

Issue: Inequality

The Racial Wealth Gap

The disparity in wealth in the U.S. is high – and is growing. Since 1986, about half of all gains in wealth have gone to the top *0.1 percent* of households. Racial minorities are especially affected by this with typical black households possessing just 6% of the wealth of white households and the typical Latino household having just 8% the wealth that a white household has.¹ This gap cannot be explained by education levels as college educated blacks have less wealth than white college dropouts.²

This growing inequality adversely effects economic growth and stability. Wealth creates a financial safety net, shielding families from unplanned expenses or loss of income. It also helps finance an education or start a business. Through inheritance, wealth is passed down through generations.

What has caused this disparity?

The U.S. government has had many programs that benefited whites, but excluded blacks. The G.I. Bill helped white veterans attend college and buy homes, but blacks were left out. The National Housing Act of 1934 was designed to help home buyers by providing mortgage insurance. However, the act explicitly refused to back loans to blacks. When the Social Security program began, it excluded domestic workers and farm workers, a disproportionate number of whom were black.

As the Washington Post states, "The economic deck has been stacked against African Americans from the start. The vast majority of blacks emerged from slavery with no money. New Deal worker protections, from the Fair Labor Standards Act, which set a minimum wage, to Social Security, initially excluded the many African Americans who then labored as domestic workers and tenant farmers. The Federal Housing Administration's loan policies excluded many of them from the homeownership deals that allowed many whites to move to the suburbs, helping them create wealth. Similarly, most African Americans were excluded from the GI Bill benefits that followed World War II."³ Because wealth is handed down over generations, policies enacted decades ago continue to adversely affect minorities today.

Decreasing the racial wealth gap

Blacks and other minorities continue to be disproportionately affected by current policies. For example, being targeted for predatory loans, having driver's licenses suspended for minor offenses unrelated to driving, and subject to excessive fees from the bail bond system all have harmful effects on blacks and other minorities. These practices can – and should be – reformed.

¹ <http://www.demos.org/publication/racial-wealth-gap-why-policy-matters>

² <http://www.demos.org/blog/9/23/14/white-high-school-dropouts-have-more-wealth-black-and-hispanic-college-graduates>

³ http://www.washingtonpost.com/sf/investigative/2015/01/24/the-american-dream-shatters-in-prince-georges-county/?utm_term=.297c3792ca03

Predatory mortgage loans

Predatory mortgage loans have disproportionately affected blacks and other minorities, as minorities were intentionally sold inferior loans, such as sub-prime loans. As a result, when housing prices began collapsing in 2006, minorities were more likely to have been foreclosed on. Since the wealth of most families is in their homes, the loss of wealth for minorities was significantly more than that of whites.

Payday loans, which are intended to tide the borrower over until their next payday, are another type of predatory loan. Due to astronomical interest rates and fees, they can be extremely difficult to pay back. If borrowers cannot repay the first loan, they may get another loan, resulting in a downward spiral of debt.⁴

Although Virginia did enact a bill in 2008 that helped curb predatory and abusive lending by payday lenders, it did not go far enough. That's because predatory car loans and open-ended loans still exist, often with exorbitantly high interest rates. Car title lenders can make loans against vehicles that are already owned. Ideally, this entire industry should be shut down.⁵

Several Democrats in the Virginia State Senate have tried to introduce bills that would limit the percent interest on payday loans, but are thwarted time and again by Republicans.⁶

Regulations that would help consumers avoid the traps of predatory lenders include:

- Decrease the maximum interest rate on loans, which is currently 36% in Virginia
- Regulate open-end credit plan loans
- Limit the refinancing of loans
- Ensure that customers pay down the original loan by a specified amount before refinancing
- Ensure that borrower will be able to repay loan
- Set maximum allowable fees
- Spread costs evenly throughout the loan

Suspended driver's licenses

Virginia is one of the states that suspends driver's licenses for minor offenses that are unrelated to driving. Offenses that can result in driver's license suspension include littering, failure to pay court fines, unpaid student loans and non-driving misdemeanor drug charges. Although the rate of drug usage is similar for different races, black are 2.5 times more likely to be arrested for drug offenses as whites.⁷

Economic hardship can result when people cannot get to their jobs because they don't have a driver's license; a significant number of people who lose their driver's license also lose their jobs. Not only that, the fees required to reinstate a driver's license may be prohibitive for some drivers.

⁴ <http://www.npr.org/sections/thetwo-way/2016/06/02/480329986/new-rules-to-ban-payday-lending-debt-traps>

⁵ <https://fcnp.com/2015/10/01/guest-commentary-predatory-lending-is-out-of-control-in-virginia/>

⁶ <http://www.dailypress.com/news/politics/dp-nws-ga-predatory-lending-20160125-story.html>

⁷ <https://www.prisonpolicy.org/driving/national.html>

Suspension of driver's licenses also exacts a cost on the various governmental agencies that administer the suspensions as well as divert resources from public safety: "The costs of arresting, processing, administering and enforcing social nonconformance-related driver license suspensions create a significant strain on budgets and other resources and detract from highway and public safety priorities."⁸

Virginia needs to stop suspending drivers' licenses for civil offenses unrelated to driving, as well as stop imposing fees that people cannot realistically pay.

Cash Bail

Bail is money that is paid by a defendant to a court with the goal of ensuring the defendant will return to court as required. If the defendant is unable to post bond, a bail bondsman may post bail and charge the defendant a non-refundable fee. The non-refundable fee – which can be 10% of the bail amount – is independent of whether or not the defendant actually shows up to court. Furthermore, when a defendant fails to show up to court, it is often the public entity that will track down the defendant – even though the bail bond person was ostensibly paid to do so. The bail bond industry is driven by private profit, not public safety.⁹

Current bail practices do not consider the likelihood that the defendant will flee, the ability of the defendant to pay the bail or the dangerousness of the defendant. Instead, a correlation is assumed between wealth of the defendant and risk; there is however no proof of any such correlation. The cash bail system results in pre-trial freedom for wealthier defendants – not necessarily those who are least likely to commit another crime or most likely to show up for trial.

Reform should consider the ability of the person to pay to pay bail and whether or not the person is actually at risk in not turning up for their trial. Judges should have discretion to set bail based on numerous factors such as criminal records, and age of defendant.

Unnecessarily putting people in jail not only has adverse effects on the defendant – who may be innocent – but it is also expensive. Pretrial supervision costs Virginia \$4/day but jail costs \$75/day.

Credit Checks

In Virginia, employers may use credit checks in the hiring process, which has been shown to depress the hiring of minorities. No studies have shown that there is a correlation between poor job performance and weak credit.¹⁰

About 11 states have laws or are considering laws that restrict how credit reports are used by employers. These laws generally have provisions to allow an employer to check credit if the job involves access to large amounts of cash, to financial information of customers or employees, provides a corporate credit card, etc.¹¹

⁸ <https://www.prisonpolicy.org/driving/national.html>

⁹ The Truth About Commercial Bail Bonding in America, by the National Association of Pretrial Services Agencies, August 2009.

¹⁰ <http://www.nytimes.com/2010/04/10/business/10credit.html?mcubz=0>

¹¹ <http://www.esrcheck.com/Articles/States-with-Laws-Regulating-Credit-Reports-for-Employment/186/>



Federal and state laws for the rich

Federal and state laws have many policies that help the rich attain even more wealth.

The highest income tax rate in Virginia is 5.75% and kicks in at incomes of \$17,001. An income of \$17,001 may be below the federal poverty level threshold, depending on family size. Thus, taxpayers with million-dollar incomes have the same tax rate as some of our poorest citizens.¹²

Virginia's Earned Income Tax Credit works differently than in most other states. Instead of receiving a cash benefit if the benefit is more than the taxes owed, Virginia's EITC can only offset the taxes owed.¹³

To address these two issues that affect poorer Virginians, the state should devise more progressive tax rates as well as allow low income Virginians to receive a cash benefit from the Earned Income Tax Credit.

Invest in training

Invest in training so people can get job skills that are in demand in their community.

¹² <http://www.bankrate.com/finance/taxes/state-taxes-virginia.aspx>

¹³ <https://www.thebalance.com/virginia-earned-income-tax-credit-3192922>