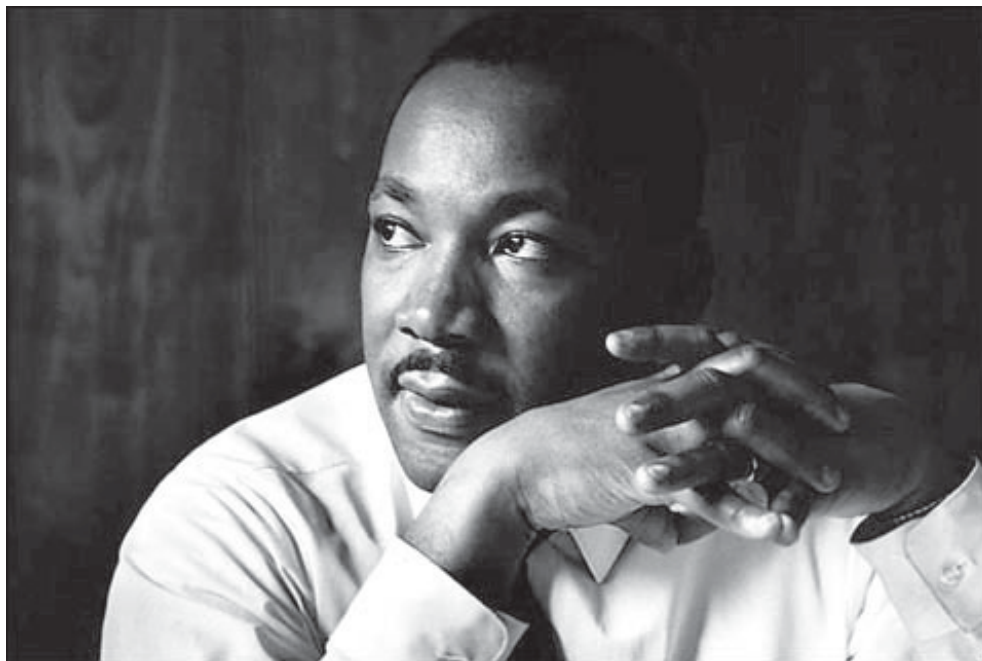


# State of the Dream 2005: Disowned in the Ownership Society



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January 10, 2005

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United for a Fair Economy raises awareness that concentrated wealth and power undermine the economy, corrupt democracy, deepen the racial divide, and tear communities apart. We support and help build social movements for greater equality.

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# Contents



Key Findings ..... 1

Introduction ..... 3

I. Dreams Deferred..... 5

- Disowned ..... 5
  - Unemployment ..... 5
  - Income and Poverty ..... 7
- An Ownership Society? ..... 11
  - Homeownership ..... 11
  - Business Ownership ..... 13
  - Stock Ownership ..... 15
- Inheriting Inequality ..... 16
  - Inheritance ..... 16
  - Retirement ..... 17

2. Inaugurating the Dream ..... 19

- Progressive Federal Policy ..... 19
- Asset Development ..... 23
- Progressive Taxation ..... 25

3. Conclusion ..... 28

Endnotes ..... 29

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# Key Findings

President Bush's Ownership Society goals may appear at first to be consistent with Dr. Martin Luther King's dream of economic opportunity for all races, but during the first Bush administration, the United States actually moved farther away from Dr. King's vision.

1. The employment and income picture has gotten worse for people of color since 2000, eroding the progress made during the 1990s.

- In 2000 the African American unemployment rate reached a historic low of 7.1%. It has been 9.9% or higher since January 2002.
- Latino / Hispanic unemployment rates also dropped from 8.0% in 1988 to 5.7% in 2000, but rose again in the last four years.
- About half of the progress in the median income of people of color from 1996 to 2000 was wiped out in the following three years.
- After slowly increasing from 55% of white income in 1988 to 65% in 2000, Black median income fell again to 62% in 2003. For the first time in 15 years, the average Latino household now has an income that is less than two-thirds that of the average white household.
- Throughout the 1990s, poverty rates fell across the board, declining fastest for African Americans and Latinos. But since 2000, more than one third of that progress in reducing poverty among African-American families has been erased, as 300,000 African-American families fell below the poverty line from 2000 to 2003.

2. Private retirement income and inheritances remain scarce among people of color.

- African Americans have less in private pensions and retirement accounts, and so depend more heavily on Social Security. They would be more affected than whites by any privatization plan that made benefits uncertain.
- Previous generations of race-based discrimination leaves a legacy for people of color, who are far less likely to get inheritances than white Americans.

3. Ownership of homes, stock and businesses remains disproportionately in white hands.

- While homeownership is up for all races, most people of color still rent, while three-quarters of white families own their homes. The Bush administration's plans to boost homeownership don't adequately address obstacles facing potential homebuyers of color, including discrimination and affordability.
- Business owners of color, who are largely small business owners, received only minor tax breaks from the four Bush tax cuts. Most tax breaks for business and investors have landed with those who are wealthy and white.

Closing the racial wealth divide will require a new "GI Bill for Everyone," a comprehensive federal investment in low-income families and communities, with an emphasis on people of color. Progressive taxes on wealthy individuals and profitable corporations are needed to fund a real Ownership Society.



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# Introduction

*The generation of wealth should not be limited to a few in our society; it ought to be an opportunity for everybody. There's nothing better than providing the incentive to say this is my asset base, I own it, I will live on it in retirement, and I will then pass it on to somebody in my own family.*

– President George W. Bush, Feb 28, 2002

*The majority of white Americans consider themselves sincerely committed to justice for the Negro. They believe that American society is essentially hospitable to fair play and to steady growth toward a middle-class utopia embodying racial harmony. But unfortunately this is a fantasy of self-deception and comfortable vanity.*

– Dr. Martin Luther King, Jr.

On January 16, 2003, President George W. Bush stood by the grave of Martin Luther King, Jr., in observance of Dr. King's birthday. The president did not address the crowds of protesters that stood on streets nearby. Earlier that day he had said of Dr. King, "It's important for our country to honor his life and what he stood for."

January, 2005 brings about another encounter between the President and Dr. King. The 2005 inauguration falls three days after the birthday celebration of the life and legacy of Dr. King. In light of President Bush's vision of an "Ownership Society," Dr. King's words about the contrast between intentions and actions resonate now more than ever.

At this juncture, the lack of will to resolve the centuries-old racial divide remains emblematic of our times. Unfortunately, King's words describing the self-deception and vanity of white America describe this administration too well.

After steady gains in the 1990s, African Americans, Latinos, and other people of color financially stagnated or lost ground during the first term of President Bush. Without a dramatic change in policy more of the same can be expected. Even three years after the 2001 recession, the latest economic indicators point to Blacks and Latinos disproportionately suffering under "compassionate conservatism," which thus far has conserved this country's racial wealth divide.

President Bush has articulated goals similar to those of Dr. King but will not take the action Dr. King prescribed. A committed president must take into account our history of racial privilege and must acknowledge, in pushing for an Ownership Society, the complexity of broadening the scope of ownership for *all* Americans.

This second annual report points out that today's Ownership Society disowns too many Americans along racial lines. This report also offers a range of federal

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*The lack of will to resolve the centuries-old racial divide remains emblematic of our times.*

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**Today's "Ownership Society" disowns too many Americans along racial lines.**

strategies, the community empowerment programs needed to bring them to life, and the tax policies needed to fund them. We must all work towards an Ownership Society that honors Dr. King's legacy.

#### **A Note on Racial Categories**

The Census now allows people to check off more than one racial category. It also allows them to check off "Hispanic/Latino" as their ethnic group and to check off a race or races as well. For the purpose of contrasting the economic trends of various groups, this report uses the categories that include people who only checked off only one race: Black Only, Asian and Pacific Islander Only, American Indian / Alaskan Native Only, and White Non-Hispanic Only.

Most government surveys of economic indicators do not include Native Americans, and many do not include Asian Americans. The data included here are the most complete data available.

The term "Latino" is used here as a general term for people who describe themselves variously as Hispanic, Chicano, Latino, and in terms of each Latin American nationality.



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# I. Dreams Deferred

*“Every American deserves to be an owner in the American Dream.”*

– President Bush, Feb 28, 2002

*“Depressed living standards for Negroes are not simply the consequence of neglect. Nor can they be explained by the myth of the Negro’s innate incapacities, or by the more sophisticated rationalization of his acquired infirmities (family disorganization, poor education, etc.) They are a structural part of the economic system in the United States.”*

– Dr. Martin Luther King, Jr.

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*America has always been an Ownership Society – for white men.*

## Disowned

Ownership of assets depends on a steady income higher than the cost of living. Only with a living wage can a family build up a savings account, start a business, put a down payment on a house, pay a mortgage, or maintain property. Throughout US history, steady jobs with good pay have been held primarily by white people, leaving all groups of color with high poverty and unemployment rates.

America has always been an Ownership Society – for white men. For long periods of its history, non-white racial groups were prevented from owning assets, and African Americans were actually owned as assets.

After steady gains, we have seen Blacks and Latinos lose jobs and income during the last four years. A true Ownership Society would mean reversing this trend so that full employment is the norm and all working people make enough to save. The US economy moved in that direction between 1988 and 2000, but much of that progress has been lost in the last four years.

## Unemployment

*“When there is massive unemployment in the black community, it is called a social problem. But when there is massive unemployment in the white community, it is called a depression.”*

– Dr. Martin Luther King

The 2001 recession was followed by the first jobless recovery since the Great Depression. After the recession during President Bush, Sr.’s administration, both Black and Latino unemployment rates fell below their pre-recession levels within two years. But we have yet to see a similar decrease in unemployment for Blacks and Latinos in the post-recession economy since 2001.

**The three major tax cuts from 2001 to 2004 widened the racial income divide by targeting high-income taxpayers, who are disproportionately white.**

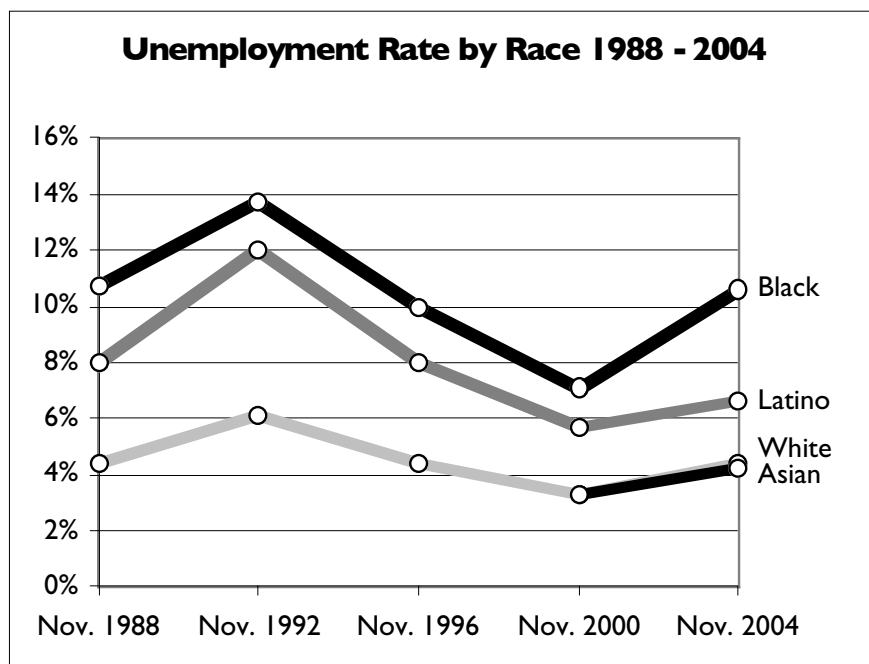
Federal policies contributed to this jobless recovery. The three major tax cuts from 2001 to 2004 widened the racial income divide by targeting high-income taxpayers, who are disproportionately white. The previous three Congresses and administrations, both Democratic and Republican, responded to recessions with more proactive policies aimed at getting people back to work.

The African American unemployment rate fell steadily from 1988 to 2000, except for a spike around the 1992 recession. In 2000 it reached a historic low of 7.1%. It rose above 10% in January 2002, and has stayed between 9.9% and 12% ever since.<sup>1</sup> Latino / Hispanic unemployment rates also dropped from 8% in 1988 to 5.7% in 2000, but rose again in the last four years.

These numbers are, of course, only the official unemployment rate. Discouraged workers and others not in the labor force are not included. As of November 2004, 36% of Black adults, 32% of Latino adults, and 34% of white and Asian adults were not in the labor force.<sup>2</sup>

The growing numbers of people of color in prison also don't count as unemployed. At the end of 2003, of the 1.4 million people sentenced to more than a year in prison, about 44% were African American, 19% were Latino, and 35% were white.<sup>3</sup> The Justice Department estimates that if current trends continue, almost a third of black men, over a sixth of Latino men and one in twenty white men will enter state or federal prison in their lifetimes.<sup>4</sup>

During the economic downturn of 2001, state spending fell from over 5% of the Gross Domestic Product to 4.6%. State spending has not returned to its 1990s average of 4.85% despite three years of recovery.<sup>5</sup>



Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Table A-2.

While the recession and state tax cuts are certainly the immediate causes of the drop in state spending, the federal government's reluctance to help states with their fiscal crises also played a role. In an ironic coincidence, the Bush administration's 2002-2004 tax cuts gave the wealthiest 1% (overwhelmingly white) almost exactly the same amount of money as the deficits of all 50 states in the same three years—\$197.3 billion compared with \$200 billion.<sup>6</sup>

This political choice had racial implications. Public services are disproportionately used by people of color. When Georgia cuts

pregnant women and infants off Medicaid, when Florida and Massachusetts reduce child care subsidies, when California, Maryland and Texas spend less on public higher education,<sup>7</sup> low- and moderate-income people of color are overrepresented among the people harmed.

*People of color have made great strides in gaining more income over the last two generations, but that progress has recently been eroded.*

## Income and Poverty

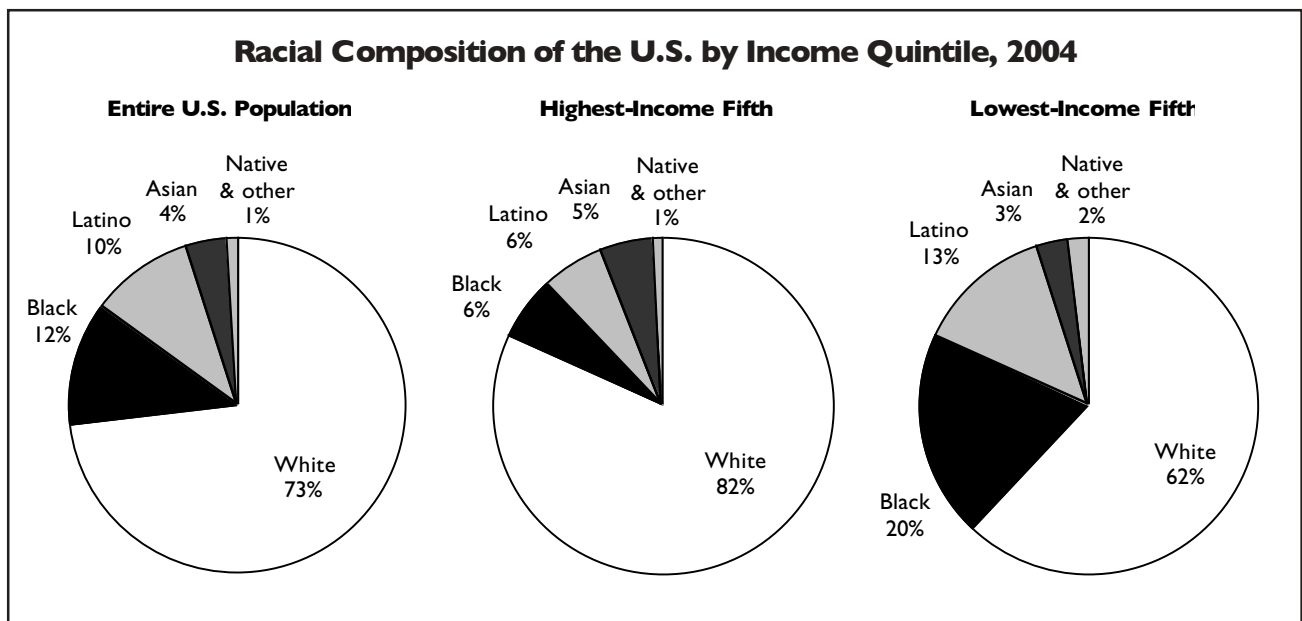
*“I must return to the valley all over the South and in the big cities of the North – a valley filled with millions of our white and Negro brothers who are smoldering in an airtight cage of poverty in the midst of an affluent society.”*

– Dr. Martin Luther King

Inadequate income and persistent poverty have always been the most formidable obstacles to asset development for people of color. If every dollar is going to necessities, saving and investing are impossible.

People of color have made great strides in gaining more income over the last two generations, but that progress has recently been eroded. Median income fell for all racial groups during the first Bush administration, but it fell faster for people of color than for white people, widening the racial income gap.

After slowly increasing from 55% of white income in 1988 to 65% in 2000, black median income fell again to 62% in 2003, according to the Census Bureau. Similarly, Latino income rose from 69% to 73% of white income, but then fell back to 69% in 2003. Asian Americans rose as high as 122% of white income in 2000, but had dropped back to 116% by 2003.



Source: U.S. Census Bureau, Current Population Survey 2004 Supplement - Vertical Income Distribution.

## Why are Asian incomes higher than white incomes?

Asians in the US are a very diverse group, and the higher averages mask a complex reality.

### Immigration policies have led to a bipolar income distribution for Asian Americans.

In other words, Asian income data have an hourglass shape, rather than having many people clumped in the middle.

Immigration policies favor those with skills, and high tech industries, for example, have actively recruited professionals from India; as a result South

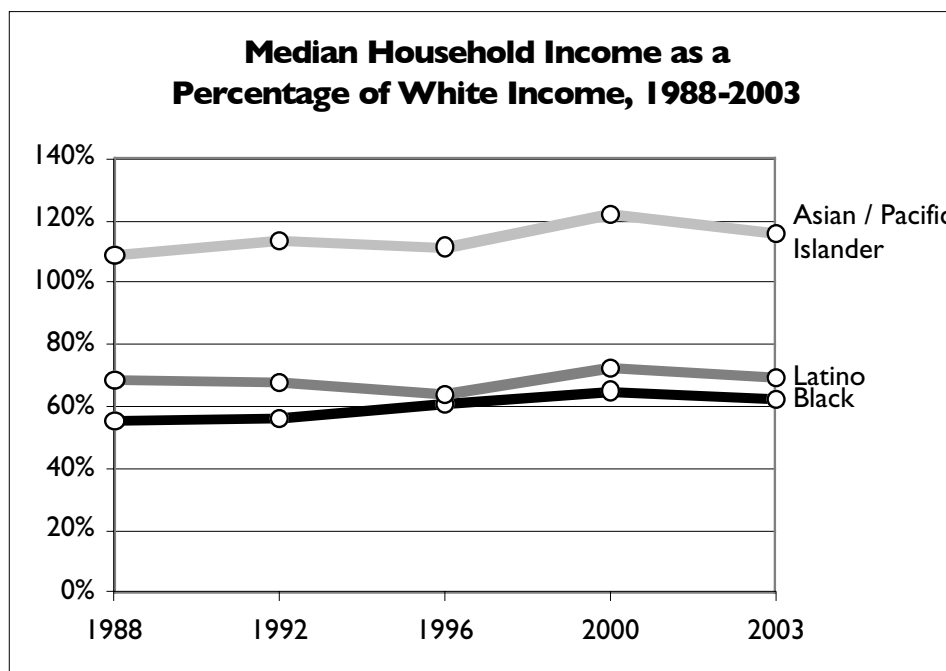
Asian incomes tend to be much higher than the average for the entire US population, including whites.

On the other hand, Cambodians, who were drawn into the Vietnam War on the US side, have refugee status. Many come from peasant backgrounds, and are not easily employable. Thirty percent of Cambodians — far more than any other group within the US population — live in poverty.

### Per capita income is not higher for Asians than for whites.

Asian American families tend to live in bigger families and to have more employed people per family, so their statistics for family or household income tend to be higher.

Asian Americans also tend to live in very expensive states such as Hawaii, California and New York, where wages are higher but so is the cost of living.



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

### The history of severe discrimination against Asians, such as the Chinese Exclusion Act, has given way to more acceptance.

US-born Japanese, Chinese, Indian and Filipino Americans have a social and economic status higher than other people of color. Many analysts of US race discrimination now position Asian Americans in an intermediate social and economic status, below white Americans and above African Americans, Latinos and Native Americans.

High Asian American incomes are misused by conservatives as evidence that racism doesn't exist. But even Asian professionals are still segregated into certain occupations, such as computer science and engineering. They are less likely to get top management jobs than white Americans.

Asian Americans are also still not considered "real" Americans; their loyalty to their countries of ancestry is assumed, which can cost them their jobs and reputations (such as with Wen Ho Lee, Chaplain Yee, and the post-9/11 loss of airport security jobs among Filipinos in Los Angeles).

About half of the progress in median income from 1996 to 2000 was wiped out in the following three years. African Americans finally broke the \$30,000 barrier in 2000, with the typical household getting \$31,690, but then lost more than \$2,000 by 2003. (All dollar figures are corrected for inflation to be in 2003 dollars.) Latinos and Asians lost even more, about \$2,500 and \$4,000 respectively. The typical white household lost almost \$1,000 in income from 2000 to 2003.

*Many poor people are employed. Black and Latino workers are more likely to be in jobs with pay too low to lift a family of four above the poverty line.*

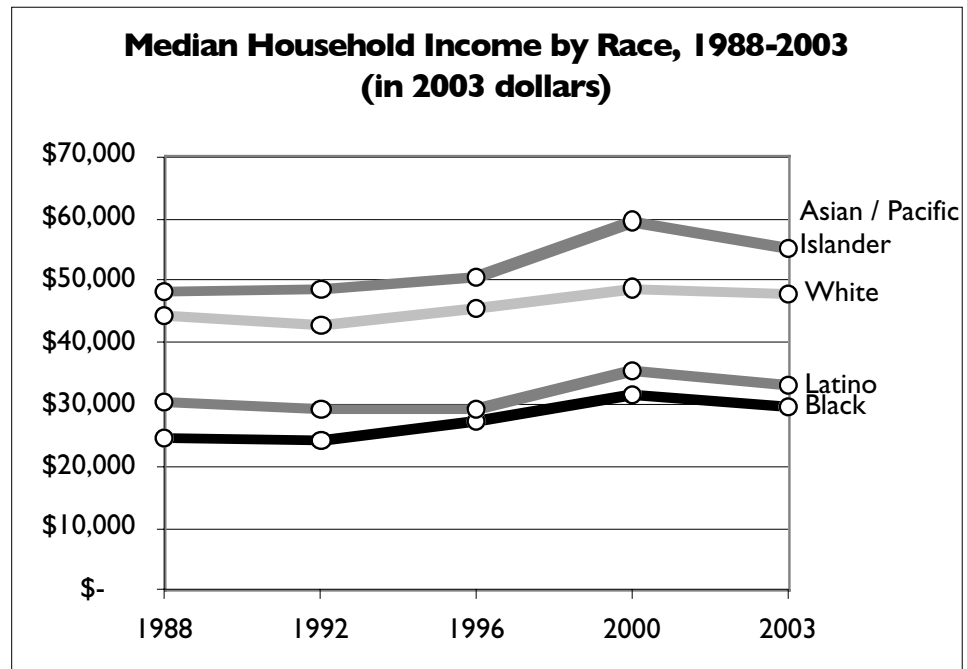
Similarly, mean incomes of people of color rose steadily from the late 1980s through the 1990s except for a brief dip during the 1992 recession, but then fell in the last few years. Latino average household incomes are now below two-thirds of white levels for the first time in 15 years.

The number of people in poverty fell for all races throughout the 1990s, but it fell fastest for African Americans and Latinos. After 2000, some of this progress was wiped out as poverty rates rose for all groups.

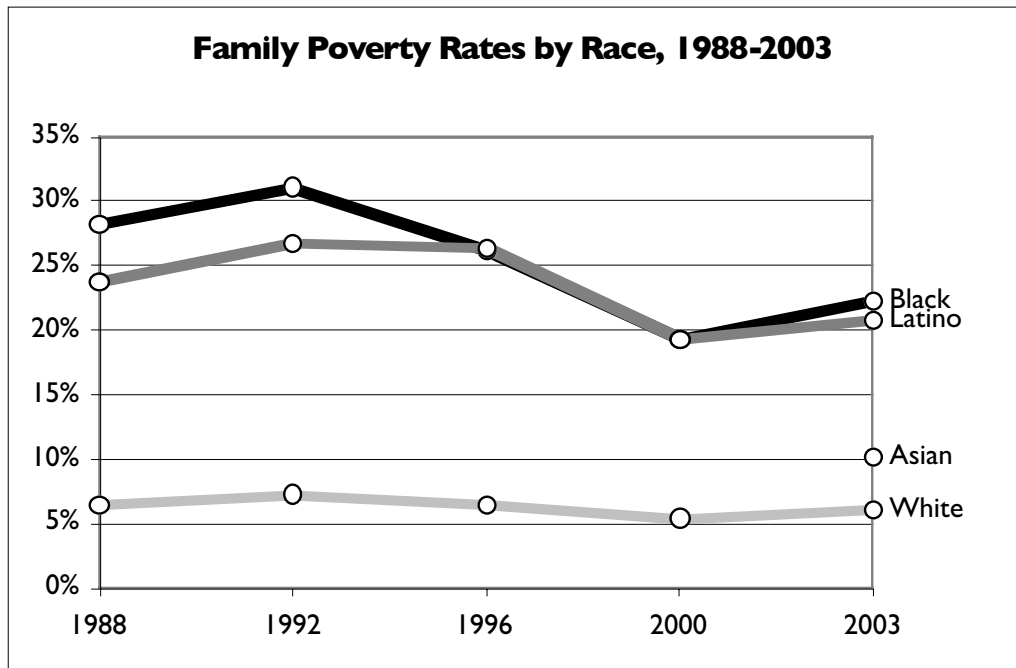
Over 798,000 African American families rose out of poverty between 1992 and 2000, with more than two million children, men and women in those families. Then 300,000 families dropped below the poverty line from 2000 to 2003.

Latino poverty is more complicated, as waves of new immigrants arrived at various points. New immigrants tend to be poorer than families already established in the US. There were 385,000 more poor Latinos in 2003 than in 2000, but the connection with policy is less clear.

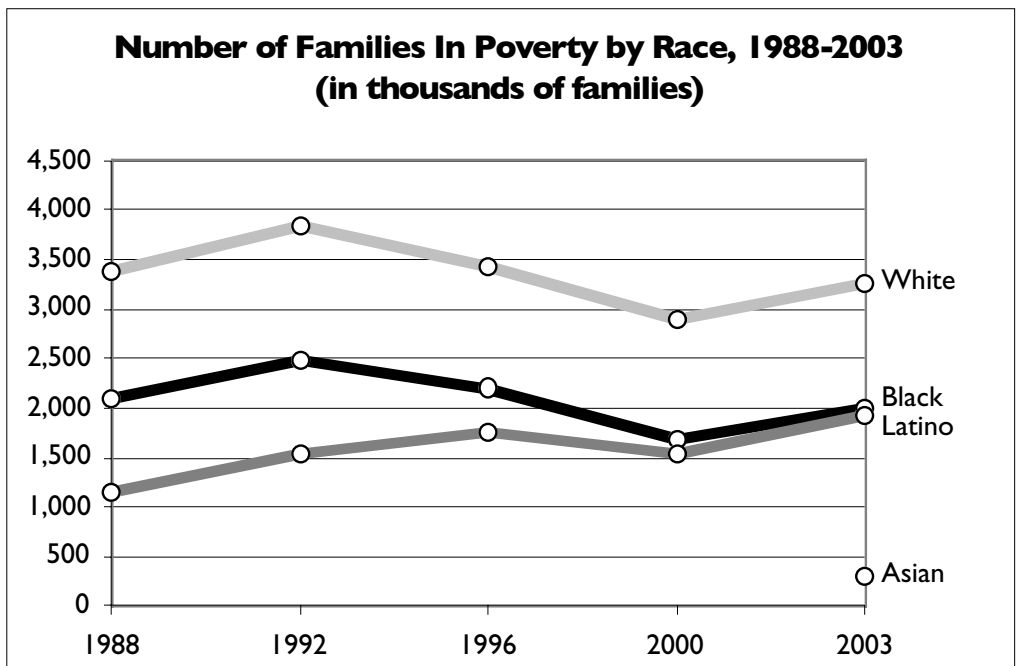
Many poor people are employed. Black and Latino workers are more likely to be in jobs with pay too low to lift a family of four above the poverty line. Though Latinos make up less than one-seventh of the US workforce, they hold more than one-fifth of the below-poverty-wage jobs. African Americans make up one-ninth of the workforce but hold one-seventh of these low-wage jobs. White Americans, by contrast, make up almost seven-tenths of the workforce, but hold fewer than six-tenths of the low-wage jobs.



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.



Source: U.S. Census Bureau, Historical Poverty Tables, Table 4: Poverty Status of Families.



Source: U.S. Census Bureau, Historical Poverty Tables, Table 4: Poverty Status of Families.

## An Ownership Society?

*“Let us be dissatisfied until those who live on the outskirts of hope are brought into the metropolis of daily security.”*

– Dr. Martin Luther King

People of color are more likely to be disrupted by economic turmoil because they don't have enough assets to protect them during times of unemployment, family responsibilities, illness and disability. A true Ownership Society would give security to those who now lack it.

But any government or foundation that aims to expand asset ownership needs to understand the deep roots of the current inequality in net worth. Income can change on a dime, but wealth changes over generations. Our lives are shaped by the wealth—or lack of wealth—of our parents, our grandparents and our ancestors. As an estimated 80 percent of assets come from transfers from prior generations<sup>8</sup>, the asset gap is unlikely to be closed quickly.

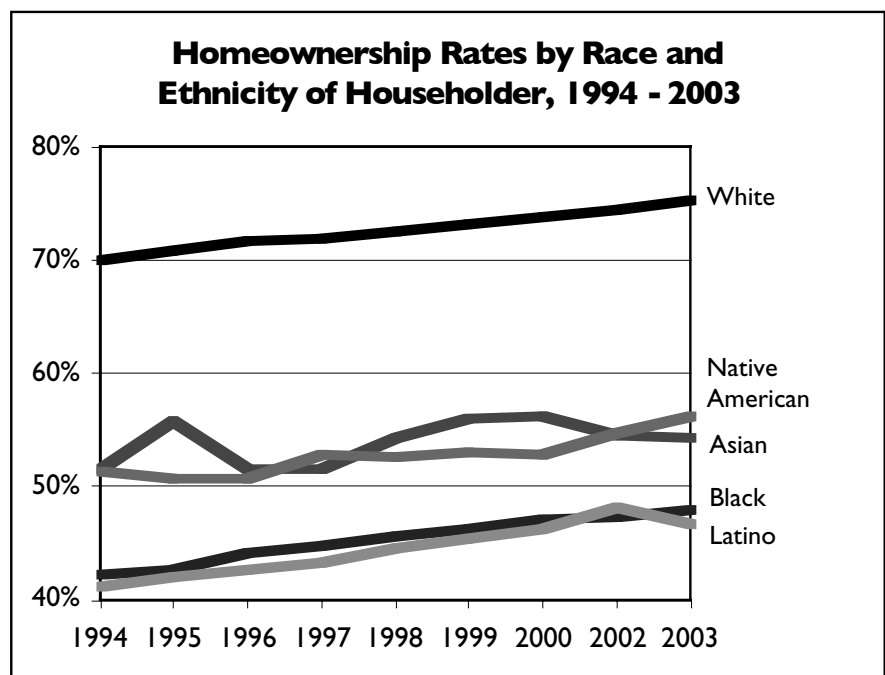
*People of color are more likely to be disrupted by economic turmoil because they don't have enough assets to protect them during times of unemployment, family responsibilities, illness and disability.*

## Homeownership

Homeownership is recognized as the strongest building block of wealth, and thanks in part to record-low interest rates, more people of color own homes now than ever before. A great race gap, however, remains. Fewer than half of Blacks and Latinos, and fewer than 60% of Asians and American Indians own their own homes, compared to three-quarters of whites.

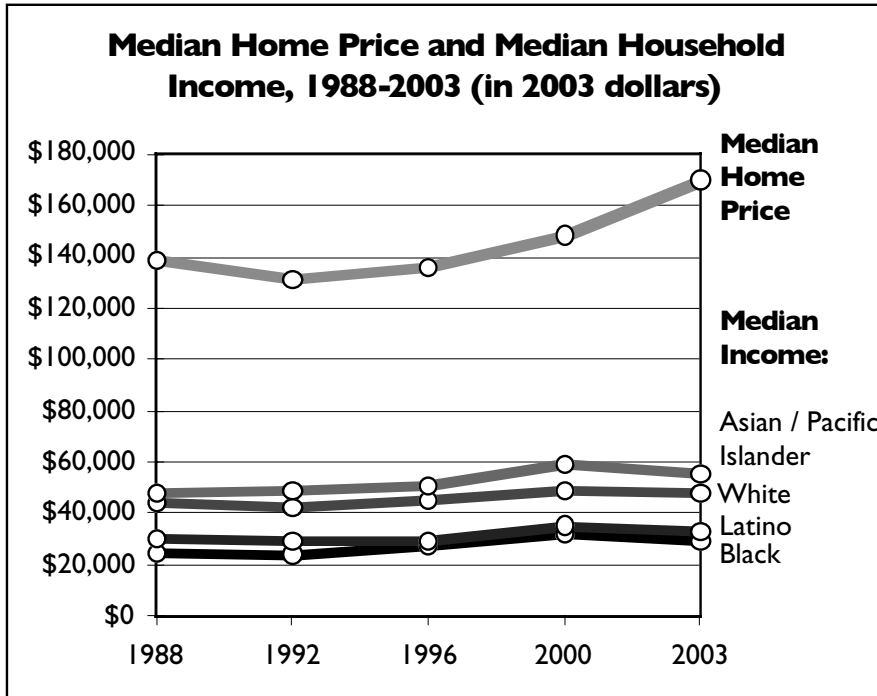
Offering a proactive agenda to increase homeownership for people of color, President Bush has declared homeownership for white Americans and Americans of color alike a requisite of the new Ownership Society. For example, in 2002, he said, “We must begin to close this homeownership gap by dismantling the barriers that prevent minorities from owning a piece of the American dream.”

Though his focus on homeownership for people of color has drawn praise, many worry that the agenda is far from adequate.



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

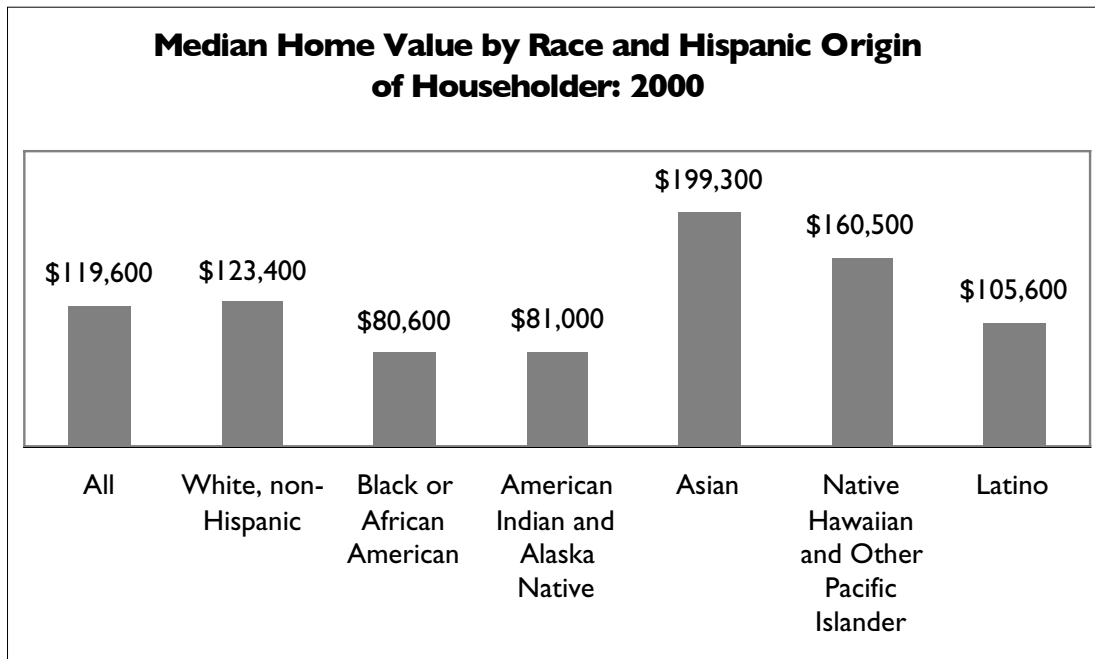
A number of barriers to homeownership must be addressed by any administration that wants to eliminate the homeownership gap. While the median price of homes in America has increased greatly year by year, the median income of Blacks, Latinos, and Native Americans has declined over the past three years, making it harder for them to buy a home.



In addition, high rates of predatory lending and loan rejection for Blacks, Latinos, and Native Americans suggest that, without more direct intervention, the growth in homeownership will not pick up the pace any time soon.<sup>9</sup>

Two long-time commissioners on the U.S. Commission on Civil Rights evaluated Bush's homeownership and housing success in their recent report, "Redefining Rights in America," stating, "The \$200 million in federal funding for 40,000 families is too small given that the housing crisis, particularly with respect to blacks, is so chronic and critical."<sup>10</sup>

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, and National Association of Realtors. Homeprices adjusted for inflation by United for a Fair Economy.



Source: U.S. Census Bureau.



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President Bush has also neglected to bolster the infrastructure to support his agenda. Vina Nguyen Ha and Nativo Lopez write that the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), bodies that establish standards for financial institutions, have inadequate systems in place to encourage banks to lend to lower-income and minority potential homebuyers. The OCC exam, for instance, while intended to maintain industry standards, hardly covers minority and low-income lending practices and includes “criteria...so lax that virtually all pass.” Over 99% of FDIC-regulated banks passed the exam, receiving no recommendation to change lending practices at all.<sup>11</sup>

Unfortunately, while pursuing his homeownership agenda, Bush has shown little allegiance to low-income tenants, who should also be considered prospective homebuyers. Fair housing advocates and members of Congress defeated a 2005 budget proposal to decrease Section 8 voucher funding by \$1 billion, which would have steered hundred of thousands of low-income tenants—disproportionately people of color—towards homelessness.<sup>12</sup> While an appropriations bill increases voucher spending for 2005, critics insist that the increase does not match the growing expense of rent and utilities.<sup>13</sup>

Homeownership is, on average, a much greater asset for white people than for people of color. The median value of homes owned by Blacks and American Indians is less than 66% of the value of white-owned homes. The median value of Latino-owned homes is 85% that of white-owned homes.

## Business Ownership

The Ownership Society would not be complete without the American dream of ascent to the top through entrepreneurship.

Yet the old mailroom-to-boardroom tale is essentially just a myth, as many successful business owners had privileges—inheritances, family assets, educational funding, start-up loans, etc.—that are not as often afforded to Americans of color.<sup>14</sup>

Nevertheless, minority-owned businesses made great gains in the 1990s, growing at four times the rate of white-owned firms. But while people of color represent one fourth of the population, as of 1997 less than 15% of American businesses were “minority-owned enterprises.”<sup>15</sup> Of those businesses, 99% were considered small, and only 2% grossed more than a million dollars. Throughout the nineties, the average value of Latino businesses grew at a marginal rate compared to white-owned businesses, and black owned businesses had declined in worth by 2001.<sup>16</sup>

Under President Bush, measures purported to help small businesses pale in comparison to advantages given to big corporations. Bush’s tax cuts have already left the indelible mark of the kind of one-sided Ownership Society he has fostered. Recently passed corporate loopholes would, if made permanent, cost the government—and taxpayers—\$80 billion by the year 2015.<sup>17</sup> Such measures would return billions to Home Depot, owners of NASCAR race tracks, and transcontinental super corporations such as General Electric. Senator John McCain

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*Many successful business owners had privileges — inheritances, family assets, educational funding, start-up loans, etc. — that are not as often afforded to Americans of color.*

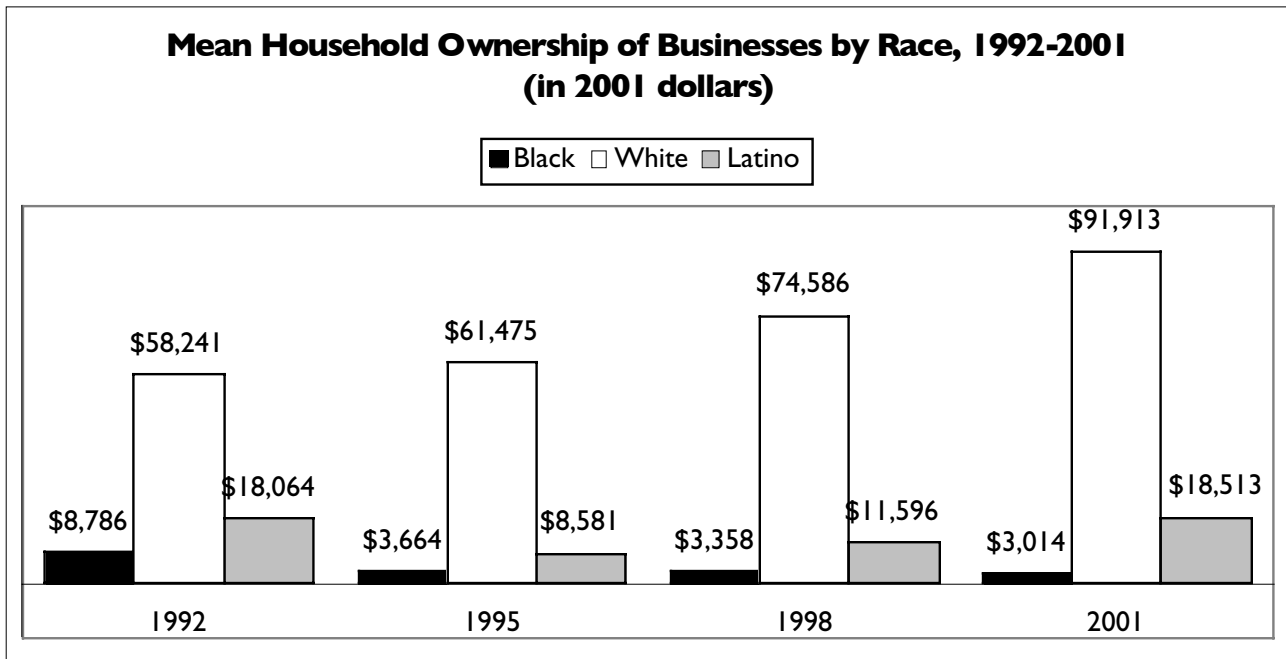
**Historically, businesses owned by people of color have received a markedly lower share of government and private financing.**

called the bill “a classic example of special interests prevailing over the people’s interests.”<sup>18</sup>

The Administration has touted certain business tax cuts as beneficial to all, while few returns actually reach the average small business owner. One such cut, publicized as a break for all businesses, is the reduction to the top income tax rate. While the administration states that this decrease benefits America’s small businesses as well as big, only 1% of small business owners pay the top income tax rate at all.<sup>19</sup>

Joel Friedman of the Center on Budget Policies and Priorities notes that the majority of tax cuts that *do* affect small business go primarily to small business owners whose incomes are greater \$200,000 a year — partially due to the expansive definition of “small business” applied by the Treasury Department. Thus the profile of a small business owner strays from the start-up entrepreneur or “mom and pop” at the corner store; even a high-income corporate executive can claim small business status as a result of the few thousand dollars he receives from renting out his yacht.<sup>20</sup> The president himself was famously rewarded a small-business-owner tax cut from his stake in a timber company.<sup>21</sup> After analyzing tax returns from income and corporate tax cuts between 2001 and 2003, The Tax Policy Center found that the more than 60% of small business owners who make less than \$75,000 annually have received only 16% of the returns.<sup>22</sup>

President Bush increased funding for the Minority Business Development Agency, which is much needed. Unfortunately, there are many more obstacles to address. Historically, businesses owned by people of color have received a markedly lower share of government and private financing. In 2000, a mere 4% of loans from the Small Business Investment Company (SBIC) and 4% of venture capital funds found their way to people of color, in spite of the proven success and rapid growth of many minority-owned firms.<sup>23</sup> A president committed to an enduring



Source: Federal Reserve Board, Survey of Consumer Finances.

Ownership Society for all Americans must put measures into place to encourage and ensure fair access to public and private funds.

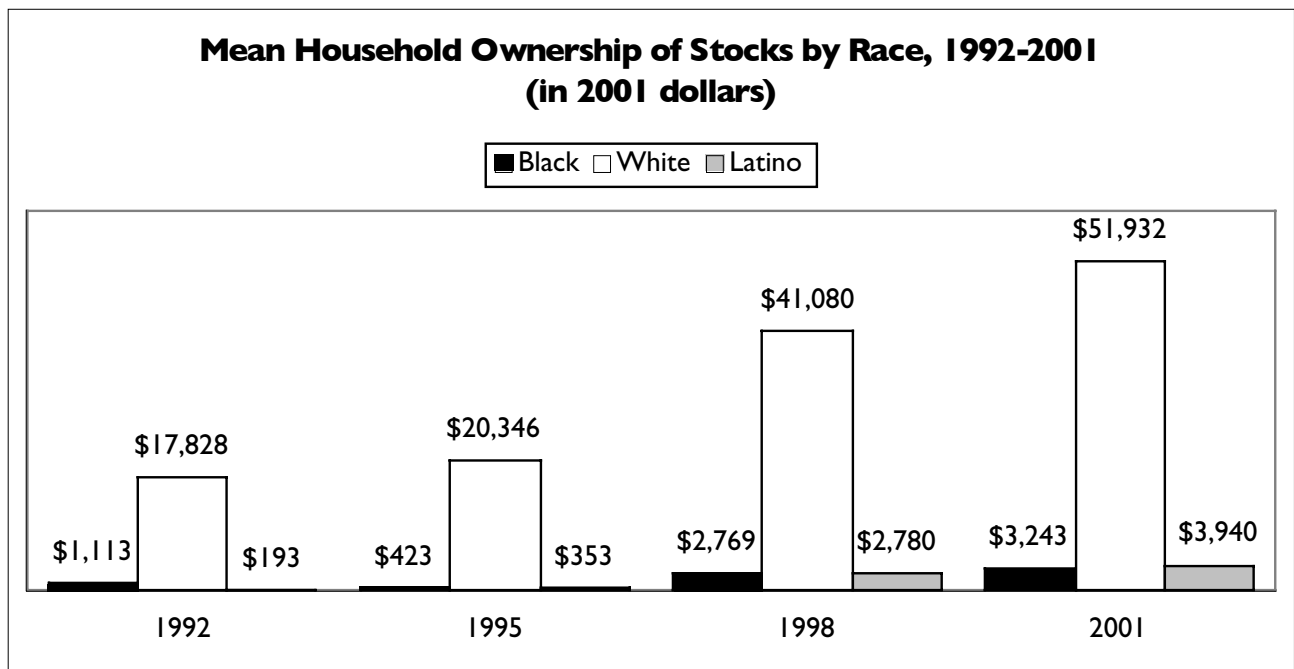
## Stock Ownership

In the America of the near future, President Bush declares, everyone will have a stake in our economy. But policies that reward stock ownership are punishing people of color, who currently have little clout as stockholders, thus increasing the wealth divide.

The President's dramatic reduction on dividend and capital gains taxes put more money into the pockets of affluent investors—but the “average” investor who invests for his or her retirement will not be affected by such cuts, because most retirement accounts are already tax-deferred or tax-free.

In 2001, 25% of whites owned stock, as compared to 11% of people of color.<sup>24</sup> For many who do, those shares of stock are worth very little.<sup>25</sup> What's more, stockownership for upper-income whites has remained steady at 80% of families since 1997, while the share of upper-income African Americans with stock has fallen from 75 to 60 percent in this year alone.<sup>26</sup>

*Policies that reward stock ownership are punishing people of color, who currently have little clout as stockholders.*



Source: Federal Reserve Board, Survey of Consumer Finances.

Whites are more likely than people of color to have parents who give them assets.

## Inheriting Inequality

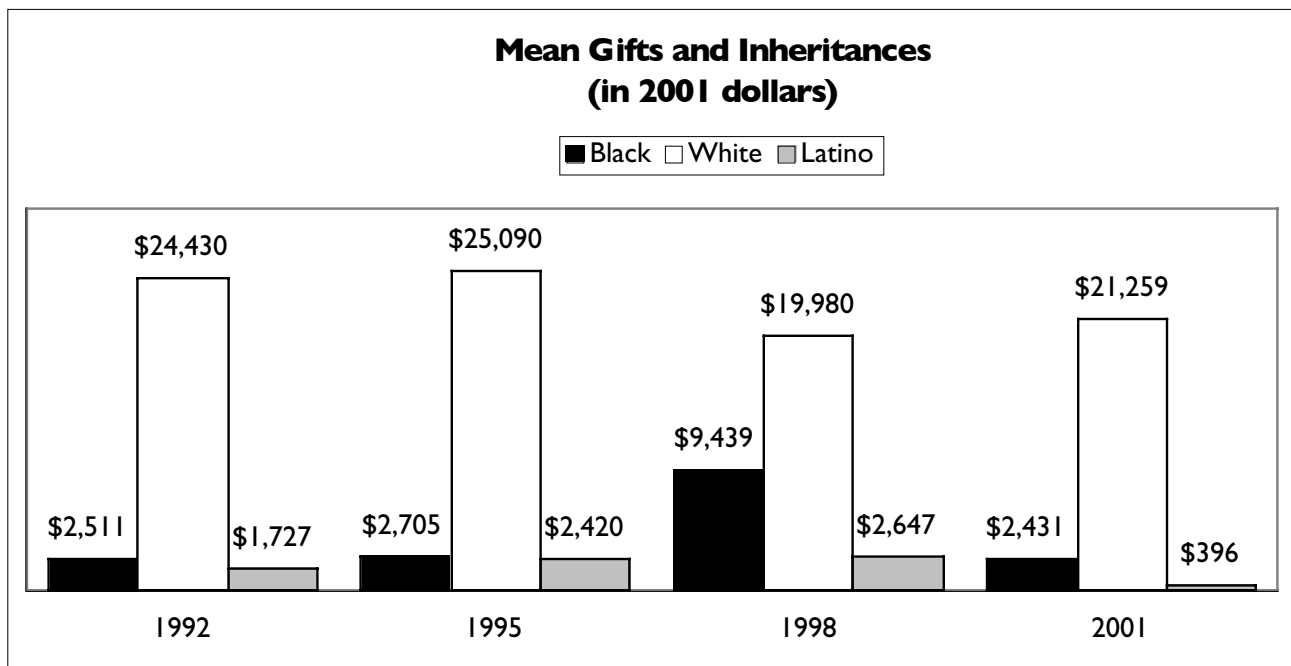
*“When the Constitution was written, a strange formula to determine taxes and representation declared that the Negro was 60 percent of a person. Today another curious formula seems to declare he is 50 percent of a person. Of the good things in life he has approximately one-half those of whites; of the bad he has twice those of whites...”*

– Dr. Martin Luther King

As generations age and pass away, what happens within families varies dramatically by race. In a true Ownership Society, younger generations would get modest boosts towards economic security from older relatives and their estates, and at retirement, both public and private benefits would replace wages and cushion old age. This kind of security became widespread for white middle-class people in the twentieth century, but has yet to be the norm for any group of color.

### Inheritance

A person’s likelihood of financial success depends in large measure on whether they are born with a silver spoon in their mouth or a hole in their pocket. Some parents pass money, property, and things of value to their kids both as gifts during their own lifetimes and at their deaths, which enable their adult children to get a jumpstart on their own long-term financial security. Other parents have no assets to give or leave; they may become financial burdens on their children in their old age. Both advantages and disadvantages get passed to the next generation.



Source: Federal Reserve Board, Survey of Consumer Finances.

Whites are more likely than people of color to have parents who give them assets. In interviewing Black and white families for his book, *The Hidden Costs of Being African American*, Thomas Shapiro found that 28% of white families receive inheritances, while only 7.7% of Black families do. The sizes of the inheritances are also widely divergent: in Shapiro's survey, the parental median net worth for black families was \$47,000, compared to \$198,700 for white families.<sup>27</sup> About one-third of baby boomer whites in 1989 were due to receive future inheritances worth more than \$34,000, while fewer than one in twenty Blacks would receive a similar endowment.<sup>28</sup>

*Half of white families, but only one fifth of Black families, have parents who can help them buy a home.*

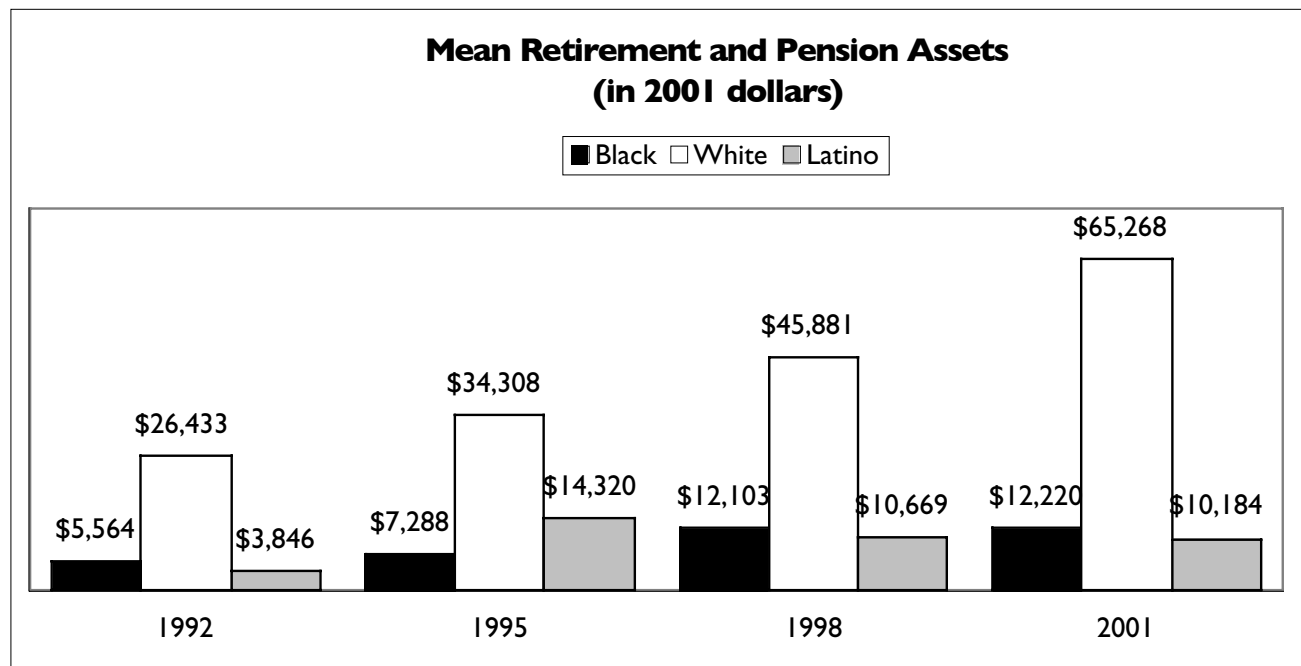
Half of white families, but only one fifth of Black families, have parents who can help them buy a home. According to the Federal Reserve, the average inheritance plus financial gifts given to a white family in 2001 was \$20,685, which is enough for a down payment. That's ten times more than the mean African American legacy of about \$2,000. Latinos passed on only \$385 to their children.

## Retirement

Nobody wants to spend their final years in poverty, but more and more people are at risk of losing all their income when they retire.

Social Security was invented to protect US workers from this risk: it is the country's most successful insurance program. While 10% of those over age 65 live in poverty today, without Social Security, that rate would be almost 50%.<sup>29</sup>

When this retirement security program was passed in 1935, it left out African Americans, Latinos, and Asians. It covered workers only in "commerce and



Source: Federal Reserve Board, Survey of Consumer Finances.

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**Privatizing Social Security would make things worse for people of color.**

industry,” and workers of color were employed mostly in agriculture and as domestics. Their retirement income, if any, was at the expense of their children, who used their own money to help their aging parents. All employment sectors were not included until 1950. Social Security was also expanded to include not only retirement benefits, but also benefits to disabled workers and the families of workers who have died. These changes greatly benefited people of color.

Today, 50% of retirees depend on Social Security for at least 50% of their incomes. Because people of color have less income from stock holdings or capital gains than whites, Social Security is especially important to them: it is the sole source of income for 40% of elderly African Americans.<sup>30</sup>

The shorter life span of African American men means that both survivor and disability benefits go disproportionately to African Americans. While African Americans make up 12% of the U.S. population, 23% of children receiving Social Security survivor benefits are African American, as are about 17% of disability beneficiaries.<sup>31</sup>

Privatizing Social Security, which would mean that individuals would put their savings for retirement into the stock market, would make things worse for people of color. First of all, it puts all the risk back on the individual: if one's investments flop (which happened to many in 2001), one will not receive benefits. Unlike private savings, Social Security benefits are progressive: low earners get a higher share of their income during retirement than higher earners.

Private pension plans also provide retirement income, often as an employment benefit. The “job loss economy” of Bush's first term has hit private pensions very hard. Private pension plans provide retirement income, often as an employment benefit; it was commonplace for unions in the manufacturing sector to negotiate this “deferred wage” as part of the union contract. The decline of jobs in the unionized manufacturing sector has hit African Americans particularly hard. Laid off from auto and steel, they have had to shift to jobs in the low wage service sector, which do not provide employer sponsored pension plans. In 2001, the mean value of the retirement account of a Black family was \$12,247, compared to \$10,206 for a Latino family and \$65,411 for a white family.

For those who are fortunate to have jobs with pensions, there has been a change from “defined benefit” plans in which workers receive a defined percentage of their wages based on age and years of service, to “defined contribution” plans, in which employers and/or employees contribute a defined percentage of employees' wages. These plans do not protect a person from the risk of “living too long.” The stock market changes minute by minute, and a poor market could wipe out those savings. Once the amount saved in the plan is gone, so is the retiree's income.

Spreading the risk and providing a social safety net is the way to protect all of us. Before 1935, individuals bore all the risk themselves for their elderly years, and it was a disaster. No one who has spent their life working and contributing to society should outlive their income.

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## 3. Inaugurating the Dream

*“Ownership, independence, access to wealth should not be the privilege of a few.”*

– President Bush, May 2, 2001

*“There is nothing new about poverty. What is new is that we now have the techniques and the resources to get rid of poverty. The real question is whether we have the will.”*

– Dr. Martin Luther King

To build financial assets, first a person needs to be able to save. Then those savings must be used to leverage other assets, such as a home or a business. Lastly, the assets must be preserved. Policies that aid in all three of these aspects of financial wealth building are needed to build a true Ownership Society.

To live up to its stated ideals, the Bush administration should drop plans for Social Security privatization and health care accounts, which would add far more to the net worth of Wall Street investment firms and pharmaceutical companies than to ordinary Americans. Progressive federal policy, in partnership with grassroots asset-building initiatives and families’ efforts, will be needed to broaden assets. Only with specific attention to communities of color will the racial wealth gap close.

The following is a brief overview of some of the many areas in which the federal government would need to invest in order to successfully broaden ownership to all Americans. Two crucial areas are then explored in more depth: community-controlled asset development and progressive taxation to fund the Ownership Society.

### Progressive Federal Policy

*“Our nation has not yet used its vast resources of power to end the long night of poverty, racism, and man’s inhumanity to man.”*

– Dr. Martin Luther King

We need a new GI Bill for the coming generations. After World War II, the GI Bill enabled the biggest growth of the white middle class in US history. A major new asset-building program on the scale of the GI Bill could provide opportunities for higher education and homeownership for those previously left out, both low-income whites and people of color.

Universal programs often have disparate effects, both intended and unintended. Discrimination by colleges and mortgage companies stopped Blacks and Latinos

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*Only with specific attention to communities of color will the racial wealth gap close.*



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**To overcome all the obstacles to ownership, a comprehensive plan would need to develop human assets, raise income levels, reform immigration policies, and expand asset development and preservation opportunities.**

from using the new benefits of the GI Bill, even though they were technically eligible. Therefore, policy proposals must be approached with a race lens.

To overcome all the obstacles to ownership, a comprehensive plan would need to develop human assets, raise income levels, reform immigration policies, and expand asset development and preservation opportunities.

### Pre-conditions for Wealth Building: Human Assets

#### Quality K-12 Education

A high quality education from an early age is a prerequisite for wealth building. Under current funding of public schools, white children and children of color are not provided with equal education. Since funding is largely dependent on local property taxes, wealthier families in white suburbs who pay more property taxes have better-funded public schools. Investment by the federal government in lower income communities is needed to ensure equal educational opportunities, regardless of race or geography.

#### Affordable Higher Education

The federal government spends billions on student aid, but the “mix” has been changing. Seventy-seven percent of that aid is in loans, not grants, a reversal of past policies. For the grant aid that is available, it is increasingly “merit-based,” not needs-based, and young people from poorer local school systems are at a disadvantage. States have been spending less on their public colleges, and tuitions have been growing at a faster rate than family income. Recent legislation again froze the maximum amount that college students can receive from Pell grants and shifted eligibility standards in a way that could eliminate the funding for an estimated 90,000 students.<sup>32</sup> Grants based on need, with affirmative action criteria to ensure access by students of color, should be restored and expanded.

### Pre-conditions for Wealth Building: Adequate Incomes

Jobs are needed that provide the cash income to cover housing and day-to-day needs, with something left over for savings as the basis for building financial wealth. Income includes not just wages and salaries based on working, but income supports for those who are unemployed, retired, or mothers of small children, and public supports to enable low-income people to work.

#### Childcare

The poorest group in America is women of color and their children. Recent cost of living studies show that the highest budget item for their households is childcare.<sup>33</sup> Sixty percent of women are in the paid workforce, 68% of these women have children under the age of six.<sup>34</sup> To recognize the work and cost of raising children, the Child Care and Development Fund, established under the Personal



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Responsibility and Work Opportunity Reconciliation Act of 1996, should be expanded. It provides subsidies for childcare costs for low-income families<sup>35</sup> — but the funds available only cover 12% of the children eligible for care. Expanding income eligibility and increasing funding for these programs are ways to reach more families.<sup>36</sup>

### Raising the Minimum Wage

The present federal minimum wage of \$5.15 an hour translates into an annual income of \$10,712. Any policy package aiming to broaden asset ownership must raise the minimum wage to at least \$9.06 an hour in order for a family of four to live above the poverty line.<sup>37</sup> Congressional leaders blocked a minimum wage increase from coming to a vote during the first Bush term.

### Immigration Reform

Immigrant status has been a longstanding barrier to living wages. Being forced into low-paying jobs because of one's tenuous legal status, coupled with the need to send money home, makes it difficult to build assets in either country. America must come to terms with its dependence on undocumented immigrant workers and legalize their work.

### Opening Doors and Shattering Glass Ceilings

People of color should have access to jobs for which they are qualified, and the opportunity to rise to the level of their capabilities. Affirmative action, won through the Civil Rights movement, did bring many more people of color into middle-income jobs where they could begin to save, buy homes, and build wealth. But the need for affirmative action and government enforcement of non-discrimination laws is far from over. Despite early signs of support for affirmative action in federal contracting, the Bush administration has come out staunchly against educational affirmative action, instead advancing policies dubbed “race neutral.”<sup>38</sup>

## Asset Preservation

### Ending Predatory Lending

Homeownership has been a double-edged sword for homeowners of color. It is a struggle first to gain access to fair loan terms and then another struggle to try and keep the home.

Subprime lending (higher interest for people with bad credit or little money) can be done in a fair and honest way, but some lenders take advantage of borrowers with little financial knowledge to impose deceptive and unfair fees, high rates, and other harsh terms. North Carolina outlawed predatory practices. The Bush administration needs to follow suit.

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## Challenging Predatory Lending

Mary Gaspers described her ordeal: “Here’s how my nightmare started: I got a check in the mail from Household Finance with an offer to re-finance our home.... Household was misleading and dishonest. I received my first bill and it was \$13,000 more than I thought it was going to be! ... I have seen how Household preys on people who are economically desperate as well as middle class people like us.”

Ms. Gaspers is a member of the Association of Community Organizations for Reform Now (ACORN). ACORN’s response to such rip-offs of

their members was to put public pressure on Household Finance by holding demonstrations at their annual shareholder meetings.

They were joined in their efforts by members of United for a Fair Economy’s Responsible Wealth project. Proxy votes given to ACORN members by Responsible Wealth members who owned shares allowed Mary to tell her story —*inside* the halls of wealth, usually barred to the people of color whose hard-earned homes were being cheated away from them. Having shareholders and ACORN members speaking with one voice made an impact.

While homeownership rates have increased, so have instances of foreclosure. Foreclosure prevention is an important tool in stabilizing homeowners at risk of losing their home, neighborhoods and by preventing vacant and boarded houses. In the Minneapolis / St. Paul area, between 1991 and 1997, the Mortgage Foreclosure Program (MFP), carried out by The Family Housing Fund, assisted close to 1,700 homeowners and helped to reinstate the mortgages of over half of them, using pre-purchase education and counseling, post-purchase support, financial assistance and delinquency prevention.<sup>39</sup> Local programs offering these services could be replicated into a widespread federal program.

### Universal Health Insurance

One serious health problem can wipe out a life time of savings. For example, the care of a premature baby in a neonatal intensive care unit can cost a half million dollars. In 1999, more than half of the families that filed for bankruptcy cited health problems and the related costs as the reason.<sup>40</sup>

People of color are more likely to be uninsured than whites and less likely to have job-based health insurance.<sup>41</sup> In 2003, 33% of Latinos, 19% of Asians, and 28% of Blacks went without health insurance, as opposed to 11% of whites.<sup>42</sup> In inner cities and rural areas, care for the poor who rely on Medicaid is increasingly underfunded, as states face budget crises. This explains why national health insurance showed up on the alternative budget agenda of the Congressional Black Caucus in 2004.

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## Asset Development

*“They tell me that one tenth of one percent of the population controls more than forty percent of the wealth. Oh America, how often have you taken necessities from the masses to give luxuries to the classes... You can work within the framework of democracy to bring about a better distribution of wealth.”*

– Dr. Martin Luther King

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*Community-controlled asset building could reverse the effects of generations of disinvestment.*

Wealthier people have incentives to build their assets through government policies, such as the mortgage interest deduction or the lowered dividend taxes of recent years. But poor people have disincentives, such as low asset limits to qualify for transitional assistance. As the middle class erodes, surprising bedfellows, both liberal and conservative, support asset development programs that encourage saving and homeownership by poor people.

Various proposals for asset “starter kits” have been floated in the United States and elsewhere. Children’s Savings Accounts (CSAs) have been established in the United Kingdom, but remain at the proposal stage in the United States. Individual Development Accounts (IDAs) were launched by a 1998 federal pilot program. IDAs are a form of matched savings account in which savings may be withdrawn only for asset-building investments (for example, to buy a home, start a business, or go to school). The matching funds come from the government or a nonprofit organization. IDAs are administered by community-based organizations in partnership with financial institutions that hold deposits. There are now over 500 IDA initiatives across the country, according to the Center for Social Development. Their work could expand and spread with more federal assistance.

Investment of public resources into communities of color must allow local control over the use of those resources. Community-controlled asset building could reverse the effects of generations of disinvestment.

### The Family Independence Initiative

The Family Independence Initiative (FII) is a great holistic model of community wealth building in collaboration with the city, state, county, and philanthropic and private sector. Its success in Oakland, CA, shows how minimal investment into communities can provide massive societal benefits.

FII was established to explore whether focusing on shared strengths and mutuality among families, as opposed to needs and services, could inspire those currently stuck in poverty to move to self-sufficiency. Rather than social service provision, the structure of this initiative more closely parallels a venture capital fund. FII invests money directly in low-income families based on their concrete actions toward building their social and economic assets. To the most successful families, they then provide additional support and wait to see if their example influences others.

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**The Family Independence Initiative envisions a powerful, expanding network of poor and formerly poor people who assume a growing responsibility for one another to reach sustained independence.**

FII is structured to support and build on the four basic building blocks of self-sufficiency: 1. strong community ties (such as culture, religion, family and/or friends); 2. bridging or weak ties (such as networks, acquaintances or colleagues); 3. role models and breakthrough leaders; and 4. capital accumulation.

FII targeted four different low-income “affinity communities” in Oakland, each consisting of four to six families whose incomes were below 50% of the local median income and who were bound together by a shared affinity such as religion, language and/or culture.

FII families have initiated a number of projects, each reflecting the self-identified priorities of their communities. For example, several of the groups have either started or expanded youth projects. Other families are forming a food coop and health-related businesses, and still others are helping one another buy homes.

Over the two-year pilot phase, participating families increased their average monthly income by 26%, their average monthly savings by 141%, and their average net worth by 141%.

This success indicates that a large proportion of families can not only move themselves out of poverty, but are willing and able to help others do the same. Because FII families are tied to another 700 families through various associations, the ripple effect of FII may well be its most significant accomplishment in the future. The Family Independence Initiative envisions a powerful, expanding network of poor and formerly poor people who assume a growing responsibility for one another to reach sustained independence.

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## Progressive Taxation

*“The practical cost of change for the nation up to this point has been cheap. The limited reforms have been obtained at bargain rates. There are no expenses, and no taxes are required for Negroes to share lunch counters, libraries, parks, hotels, and other facilities with whites...”*

*“The real cost lies ahead. The stiffening of white resistance is a recognition of that fact. The discount education given Negroes will in the future have to be purchased at full price if quality education is to be realized. Jobs are harder and costlier to create than voting rolls. The eradication of slums housing millions is complex far beyond integrating buses and lunch counters.”*

– Dr. Martin Luther King

How do taxes connect to the social and economic battles that people of color, especially African Americans and Latinos, face today?

Fairer taxation is a cause that gets overlooked, because for many Americans taxes tend to feel like an additional burden on their already burdened life. Yet we cannot start to defend Dr. King’s dream unless we also defend the progressive taxation needed to pay for it. Possible sources of funding for a new GI Bill for everyone are cuts in military spending or increased taxes on large profitable corporations and super-rich individuals.

Dr. King stated, “The federal government collects taxes from all citizens, Negro and white, which it is constitutionally obligated to use for the benefit for all,” but the reality is that not everyone has benefited equally.

If we look at the history of taxes in this country, many tax policies were implemented as an obstacle to equal opportunity in America. In California during the Gold Rush, for example, white lawmakers passed a discriminatory “Foreign Miner Tax” to add a heavy burden on non-citizens, mostly Mexican Americans and Chinese immigrants, who competed with white miners.”<sup>43</sup>

Although such unfair tax policies have historically marginalized Latinos, Blacks, and Asians, this nation has also implemented tax reforms that have created opportunities for millions – though mainly benefiting white Americans.

If we take a look at the 1940’s, President Roosevelt used progressive taxation to open up a wealth of opportunities for Americans in reforms such as the GI Bill, which provided free higher education to mostly white World War II veterans. It helped support homeownership with federally subsidies mortgages, mortgage insurance, and tax breaks for homebuyers, almost all of them white. These programs were so successful that by 1968, over 66% of Americans were homeowners.

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*We cannot start to defend Dr. King’s dream unless we also defend the progressive taxation needed to pay for it.*

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## Talking Taxes

by Gloribell Mota

How often can you recall a conversation about how tax policies have hurt the economic mobility of Blacks and Latinos?

In my experience, discontent with tax policy that under-funds public programs is almost non-existent. This needs to change. To start improving our economic status, we need to get involved in debates on taxes. After all, that's where the money comes from to fund programs essential for opportunity.

I experienced firsthand the effects of unfair tax policies through my past work as an Employment Advocate in a public housing tenant organization. I worked with “welfare to work” and unemployed tenants. My optimism about government and strong belief in the so-called “American Dream” did not prepare me for the many obstacles these tenants had to overcome.

The majority of the tenants I served were Latinos and Blacks with minimal skills, education, and job experience. Many were single mothers, many were high school dropouts, and some were in emotional distress. Yet, despite all these factors, I always believed I could get my clients into good jobs. Sure, I would have to jump some hurdles, but I believed it could be done. After all, I was a single, Latina mother who had succeeded in securing decent employment. I felt very connected with the young single mothers who walked through my door. I saw

myself in many of them—and if I could do it, so could they.

After a couple of months, my high expectations of getting my clients economically self-sufficient through employment soon dwindled to the more limited goal of helping them find any job at all. Their personal crises took priority over battling the policies that kept them off the ladder of opportunity.

But the lack of funds for childcare, English as a Second Language programs, computer training and other services was a constant factor in keeping my clients unemployed. Without those services, my clients got underpaid, temporary, dead-end jobs, and soon returned to the welfare system that was fiercely pushing them out into the workforce. I was faced with the reality that the system did not work to achieve the dream so many Americans believe is accessible to all.

It was not until I became actively involved in fair tax advocacy that I was able to connect the dots and realize that the economic and the social status of Blacks and Latinos is integrally related to quality public programs. These vital programs must be supported by a fair and adequate tax system. Given the unfairness Blacks and Latinos face in education, income, and wealth, we can understand why fairness is needed in taxes. Our success depends on progressive taxation.

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In addition, from the 1930s to the 1970s, the federal government created employment opportunities by improving infrastructure and built a social safety net of welfare, food stamps, and housing assistance.<sup>44</sup>

For all the critiques of these programs, they were very successful in lowering the poverty rate and infant mortality rate, and raising high school and college graduation rates, employment and homeownership. And starting in the 1960s, they did begin to lift up people of color as well as whites. They were supported through a progressive taxation system — a federal progressive income tax, corporate tax, and the estate tax — based on the principle that people who earn more pay more in taxes. This system has offered many of those who were in the bottom of the society an economic ladder of opportunity.

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Federal investment in the Earned Income Tax Credit (EITC), for example, provides a financial boost by reducing tax burdens on the working poor. The EITC was passed in 1975. While its weakness is that it leaves behind the unemployed and mothers who cannot work for various reasons, it has lifted more families with children out of poverty than any other government program.<sup>45</sup> In 2002, more than twenty million families and individuals received over \$37 billion from filing for the EITC.<sup>46</sup> The Center on Budget and Policy Priorities found that EITC funds are often spent locally, serving as an economic development tool for low-income neighborhoods.<sup>47</sup>

But just as Americans of color, particularly Blacks and Latinos, started to have access to public programs, a conservative backlash began against progressive taxation and against social policies that would provide opportunities to people of color. This conservative movement has been far too successful in conserving the racial wealth divide in this country, blocking any realization of Dr. King's dream.

Is it a coincidence that the very same programs that helped expand the white middle class suddenly began to be called wasteful and nonessential when people of color began to benefit?

Recently we have seen the shift of the tax burden to individual workers, while benefits have been given to the wealthy, corporations, and investors. Progressive taxes, such as the estate tax, the Earned Income Tax Credit, and federal income tax, are constantly under attack. In the past four years they have been dramatically reduced, shifting more and more of the burden to those less able to pay, disproportionately Blacks and Latinos.

Since 1962 the total money collected in payroll taxes has proportionately come more from low-income workers than high-income workers, because the payroll tax is capped, currently at earned income of \$86,000, and doesn't apply to investment income at all. Meanwhile the total contribution of individual and corporate taxes has dropped from 63% to 52% of total federal taxes collected.<sup>48</sup>

If the current tax cut trend continues, it will dismantle the progressive tax system needed to help raise Blacks and Latinos into the middle class. Only a progressive tax system can provide the revenue to fund the many programs and services needed to build a real Ownership Society. As Dr. King said, "The poor can stop being poor if the rich are willing to become even richer at a slower rate."

Only with a strong and affordable education system will people of color start to obtain the academic skills to compete in the competitive job market for economic mobility. Only with access to quality health care will we start to address health crises that face many Blacks and Latinos, such as lack of health insurance, HIV/AIDS infection, and the high infant mortality rate. Only with preservation of support services like childcare, after school programs, and public assistance will families and children overcome poverty. The same revenues now used for loopholes and subsidies for corporations and wealthy investors could be used to support people of color and low-income Americans to develop assets and wealth.

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*Is it a coincidence that the very same programs that helped expand the white middle class suddenly began to be called wasteful and nonessential when people of color began to benefit?*



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**The promise of life, liberty, and the pursuit of happiness for all cannot be kept without a government commitment to provide some measure of financial opportunity and security for all of us.**

### 3. Conclusion

*“At a time when older Americans have longer lives and more options than ever before, we need to ensure they have access not just to a monthly check, but to personal wealth. And I mean all Americans — not just a few, but all Americans, especially women and minorities who are often short-changed by the current Social Security system.”*

– President Bush, Feb 28, 2002

*“The agony of the poor impoverishes the rich; the betterment of the poor enriches the rich... whatever affects one directly affects all indirectly.”*

– Dr. Martin Luther King

This report challenges entrenched aspects of our economy that block the dream that our nation celebrates every year. When Martin Luther King traveled to Washington, D.C. in 1963, he didn't go just to tell people about a dream. He went to “cash a promissory note,” the promise of life, liberty, and the pursuit of happiness for all found in the Declaration of Independence. This promise cannot be kept without a government commitment to provide some measure of financial opportunity and security for all of us.

For centuries, vast private wealth was created from government-orchestrated human rights disasters: the African slave trade, the conquest of Mexico and Puerto Rico, and the genocide of indigenous peoples. While this is an uncomfortable topic that most would like to put under “file closed,” these government policies left a legacy that is still very much with us today. Many Americans still suffer from the accumulated effects of the historical exclusion of their people, and barriers to wealth creation persist.

In 1967 Dr. King addressed the Southern Christian Leadership Council by saying, “Your whole structure must be changed. A nation that will keep people in slavery for 244 years will thingify them — make them things. Therefore they will exploit them, and poor people generally, economically.... What I am saying today is that we must go from this convention and say, America, you must be born again!”

America must be born again with new values, values that put people before profits, and family values that fully fund opportunities for low-income families. If, as a society, we truly value equal opportunity for all, then we cannot claim there is a fair race being run, when some people are not even at the starting line. Call it restitution, or a chance to catch up - or simply call it justice.



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