american-cities-one-housing-voucher-a-time (describing a pilot program in Seattle using vouchers to promote housing mobility).

[96] Hannah Rounds, *Buying a Home with a Shared-Equity Mortgage*, LENDINGTREE (July 6, 2018),

structure is that a borrower who might not be able to come up with a down payment on her own would enter into a joint mortgage agreement with a public investor, like a federal, state, or local government fund, which would supply the down payment.[97] The borrower occupying the home would make mortgage payments and the equity is shared between the borrower and the fund. At the end of the mortgage cycle or upon sale, the equity would be split between the government investor and the borrower. The property will be held as a joint tenancy with survivorship until the loan is repaid at which point, the property will be held in fee simple by the borrower.[98] In case of borrower default, the investor could take possession of the home and the debt.[99] This arrangement would allow low-income individuals who otherwise could not own a home to own half of the value of a home and begin to accrue wealth. The public investment fund is protected from the downside because they own the property as a joint tenant, which means that they own it in full if the borrower stops paying the mortgage payments.

One important benefit of an SEM in greenlined areas would be that it would provide an incentive for the government to make sure that the property appreciates in value.[100] Property values rise when schools, parks, and public facilities are improved. Research and history show that when individuals own their homes, they are more invested in their community.[101] This double investment would link individuals and government entities in improving neighborhoods.

Public institutions could also deliver these loans directly. For example, instead of using banks or investors as middlemen, federal, state, or local funds could be used to lend into these areas with the profits returning to the public treasury instead of being shared by the bank. A state or municipality can even establish a public bank for this purpose.[102] For example, North Dakota has a public state bank, one of the most successful functions of which has been to offer credit to regions of the state that private banks have neglected, such as by providing rural mortgages.[103] Public banking actually works best when there is a well-defined mission that the market is not meeting. This has been the model for development banks abroad as well as our own historic Government Sponsored Enterprises (GSEs), FHA programs, postal banking operations, and even federally backed funds like the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, which have stepped in to fill a void created by the private market.[104] Indeed, it would be fitting for a quasi-public entity like the FHA to be created to fix the problem the FHA itself created.

* * *

The drawback of all of these mortgage program plans is that they attempt to break the cycle of poverty, unemployment, and community decline by focusing on housing. This is what the FHA did after the Great Depression; it yielded the desired results,[105] but can mortgages lead to prosperity today? Credit today is not

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https://www.lendingtree.com/home/mortgage/buying-a-home-with-a-shared-equity-mortgage.

[97] *See id.* (noting that U.S. government entities have used this framework to help buyers by providing down payment assistance loans).

[98] *See generally* Stanley L. Iezman, *The Shared Appreciation Mortgage and the Shared Equity Program: A Comprehensive Examination of Equity Participation*, 16 REAL PROP. PROB & TR. J. 510, 545 (1981) (explaining that SAMs allow borrowers to obtain mortgages with lower monthly payment requirements).

[99] *Cf. id.* at 533 (noting that a defaulting partner in a shared equity purchase (SEP) is normally subject to a buyout agreement, if not forfeiture of her interest).

[100] *See* Rounds, *supra* note 96 (explaining the financial benefits obtained by municipal lenders of SEMs when the underlying asset appreciates in value).

[101] *See* Denise DiPasquale & Edward L. Glaeser, *Incentives and Social Capital: Are Homeowners Better Citizens?*, 45 J. URB. ECON. 354, 356 (1999) ("Homeowners are approximately 10% more likely to know their U.S. representative by name. They are 9% more likely to know the identity of their school board head. Homeowners are 15% more likely to vote in local [elections] and 6% more likely to work to solve local problems.").

[102] *See supra* notes 87–89 and accompanying text.

[103] Eric Hardmeyer, *Why Public Banking Works in North Dakota*, N.Y. TIMES (Oct. 1, 2013, 4:58 PM), https://www.nytimes.com/roomfordebate/2013/10/01/should-states-operate-public-banks/why-public-banking-works-in-north-dakota.

[104] *See* MEHRSA BARADARAN, HOW THE OTHER HALF BANKS: EXCLUSION, EXPLOITATION, AND THE THREAT TO DEMOCRACY 14–18 (2015) (explaining how government entities, particularly the Federal Reserve and GSEs like Fannie Mae and Freddie Mac, provide "market-enabling structures" which allow banks to "benefit from loans they could not make otherwise").

[105] *See* Edward Szymanoski, *The Federal Housing Administration: 80 Years Young and Going Strong*, U.S. DEP'T OF HOUSING & URB. DEV., https://www.huduser.gov/portal/pdredge/pdr_edge_frm_asst_sec_081114.html (last visited Nov. 18, 2019) (describing FHA's role in reassuring the lending market through mortgage insurance programs).

what credit was in post-war America. In a growing and dynamic economy, credit meant wealth creation. Some economists have warned that America is headed toward an era of stagnant growth or even decline,[106] which could mean that it would be unwise to attempt to create wealth through mortgage debt without changing the fundamental structure of the economy. If a program only increases debt without adding opportunities such as increased incomes and wealth generation through property appreciation, the expected gains will not be realized. However, there is reason to believe that some of this stagnant growth can be remedied by focusing on inequality. In other words, by bringing back the New Deal era ethos of a mixed economy, or a government-private partnership, the economy can be spurred toward creation. Dealing with inequality can have trickle-up effects and raise all boats.[107]

In addition to wealth-building through housing, there are many other important routes to minimizing the racial wealth gap, including access to education, access to credit, and access to essential community services. Any project aimed at closing the wealth gap must acknolwedge the impact of segregation and racist policies on every single aspect of community life.

FULLY FUNDED CHILDCARE

Childcare costs are prohibitive to most working parents across the country, resulting in young parents not being able to work or children being left in undesirable care situations.[108] The government must provide universal daycare in order to spur economic growth. These facilities should focus on education. A decade ago, economist Robert Lynch found that investing in quality preschool led to billions of dollars in economic benefit to the federal and state governments.[109] Since then, more research has shown that pre-kindergarten betters children's lives well into the future and better levels the playing field for lower-income Americans.[110] Providing universal daycare and pre-k for every four-year-old in the United States would better prepare young people to enter the workforce and defy the cycle of poverty.[111] The effects of early

106 *See, e.g.*, TYLER COWEN, THE GREAT STAGNATION: HOW AMERICA ATE ALL THE LOW-HANGING FRUIT OF MODERN HISTORY, GOT SICK, AND WILL (EVENTUALLY) FEEL BETTER (2011) (noting that the country's recent economic recoveries have been characterized by stagnant job and wage growth); ROBERT GORDON, THE RISE AND FALL OF AMERICAN GROWTH (2016) (arguing that the U.S. economy will grow more slowly in the future than it has in the past).

107 *See* GORDON, *supra* note 106 (explaining that global inequality will continue to push against growth); Paul Krugman, *Why We're in a New Gilded Age*, N.Y. REV. BOOKS, May 8, 2014 (reviewing THOMAS PIKETTY, CAPITAL IN THE TWENTY-FIRST CENTURY (Arthur Goldhammer trans., 2014)) (arguing that wealth and inheritance taxes are an effective remedy for inequality); *see also* JACOB S. HACKER & PAUL PIERSON, AMERICAN AMNESIA: HOW THE WAR ON GOVERNMENT LED US TO FORGET WHAT MADE AMERICA PROSPER (2016) (arguing that the American public's distrust of redistributive government has hampered the country's economic vitality); THOMAS PIKETTY, CAPITAL IN THE TWENTY-FIRST CENTURY (Arthur Goldhammer trans., 2014) (advocating for progressive taxation as a means for reducing unsustainable wealth concentration); Joseph E. Stiglitz, *Inequality and Economic Growth*, 86 POL. Q. 134, 134 (2015) (arguing that, amid growing inequality, "the rising tide has only lifted the large yachts"); Paul Krugman, Opinion, *Is Vast Inequality Necessary?*, N.Y. TIMES (Jan. 15, 2016), https://www.nytimes.com/2016/01/15/opinion/is-vast-inequality-necessary.html (arguing that redistribution and economic progress are not incompatible).

108 *See* Herwig Immervoll & David Barber, *Can Parents Afford to Work? Childcare Costs, Tax-Benefit Policies and Work Incentives* 4–5 (Inst. for the Study of Labor Discussion Paper No. 1932, 2006) https://ssrn.com/abstract=878665 (reviewing the costs of childcare in developed countries).

109 ROBERT G. LYNCH, ENRICHING CHILDREN, ENRICHING THE NATION: PUBLIC INVESTMENT IN HIGH-QUALITY PREKINDERGARTEN (2007), https://www.epi.org/publication/book_enriching.

110 *See, e.g.*, Kenneth A. Dodge et al., *Impact of North Carolina's Early Childhood Programs and Policies on Educational Outcomes in Elementary School*, 88 CHILD DEV. 996, 1010–13 (2017) (finding that early childhood programs produce long-lasting benefits for elementary students); Deborah Phillips et al., *The Effects of Tulsa's CAP Head Start Program on Middle-School Academic Outcomes and Progress*, 52 DEVELOPMENTAL PSYCHOL. 1247, 1259 (2016) (concluding that an early childhood program helped produce better academic achievement among middle school students).

111 *See* Greg Duncan, Jens Ludwig, and Katherine Magnuson, *Reducing Poverty through Preschool Interventions*, 17 FUTURE OF CHILDREN (PUBMED) 143, 146 (2007), https://www.researchgate.net/publication/5943029_Reducing_Poverty_Through_Preschool_Interventions (describing improved outcomes for poor children who go through early childhood programs)
. *But see* GROVER J. WHITEHURST, BROOKINGS INST., WHY THE FEDERAL GOVERNMENT SHOULD SUBSIDIZE CHILDCARE AND HOW TO PAY FOR IT (2017), https://www.brookings.edu/research/why-the-federal-government-should-subsidize-childcare-and-how-to-pay-for-it.

childhood education carry on beyond one generation. A 2017 study by scholars from Texas A&M University and the University of Notre Dame found that the benefits of early childhood education carry on into the next generation with beneficiaries' offspring experiencing increased educational attainment, reduced teen pregnancy, and reduced criminal engagement.[112]

ELIMINATE CASH BAIL

The Eighth Amendment bars the federal government from charging accused people excessive fines for pretrial release. However, for many poor Americans, making bail is unduly challenging.[113] Bail must be met quickly, paid by another person, and does not necessarily reflect how dangerous a person's crime was.[114] Bail sets a price on freedom. And if a person has money, then they can be free; if a person is poor, then they must remain behind bars. During the wait between the poor person's arrest and their trial date, they could lose a job, a home, and even custody of children.[115] The alternative is to seek out a high-interest bail bond that could further destabilize a person's economic situation.[116] Far from being merely a minor inconvenience, requiring poor people to pay cash bail can fundamentally upend the economic social network. This is why the federal government should eliminate cash bail.

The most effective policy reform is likely the most comprehensive as well: a version of California's Money Bail Reform Act that eliminates the use of bail and uses a data-driven risk assessment to guide pretrial detention decisions. This approach, if applied through the lens of a race-neutral risk assessment like the Virginia Pretrial Risk Assessment Instrument or the Public Safety Assessment, quickly releases defendants who are low- to medium-risk for committing new crimes or failing to appear at subsequent judicial proceedings. For defendants judged to be high-risk, judicial oversight and adversarial proceedings provide a means to potentially secure pretrial release.

The net result of this reform is likely more black defendants being released as the racial biases inherent in the current system are filtered out through the risk assessment, and defendants are no longer held simply for being unable to pay bail. Because pretrial release correlates to better outcomes at trial,[117] black defendants could also see reduced incarceration when their case is resolved. Though enacting this reform would place reformers directly at odds with powerful bail bond and prison industry lobbies,[118] the benefits to black defendants and the potential to reduce the racial wealth gap compel serious effort toward making these changes a reality.

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112 Andrew Barr & Chloe R. Gibbs, *Breaking the Cycle? Intergenerational Effects of an Anti-Poverty Program in Early Childhood* 17–18 (EdPolicyWorks Working Paper Series No. 61, 2017), https://curry.virginia.edu/sites/default/files/files/EdPolicyWorks_files/61_Anti_Proverty_Effects_ECE.pdf.

113 *See* Nick Pinto, *The Bail Trap*, N.Y. TIMES MAG. (Aug. 13, 2015), https://www.nytimes.com/2015/08/16/magazine/the-bail-trap.html (detailing examples of accused persons unable to make bail).

114 *See* Malia Brink, *ABA Bail Policy: Taking Steps to Achieve Reform*, HUM. RTS. MAG. (Dec. 10, 2019), https://www.americanbar.org/groups/crsj/publications/human_rights_magazine_home/economic-justice/aba-bail-policy--taking-steps-to-achieve-reform (noting that bail is generally a function of an accused person's ability to pay, rather than of the risk posed by release); *see also* Udi Ofer, *We Can't End Mass Incarceration Without Ending Money Bail*, ACLU (Dec. 11, 2017), https://www.aclu.org/blog/smart-justice/we-cant-end-mass-incarceration-without-ending-money-bail (arguing that, under a cash bail system, wealthy persons can almost always obtain release).

115 *See* Pinto, *supra* note 113 (discussing issues faced by hourly workers unable to return to work because of their inability to make bail).

116 *See* Ofer, *supra* note 114 (noting that bail bond companies typically require a nonrefundable ten percent fee).

117 *See* Will Dobbie et al., *The Effects of Pretrial Detention on Conviction, Future Crime, and Employment: Evidence from Randomly Assigned Judges*, 108 AM. ECON. REV. 201, 236 (2018) (finding that pretrial release significantly decreases a defendant's chance of conviction).

118 *See* SPIKE BRADFORD, JUST. POL'Y INST., FOR BETTER OR FOR PROFIT: HOW THE BAIL BONDING INDUSTRY STANDS IN THE WAY OF FAIR AND EFFECTIVE PRETRIAL JUSTICE (2012), http://www.justicepolicy.org/uploads/justicepolicy/documents/_for_better_or_for_profit_.pdf (discussing the power of the bail bond industry across the United States).

INTEGRATING SCHOOLS THROUGH EQUITABLE TAXES

Local property taxes and other taxes account for more than two-thirds of the money that schools receive.[119] Thus, the disparities in homeownership have created inequalities in public schools and resources. We need a new way to fund public education. One option is to integrate the tax code by allowing taxes to flow evenly between schools and districts.[120] By pooling property taxes at the national or state level and assuring that schools are funded equally, we can widen the circle of opportunity for all children.

We must eliminate regressive taxes such as the mortgage interest deduction for state and local property taxes and instead place those funds into housing credits for lower income individuals, a reform which could move us toward a truly progressive tax base. Originally, the Mortgage Interest Deduction (MID) was designed to allow farmers and other small proprietors to deduct any interest they paid on business expenses.[121] Today, it benefits the middle class and wealthy at the expense of the non-homeowning poor. In 2017 Congress established a $10,000 cap on state and local property tax deductions,[122] which was a step in the right direction. However, Congress should end the MID deduction altogether and divert those funds to housing credits for lower income people.[123] Reprioritizing residential housing practices starts with overhauling the concept behind MIDs and reinvesting the savings created from cutting the deduction into affordable housing for lower-income individuals.

CONCLUSION

Unless targeted by concentrated and effective public policy coordinated across federal, state, and local governments, historic injustices that created the racial wealth gap will compound the gap. This testimony suggests several steps that can be taken to close the gap, which include housing, jobs, and childcare programs. This article also proposes that these efforts be coordinated, tracked, and measured across government agencies through a dedicated task force or agency established for a limited amount of time for the sole purpose of closing the racial wealth gap. Such a task force can be built within the existing federal administrative state. For example, the Minority Business Development Agency (MBDA) can be used for such a coordinating purpose.

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119 *See* Amy Newcomb & Kristina Barrett, *More Than Half of School Expenditures Spent on Classroom Instruction*, U.S. CENSUS BUREAU (June 14, 2017), https://www.census.gov/newsroom/press-releases/2017/cb17-97-public-education-finance.html (noting that, of the $286 billion that schools received, $196 billion came from state and local taxes).

120 *See* ZAHAVA STADLER ET AL., EDBUILD, BUILDING EQUITY: FAIRNESS IN PROPERTY TAX EFFORT FOR EDUCATION 60 (2017), https://edbuild.org/content/building-equity/report.pdf (calling for careful attention to state funding formulas in order to ensure adequate funding for all school districts).

121 *See* Roger Lowenstein, *Who Needs the Mortgage-Interest Deduction?*, N.Y. TIMES MAG. (Mar. 5, 2006), https://www.nytimes.com/2006/03/05/magazine/who-needs-the-mortgageinterest-deduction.html (explaining that early income tax laws allowed for deductions of any and all interest, because at the time almost all interest was business-related).

122 *See* Glenn Kessler, *The GOP's $10,000 Cap on Property Tax Deductions and How It Affects One Congressional District*, WASH. POST (Dec. 4, 2017), https://www.washingtonpost.com/news/fact-checker/wp/2017/12/04/the-gops-10000-cap-on-property-tax-deductions-and-how-it-affects-one-congressional-district.

123 *See* MARGERY AUSTIN TURNER ET AL., URBAN INST., HOW WOULD REFORMING THE MORTGAGE INTEREST DEDUCTION AFFECT THE HOUSING MARKET? (2013), https://www.urban.org/sites/default/files/publication/23431/412776-How-Would-Reforming-the-Mortgage-Interest-Deduction-Affect-the-Housing-Market-.PDF (arguing that ending or restructuring the MID would have little long-term impact on housing markets).

Statement before the Joint Economic Committee

On "Examining the Racial Wealth Gap in the United States"

Creating an opportunity society and upward mobility for people of all races

Ian Rowe

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Co-Founder & CEO, Vertex Partnership Academies

May 12, 2021

Chairman Beyer, Vice Chair Lee, and distinguished members of the Joint Economic Committee, good afternoon. Thank you for assembling this important conversation on the racial wealth gap. My name is Ian Rowe.

I submit my testimony today as a proud product of the New York City public school system kindergarten through 12th grade, and a graduate of Brooklyn Tech High School, Cornell University College of Engineering and Harvard Business School. I am a Resident Fellow at the American Enterprise Institute, where I focus on education, upward mobility, adoption and family stability. I am the founder and CEO of Vertex Partnership Academies, a new network of character-based, International Baccalaureate high schools, set to open our first campus in the Bronx in 2022. For the past 10 years, I was CEO of a non-profit network of public charter elementary and middle schools in the heart of the South Bronx and the Lower East Side of Manhattan. Our faculty had the solemn responsibility to educate more than 2,000 students—primarily low-income, black and Hispanic kids. We had nearly 5,000 families on our waiting list, all desperate for their kids to receive a high quality education.

Many of our parents faced racial discrimination and other challenges in their own lives. They feared that their children might as well. But these parents chose our schools because they wanted their children to develop the necessary skills and habits to become agents of their own uplift and build a better life, even in the face of structural barriers. In District 8, only 2 percent of the nearly 2,000 public school students beginning high school in the South Bronx in 2015 graduated ready for college four years later. A shocking 98 percent of students either dropped out of high school before completing their senior year—or, if they did manage to graduate, were still required to take remedial, catch-up classes in community college due to low math and reading scores on state exams. By contrast, at our all-boys school at 151st Street and Grand Concourse in the South Bronx, in 2018-19, the last year state tests were administered, nearly 70 percent of our students passed the state math exam.

I share this data point because, as we as a country are having crucial conversations about race, it is easy to forget that the racial disparities we are seeking to close originate early in life—long before they show up as statistical gaps in financial wealth, home ownership or educational achievement. If only 2% of the mostly black and brown kids in the Bronx are graduating from high school are capable of doing even basic reading and math, why would we reasonably expect these same kids to flourish in higher education and the workplace as adults: starting businesses, getting married, having children within marriage, or experiencing any of the other landmarks along the path into the middle class and beyond?

If we truly care about upward mobility, we should be wary of the goal to achieve "racial equity." Consider that in 2019, only one third of all eighth grade students scored "Proficient" on the National Assessment of Progress in reading. Each year since the Nation's Report Card was first administered in 1992, fewer than half of the nation's white students in the fourth, eighth, and 12th grades scored NAEP proficient in reading. The sad irony is that closing the black-white achievement gap, and thus achieving racial equity, would only grow black student outcomes from sub-mediocrity to full mediocrity.

As we consider strategies to create an opportunity society and upward mobility for people of all races, I submit to you the two-pronged philosophy we practiced in our schools: start early with the end in mind; and study the success of those who have achieved excellence, not just equity.

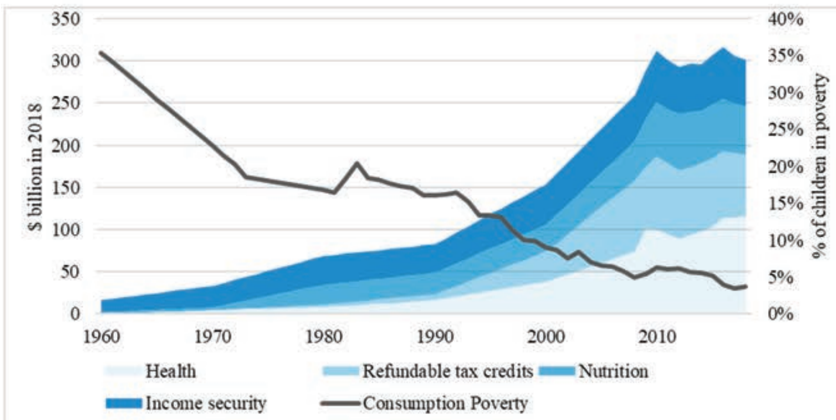
As this committee knows so well, a range of studies have identified "toxic levels of wealth inequality," especially between black and white Americans. According to the Federal Reserve's 2019 Survey of Consumer Finances, the wealth gap between Black and white Americans at the median — the middle household in each community — was \$164,100. The median Black household was worth only \$24,100; the median white household, \$188,200. Seven times. For some, this gap is vibrant proof of a permanent and insurmountable legacy of racial discrimination.

As a result, today's public discourse is dominated by the disempowering narrative that, unless institutional barriers are removed, black Americans will remain trapped in a perpetual cycle of economic victimhood. The Institute for Policy Studies notes, "Changes in individual behavior will not close the racial wealth divide, only structural systemic policy change can do that." In *What We Get Wrong About Closing the Racial Wealth Gap*, William Darity Jr. et al. assert, "There are no actions that black Americans can take unilaterally that will have much of an effect on reducing the racial wealth gap." *New York Times* reporter Nikole Hannah Jones argues: "None of the actions we are told black people must take if they want to 'lift themselves' out of poverty and gain financial stability—not marrying, not getting educated, not saving more, not owning a home—can mitigate 400 years of racialized plundering."

Imagine you are a 12-year-old black boy living in the South Bronx, with aspirations of working hard to achieve the American dream. Yet you are repeatedly told there is nothing you can do individually to achieve that goal. Imagine further that this message comes from adults who claim to advocate on your behalf, and yet they tell you it is pointless to even try. That, simply because you are black, you have no individual ability to close the racial wealth divide.

As someone who has run public charter schools in low-income communities in the Bronx, I know how debilitating such a narrative can be for a student's hopes and aspirations. Rather than helping that young man develop personal agency and an understanding of the behaviors most likely to propel him into success, this message will only teach what psychologists term "learned helplessness."

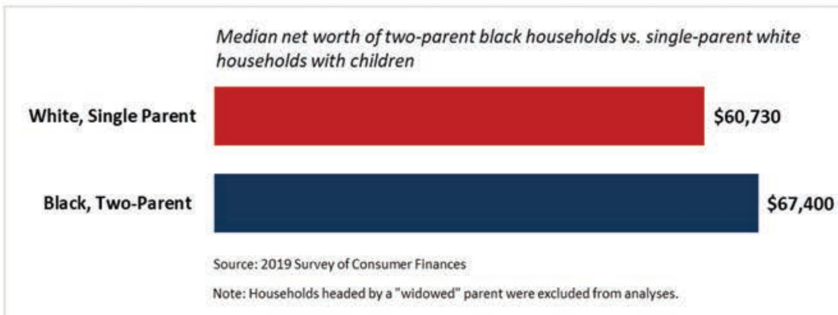
Not only does this message of hopelessness depress human motivation, it is also demonstrably wrong. It also ignores the tremendous public investment that has been made in the war on poverty, particularly child poverty. According to my AEI colleague Angela Rachidi, US spending on poor children has increased 17-fold since the 1960s, and in recent years, the government has spent more on children per capita than many other developed countries when considering three major categories of spending: cash support and tax breaks for families, primary and secondary education, and health. As the chart below indicates, by 2018, federal spending on means-tested programs reached more than $300 billion per annum, and generally shifted to in-kind support such as food benefits, refundable tax credits, and health care coverage. Consumption-based poverty measures place the child poverty rate at less than 5% today, because of these massive government transfer programs.



Yet the racial wealth gap persists for certain communities. This is why we have to study success for those black and other communities that are thriving. There are structural barriers that have to be addressed and individual choices that should be promoted. For example, there *are* decisions within the control of black kids—and children of all races—that increase their likelihood to improve their economic outcomes within a single generation and thus their ability to transfer wealth across generations.

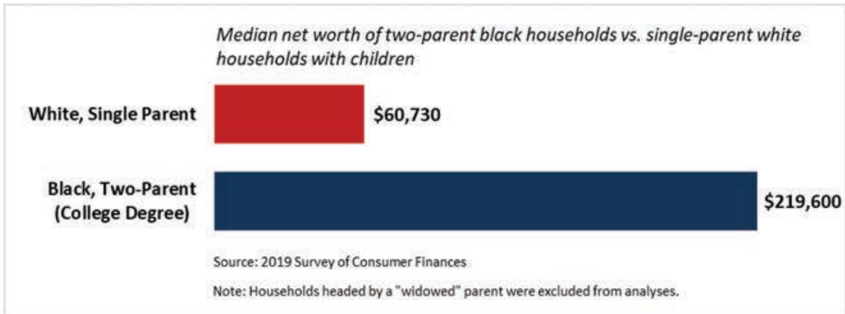
For example, while strengthening family stability would not single-handedly close the racial wealth gap, it is a controllable factor that heavily influences economic outcomes. The same 2019 Survey of Consumer Finances that shows the average black family has one seventh the wealth of the average white family also shows the reverse when family structure is considered. Indeed, black households headed by two married parents have slightly higher wealth than the median net worth of the typical white, single-parent household (Figure 1).

Figure 1. Median Net Worth of Two-Parent Black Households vs. Single-Parent White Households with Children



And when education is considered, on an absolute basis, the median net worth of two-parent black households is nearly $220,000 and more than three times that of the typical white, single-parent household. See the chart below.

Figure 2. Median Net Worth of Two-Parent, College-Educated Black Households vs. Single-Parent White Households with Children



Moreover, the 2017 report *The Millennial Success Sequence* finds that a stunning 91 percent of black people avoided poverty when they reached their prime young adult years (age 28–34), if they followed the "success sequence"—that is, they earned at least a high school degree, worked full-time so they learned the dignity and discipline of work, and married before having any children, in that order. In his study "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States," Raj Chetty studied the intergenerational mobility of more than 40 million children and their parents. He found that *hyper-local* factors—most notably measures of father presence and marriage rates in a given location—drive upward (or downward) mobility and thus the intergenerational transfer of wealth.

There is no silver bullet intervention that will magically close gaps in racial outcomes, especially when those gaps have causal factors that begin very early in life. But if we know there are factors beyond race, such as education, family stability, and so many others, that can make a difference in the lives of kids, then our approach to upward mobility should be to promote *empowering* behaviors instead of defeatist messages.

That is why policy interventions such as widespread school choice are so important. Ensuring every parent, regardless of race, income level or ZIP code, has the power to choose a great public school for their child will do a lot more to close the racial wealth gap than reifying race in policy and rhetoric at every opportunity. As a leader of public charter schools, I would want to see recognition that charter schools are public schools, and that more options should be given to students and families. Such race-neutral interventions that level the playing field, provide a solid education and encourage wealth-building behaviors would shape a strong policy portfolio.

Beyond pulling policy levers, we have a moral imperative to encourage young people of all races to adopt a new cultural norm around education, work, and responsible parenthood. This is particularly true given the new normal of nonmarital childbearing across race. My research focuses on non-marital births to women aged 24 and under. In 2019, for the tenth consecutive year, at least 70% of births to all women in that age group were outside of marriage, according to CDC Final Birth Data. **By race, the nonmarital birth rate for black women 24 and under was 91%** and it was 61% for white women aged 24 and under.

In addition, nearly 40% of unmarried women aged 24 and under who gave birth in 2019 were already mothers, giving birth to at least their second child. Given these multiple births, unmarried women aged 24 and under who gave birth in 2019 alone were raising an estimated 850,000–1,000,000 children, according to the CDC Wonder database.

This pattern of out-of-wedlock childbearing is often established at a young age. According to the CDC Wonder database, in 2019, almost two thirds (64%) of first out of wedlock births were to women 24 and under. Like kids of teen mothers, these children are at much greater risk of experiencing child poverty, poor education, lack of upward mobility, traumatic stress, and many other adverse childhood experiences that impede their ability to generate wealth later in life. If we want to reduce such risks and mitigate the economic distress that usually ensues for both parent and child, we must educate adolescents about the likely outcomes associated with different behaviors and encourage them to think critically about the timing of family formation.

This is why there is growing consensus around the need for public information campaigns targeted to young people that would promote the creation of healthy, stable families, which can take many forms but are most often created through education, work, marriage, then children, in that order. Both the AEI/Brookings Working Group on Poverty and Opportunity, and Harvard University's Closing the Opportunity Gap initiative, strongly recommend a large-scale marketing campaign that uses social and mass media and engages local institutions like the church, schools, civic organizations and neighborhood influencers, to change and normalize a new set of behavioral expectations around family formation.

In addition to public information campaigns, young people of all races must learn the concept of "earned success," the notion that money generated through hard work is much more rewarding than money simply given to us. Schools can encourage entrepreneurship by building awareness of the new forms of venture capital dedicated to changing the face of entrepreneurship. An excellent example of the new initiatives is Harlem Capital Partners, an early-stage venture capital firm on a mission to invest in 1,000 minority and female founders over the next 20 years. Another is Netflix, which announced in August of 2020 that they would allocate an estimated $100 million of their cash holdings toward "financial institutions and organizations that directly support Black communities in the U.S." As Netflix says, "bringing more capital to these communities can make a meaningful difference for the people and businesses in them, helping more families buy their first home or save for college, and more small businesses get started or grow."

In sum, educators, philanthropists, policy makers and business leaders should support these types of initiatives and evidence-based curricula that help young people build agency by descriptively (versus prescriptively) teaching the "success sequence" in schools, encourage wealth creation by improving access to venture capital, and organize social and mass media campaigns to normalize a new set of behavioral expectations around family formation. Without these steps, sending additional money to low-income young adults will do little to meaningfully alter their chances to achieve the American dream in the long run.

I look forward to answering your questions.

RESPONSE FROM PROFESSOR BROWN TO QUESTION FOR THE RECORD SUBMITTED BY SENATOR KLOBUCHAR

Housing is an important driver of generational wealth, and Black families are much less likely to own a home compared to white families. There are many historical causes for this disparity in ownership rates, and policies that prohibit the development of new housing help sustain this disparity.

- **How would eliminating artificial barriers to housing production, including exclusionary zoning, help increase homeownership among Black families and shrink the wealth gap?**

Exclusionary zoning and other artificial barriers to housing production play a limited role in wealth building among black families. Research described in my book "The Whiteness of Wealth" shows the much larger problem is how the valuation of homes disadvantages prospective black buyers along with current black homeowners.

RESPONSE FROM PROFESSOR BROWN TO QUESTION FOR THE RECORD SUBMITTED BY REPRESENTATIVE BEATTY

Representative BEATTY. **Thank you so much, Mr. Chairman.**

I know I am over my time, but if I could ask all of the witnesses to give me a written statement on their opinion of the direction we should be looking at at the Tulsa map, 100 years ago with the Black Wall Street that deals directly with today's topic, I would be interested in any of their thoughts on how we move forward. Thank you. And I yield back.

My advice is to ensure that any reparations payments are tax-free to those receiving them. Just like the reparation payments were tax-free to Japanese-Americans in the 1988 statute.

RESPONSE FROM PROFESSOR BROWN TO QUESTION FOR THE RECORD SUBMITTED BY SENATOR KELLY

TOPIC: LATINO-OWNED SMALL BUSINESSES

Professor Brown, Small businesses are the foundation of Arizona's economy. We are home to more than 99 percent of Arizona's businesses are considered "small."

More than 100,000 of Arizona's small businesses are Latino-owned.

In the American Rescue Plan, I worked to include a provision that would create Community Navigator programs to help small businesses access COVID relief. We also made sure these programs would be accessible to both English and non-English speakers.

Obviously, our support of Latino-owned small business can't stop here. Research shows that Latino-owned businesses start smaller and stay smaller.

- **What can we do from the Federal level to make sure these small businesses are able to grow, expand, and thrive?**

Gaining access to COVID relief programs is a huge first step. But post-COVID the approach to all governmental services targeted at small businesses should include those best practices you describe that were included in the COVID relief package.

My tax research has uncovered one specific problem in the Latino community that I would like to highlight here, and that is access to employer-provided retirement accounts. The Latino community has the lowest participation rate in employer-provided retirement accounts when compared with other racial and ethnic Americans. Figure 23 in the EBRI document cited here paints the picture in graphic detail. Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013 By Craig Copeland, Ph.D., Employee Benefit Research Institute Oct. 2014 No. 405

TOPIC: NATIVE AMERICAN HOMEOWNERSHIP

Professor Brown, the rate of homeownership for Native Americans is 56 percent. For white Americans, it's 74 percent.

For many Native Americans, the housing stock isn't adequate. Forty percent of on-reservation housing is considered substandard.

And yet, nearly a quarter of Native households pay 30 percent or more of their household income for housing.

- **Could you speak to how damaging this is to building and holding wealth?**

Most Americans hold a significant proportion of their wealth in their homes and this is particularly true for the middle class. While a majority of Native Americans own homes, their inability to buy homes not substandard or in need of repairs will forever prevent them from building wealth the same way as their white peers. This is a significant problem that needs to be remedied. I argue in my book "The Whiteness of Wealth," that one solution should be to remove the Federal tax subsidies that prop up a system that disadvantage so many homeowners of color.

RESPONSE FROM DR. HAMILTON TO QUESTION FOR THE RECORD SUBMITTED BY REPRESENTATIVE BEATTY

EXCERPT FROM THE FORTHCOMING COLOR OF WEALTH IN TULSA, OK, REPORT BY OFRONAMA BIU, GRIEVE CHELWA, DARRICK HAMILTON, CHRISTOPHER FAMIGHETTI, KATE RICHEY, AND DAMARIO SOLOMON SIMMONS

The Institute on Race and Political Economy at the New School, and the Justice for Greenwood Foundation, Inc., are producing a report on the racial wealth gap in Tulsa, OK. The first section presents the Black-White racial wealth gap based on data from National Asset Scorecard for Communities of Color (NASCC), proceeded by a narrative that describes the 1921 Tulsa Race Massacre and the modern-day implications for Black wealth.

Recommendations to address these findings can be found in two papers. In Neo-Liberalism and Race (Hamilton 2019) and The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap (Hamilton and Darity 2017), the authors describe why the neoliberal perspective and its focus on individuals achieving their own social mobility via education and financial literacy is insufficient in addressing the racial wealth gap. Instead, structural solutions are needed, such as reparations for slavery, sharecropping, and "whitecapping"; Baby Bonds; and a Federal jobs guarantee.

BLACK-WHITE RACIAL WEALTH GAP FROM THE TULSA—NATIONAL ASSET SCORECARD FOR COMMUNITIES OF COLOR (NASCC)[1]

The first wave of the NASCC survey was administered in the Boston, MA; Los Angeles, CA; Miami, FL; Tulsa, OK; and Washington, DC metropolitan areas.[2] The NASCC Tulsa sample was collected primarily in 2014.[3] Close to 400 surveys were completed in Tulsa—of those 400 households, 89 are identified as White and 66 identified as Black; the remaining households included those identified as Mexican and Native American descendants with Cherokee, Creek, or Other tribal affiliation and as well as those without a tribal affiliation (a forthcoming report in June 2021 will include detailed asset and debt information of not just Black and White residents of Tulsa, but the other groups listed above as well).

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[1] The NASCC project was seeded with a grant from the Ford Foundation under the leadership of the co-principal investigators, William Darity, Jr. and Darrick Hamilton. The authors of this report are solely responsible for its content and conclusions.

[2] The first iteration of the NASCC data was collected by Center for Survey Research (CSR) at the University of Virginia directed by Thomas Guterbock.The vast majority of efforts to examine household wealth in the United States have defined ethnic groups broadly, reporting collective data on Black, White, and, to a lesser extent, Latinx households. In these aggregations, Asians and especially Native Americans are often omitted or combined into the nebulous "other" category. In contrast, the NASCC survey collects asset and debt information on key subgroups within broader categories. For example, within the broad category of Native Americans, NASCC collects data on those who are Cherokee, Creek, or Other tribal affiliation and those without a tribal affiliation. Prior to the NASCC study, little had been known about the asset positions of these Native subgroups, especially in a localized context—see, for examples, The Color of Wealth in Miami (Aja et al., 2019), The Color of Wealth in Los Angeles (De La Cruz-Viesca et al., 2016), and The Color of Wealth in the Nation's Capital (Kijakazi et al., 2016), and The Color of Wealth in Boston (Muñoz et al., 2015).

[3] Samples drawn from targeted ZIP codes on the basis of billing address; and the use of surname-based lists targeting specific national origin groups. See, for example, The Color of Wealth in Los Angeles for a description (De La Cruz-Viesca et al., 2016).

Net worth (or wealth), the sum of the value of total assets minus the value of total debts, provides a summary of household financial and overall economic well-being (Table 1). Our analysis reveals the tenuous financial circumstances faced by Black household especially in comparison to White Households in the Tulsa metropolitan area. The $8,000 median net worth estimate for Black households amounts to only six percent or six cents for the typical Black household for every one dollar for the typical White household. Black households have dramatically fewer resources to deal with financial emergencies and make longer-term investments. In essence, Black households are financially insecure, and the narrative below provides a historical link of this contemporary economic vulnerability to the unjust Tulsa Race Massacre which occurred 100 years earlier.

Table 1. NASCC-TULSA Comparison of Black and White Household Median Wealth

	Median Wealth (U.S. dollar)	Black household percent of White household median Wealth
White	$145,000	
Black	$8,000***	6%

Source: NASCC survey, authors' calculations.
Note: The difference in the figures of nonwhites are compared with the figures of White households was statistically significant at the ***99%, **95%, *90% level.

THE TULSA RACE MASSACRE OF 1921[4]

The Tulsa Race Massacre of 1921 began on May 31st of that year and lasted well into the following day. In short, members of the Tulsa Police Department, the Tulsa County Sheriff's Department, the National Guard, other city and county leaders, and members of the chamber of commerce formed a large, angry mob of White Tulsans that overwhelmed the approximately 40-square-block community with violence. One of the worst acts of domestic terrorism in United States history decimated Tulsa's thriving, all-Black community of Greenwood. However, much like other mass atrocities, what was set in motion during those hours in 1921 changed the face of a community irreversibly and birthed a structural inequity pernicious in its persistence.

Hundreds of Black residents were killed, thousands more were injured, and 1,500 homes and businesses were looted and burned to the ground.[5] This brutal and inhumane attack was not an isolated event, as the same perpetrators spent the subsequent days, weeks, years and even decades ensuring the permanent erasure of Greenwood and the wholesale seizure of its former residents' assets. The economic ruin of Greenwood robbed Black Tulsans of their rightful inheritance and denied successive generations the wealth, financial security, and tangible and intellectual property that might otherwise have sustained, enabled, and enriched the quality of life of an entire community.

White Tulsans and local government officials began an obstructionist campaign against rebuilding Greenwood virtually immediately.[6] Many Greenwood residents lived in internment camps for over a year in squalid conditions while awaiting reconstruction and some used what was left of their meager resources to fight uphill battles against local officials seeking legal recognition of their right to rebuild from state courts.[7]

Hundreds of thriving Black-owned businesses and organizations lined the streets of Tulsa's celebrated Greenwood district before that day in 1921. Among them were regionally celebrated destinations like the upscale Stratford Hotel and the state-of-the-art Williams Dreamland Theater. The Tulsa Star is widely acknowledged as the first American Black-owned newspaper with a weekly national circulation. At least one-third of those businesses destroyed never reopened and today none of the businesses operating in Greenwood before the Massacre still exist.[8]

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[4] This section was written by Kate Richie of the Justice for Greenwood Foundation, Inc.

[5] See Okla. Comm'n To Study The Race Massacre Report Or 1921, Race Massacre Report (Feb. 28, 2001): *www.Okhistory.Org/Research/Forms/Freport.Pdf*. Hereafter referred to as Race Massacre Report.

[6] Plan to Move Negroes Into New District, Tulsa Tribune, June 3, 1921.

[7] The Oklahoma Supreme Court eventually struck down the racist zoning ordinances enacted by obstructionist White Tulsa officials immediately after the Massacre to prevent Greenwood from rebuilding.

[8] It should be noted that there are at least 20 White-owned businesses that existed at the time of the Massacre that are still in operation, "Find out which businesses have survived at least

Continued

The interference with rebuilding and investment in Greenwood and North Tulsa that began after the Massacre has never relented and is ongoing. Before the Massacre, the percentage of Black and White residents of Tulsa that owned their own homes was relatively the same.[9] After an entire Black neighborhood of homes was destroyed overnight, a deficit of adequate and code-compliant housing plagued life in the aftermath and a racial gap in homeownership began to balloon. Local government officials refused to enforce housing codes for Black residents and abdicated their municipal duties in myriad ways which made houses prone to rapid deterioration and led to substandard conditions and blight that threatened the health, comfort, and safety of the Greenwood neighborhood and community.[10]

There is still no viable public infrastructure in these communities. In every major category that undergirds individuals and households in their wealth-building endeavors over a lifetime (employment and educational opportunities, the availability of safe and affordable housing, a healthy environment and access to primary healthcare, etc.), Black Tulsans face shocking disparities.[11] These disparities are fueled by racist underfunding of public structures and deliberate and ongoing structural violence enacted by government entities whose choices impoverish the chances of Greenwood's descendants into 2021. Meanwhile, White Tulsans enjoy these resources in abundance, provided by the very same public structures and government entities that have inflicted a shameful legacy of intentional deprivation onto Tulsa's Black citizenry.

While the exact date and time of the beginning of the destruction of historic Greenwood is well-established, we have no timestamp for when the Massacre will end. Wealth once stolen is made permanently illusive by deliberate public policy choices that maintain an apartheid regime of dichotomous "development" in the City of Tulsa. A twin trajectory fueled by racialized logic divides Tulsa's past and its future indefinitely: (1) thriving White communities, growing ever-more insular and segregated, empowered economically and benefiting from the lion's share of public investment versus (2) the Massacre's legacy of unjust, violent, and inhumane treatment at the hands of public leaders and institutions who are derelict in their duty to serve and protect Tulsa's Black residents and to recognize their human right to self-determination.

RESPONSE FROM DR. HAMILTON TO QUESTION FOR THE RECORD SUBMITTED BY SENATOR KELLY

Arizona's population is about 5% Black—but the Black population is expected to be the fastest growing in the coming years.

The Black consumer base is growing fast, the Black labor force is growing fast, and Black-owned businesses are growing fast.

But Black-owned businesses are heavily crowded in only a few sectors—health care, professional services, and social assistance. These numbers are very concentrated—there are some sectors where there are barely any Black-owned businesses.

The State of Black Business in Arizona report largely attributes this to a lack of capital.

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100 years in Tulsa", TULSA WORLD *https://tulsaworld.com/business/photo-gallery-find-out-which-businesses-have-survived-at-least-100-years-intulsa/collection—df4bc18f-31b0–5a05–86ee-d24caef926ce.html*

[9] According to the U.S. Federal Reserve, homeownership is one of the key ways we build wealth in the U.S. The Federal Reserve reports that the average homeowner in 2016 had a household wealth of $231,400, compared to the average renter having a household wealth of just $5,200. Federal Reserve Bulletin, Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances, Vol. 103, No. 3 (September 2017), *https://www.federalreserve.gov/publications/files/scf17.pdf*.

[10] A Concise Review of Housing Problems Affecting Negroes in Tulsa, Tulsa Urban League (1958), *http:// digitalcollections.tulsalibrary.org/digital/collection/p16063coll1/id/5358*.

[11] The findings of the Tulsa Equality Indicators Annual Reports document the disparities created by the 1921 Race Massacre and how they continue to hinder and harm Black Tulsans and the Greenwood community. See Tulsa Equality Indicators (2019) *https://www.tulsaei.org/wp-content/uploads/2019/07/Tulsa-Equality-IndicatorsReport—2019.pdf*. It should be noted that, in response to the City of Tulsa's 2018 Equality Indicators Annual Report, the NAACP Legal Defense Fund and over 50 local community, elected, and religious leaders sent a letter (the "LDF Letter") to Tulsa Mayor Bynum and the Tulsa City Council demanding reforms be immediately implemented. The LDF Letter stated, "It is simply unacceptable to acknowledge racial inequities in City report and do little to nothing to address them." To date, none of the reforms requested in the LDF Letter have been implemented.

Arizona is buzzing with new investment and innovation. That should not just be for some businesses.

- **What strategies should we take back home to ensure that investment is getting to Black-owned businesses and entrepreneurs?**

As described in the preamble to the question, the major issue as it relates to limited Black entrepreneurship and Black business activity writ large is capital. And the lack of capital in the Black community is the result of our persistent racial wealth gap grounded in a history in which Blacks have not been permitted to receive full access to government-facilitated capital development, and, in the cases in which they were able to develop enterprise, it never received the full political protection from fraud, theft and even terror afforded to White enterprise.

This also explains a lion share for the lack of variation in type of business enterprise relative to Whites. Limited capital in the Black community restricts them to enterprise that does not require capital deepening.

The strategies to rectify these problems should be centered on how best to facilitate access to capital to Black entrepreneurs—and this access need not all come in the form of loans, especially loans with subprime terms. In addition, the strategies should recognize that long-established relationships (and preferential treatment) that have benefited White firms relative to Black firms will require affirmative action to rectify. Government procurement contracts can and should play an essential role in this domain. Of course, other supportive services around entrepreneurship start-up are beneficial as well.

RESPONSE FROM MR. ROWE TO QUESTION FOR THE RECORD SUBMITTED BY SENATOR LEE

Mr. Rowe, we know that many early occupational licensing and minimum wage laws were designed to lock Black workers out of White professions,[1] current public school enrollment policies keep many poor minority kids trapped in failing schools, many residential zoning policies produce de facto racial segregation, and many welfare policies systematically make work and family formation more difficult.

It is a tragedy that government policy has institutionalized racist attitudes in certain cases and created barriers to upward mobility for minority Americans.

- **I know that you have recommended that we look to the private sector and local communities for solutions to address some of the problems we have discussed today—for instance, you've written about organizations like Harlem Capital Partners and the New Voices Foundation that provide venture capital dollars to minority and female founders. I know that you are also the founder of Vertex Partnership Academies, a network of charter schools in the Bronx. Can you tell us more about why these private and community-based initiatives are important and in what ways they have been more effective than government interventions?**

Entrepreneurship and innovation are critical toward the work to create greater upward mobility. As a social entrepreneur myself, that is why I have been attracted by public charter schools as a private, community-based initiative to achieve greater educational opportunities for kids.

For example, I am co-founding Vertex Partnership Academies, which seeks to be the first-of-its-kind network of character-based, International Baccalaureate public charter high schools, dedicated to equality of opportunity, individual dignity, and our common humanity.

Vertex Student Scholars will be immersed in a culture of democratic discourse guided by the four cardinal virtues of Courage, Justice, Temperance, and Wisdom. With the first campus scheduled to open in the Bronx in 2022, Vertex will empower each student scholar to choose either: (1) the International Baccalaureate Diploma Program that prepares them to enroll and thrive in premier colleges and universities in the country or abroad; or (2) the International Baccalaureate Career Pro-

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[1] Licensing Laws: A Historical Example of the Use of Government Regulatory Power Against African-Americans. David E. Bernstein. *https://digital.sandiego.edu/cgi/viewcontent.cgi?article=1203&context=sdlr*; *https://mises.org/wire/racist-history-minimum-wage-laws Race and Medical Licensing Laws*. Jeffrey Singer. *https://www.cato.org/blog/race-medical-licensing-laws*. The Minimum Wage's Racist Roots. Jason Riley. *https://www.wsj.com/articles/the-minimum-wages-racially-discriminatory-roots-11613517678*

gram that prepares them to graduate with a professional credential and directly enter the labor market with skills in a particular industry.

As I describe below, Vertex partnership Academies is a creative example of a school that is creating dual pathways to college or directly into a career.

Mr. Rowe, attaining a quality education is key to achieving upward mobility, and yet throughout the country, the neighborhood where a family lives usually determines where its children are eligible to attend school. This suggests that housing policy matters for educational opportunity.

In fact, a Social Capital Project report on the topic of housing and educational access found that "major cities with more restrictive residential zoning policy are less affective at providing high-quality public education at a low, affordable price."[2]

- **What are your thoughts on how housing and housing policy impacts educational opportunity for American children?**
- **In your view, could we improve access to quality education by expanding access to housing through residential zoning reform?**

As an educator, I advocate for a solution that allows widespread school choice, so no matter the zip code within which a child lives, they would still have the opportunity to access a good education. But given the housing focus of this question, I would like to bring in the work of my colleague Edward Pinto, who leads the AEI Housing Center. Along with AEI Resident Scholar Stephen Oliner, Mr. Pinto created the Wealth Building Home Mortgage, a new approach to home finance designed to provide a more reliable and effective way of building wealth than is available under existing policies. Mr. Pinto is already working with Senator Scott on housing policy that can support upward mobility and assess racial bias. Attached are:

- Impact of Race and Socio-Economic Status on the Valuation of Homes by Neighborhood (see slides 24–25 where we outline solutions).
- FHFA Request for Input RFI on Appraisal Related Policies Practices and Processes FINAL v2—in particular the first section entitled: How Common Is Appraiser Racial Bias? (slides 3–28).
- A Quarter Century of Mortgage Risk (link: *https://www.aei.org/research-products/working-paper/mortgage-risk-since-1990/*)

Mr. Rowe, although obtaining a college degree is often characterized as a path to the middle class, some college degrees do not justify the cost, and some students are interested in alternatives to college that serve their goals and interests better.

There are a wide variety of advanced non-traditional programs like online courses, apprenticeships, or vocational schools available today that offer paths to high-skilled, well-paying jobs. However, many of these programs are not accredited the way traditional colleges are, which makes them ineligible for Federal student aid.

- **Do you believe that the higher education system as a whole is out of sync with the labor market's needs for skilled workers? How can government ensure that students have access to a wider variety of post-secondary educational options?**

Young men and women who are not on the college track are increasingly left behind in our economy and educational institutions. In the 1980s, two-thirds of jobs were open to men and women with just a high school degree. Today, only one-third of jobs are.[3] With a wave of new service sector jobs replacing a shrinking manufacturing sector, many find themselves with less representation and fewer rights in the workplace, reducing their access to dignified, supportive work environments.[4] A substantial minority of today's less educated men do not have the education or experience that would prepare them for good-paying middle-skilled jobs in technology, services, and health.

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[2] Zoned Out: How School and Residential Zoning Limit Educational Opportunity. Social Capital Project, Joint Economic Committee. *https://www.jec.senate.gov/public/index.cfm/republicans/analysis?ID=E4DD88F7–4D98–4FD4–B68A–20689CB4F94 C*

[3] Kenneth Adams et al., "The Indispensable Institution: Reimagining Community College," Opportunity America, June 2020.

[4] David C. Yamada, "Human Dignity and American Employment Law," University of Richmond Law Review 43, no. 2 (2009): 523–569.

This problem is exacerbated by a "college-for-all" framework that dominates our culture.[5] Even though only one-third of men have a bachelor's degree, our educational attention and dollars overwhelmingly focus on the college track.[6] Of the $150 billion our Federal and state governments currently devote to higher education each year, only $1.9 billion is devoted to vocational education in high schools and community colleges.[7]

Moreover, our K–12 curricula and teaching practices are structured to discount the potential of less academically minded children. Simply put, schools are failing to offer these children the training and skills they need to build flourishing lives. So, many young men and women spend their years in school just getting by—struggling through classes that do not capture their interests, instead turning to video games, social media, and other activities for a sense of place and purpose.[8] After school, they tend to drift through low-wage jobs without hope of upward mobility.

But things do not have to be this way. Even today, hundreds of thousands of quality, skill-based jobs are unfilled. Some schools across the country have begun to address this gap, pursuing creative solutions to workforce education. Countless career and technical education (CTE) programs teach students real-world skills from coding to car repairs.[9] Take, for example, Career Academies, high school programs that offer struggling students rigorous, career-oriented courses.[10] They also offer on-the-job internships and work-based learning opportunities. Young men participating in these programs earn more than similar peers who do not.[11] Even more, these programs confer dignity upon young men and prepare them for successful relationships: research shows that young men who attend a Career Academy are more likely to marry.[12]

Policymakers should lean into the success of career academies and other career and technical education models in the high school and community college milieu. The goal should be designing a national workforce education system that prepares one-third of adults for the middle skills market—offering skill-based certificates and job trainings with real value in the labor market. Such an approach would demand that schools develop integrated networks with local employers and continually update their educational models and resource allocation to match the needs of local labor markets. Apprenticeships will also be key. Many employers are willing to pay young adults even as they learn a skill. Community colleges should leverage partnerships with these employers.

Also critical to ushering in an elevated role for career and technical education nationally: funding. Policymakers should start by allocating one-third of current state and Federal spending on higher education to skills-based workforce education in high schools and community colleges. The funding should not be restricted, but rather contingent on high school offcials and community college administrators dramatically expanding the volume of high-quality vocational classes and programs available to their students. This funding should be paired with evaluation measures that track high school and community college's successes in placing students into good jobs.

Mr. Rowe, household savings are a major component of household wealth, and White Americans have greater average savings than Black Americans, which enlarges the wealth gap. Unfortunately, under current tax policy, saving is disadvantaged relative to spending, with the exception of certain government-approved savings goals.

Meanwhile, the savings vehicles that we do have largely fail to benefit lower-income and working-class Americans, in part due to the many rules and restrictions on their use.

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[5] Oren Cass, "The Misguided Priorities of Our Educational System," The New York Times, December 10, 2018.

[6] Richard Fry, Ruth Igielnik, and Eileen Patten, "How Millennials today compare with their grandparents 50 years ago," PEW Research Center, March 16, 2018.

[7] Data Lab, USAspending.gov, "Federal Investment in Higher Education," Accessed May 2, 2021, *https://datalab.usaspending.gov/colleges-and-universities/*; Institute of Education Sciences, National Center for Health Statistics, "Table 401.30: Federal on-budget funds for education, by level/educational purpose, agency, and program: Selected fiscal years, 1970 through 2019."

[8] Warren Farrell and John Gray, The Boy Crisis: Why Our Boys Are Struggling and What We Can Do About It (Dallas: BenBella Books, 2018).

[9] Catherine Gewertz, "What is Career and Technical Education, Anyway?," Education Week, July 31, 2018.

[10] James J. Kemple, Career Academies: Long-term Impacts on Labor Market Outcomes, Educational Attainment, and Transitions To Adulthood," MRDC, June 2008.

[11] Kemple, "Career Academies."

[12] Kemple, "Career Academies."

- **Universal savings accounts promote saving for any purpose and over any time horizon without penalties, restrictions, or paperwork. In your view, would it be helpful to provide Americans with these more flexible savings accounts?**
- **Outside of universal savings accounts, what other policies would help to support saving at every income level?**

Long-term success for families definitely involves policies that promote greater asset building among low-income families, and policies that compound the efforts of low-income Americans to save for their future.

To address asset building, one tool Congress could incorporate into Federal tax policy is flexible savings accounts that allow families to save pre-tax dollars for a variety of family related expenses, such as paid parental or family care leave, childcare or educational expenses, a down payment on a home, or work-related expenses such as transportation. The Federal Government could match savings up to the amount of payroll taxes for families who fund these accounts. State agencies would ignore families' savings (but not government match funds) for the purposes of determining eligibility for other means-tested benefits. Such policies could have the potential to reduce wealth inequality in America and help more young men and women feel financially prepared to enter into marriage. Importantly, they would also encourage a future-orientation among young Americans. For many low-income children, having a savings account with their name on it could dramatically change the way they think about their future, inspiring a new set of intentional behaviors around saving and laying the groundwork for a life path that will maximize their chance of success.

In the public charter schools I led for a decade in the Bronx, we set up New York State 529 Savings Accounts for each student, beginning in pre-K (or four years old). Our parents matched the initial $50 contribution, and annually contributed so we as a school could match. While the accumulated amounts weren't massive, the anecdotal evidence we had from families was that our savings program changed the nature of the discussion at the dinner table. Because our students had a college savings account in their name, and it was at least annually contributed to, there was a future orientation that more prominently guided behavior.

As I noted in my testimony, we must also move beyond pulling policy levers. We have a moral imperative to encourage young people of all races to adopt a new cultural norm around education, work, and responsible parenthood. This is especially true because the research suggests that marriage significantly influences wealth-building behaviors among young couples and leads to greater wealth in the long run.

The marital divide in wealth for adults in their 50s is substantial. Married Americans have more than twice the average wealth of divorced and never married Americans, even after controlling for gender, age, education, race, ethnicity and scores on the Armed Services Vocational Aptitude Battery, a standardized test that measures mathematical, scientific, and word knowledge.[13] On average, stably married men and women have more than $640,000 in wealth, while the remarried have more than $450,000 in wealth. By contrast, divorced and never married Americans have only about $167,000 in wealth when they reach preretirement years.

What causes this divide in wealth? It is almost surely partially the result of self-selection. Americans with more income and assets are more likely to marry and to stay married. This is especially the case today with highly educated men and women being more likely to be stably married than less-educated Americans. But marriage and marital transitions also appear to independently influence the accumulation of wealth in America. Married couples, for instance, benefit from economies of scale that allow them to share housing, food and utilities and devote more of their household income to building wealth. Stably married couples also avoid the substantial costs associated with family instability, especially among parents—legal costs, child support and moving to a different home, to name a few. Furthermore, marriage itself appears to engender a responsibility ethic, where spouses set aside money for an imagined future together. This translates to higher rates of per capita savings and lower rates of spending per capita among the married compared to their demographically similar but unmarried peers. Because marriage makes it easier to save, reduces costs associated with family instability and engenders a savings ethic, the significant association between marital status and wealth looks to be at least partly causal.

[13] Author's calculations from the National Longitudinal Survey of Youth, 1979 (NLSY79), Round 27 (2016).

Accordingly, educators and philanthropists should develop evidence-based curricula that help young people build agency by descriptively (versus prescriptively) teaching the "success sequence" in schools and organize social and mass media campaigns to normalize a new set of behavioral expectations around family formation. Without these steps, sending additional money to low-income young adults will do little to meaningfully alter their chances to achieve the American dream in the long run.

Please don't hesitate to reach out with any more questions.

RESPONSE FROM MR. ROWE TO QUESTION FOR THE RECORD SUBMITTED BY REPRESENTATIVE BEATTY

Representative BEATTY. **Thank you so much, Mr. Chairman.**

I know I am over my time, but if I could ask all of the witnesses to give me a written statement on their opinion of the direction we should be looking at the Tulsa Massacre, 100 years ago with the Black Wall Street that deals directly with today's topic, I would be interested in any of their thoughts on how we move forward. Thank you. And I yield back.

Congresswoman Beatty requested responses on how to approach the teaching of information related to the events in Tulsa a century ago. With that request, please see below a new curriculum unit that 1776 Unites has created called Tulsa Terror & Triumph that captures both the tragedy of the massacre that occurred, and the resilient rise of black Americans in the face of adversity.

https://1776unites.com/our-work/curriculum/download/

QUESTION FOR THE RECORD FOR PROFESSOR BARADARAN SUBMITTED BY SENATOR KLOBUCHAR

We have seen unequal patterns of Federal investment—often the result of systemic racism and discrimination—lead to decades of neglect in some communities, which exacerbates the racial wealth gap. I support Representative Jim Clyburn's 10—20—30 plan, in which 10 percent of Federal resources are committed to communities where at least 20 percent of the population has been living below the poverty line for 30 years or more.

- **How much progress could we make on closing the racial wealth gap if, over an extended period of time, we ensure that 10 percent of each agency's funding reaches communities dealing with persistent poverty?**

QUESTIONS FOR THE RECORD FOR PROFESSOR BARADARAN SUBMITTED BY SENATOR KELLY

TOPIC: EXPANDING LATINO HOMEOWNERSHIP

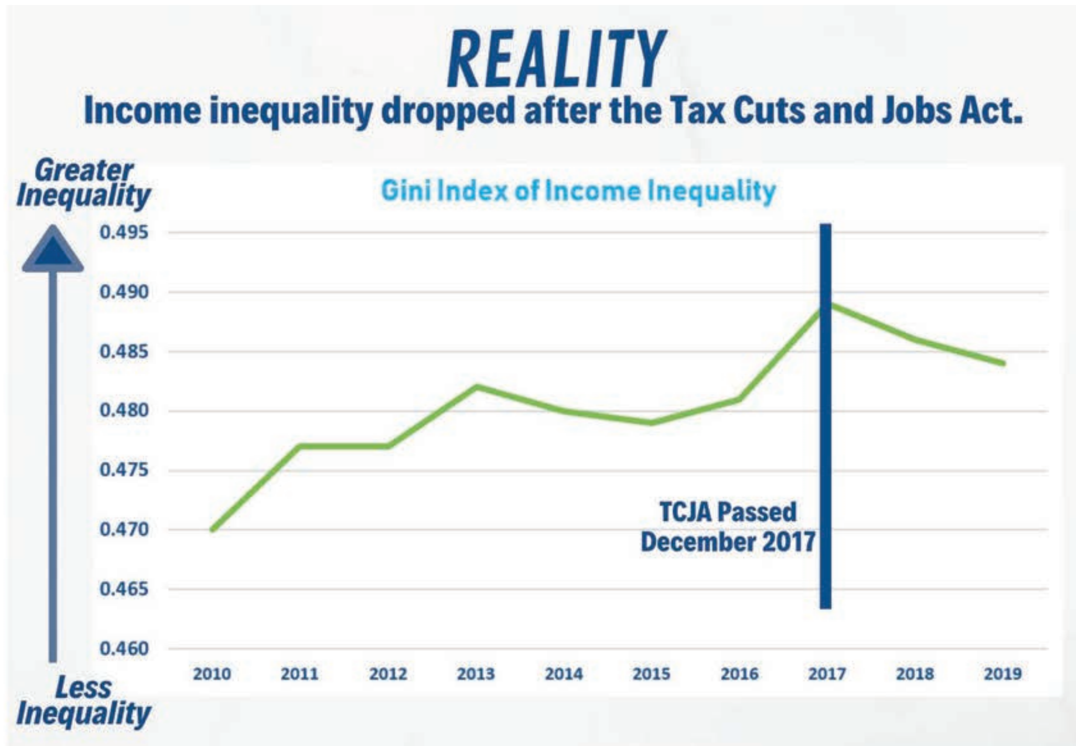
During our State work period last week, I visited the Market of Dreams in Flagstaff, Arizona.

Market of Dreams is a 6-year-old micro-entrepreneurship center that provides mentoring for microbusinesses, retail space, leadership development, and more opportunities for entrepreneurs just starting out.

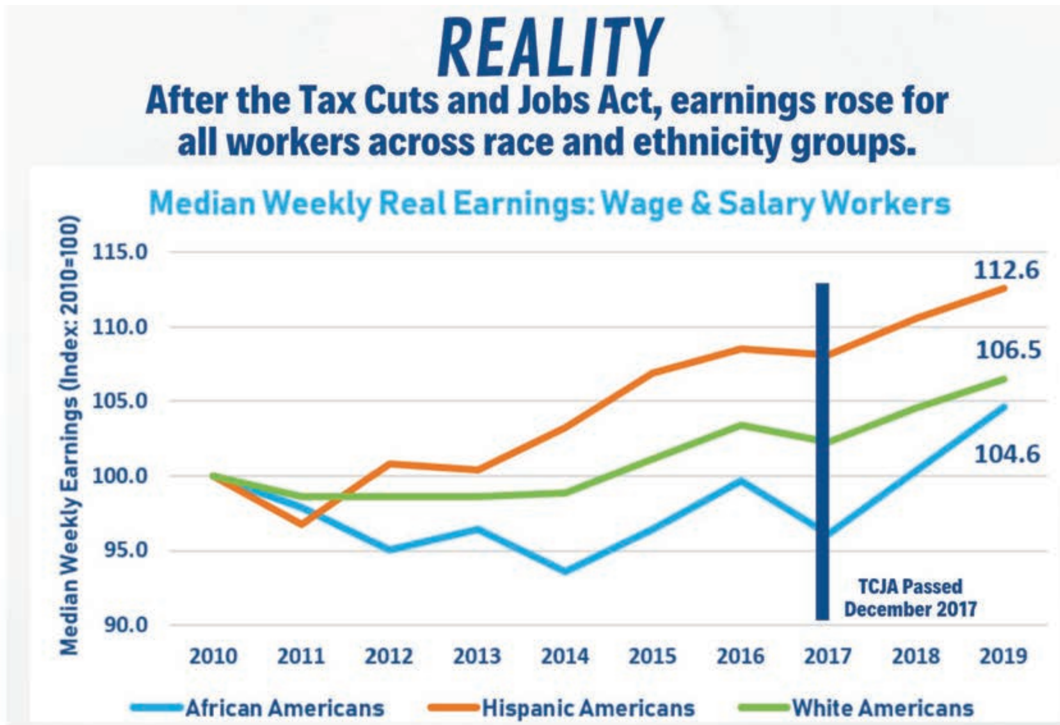
It's located in an area that's 45 percent Latino, where 75 percent of residents work multiple jobs and a majority of folks pay 50 percent or more of their total monthly income on rent.

That rent statistic really jumped out at me. And we know it's not unique to this one community.

- **Considering what we know about the possibility for homeownership to help build wealth, how do we better make that a reality for Latino communities?**
- **Your testimony referenced the idea of a down payment assistance fund. Could you expand on that?**



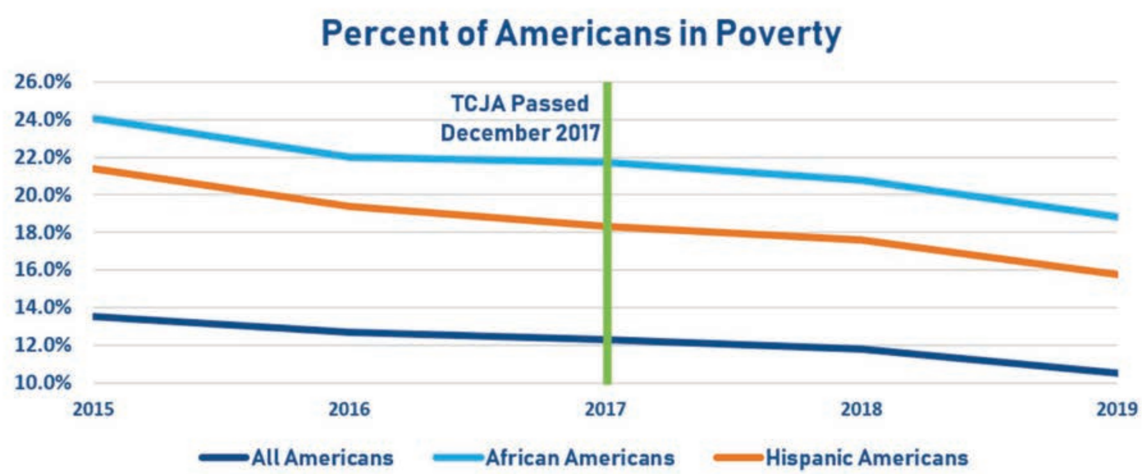
Census Bureau, "*Income and Poverty in the United States: 2019*",
Table A-4.



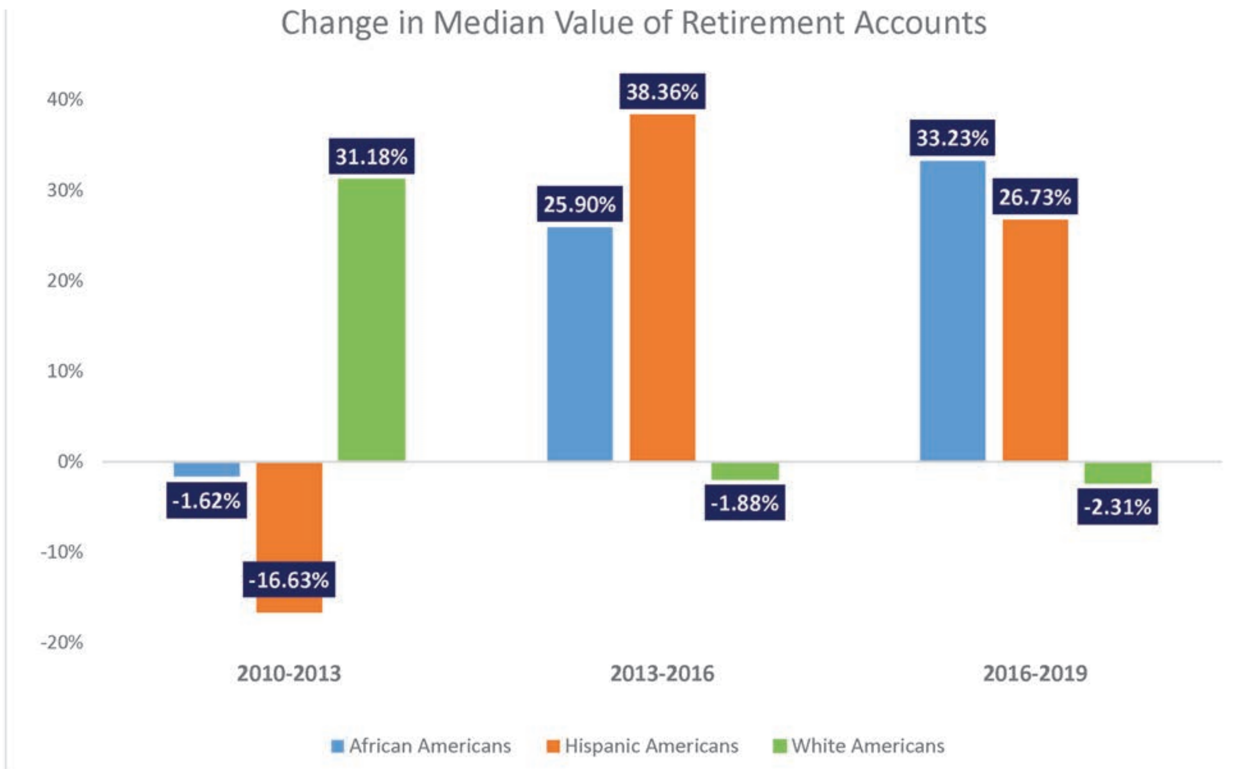
Federal Reserve Bank of St. Louis, "[Real Median Household Income in the United States](#)",
Median usual weekly real earnings: Wage and salary workers: 16 years and over: Black or African American, Hispanic or Latino, White: Index 2010=100: 2010-2019.

Reality

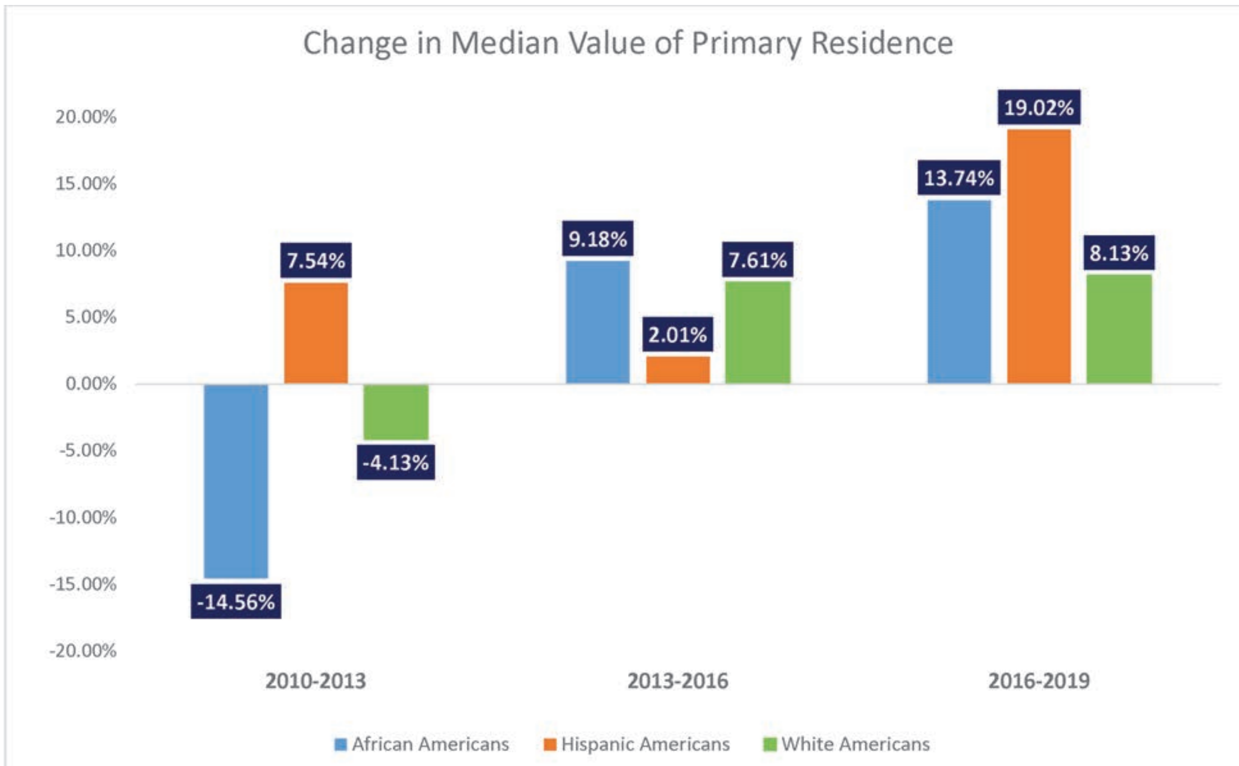
Economic expansion after the Tax Cuts and Jobs Act led to an increase in median household income and a continued decline in poverty rates for all Americans.



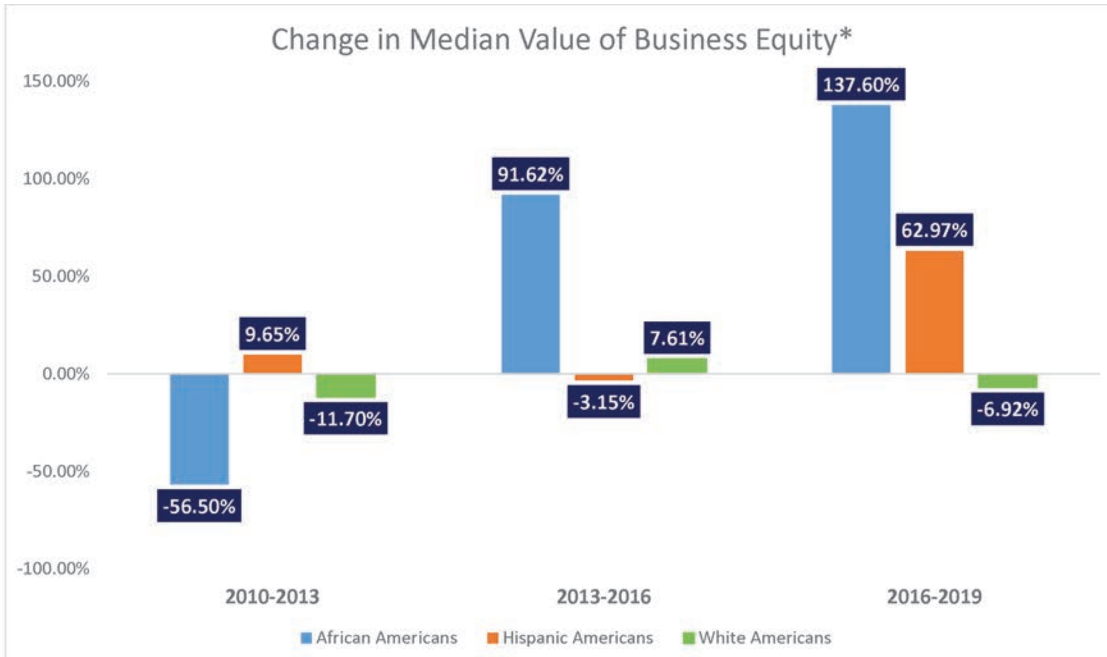
Census Bureau, *"Income and Poverty in the United States: 2019"*,
Table B-5.



Federal Reserve, "*Survey of Consumer Finances*", 2010-2019.



Federal Reserve, "*Survey of Consumer Finances*", 2010-2019.



Note: Business equity includes net worth in the following forms of business: sole proprietorships, limited partnerships, other types of partnerships, S corporations and other types of corporations that are not publicly traded, limited liability companies, and other types of private businesses. If the family lived on a farm or ranch used at least in part for agricultural business, then the value of that part, net of the corresponding share of associated debts, is included with other business assets. In the survey, self-employment status and business ownership are independently determined.

Federal Reserve, "*Survey of Consumer Finances*", 2010-2019.

FHFA's Request for Input on Appraisal Related Policies, Practices, and Processes

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AEI Housing Center
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February 26, 2021

Link to AEI HMIs:
https://www.aei.org/housing/housing-market-indicators/

Impact of Race and Socio-Economic Status on the Valuation of Homes by Neighborhood

Edward Pinto (pintoedward1@gmail.com), Director
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AEI Housing Center

Working Report – Preliminary Results

AEI.org/housing

February 26, 2021

Link to AEI HMIs:
https://www.aei.org/housing/housing-market-indicators/