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WEALTH INEQUALITY PANEL

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PROFESSOR ANDY BARLOW: What makes wealth so significant is that the accumulation of wealth or the disaccumulation of wealth is a measure of advantages or disadvantages over many generations. Unlike income, which is a measure of the momentary situation in a market, when we are looking at wealth and equality, we are looking at long-term advantages and privileges as well as long-term disadvantages of people. It is a very important social measure of inequality for that reason.

The other thing that makes it important is that private ownership of wealth is becoming increasingly important for people's life chances today.

We can see this in many different areas. In education the decreasing subsidies for public education require people to use private assets to receive an education. Many of you students know that full well. In healthcare we are seeing the destruction of employer benefits coverage for healthcare and the replacement with people having to use their private assets to receive quality healthcare. In housing, we are now seeing people having to rely almost entirely on parents being able to help their children receive mortgages for homes. The use of private wealth becomes essential for gaining access to more private wealth. That is, to be able to purchase a house. With retirement funds, we are seeing the replacement of government subsidy. Even social security is up on the chopping block of course, and the importance of the accumulation of private wealth for retirements.

And so when we start looking at the enormous and staggering historical reality of America, which is this gigantic and almost mind numbing racial gap in wealth ownership, we have to take into account that we are living in a period where we are seeing the rapid destruction of social subsidies, of public entitlements, and the replacement with policies in which private wealth ownership becomes increasingly important for life chances. And these have very dramatic racial consequences given the inequality in the ownership of wealth. And these have very dramatic effects given the racial inequalities in the ownership of wealth.

Bluntly, I think we can say this: a society that privatizes what was once publicly subsidized social entitlements is a society that is giving new life to White privilege. It is a society in which the ownership of wealth is not a neutral fact, but it is a racial fact. What we are then seeing with the destruction of public entitlement programs is the unleashing of politics in which the haves will do whatever they can to maximize their positions at the expense of the have-nots. We see more and more the use of local politics to split apart suburbs and urban areas. We see many, many different forms which this takes.

But I think the other side of the coin needs to be mentioned at the same time, which is that the increasing focus on private assets is precisely because the notion of the welfare state is under attack. That is, the increasing focus on private assets as a way to ensure one's life chances. Whether it be through retirement, or healthcare, or education or housing, it is part of the process of the destruction of the philosophy that the government must play some role in regulating corporations, and in subsidizing in some ways the distribution of wealth downwards from the rich at least to the middle, though never very much to the poor.

But what we are seeing at this moment is a very dramatic shift that is not happening only in the United States and is not happening only in the Bush administrations or even the Reagan administration. It is actually a very large secular change in the role of government that we are seeing in all of the most developed countries and actually in many of the less developed countries as well.

The destruction of the notion of the government's regulatory apparatus, the destruction of government as playing a role in subsidizing and redistributing wealth downward, and the Keynesian philosophies of the welfare states are under attack everywhere. The first thing we have to do is account for the general trend toward this attack. This is where we need an analysis of globalization to fully understand what is taking place today.

What I mean by globalization is of course a very complicated matter because the world has been global in its interactions for many centuries. But we are in a new era of globalization in which new technologies have enabled a much more rapid movement of people, capital, and things around the world. We are living in a period where time and space have become increasingly irrelevant in social life. This is the new phenomena with which many people are grappling. But it seems to me that we also have to immediately see that these new technologies, as with all technological revolutions, are mainly appropriated by powerful entities, like corporations and states, because they are the ones who can appropriate these technologies.

Transnational corporations have taken advantage of the new technologies to create new divisions of labor all over the world and are very extensively moving capital at an amazing rate all over the place looking for the best market chances. It is this flavor of the new mobility of capital that is the most significant thing we need to pay attention to. Corporations, because they can move so quickly to take advantage of new market conditions, have gained great leverage over both workers and states-over workers in the sense that corporations can credibly say to many workers, "Either accept lower wages or cuts and benefits or we are out of here, and we are going to go find some workers who will take lower wages and benefits." This is really happening, even though the fantasy for many Americans out of here is offshore investments when in fact, out of here usually means away from unionized cities, to de-unionized, un-unionized suburbs in the south.

But the ability of corporations to move has had a major effect on the social wages. The other ability that corporations have to move is to threaten governments, and to say to governments, "Either deregulate us, cut taxes, do away with expensive subsidies that we have to bear a part of the cost of, or we are out of here." And you can even hear in the type of political rhetoric that Arnold Schwarzenegger is using in California right now this precise language, where he says, "Look Nevada and Arizona are now competing with California, for these businesses and unless we create a pro-business, anti-labor environment in California, we will lose these businesses to Arizona and to Nevada." This is the new dynamic of globalization.

The result has been virtually the abandonment of the conception of the welfare state, the end of the era in which the government is supposed to regulate business in order to prevent the market from destroying itself. It is the end of the era in which government subsidizes the middle class, to some extent even the poor, in order to maintain social stability. We have already reached the end of this. I actually think the point where that was reached was the moment when Bill Clinton signed the Personal Responsibility Act of 1996. It took that bipartisan agreement to attack the welfare system, and Bill Clinton proudly announced it at that moment when he said, "This is the end of the era of big government."

So I do not see this as something where we are looking at different parties and seeing different philosophies. What we are seeing is actually a very major and secular and long-term change in the role of the state in society.

I think what we are seeing replace the welfare state is something that a sociologist named Jill Quadagno once dubbed, "The private accumulation state." The role of government is increasingly focused on enabling individuals and corporations to accumulate wealth—and so the focus of tax shelters.

If you want to get a good education the government will provide you with some tax shelter. But whether you get a good education depends on your ability to accumulate wealth. If you want healthcare the government will provide you with a tax shelter. But your access to healthcare will depend on your ability to accumulate wealth. The job of government now is increasingly focusing on the idea that welfare is a personal matter in which individuals must take care of their own well-being by accumulating their own wealth.

The job of government also of course is to deploy an army and a police force to assure that the private accumulation of wealth can go on. And those people who cannot accumulate wealth of course are then invited into the one remaining large social program available to them: the prisons of America.

I think this type of analysis has some important implications for strategies for trying to equalize the opportunities of people of color and whites.

First, while I absolutely support programs that seek to increase African-American and Latino access to wealth, and I think that many of the things that we are going to discuss in this panel will focus on that and I think they are very important proposals, we have to take up those discussions in the context that the new focus on private wealth is part of the attack on civil rights. It is not a separate discussion. People are now focusing on private wealth. The focus on private wealth is coming about precisely because of the attacks on equal employment opportunities and the attacks on everything under Title VII, as well as the ending of affirmative action as a credible force in many workplaces. We are left with the hope that maybe we can figure out some strategies for self help, being that the state is no longer available to play a role in breaking, or at least in some ways challenging, white privileges as it did in the 1960s and 1970s to some extent.

And so we need to have a nuanced sense of the strategies for trying to equalize wealth ownership for people of color and whites in the context of taking up the renewed call for dealing with all of the forms of racial inequality that people are facing and the demand for the state to take action against them, and not leave this as a private matter.

The second thought I have about this is that I believe history has demonstrated fairly conclusively the very simple principle that it takes wealth to make wealth. Those people who start out with wealth accumulate wealth much more readily than those people who start out without wealth. While I think we can make some gains and should struggle to make some gains in remedying the inequalities of wealth ownership, I believe that what we will probably see in the regime that I call the private accumulation state unfortunately is a continued widening of the racial gap in wealth ownership. We have already started to see this; we have preliminary data that suggests that between 1996 and 2003 African Americans lost ground to whites. The data that I have suggests that between 1996 and 2002, African Americans lost 16.1 percent of their proportional assets to whites during that very short period.

It remains to be seen, of course, how these strategies work out. But I am quite pessimistic that strategies that focus on wealth accumulation alone will be able to overcome the enormous inertia that happens when people who have wealth are capable of expanding so many times more rapidly their market chances compared to people who have limited or no wealth. This is especially true being that the issue is not just wealth ownership, but of course the political and institutional arrangements that enable those with wealth to operate in a much more privileged environment than those who do not have wealth. So, while people of color are going to be fighting just to get to the point where their bank loan practices are equal to those of whites, whites with their greatly larger amounts of wealth are going to be able to use the existing loan practices to make even more rapid gains.

I focus my comments mostly on the very large picture and use a simple analysis of black and white in this, and it is very important that we understand that when we start dealing with Latinos and Asian Americans, the picture gets much more complex. I want to mention briefly some of the complexities of the picture I see when we add in Latinos and Asian Americans.

One is that the categories Latino and Asian are extremely broad categories that actually are racial categories. That is, they are categories created for the purpose of categorizing people or making them unequal. And when we look inside those categories at the people who are coming to the United States and what they experience, we find many nationalities and even among similar nationalities, we find different waves of immigration who have had different class experiences. And so, if you compare Chinese immigrants of the 1940s and fifties with Chinese immigrants in the 1980s, you are dealing with the same nationality but completely different levels of assets, educational backgrounds, etc.

One of the things that we have to be able to do, and this is a very complex discussion to be able to have, is to be able to acknowledge what is racial and what is not racial about the different strategies for different groups. What might work very well for the Cuban Americans' immigrant community in Miami during the 1950s and 1960s will not work for the Marielistas of the 1980s and 1990s, for example.

And so that is what I wanted to just tip into this discussion right away. When we get past the aggregate discussions of race, we are going to have to get much deeper into the questions of how class, nationality, and ethnicity play out in different wealth strategies.

One last thing—I think one of the more interesting and important statistics about accumulation of wealth—is that the top fifth of whites own 72 percent of all the net assets of whites. This is because wealth inequality is so gigantic. My recollection is that 45 percent of whites have no assets. I am sorry, I am just doing that off the top here. For African Americans, the top twenty percent of African Americans own 94 percent of all the personal wealth.

And so what we see is a much greater gap in wealth ownership among African Americans of different classes than among whites. This goes back to the kind of data that was presented in the first presentation as well. One of the positive implications of that then is that wealth ownership and the struggle for wealth assets is less of an issue on the agenda of many African Americans because of the lack of those assets. Struggling for those assets, while it is a very interesting and important strategy in the present period, needs to be put in the context that the new emphasis on wealth ownership is part of an effort to replace the idea of the government as responsible for protecting people from discrimination. It is part of the welfare state, with the notion that individuals have to fend for themselves in the new *laissez faire* world. Thank you.

PROFESSOR JAMES HEAD: I like to look at wealth inequality in terms of a reality point. I am sure many of you know Chris Rock the comedian. In his latest television concert special he makes a number of comments on the issue of wealth. I think this is demonstrative of how this issue has risen to the top in terms of people's priorities. One of the things that Chris Rock says is when you look at who's wealthy and who's rich, "Bill Gates is wealthy, and Rick James is rich. Or at least he was." For those of you who are probably much younger than I am and are wondering who Rick James is, that is probably a separate conversation. But Chris' point is that rich in fame and short-term income (musician) and wealth in long-term income and assets (Microsoft) are very different. Chris ends by saying "I'd rather be Bill Gates than Rick James."

I want to talk a bit about some of the strategies that are beginning to bubble up around the issue of economic development and wealth accumulation. I very much agree with Professor Barlow regarding the notion of trying to really wrestle with and understand what we mean by wealth inequality. The questions that his comments raised for me, or questions that I would pose to you regarding this subject, are: Is this a class issue? Or is this a race issue? Is this a private issue? Or is this a governmental issue? In reality it is all of those things. And until we are willing to admit that it is all of those things, we will have difficulty and will be sidetracked by how to approach this issue and, therefore, how to address it.

We should be moving towards a wealth equality, asset development strategy that has both private and governmental components to it. I do not think that we can get there without it. In fact, we currently support substantial wealth and asset accumulation for wealthy Americans through our federal budget and tax structure. If you look at what is happening for those who are wealthy in this country, a report by the Corporation for Enterprise Development (CFED) that was released last year took a look at the kinds of tax breaks and subsidies that are offered to Americans by the government. It found that there were over $350 billion in tax breaks and subsidies that are awarded to Americans in this country each year. However, 5 percent of the wealthiest Americans get 90 percent of these benefits. The biggest of these tax breaks is the home mortgage deduction interest tax that we who own homes get. This is a dollar for dollar deduction from your taxable income for interest on your home mortgage. I would ask any of you, myself included, are you willing to give that up? My answer is "No." I would love to have other people be able to take advantage of this asset benefit, and it is a substantial economic driver in this country—it drives the mortgage industry, the home building industry, and the home furnishing industry, to name a few. The bigger house you can buy, the bigger mortgage you have, the bigger that deduction and so on.

When you compare this tax break, I think that the home mortgage deduction was about $150 billion or $160 billion of this $350 billion. The earned income tax credit, however, which is available to poor families, is about $8 billion a year. And that is a program in which less than twenty percent of those who are eligible for it take advantage of it. What becomes evident is that we have a tax code that is not designed to help poor Americans benefit from and accumulate wealth.

If you notice what happens in the shell game of how we look at this, there are recent proposals now on the table in the Senate around the Federal Budget and some of the social programs. One of the discussions was around trying to increase the amount of money in the budget for childcare, which we need. There has been some agreement to do that in the Senate but at the expense of the earned income tax credit. The thought is that they are willing to increase the childcare subsidies in the budget, but they want to actually remove the ability of immigrants to take advantage of the earned income tax credit, all under the goal of keeping budget spending in check. So much of the movement is not towards expanding government-sponsored asset opportunities towards the poor, but rather to take existing ones away.

When I think about this issue I think about it in terms of some of the advances that have been made around economic development and its strategies and approaches to moving towards wealth accumulation and asset development. Again, I agree very much with Professor Barlow about the way this gets phrased because in many instances this idea of asset development has created a real tension within the civil rights community and public interest community, as to whether by moving in this direction we are basically raising the white flag as it relates to issues such as earned income, guaranteed benefits, and the kinds of programs that have been in place for those at the very bottom, like the welfare benefits, food stamps, subsidized housing, and health coverage. I would submit that many characterize it that way. I think that we have to see these as complementary because there will be families and individuals who can move through the maze of governmental programs and identify opportunities that will allow for asset development. There are others who will not be in a position to do so and we should provide the safety net that will help to keep them in a place where they can find decent housing, put food on the table, and find decent employment.

So in the Community Economic Development Movement we tried a number of things in the 30 plus years of this movement. We started with traditional ideas that if you could improve neighborhoods and communities through housing development and through commercial development, you could provide a road map for viable neighborhoods and viable communities and increase the economic stability of families and move families out of poverty. But what we found was that as we built these new houses, as we renovated the communities and built new commercial space, within a span of five to ten years they were deteriorating at a very fast rate. That was because we did not pay any attention to the income needs of individuals and families that were necessary for people to be able to maintain what we were developing.

So we then decided to focus on income. And we began to do work around increasing income levels, increasing employment skills levels, and providing more education for individuals and families in low income communities and communities of color. But we also found, especially in down economic times, that there were limitations to this strategy. People who were hired last were laid off first when the economy went bad. Also, the work that economists and sociologists like Thomas Shapiro and Melvin Oliver did told us that income was only one component, and likely not the right one to focus on in order to help people move up the economic ladder. In their book, "Black Wealth/White Wealth," Shapiro and Oliver make a compelling case that while income disparities between Blacks and Whites have decreased, wealth disparities have widened and continue to contribute to the economic inequality between the races. They argue that the focus should be on wealth and assets as the primary way to address issues of economic inequality and poverty. So we in community development then began to move toward wealth building and asset development strategies. I want to give you a couple of examples of what this looks like.

One strategy is if you can accelerate the ability of people to achieve savings, you can also help them through financial education and other approaches to teach them to use those savings to build wealth and accumulate assets (buy homes, invest in business, become entrepreneurial, and upgrade skills and education). And the way to accelerate savings is to match every dollar that a person puts in savings with a one, two, three, or four dollar contribution to allow the person to quickly achieve savings scale.

These are called Individual Development Accounts, or IDAs. These have been experimented with for about ten or fifteen years now and have proven a couple of things. One is that poor people, low income people, and people of color, given an opportunity, will save in greater numbers and with greater success than general Americans. The second is, given an opportunity to invest in some of these asset-oriented approaches like home ownership, business opportunities, and education, it does provide an opportunity, a step forward, in terms of beginning to develop and accumulate resources. The third is through financial education, in terms of how to handle savings and how to plan for asset opportunities, a number of individuals and families had been able to develop current and future financial plans to integrate with their employment opportunities. This significantly increased the ability of these families to maintain and retain these assets, with many being able to achieve more stable economic and social conditions. And the fourth is that given an opportunity to have these assets, these families were much more likely to pass them on to their children for their children to use them as a stepping stone to develop their own assets. So there is now an effort to increase the level of these IDA accounts by seeking federal legislation to fund them and encouraging private financial institutions and banks to offer them.

IDAs and other savings models have also caused us to explore making these opportunities available at earlier ages. One place we have looked is England, where they have been experimenting with children savings accounts at birth. So there is a project going on right now through the Corporation for Enterprise Development that focuses on a number of American cities where for every child that is born whose parent is participating, that child gets a certain amount of money placed in an IDA savings account at birth. Thereafter, for each dollar the parent puts into the account a match of two or three dollars is added. At some age, whether it be 16, 17, 18 or 21, that particular child gets access to that account and is able to use the savings for specific purposes. And having a 13-year-old who is a consumer, I would opt for the 21 rather than the 16. Children can use the savings for educational purposes, or other purposes that will advance their skill levels, like employment training.

A new concept that has also emerged out of the community development field is around the idea that if we are building assets in communities through housing and commercial development, we should also develop ways for residents in those communities to have ownership in those assets. There is a project in San Diego that was actually created by the Jacobs Family Fund, a local family foundation, in which they were the impetus for a $100 million housing and commercial development project in a low-income racially mixed community in San Diego. The housing is a mix of market and affordable housing, and the commercial space includes a major grocery store as well as a number of smaller commercial spaces for local and chain businesses. They are now trying to develop a way to sell shares in the development to the local residents who have been a part of putting the project together over the seven or eight years that they have been working on this.

These are called resident ownership strategies to development. And the idea here is that if you can give families and individuals ownership in the development, and if the property actually appreciates in value, then those families will have an asset that they can potentially use to leverage other assets and build greater economic stability.

Now there are major hurdles to doing this, some of which are very much legal. The Jacobs Fund is a non-profit entity, and there are limitations on the ability of members or directors of a non-profit corporation to directly benefit financially from the activities of a non-profit. Thus, they are looking at creating a for-profit limited liability corporation that would be able to manage this property and would sell shares to residents through a public offering. They are currently seeking permission from the State of California to do this.

These are all approaches to asset development and wealth building that we should explore. We should not explore them to the exclusion of the efforts to ensure that the government does not abandon its responsibility to provide a safety net for those most in need, or assume that the private market will generate opportunities for working and middle class citizens to participate in the asset development and wealth building supported by our tax and other policies. It will take the government's participation on both ends to make comprehensive wealth building available to a broader number of Americans.

In closing there are just a couple of thoughts that come to mind. One is something that my grandfather used to tell me. He says that he would often hear the phrase, "It maybe isn't such a great idea to be rich, because the richer you are the more miserable you seem to be or can tend to be." My grandfather would then say that while that may be true, "it's a whole lot better to be rich and miserable than it is to be poor and miserable." I think he was right about that.

We all aspire to give people an opportunity to move up the economic ladder if they so desire. Those who feel that they cannot, will not, or have impediments, we aspire to ensure that they have basic safety net needs in terms of housing, food, education, and healthcare. Economic and social thinkers and practitioners have indicated that those who want more in terms of economic and social benefits need to have more than employment advancement to anchor their climb up. Asset development and wealth building strategies are an important part and necessary to make them successful.

Thank you.

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