TESTIMONY TO HOUSE COMMITTEE ON GENERAL, HOUSING, AND MILITARY AFFAIRS

Racial Wealth Disparities: Causes, Effects, and Benefits of Closing Gaps

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Good morning, Chair Stevens and Members of the Committee. Thank you for the invitation to provide you with testimony on *H.273. An act relating to promoting racial and social equity in land access and property ownership*. I am testifying in support of this bill, based on the historical and current racial wealth and land ownership disparities we observe in Vermont and the US.

The authors of this bill have carefully identified the historical evidence of systemic discrimination based on race and ethnicity in the US. Discrimination that leads to wealth and land inequality, however, are not just a thing of the past. In Vermont, just as across the country, unequal treatment is an everyday part of BIPOC life, affecting life chances and the ability to transfer wealth to children.

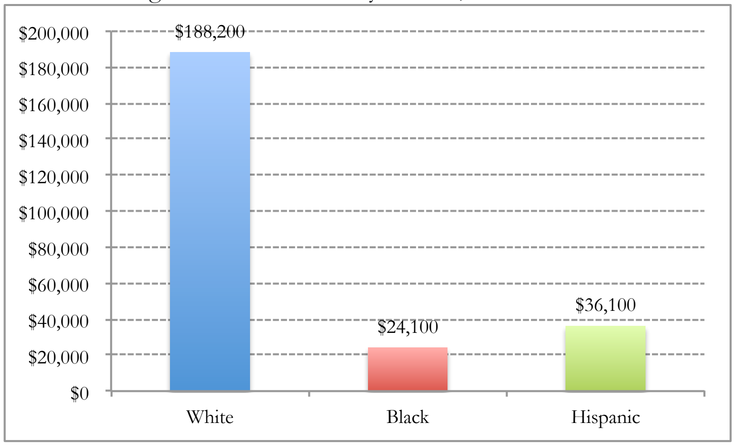
Both in the US and in Vermont, the government has sidestepped several opportunities — not just the "40 acres and a mule" proposal — to make reparations for slavery and expropriation of Native American land as well as ongoing discrimination. But today the Vermont House has a unique opportunity with this bill to break with the past by making good on our commitment to fairness and equity.

I'd like to focus my remarks on evidence of racial wealth inequality, its causes and effects, and the benefits that accrue from closing that gap through measures such as H.273. This bill offers a step towards addressing severe racial wealth inequality by helping BIPOC families to build assets.

1. **Why wealth is important.** Wealth is critical for families to smooth income over time, better enabling them to weather economic, health, and care crises. In times of recession and high unemployment for example, families with means fall back on their wealth to replace their lost income. For those without that safety net, homelessness and bankruptcy are more likely. Wealth can also help households save for retirement, finance costly medical interventions, and educate their children.

2. **The Black-White and Latinx-White wealth gaps are enormous.** Median white wealth is almost 7 times greater than Black wealth and 5 times greater than Latinx wealth. That means that on average for every dollar the median white household holds in wealth, Black households have 12 cents and Latinx households, 19 cents (Figure 1).

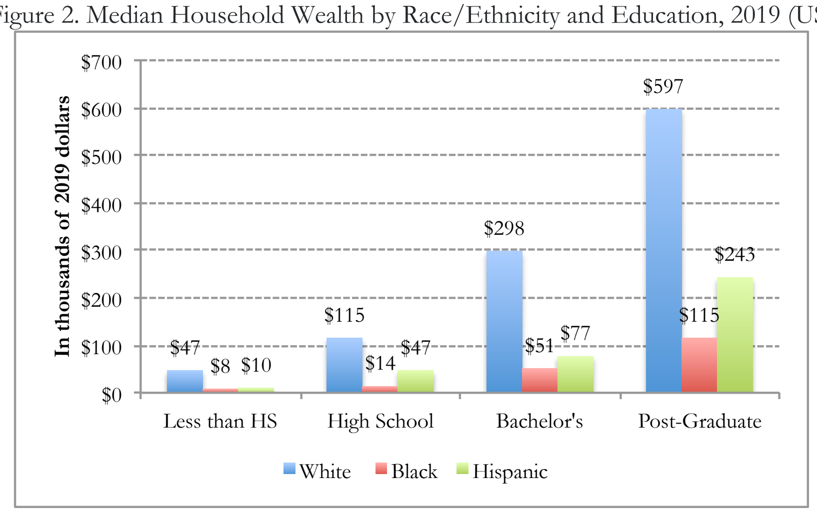
Figure 1. Median Family Wealth, 2019



Source: Federal Reserve Survey of Consumer Finances.

This wealth gap cannot be entirely explained by racial disparities in education and income. Using education as a proxy for income, wealth inequality is substantial even at high levels of educational attainment. The Federal Reserve Bank has estimated, for example, that the median wealth of white households with a post-graduate degree is almost $600,000 compared to $115,000 and $243,00 for Black and Latinx households, respectively (Figure 2).

Figure 2. Median Household Wealth by Race/Ethnicity and Education, 2019 (US)



Source: Federal Reserve Board, *Survey of Consumer Finances.*

Further, Black and Latinx families also have less financial wealth due to low wages (labor market discrimination), higher unemployment, as well as exclusion from good schools. It takes significant initial wealth to launch and sustain a business, and Black and Latinx families, generally have considerably less money to invest in business startups.

3. **Wealth endowments (parental wealth) are enormously important for determining children's opportunities and wealth in adulthood.**

"Wealth is where history shows up in your wallet, where your financial freedom is determined by compounding interest on decisions made long before you were born" (McGhee, 2020: 277).

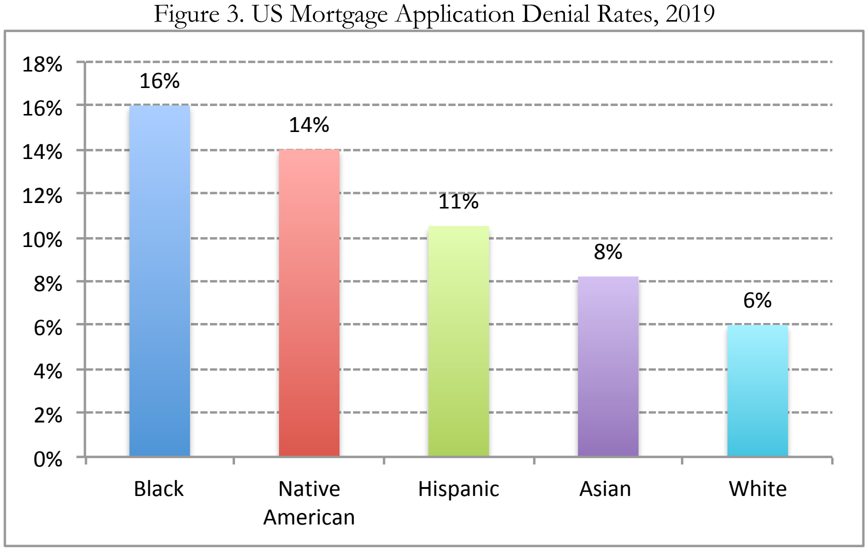
Not only is the present affected by the past. The future of children depends on today's racial wealth inequality. Wealth inequality in this generation perpetuates it in the next as a result of *in vivo* transfers and inheritance. In fact, inheritance plays a key role in the intergenerational transmission of racial wealth inequality. There is a "sedimentation" of racial inequality, with successive and accumulating layers of wealth inequality produced by each successive generation. Black and Latinx parents deprived of resources have little to pass on to their children. In contrast, those families with assets (typically white Americans) can fund their children's college education or business startup or purchase of a home—all things that lead to wealth accumulation. One of the effects of wealth inequality is that BIPOC college students have a much higher debt load than white students. Indebtedness has been linked to low student graduation rates (Hanson 2021).

4. **Home ownership rates by race differ substantially, due to both past and current discrimination. Currently, the strongest evidence we have is that that discrimination stems from the banking sector as well as residential segregation.**

Home ownership rates differ substantially by race, as noted in the bill. This is significant because much of the average person's wealth is in their home, so exclusion from home ownership has severe wealth implications. Further, even today, government policies contribute to racial differences in home ownership rates that exacerbate racial wealth inequality. For example, the mortgage interest deduction available to homeowners reduces their tax burden, a benefit not available to renters. This amounts to a subsidy to predominantly white homeowners.

Home ownership disparities are in part due to discrimination in mortgage lending. Black, Latinx, and Native American applicants are significantly more likely to be denied a loan compared to similarly qualified white applications (in terms of credit history, income, and so forth). That disparity is particularly wide between white and Black applicants, with Black applicants 80% more likely to have a loan denied as similarly qualified white applicants (Figure 3).

Figure 3. US Mortgage Application Denial Rates, 2019



Source: Consumer Finance Protection Bureau.

Racial disparities in loan denial rates are greater in New England than the US as a whole. The denial rate for Latinx applicants earning $71,000 to $90,000 and for Black applicants earning $121,000 to $150,000 is almost equivalent to whites earning $31,000 to $50,000 (Haynes and Higgins 2016). Even when earning at the highest income level, Black and Latinx applicants, respectively, are almost 2 times and 1.3 times more likely to be denied a loan relative to white applicants with equivalent earnings

While I do not have data for Vermont as a whole, Burlington's and South Burlington's data are instructive. The Federal Financial Institutions Examination Council (FFIEC), which reports home loan application and denial rates by race, found that in Burlington and South Burlington, Black home loan applicants are 3 times more likely than Asian applicants and 4.5 times more likely than white applicants to be denied a mortgage loan (City of Burlington 2019). Unlike the previous data on racial disparities in loan denial rates noted above, these data do not control for income. The disparities then are the combined result of income inequality and loan discrimination.

Moreover, when BIPOC families do obtain loans, they pay on average a higher interest rate than while families. Lenders charge Latinx/African-American borrowers 7.9 basis points more than white borrowers for mortgages. This amounts to $765 million per year in extra interest (Bartlett, *et al* 2019).

With regard to the housing discrimination, Vermont Legal Aid (2012) carried out rental housing audits, a method for identifying unequal treatment by sending testers to respond to housing or rental ads. Vermont Legal Aid paired Black male and female testers respectively with white male and female testers. They found that 37% of housing providers engaged in discrimination against the African-American testers or provided favorable treatment to the white testers.

5. **Black- and Latinx-owned business loans applicants are denied at a higher rate than white applicants seeking to start a business or applying for a credit card.**

More than half the US companies that have Black owners were turned down for loans in 2017, a rate that is twice that of white-owned businesses (Board of Governors of the Federal Reserve Bank 2017). Moreover, Black-owned firms experienced the highest turn-down rate for credit card applications. Asian-owned and Latinx-owned businesses also experienced elevated denial rates compared to white-owned businesses.

6. **Some form of policy intervention is necessary if the gap is to be closed.**

The disparities alluded to in this testimony are not only the result of past discrimination by government and private markets. They are due to ongoing discrimination in labor markets, housing markets, and financial markets, despite years of government monitoring of racial disparities.

We should be very clear, these disparities are not due to individual choices. The data indicate that attending college does not close the racial wealth gap. Living in a two-parent household does not close the racial wealth gap. Working full time does not close the racial wealth gap. Spending less does not close the racial wealth gap. Wealth inequality and the economic security it provides, in other words, are due to institutional discriminatory practices.

Policy also drives the racial wealth gap. And policy can be used to reduce wealth disparities. This bill is an important policy step towards that goal. If public policies such as enshrined in this bill successfully eliminate racial disparities in homeownership rates, so that Black and Latinx households are as likely as white households to own their homes, the wealth gap between Black and white households would shrink 31%. The Latinx-white wealth gap would shrink by 28% (Sullivan, *et al* 2015).

There are a number of additional vehicles that Vermont could adopt to buttress H.273: Fully enforce the Equal Credit Opportunity Act; strengthen consumer protection from predatory lending (including payday lending); support credit-building programs; and provide support for the development of community banks.

7. **The benefits of closing wealth gaps, a goal this bill would contribute to, are myriad.**

The benefits of reducing racial wealth inequality extend beyond BIPOC families to the economy as a whole. Research over the past 20 years has shown that economic inequality by race and gender depress society-wide economic development and growth. Some of the benefits of reducing wealth in equality include:

- More human capital
- Increased entrepreneurship
- Healthier labor force
- Smaller stock of student loans
- Reduced social spending and increase tax revenues

In conclusion, this bill provides an historic opportunity to make amends for the role of government in producing racial wealth disparities and to counteract ongoing racial discrimination in labor markets, the housing market, and bank lending. There have been other proposals to close wealth gaps, including "baby bonds"—bonds purchased by the US government at birth for every child. (In 2013, Maine became the first state to launch a universal, automatic baby bond program. The state government funds the Child Savings Account [CSA], which deposits $500 into an account for children born in the state. Maine's CSA program has reached an estimated 100% of newborns). While that is a step in the right direction, the asset building policy outlined in this bill can reduce wealth inequality with much more immediate results.

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