Wealth Inequality Panel
Event transcript
September 23, 2004

Cassandra Butts:

Thank you and we welcome you here to a program that is a part of the effort at the Center for American Progress, and I am the Senior Vice President for Economic Programs at the Center for American Progress. This is the first in a series of panel discussions that we'll be doing looking at the issue of economic inequality. I'm very pleased to have our guests. We're going to give ten minutes to each panelist and then we're going to have some discussion among the panelists. We're going to then open it up to questions from the audience, and then we're going to give each panelist about two minutes for closing statements. I think what we'll do now is open it up, and I will introduce the panelists.

To my right I have Thomas M. Shapiro. Mr. Shapiro is the Pokross Professor of Law and Social Policy at the Heller School for Social Policy and Management at Brandeis University. He is the author of *Hidden Cost of Being African American and How Wealth Perpetuates Inequality*, which was published earlier this year, and the award-winning *Black Wealth and White Wealth*, which was published in 1995. Thank you very much for coming.

To my left I have Meizhu Lui**,** who is the Executive Director of United for a Fair Economy. She has been a rank and file union activist in AFSCME for nearly 20 years and has committed her life to fighting for greater equality for people of color and women.

To my far left I have Eric Rodriguez. Eric is the Director of the Policy Analysis Center at the National Council of La Raza. Eric has written or contributed to various publications on economic issues and their impact on low-income Latinos, including several major issue briefs on tax, savings, pension coverage, and welfare reform.

Entering the room is my good friend, Dr. William Spriggs. Bill was most recently the Director of Research and Public Policy for the National Urban League, Washington Operations. Prior to his work at the National Urban League, Bill led the staff for the National Commission for Employment Policy during the Clinton administration. In addition, he has served as a senior economist with the Democrats on the Joint Economic Committee with the U.S. Congress and as an advisor to the Undersecretary of Economic Affairs at the Commerce Department. Welcome.

Let me begin just with a few comments. If you look at the economic situation today, any objective analysis of what's going on today indicates that, for people who live on the margins of our economy, it's a very difficult situation. Over the past three years, we've seen growing poverty rates. Today we have a poverty rate for children that is basically equivalent to what it was in 1966. We are seeing wage and benefit decreases. We have a jobless recovery in which we have lost 1.6 million private sector jobs over the last four years. That adds up to a situation which has created greater economic inequality.

Since 1970, the U.S. has outpaced every industrialized country in the growth of economic inequality; specifically, in the growth of wealth inequality. I think the statistics indicate that in 2001, the top 1 percent of households owned or kept a third of the wealth of all households. And in 2001, 10 percent of the top households held more than two-thirds of the wealth of all households. So we're talking about a significant disparity, and it's growing. It's contributing to a terrible situation that we have to address; that's what we're here to talk about today. I think what we'll do is start with Dr. Shapiro.

Thomas Shapiro:

Thank you very much. Good morning. I want to take a few minutes here at the beginning to frame what, I think, are some of the important ways of thinking about wealth and wealth inequality and its implications for inequality in the United States. There's one way in which we can think about wealth inequality as another way of looking at inequality, and we can talk about the devastating statistics of the 1 percent owning a third of our national private wealth. I think there also is, just as important, there's another way of thinking about wealth. Wealth tells us something different about the fault lines of inequality in American society.

Wealth is a key resource, among many key resources, but wealth, perhaps, is one of the most key resources in framing a family's and a community's well-being—its capacities, its advantages, and its disadvantages. Wealth also, of course, is a family's private safety net in times of personal and private troubles where the state may not be in a position to help. But most important, from the work I've done and the work others have done, wealth is a special kind of money. Income is the money that most of us use to pay our bills. It puts clothes on our back, pays our rent, pays our mortgage, and if we're lucky, it gets us out to a movie, maybe a vacation. Wealth is different. Past the point of being a private safety net, for most families, wealth is the kind of key resource that people have to move themselves forward in life—to move themselves into what they think is a better community, to gain access to a "better school system" in their own minds for their children, to take advantage of opportunities, whether those be business opportunities, or whether they be other kinds of opportunities they think are important for themselves and their families. It is true, absolutely true, that wealth is far more unequal than income. But wealth also has some of these other dimensions to it that gets us another different way of looking at the fault lines of inequality in American society.

Another way that it is important is that wealth opens a window of the past to us. When we think about things like affirmative action, for example, one of the very few empirical indicators that we can grab any facts to, I think, that gives us some idea to answer the question of how important was the past to the present, and what are the implications to the future of that, is to look at wealth and how that has been passed along in families—a history of passing along accumulated advantages and disadvantages. That's very different, in my mind at least, that's very different than the discussion we have about income, a bad education, and about jobs—all of which are very important. But wealth, I think, tells us something very different about the fault lines of inequality in American society. And finally, in this opening note, wealth, to me, draws a distinction that is very important in principle and in politics.

We think about wealth in classical economics 101. I think we are taught that wealth is a function of our savings and of what we don't spend. So, the more you earn, the more wealth you have, the less you spend, the more wealth you have. Certainly, that is true, and that's important. But it also is just as true, if not more so, that in the United States, the way that families have accumulated wealth over the years really takes place in an institutionalized framework with the huge assistance of government, whether that's the FHA legislation, or that's a GI Bill of Rights, whether it's the Homestead Acts, or whether it was the Land Grant College Acts that dates even further back in history. Therefore, we can start to make a distinction between, politically and philosophically, between what has been achieved in terms of the American dream, and what has been handed down. And we may want to draw different political and policy implications for those. In the institutionalized sphere, what is most important for me to think about, among others, is that by far the largest reservoir of wealth that American families have is in their homes. It's not the savings account. Two-thirds of the wealth—of the financial assets that middle-class American families have is in their home equity. So looking at communities, looking at how housing appreciates in different communities is very important. That home appreciation is very much color coded. I may not get to talk about this, but there is a residential segregation tax in the United States that operates at a deep institutional and formal and informal level.

What does this mean for average families, though? I think it's not just important to have the statistic in mind that 1 percent owns a third of the wealth. Let's think about what the typical American family has, and how wealth, as a resource, is pretty much deprived from many American families. I constructed something I call the Path of Poverty Index. I think it's relatively simple. It's a very conservative, limiting notion. My idea was to think, what percent of American families had survived for three months at the standard government poverty line if they didn't have any other sources of income? You can see from the chart here that about 54 percent of African-American families fall below that asset poverty index. About 26 percent of white families do, and nearly one in five of all American families fall below that level. Just keep in mind that, in my thinking at least, that's a very conservative definition because I've accepted, for the point of this presentation, that for the official government poverty line, that one might look at six months instead of three months. But the point here is that when we think about wealth and assets, American families, especially the middle class and the working poor, are much more fragile economically, and their circumstances are much more precarious than we otherwise have been led to believe. We can do the same exercise looking at children to get an idea of the kinds of families that children are being raised in, and again, you can see the data for the whole society as well as a quick black/white breakdown.

Looking at wealth also gives us a different cut at looking at the different kinds of inequalities in the United States. I want to talk for a couple minutes about black/white inequality and what wealth inequality adds to that discussion for us. I know that other people on the panel are going to take up different parts of this challenge, so you don't have to think that I'm neglecting everything here because I think we'll get to some of the other conversations.

When we compare incomes of whites and blacks, which is the standard yardstick we use, at least economically, to judge or to gauge how far we have come—what the progress is or how far we're falling back. Annually, the United States government gives us data on the median income of American families. Historically, since the passage of the major Civil Rights legislation in the mid 1960s, that window or ratio has ranged from about $0.57 to about $0.60 or $0.61 on the dollar. That is, the typical median African-American family earns $0.57 to $0.61 for every dollar the average typical white family earns in the United States. As that ratio goes up, closer to a hundred or closer to $0.60, some of us celebrate. Something's been done right, either in the labor market or the economy or social policy. As that number goes back, we pull whatever hair out we have left, and we ask, what's happened this year? What's happened to the economy? What legislation do we need to get on? When we change the perspective and throw wealth inequality into the box we want to look at, a couple of things happen. Most dramatically, African-American families own a dime in wealth for every dollar in wealth that the average white family owns. So we've got to be thinking—my gosh—the project of parity, the project of inequality, when put through the perspective or lens of wealth is now no longer, how do we get from $0.60 on the dollar from the dime on the dollar to something close that we could agree that might satisfy some of our passionate yearnings for more equality in the United States?

Many of you might say—I don't know if I was introduced as a sociologist, but sociologists, I've just played a trick because I've looked at medians and medians. Why don't you compare equally achieved white and black families, which the next slide does. Theoretically here, whites and blacks with the same education, the same incomes even, same jobs, should have, in theory, wealth profiles that look pretty similar. The reality is—I think with the slide I've put up here I've defined middle class in an occupational range—that it is no longer a dime on the dollar, the range is $0.22 on the dollar. One needs to ask the question: how did we get to a place in America where equal achievement, equal merit, returns such vastly different wealth inequalities, which helps us define so much in terms of advantage and disadvantage.

Finally, for this quick discussion I didn't want to leave this morning without going back to some of the institutional arrangements. I just want to talk about one—what many people know are called tax breaks. There is wealth or asset policy for America's propertied class, which includes many of us, myself included in some ways—in many important ways. What I'm talking about here are those behaviors and actions that the federal government rewards us to do. And the reward is that we don't have to pay as many taxes. It's taxes that the society is deprived of in other ways because we don't have to pay. Maybe the most important of which is a home ownership interest deduction, that many of us that are homeowners have the great benefit of using. But it's also retirement savings that are shielded from taxes until a later point in time where the tax rate is lower. It's also an attempt to remove or get as close to zero as possible, all earnings made from property and other wealth: investments, capital gains, interest. All that totaled up to in fiscal year 2003 to $335 billion, which is a significant chunk of money.

The data that I put up on the board is, by the way, from a report which one can read the whole report, is cfed.org. I think it's called "Hidden in Plain Sight." I'm hoping that this report is issued annually. One asks quickly, where do those benefits go? It benefits many homeowners, but a third of the benefits go to the wealthiest 1 percent, whereas 5 percent of the benefits go to the bottom 60 percent. So, one thing we can put on the board, among the others, is thinking about actions of the federal government and other legislative bodies in an institutional arena. We should try and make that playing field more equal.

And finally, I'd like to leave people with the thought of how to link principles and politics. When—not if—when the estate tax debate is revisited in the United States—sometime hopefully between the time 2011—we will be better prepared this time, and we should think of a way to link to a concept—that might be a concept from generation to generation—a concept that links those monies that society gains back to providing opportunities to the next and new generations, not just as a way to raise money but as an idea to provide merit and opportunity to those just coming up. Thank you very much.

Cassandra Butts:

Thank you, thank you (applause). Next will be Meizhu Lui.

Meizhu Lui:

When did I get started thinking about economic inequality? I think like many women, we don't realize that we are one man away from poverty but we find it out through experience. So when my marriage split up my son was seven and I suddenly found myself a single mother in a very difficult job market. In fact, the only place that I could get a job was at a local Dunkin' Donuts. I remember going in for my interview and the boss said to me, "Oh, Chinese are good workers, aren't you?" So I said, "Ah! Very good!" because I really needed the job.

Now, women in general weren't doing too well at Dunkin' Donuts. In fact, there was job discrimination so that the higher paid job of making the donuts could only be held by men, which made me wonder, "What special bodily equipment did men have that made them uniquely suited for that job?" So women were not in general doing well. And I knew that as an Asian, I would be singled out for special treatment in terms of working harder at the same pay.

This job came to an end in probably a good way in that we got docked $6 a piece (there were four of us on the cash register when the cash register came up short). That pushed me over the edge. I sued for my money back and I got it. But getting angry and getting even with my boss, because that was the best part of it – disenfranchising his notions about Asian women, I realized that I had become quite American. Because my father had become one of the first Asian men to get on the faculty at the University of Michigan, but white men continued to pass him by but he never said a word. He felt like he was grateful just to have what he had. But I realized that for me, that was not good enough. The lower economic status of women and people of color, if you really delve into it, there's no reason for it, there's no rationale for it. It's really about relationships of power and our economy is built on those relationships.

And recently, candidate for Vice President John Edwards talked about Two Americas and it resonated well with the American public. But I think for many of us on this panel we know that there are not just Two Americas, there are two, three, four, many Americas. I sometimes watch pop science on TV and there's something in physics called string theory, and they're thinking there might be many parallel universes going on at the same time. And people know that women are from Venus and men are from Mars. And some of us of color are even called aliens, so we get the picture. We all live in America, but we don't live by the same rules. So if you look at my father, for example, for some reason he seemed like there was a strong gravitational pull and he was stuck on the bottom, whereas the white guys in his department (and there were no women, by the way) were popping up around him like helium balloons. So something different was going on there.

Tom has given some of the data for people of color, particularly African-Americans and whites, but women, though they're doing better in general than African-Americans, earn 74 cents on every man's dollar. It is 63 cents to the dollar for African-American women and 56 cents for Latina women. In terms of wealth it's kind of hard to figure out, because the data is collected by household. But if you are a married couple with or without children, the median household net worth is $140,000. For female-headed households, it is $28,000. So you can see that there is a big gap there, once again. And again, the fact that many women are one man away from poverty is quite evident in that figure.

But the racial divide is even stronger. White women from that $28,000 figure actually have twice as much in terms of net worth, with $56,000. African-American women only have $5,700 and Latina women have $3,900 of net worth. Unfortunately, there's not great data on Asians or Native Americans, so we're trying to pull some of that out. But that's for a later discussion.

There are many myths right now that prevent us from solving this problem. There are myths about how wealth is created and about how the racial wealth divide was created. The first myth is about hard work. The idea is that in the United States anybody can get wealthy if they only work hard. There's a story that John Paul Getty told when people asked him how he got so wealthy. The first thing he said is, "work hard." How many people here work hard? The next thing is said is, "you have to get up early in the morning." How many people here get up early? And the third thing he said is, "then you have to find an oil well."

But you know, he could have added another thing onto his list. He could have also said that you have to be born a white man. If you look at the Homesteading Act, for many people who got their land, it was actually a great transfer of land assets from Native Americans Indians to white men. If you look right before that act, in 1862, many wars were being fought that moved natives off of their land who did not consider land that something that individuals could own. So they had a completely different concept of wealth.

There were other ways in which land became the basis for wealth creation. When Texas became independent, it was a war that was fought by Mexicans and Anglos together that created the Lonestar state of Texas. Mexicans were supposed to keep their property (that was in the constitution of the new nation) but it was gradually taken away from them, partly by language because all of the property rights were in English. And if you didn't know English, you could be easily cheated out of your land. Also, in terms of gender, many Mexican women owned land but if they married Anglos, because of the laws around property ownership, their land was actually passed into the hands of their Anglo husbands. For Asians as well, in 1924 there was something called the Alien Land Laws passed, which explicitly prohibited Asians from owning land in the United States.

Let me go back for a second to talk about how hard work creates wealth. If that theory were true, then slaves and their descendants would be the richest people of all in this country. And the poor folks would be the people doing drugs on the veranda in the form of mint juleps. But there was a huge transfer of wealth from the labor of Africans into the pockets of slaveholders. Obviously, slaves were counted as wealth. But African-American women also were really factories for the reproduction of wealth for their white owners because their children were counted in the financial ledgers.

And for women, when they say "pull yourself up by your bootstraps," it's kind of hard if you don't even have boots. It's a lot harder to pull yourself up by your bra-straps. And today, women in general are facing a lot of different obstacles that we can go into later. United for a Fair Economy has a book you can download called, "I Didn't Do It Alone." It is the stories of wealthy people themselves told that showed that it was not just their own hard work that created their wealth.

There's a second myth out there, which is people of color can't save their money and that's why they're not so wealthy. I just want to tell the story of Wanda Chaulk. She was 42 years old in 2002, an African-American woman, and had worked at Enron for 15 years making $60,000 a year. She was doing well. She had a worth of $150,000 and $60,000 in her 401(k). She owned her own home. But when Enron tanked due to the corrupt practices of the leaders of that company, she lost her job, her stock value in Enron dropped to zero, she lost her savings, she almost lost her home and her son had to put off going to college. Her savings were siphoned off into the pockets of the likes of Ken Lay. And here's where women really suffer disproportionately to men. Men's pension wealth is 76 percent higher than that of women. And one in seven women have no retirement savings at all. The good news is that younger women are entering the workforce more, and these figures will likely even out in terms of women. However, the bad news is that both men and women will be cut adrift because now retirement plans are not defined benefit plans but defined contributions, so we will all have ownership in the society by taking on the risk of our own futures and having to manage our own retirement plans.

In terms of hard work and savings too, look at immigrants. We have a staff member from El Salvador and even though she had a job in her home country, she could only find a job cleaning office buildings at night. Between her and her husband, they had three jobs between them and a number of children. And still, they managed to find enough money to send home to their families (because of our immigration policies, she has children both there and here). Her savings are not going into asset building in the U.S., it's income to her family back home. And now, a Congressman from Colorado wants to tax the remittances of low-income immigrants that are going to go back.

The third item around savings: there was a spate of break-ins in the Vietnamese community a couple of years back. What was that all about? Well, the Vietnamese didn't use the banking system; they kept their money under the bed. Again, the practices of the different groups in the country have to be taken into account. If you don't have money in the bank, or if you don't use a credit card (and many immigrants don't), they might not be able to qualify for home loans and so on. So we have to look at some of the cultural dimensions of this issue as well.

Lastly, I wanted to mention that there's also a third myth about why there's a racial disparity in wealth. That myth is, because of the Civil Rights legislation of the 1960s, everybody has an equal starting line, starting right then, so that by now there should be equality. And it's just your own fault if you're not doing well. But I think if you look at some of the policies I've mentioned, and we can talk about more of them as well, there have been constant, over 200 years of history, affirmative action programs for white men and specific barriers put up in the way of people of color and women in terms of gaining wealth. And also because there's so much emphasis on income, while its true that income disparities have narrowed a bit, society right now is not talking about equality, wealth and the importance of passing on assets from generation to generation.

So just to conclude, I really like the title of this panel, which was the Dream Deferred. And what we have to go back to is that that dream is not just something that people want to continue dreaming, they want the dream to come true. And it seems fairly obvious that want we need to do now is fund the dream. Not just eulogies to Dr. King, but we have to put money where our mouths are. And we also discussed the question of power. There's a booklet back there called, "Vote the Dream." People in this country have to take some of that power to influence the policies that will create greater equality.

Back in 1968, Dr. Martin Luther King said that "There's nothing new about poverty. What is new is that we have the techniques and resources to address poverty. What we lack is the will." So as we hear today about the policies, we also have to think about how we can rebuild the will. Our country was founded on the ideas of inclusion, but on the policies and practices of exclusion. So in the 21st century, its long past time for us to get back on the road to the democratic project.

Eric Rodriguez:

Thank you, I think that's a perfect segue for what I'd like to present on today. I do want to thank the Center because it is a great opportunity to really talk about these issues and put them on the map.

It comes at a really critical time. One has to assume at some point we're going to have a very serious and substantive debate on our budget and tax priorities – we just don't know when that's going to be. But we suspect it's around the corner somewhere.

These issues are pretty critical because they still run somewhat parallel to income security issues. Where the linkage between poverty and wealth really meet is still unclear on policy terms, even though we have some sense of what the intellectual connections are. So I think that's a real challenge for us today.

Even as we talk about kinds of class and wealth issues in context, in a political context, there still isn't a whole lot of substance there about how we make these connections and I think it's time we have that discussion and begin to iron out what come of those things are. What I do want to tell you is essentially where I come from when I look at these issues. My beginnings were in poverty and income security issues principally. Over time I think it's become pretty clear that you can't effectively deal with persistent poverty without talking about asset building and how families gain access to assets and engage in the process of building and accumulating assets.

So the next question really is "How do we do that?" and that's where I think we have not had a clear discussion. Why this is important for Latinos in particular is because really, demographically, our data tells us without some clear intervention strategies that communities over time become increasingly polarized economically and in terms of wealth and so we have got to find some way of bridging this gap now to stem this trend. I think it's also true that from a Latino perspective work is not the issue; there's plenty of work and plenty of Latinos doing it. The question is really "How are they building financial security?" and "Where are the opportunities for them to do that?" and we just haven't seen it.

Even in the '90s when we saw income rising and poverty declining for Latinos they were still living paycheck to paycheck. Rather than touting this as great news, we start to see huge gaps in wealth only because the data started to come out on that, not because it wasn't happening before. I think there's a lot more information and we're able to tackle these issues more seriously today.

What I really want to do is take it in a different direction. I really want to give you a snapshot of what's happening in communities. I want to talk a little bit about how some communities have responded and where the nexus is between financial markets and opportunities for Latinos to build wealth and assets. And finally, I want to dispel the myth that these are intractable issues; that the only way to solve them is by creating some super-reform effort in a number of different areas. I think there are intermediate or modest proposals and measures that could make a real significant difference in the opportunities afforded to low-income and minority communities today.

Just to give you a sense of what the snap is right now for Latinos and wealth, overall net worth was 8:1 for Hispanic and non-Hispanic families and it's even more egregious when we talk about the financial wealth. It's something in the range of 30:1, depending on what data set you look at. None of that is striking; well, it is striking but its not surprising, for lots of reasons. So we know there's a problem and we understand that the scope is pretty significant.

What are some of the factors? They're not things that I think would essentially surprise you in the sense that its language, citizenship, immigration status and income are key factors. But I don't want to overstate that. I want to make it clear that we're seeing everyday families overcoming these factors to buy homes, do different things. We see that in communities. These are not the things that stop Latinos from engaging in asset-building activities. The problems are more structural in nature. Let me just give you one example of how this plays out.

Just take credit markets as an example. Latinos are more likely to have no credit history or a thin credit file and this affects their access to really affordable credit. So even as credit has expanded over the years so that more people can have access to it, it's essentially at a high cost. And that's imposing, prohibitively, limiting opportunities for many Latinos to engage in asset building opportunities. The reason why that's essentially structural is because the way that credit has become a really important factor even in determining employment opportunities today. So the reliance, or over-reliance, on credit and the way that credit agencies collect the information, becomes a much more critical avenue and barrier for those that simply don't want to acquire debt or do so in a more limited fashion.

In one study, 22 percent of Hispanic borrowers had no credit score compared to 4 percent of whites. So determinations of credit risk and worthiness have had far too limited dimensions essentially in the marketplace. I think it's also very clear from the data that there's a real mismatch in access to banking services and it is a real big issue, particularly for Latino immigrants. But the use of a whole range of things, even if you control for those factors, you see real disparities. Take pension coverage for example. There's a report in your packet that really goes into this in more detail. But even if you correct for income, Latinos are much less likely to participate in pension plans at work. There are other factors at play that are pretty critical to determining the asset status and certainly financial wealth today.

And let's just talk about the government role for one example. If you set aside that the tax system is completely upside down with respect to wealth creation in the country, the more wealth you have the more tax subsidies you get, and something needs to be done about that. There's virtually no federal presence on any range of things on the low-end scale of American households.

And just to be fair, if I have to be, that's not unreasonable. Ten years ago it was very hard to envision that low-income people with no federal tax liability would be owning homes and today they do; or would be able to invest, or would be able to save and today they do. The fact is that policy hasn't really caught up to what's happening in communities and in neighborhoods and markets. And so if we're going to really address some of these issues we have to start to see what's happening directly in communities and find ways that federal policy can enhance that and shape the financial services market in very positive ways as well as provide an even, if not greater, share of incentives and benefits to low-income workers to create and accumulate assets.

But let me also say that certainly all is not lost. Demographics with respect to Latinos have certainly begun to work in financial markets. Financial institutions, for example, are beginning to accept alternative forms of identification to open up savings accounts. Many are using alternative means of establishing credit.

FICO has created a new credit tool to look at immigrant workers. There are new remittance and wire transfer products all over. The potential windfall that exists for financial institutions in terms of volume has really brought the attention of markets. Unfortunately, it has not brought much more government attention to what can be done, so you're also seeing a rise in exploitation in financial markets for immigrant households. And again, there aren't many incentives, tax or otherwise, that are directed toward these communities and low-income families that are trying to get ahead.

A lot is going on in communities. There are community-based organizations engaged at many levels that are trying to fulfill this need. One example is pre-purchase homeownership counseling. This is an area that many community groups have engaged in to help facilitate and help families to navigate the process of owning a house. It is a fairly sophisticated process, they use technology and they counsel families one-on-one. They effectively process the application with a number of lenders to retain the best offer. And they're getting families into homes. This is one instance where practice in the field is way ahead of theory and way ahead of policy. And if we really want to make a difference here, and I think we do, we have to look more at what they're doing. Families essentially are not being stopped by what we consider to be, and what are significant factors.

I want to leave with you the fact that these are not intractable issues. The market is turning its attention to these communities. There is no effective, meaningful government role at this time and there needs to be one.

William Spriggs:

My job is to talk a policy. Tom has gone over this pretty well in terms of what exists already. As he discussed, policy already has a built-in bias to exacerbate wealth inequality because we treat capital income very different than earned income. The result is the old saying, "the rich get richer and the poor get poorer." The other thing that is taking place is that this economy has changed dramatically in favor of capital, so that the bargaining power between workers and owners has changed and so the share of income that goes to work is dramatically falling during this recovery. There are lots of favors that capital has now. We're all aware of the debate around the movement of capital – that is, sending jobs overseas. As a real threat that workers have to deal with, this has implications for not just current income gap but also for pensions, which we are about to face a huge problem, because we know the baby boom generation simply hasn't saved enough. Apart from the issues of Social Security, which we've all debated, the private side of individual savings is totally inadequate for what we know is about to happen with baby boomers.

This pressure on wage earners away from benefits like adequate pensions is exacerbating the wealth gap as well. We have designed policies which hurt those who are earning income against towards those with unearned income. And we have tax policies that clearly favor those with unearned income.

The estate tax battle was won by those who were able to characterize it as a death tax and convinced many people that didn't own anywhere near enough money that somehow when they died there'd be a tax. I'd like to pay a tax when I die.

The reality is because of the way we treat unearned income, what the estate tax really does is finally gets back unrealized capital gains. For the most part, that is what wealth is: unrealized capital gains. The worst thing you can do is allow for huge amounts of money, which was never taxed, to be passed on without being taxed. And it forces all of us to pick up the burden for that. I like to point out, poor or working people in the U.S. could be poor anywhere in the world. Rich people in the U.S. can only be rich in the United States because we gear the rules to their favor. If they lived anywhere else, they would not be as rich as they are. Nowhere else would tolerate the way we gear the rules to those at the top. If anything, those at the top owe more to this country than those at the bottom; we've made the rules so that they can benefit. It's a great country, but you'd think they'd have a sense of awe and respect for all that we have done to make things profitable for them.

Given that, we have to understand that there are already existing policies which tilt the playing field. I think we have to put that up front because some of the tax debates that are taking place to make permanent some of these gaps in the way we treat income for those at the top and those at the bottom would exacerbate the difference. There are efforts to try and ameliorate some issues about wealth inequality.

There are two issues here. One is the issue of simple adequacy. Tom talked about it and Eric alluded to it – the sense of a safety net and the fact that wealth can act as a safety net. So apart from wealth inequality there is this absolute wealth poverty. So that some universal plans drawn up before Congress call for universal child accounts or proposals to extend individual development accounts, which is a way of equalizing the marginal tax rate on savings. Those that have high income and have positive federal income tax liability of course receive all the benefits Tom talked about in terms of their savings. We have anywhere from tax favored savings for education, home ownership, health that help those with positive federal income tax liability so that the marginal rate for them, where as those at the bottom don't do anything positive. Individual development accounts and those types of vehicles try and make the marginal rates now effective for those who are low income.

Those address the issue of adequacy, of poverty. So those at the bottom may be able to self-insure. I bring up the issue of self-insurance and poverty because there is an existing track within the U.S. to address wealth poverty with social insurance, not just private insurance. There are macroeconomic events we've suffered through, mainly the Great Depression, that have made us come up with social insurance as the main vehicle. The key among those is that savings behavior in the face of private insurance will be very counter-cyclical. You tell me I have to save in case I lose my job. Well, if things are going well I'm likely to just make up consumption – I haven't bought a refrigerator when the economy was down, I haven't bought a new car, I haven't bought a house. The moment the economy looks bad and I might lose my job, I start to save. What does it mean if I save? If I save it means I'm not consuming, so people see this and they get fearful. I see everybody losing their jobs so I save and I stop consuming, which mean more people lose their jobs.

So there are some problems when you think of private insurance; people will take it out at just the wrong time, they'll try to take advantage of savings at the wrong time. And also, that they'll come out of recovery more slowly because they're lagging when we'd want the economy to go.

Many of us have worked on the issue of living wage campaigns. What does it take to get adequate healthcare, safe and reasonable housing and what does it take to earn that amount of money? We know that too high a share of American children live in households where their parents are below the living wage. So when we say to them, "you should save," we really say, "even though you don't have enough money for childcare, health or reasonable housing, we want you to consume less." That's counterintuitive because they're not at an adequate level. There's some real equity issues involved when we think of private insurance as a solution if we look at it from that perspective. What are we asking someone to crimp even more on in order to give themselves the safety net?

So what has taken a backseat is further discussion of a real meaningful public insurance aspect of this, including the President's proposal to privatize social insurance in a debate that many of us have been engaged in.

The other issue gets to wealth inequality. There's the adequacy issue and then there's wealth inequality. Here, I'm going to be the pessimistic economist as opposed to Eric, who sees the glass as half full. Inequality as opposed to adequacy is, I think, intractable because we're not getting at the generational aspect of it. That's what wealth is: years and years of accumulated income differences. And that, I think, is not easily solved. Some of these proposals will not address inequality, because some they only address adequacy, which doesn't change inequality or exacerbate some inequality measures.

If every child in the U.S. has a child savings account with the idea that when they become 18 we've empowered them to pay for college, we should feel pretty confident that colleges understand he has $18,000 to begin with, so college should cost at least $17,000 more. So we may not end up helping the inequality issue, which draws at the access issue.

Racial inequality has a complex historical root to it, and it's difficult for us to address that without taking it head-on. Many people talk about wealth inequality and, for example, don't want to have reparations on the table as a point of discussion. We should remember that Andrew Johnson was being impeached over the issue of reparations. What he did not want to enforce was radical Reconstruction, which called for reparations. So Congress came very close to actually implementing a call for reparations at the end of the Civil War. Not having an adequate form is no excuse for saying it's a not a legitimate debate. It requires some study, because it is very unlikely you can remove generations of inequality through any program that is not designed to address the problem. We're not going to address the Alien Land Laws of the Western states without directly addressing those laws and what they created.

So, policy-wise, I think the discussion has moved to at least acknowledge the inequality within the tax code. I'm not sure that that addresses inequality, though it addresses adequacy questions. And I don't know that it fully addresses all of the adequacy questions because we're calling on people to privately insure themselves. I'm not sure it's possible to get at these programs without talking about how, in some ways, they may exacerbate the inequality question that we face.

Cassandra Butts:

Thank you, what a great panel. We could sit here for hours talking about these issues; unfortunately, we don't have the time. A number of questions come up from the discussion. Let me get Tom to address an issue that Bill raised: the generational issue – that generational inequality is intractable and something we can't get at. Do you agree with that? Do you think there are ways to address generational inequality?

Thomas Shapiro:

I don't think I'd use the word intractable, though the concept is certainly what's at play here. It's the accumulated advantages and disadvantages that are sedimented over generations. I would attack that in maybe a slightly different mode. I would attack it by noting two things. One, what we should be aiming for is not to exacerbate it. It seems to me that's pretty minimal, though in political terms that's pretty difficult, in the present context. But that means paying serious attention to the tax side, to the estate tax, to how capital gains are treated, to rethinking in a very serious way the mortgage deduction. We could cap it. We could do all kinds of things. The goal there is to rethink where those benefits go. And most of that is indeed aimed at one of the two agendas at play here. Bill described that as the adequacy agenda, or "how do you think about launching social mobility, about what financial assets are really key to that?"

The second principle at play here I call “minimizing the advantages that wealth has in the United States.” It’s not just toys to play with. It’s also the ability to move to a community where your children have much better schools. But the schools are public. We as a society should not be in a position of continuing to reward that movement. That raises an equity-based school reform agenda. If inequality is as intractable as it is, and it’s pretty tough – we’re talking about generations, certainly not in our lifetimes – we need to talk about minimizing the advantages that wealth has in the United States by looking at “what does money purchase in terms of opportunities that should be available to all Americans, especially children?”

Cassandra Butts:

Another issue that Meizhu actually raised is the inadequacy of data. What impact do you think the inadequacy of data has had on our ability to address the problem?

Meizhu Lui:

Well, if you look at Asians, and there really is no data on wealth, but you can use homeownership or income as some proxy for the place that Asians have in the racial hierarchy. When you aggregate it, the Asian population it’s so disparate, it’s almost a bipolar population; we have some people are doing very well, and its partly because of immigration policies that let in more professionals, who already came with education and resources, and we have another population that’s more poor, a greater percentage of poverty than immigrants from more rural backgrounds. So the conclusions that people draw can be quite wrong, “that Asians have already made it,” “model minority,” harm us too in our struggle for greater equality.

Cassandra Butts:

Do the panelists have questions for one another? Let’s open it up to questions from the audience.

Question:

I’m Janna Starr and I work for two national disability organizations, ARC of the U.S. and United Cerebral Palsy, and the fact is that people with disabilities are a population that crosses races, genders, income levels. People with disabilities are 70 percent of the unemployed. Even families with some degree of wealth routinely graduate their children with disabilities into poverty; because of healthcare costs, they become consumers of government benefits, and government benefits are not only not conducive to asset accumulation, they deny it. If you are an adult with a disability, your only asset is probably a funeral policy, maybe a supplemental trust that you can use to buy a TV. It costs on average over 100 percent of a person’s income to rent an efficiency or a one-bedroom apartment, not just in New York or San Francisco or Washington, D.C., but in more than half the cities and towns in the U.S. So I ask as you consider the policies, please integrate this population into your concerns as we survey all the advocacy possibilities.

William Spriggs:

I would say the real danger around privatizing risk is the greatest on those with disability because the discussion around Social Security privatization totally ignores the disability benefit. The president's commission was going to treat the disability benefit as a footnote. And they say, well we can cut those and let somebody else figure it. They wanted to separate the disability and the retirement benefit which is currently one and has a common formula. They wanted to rip apart the formula. I know this is an issue that Eric has worked very hard on, ending the asset barriers to a number of federal programs where the asset barriers have been set too low. And it is something that has concerned those who talk about asset adequacy. They are paying attention to it in the disability context. We have not revisited supplemental Social Security income at all. We have allowed it to fall to totally inadequate levels. We have to reinvigorate the debate about social insurance and what would be an adequate safety net, and not let the whole burden fall on private insurance.

Meizhu Lui:

Ability is a temporary condition for every one of us. This is another way in which the gender divide is exacerbated because the majority of care is done by the unpaid labor of women.

Question:

I wanted to ask… how do you plan to address the issue of an American value system that supports the accumulation of wealth? People become resentful if you talk about taxing it. They don't possess it, but it's that whole aspiration of wealth that's what America is all about. How do you go about it?

Cassandra Butts:

That's a critical question. Dealing with the estate tax, that was a prevalent mindset that we had to address.

Thomas Shapiro:

It's so central. I don't want to be over-academic, but we have to have a serious discussion about frames. How do we shape the issues that you're talking about? I think that we've raised one of the best examples in our modern days… the ability of some conservative think tanks to frame the "estate tax" as the "death tax." Most of us don't even contest that, and we should. How do we frame the issue you're talking about that taps into a different kind of American value? Surveys ask, "Where do you rank in the scheme of American wealth?" Twenty percent says the top 1 percent. Right or wrong, there's an embedded sense that wealth connects to the values that are important. I would like a frame that connects to meritocracy. A good part of the American dream is about achieving and meriting the status and rewards that they end up with. How come those of us who get up early and work really hard aren't doing that well?

Cassandra Butts:

How do we deal with the issue of affirmative action in that frame?

Thomas Shapiro:

When I present data for equally accomplished white and black middle-class families, what is the wealth inequality among those groups? Twenty-two cents on the dollar. The reality is that African-American families who are that accomplished do much better than families without college degrees, those with low-paid, low-end jobs. Even though they do better, the inequality gap doesn't diminish. That raises the issue of meritocracy. What is America about? Are we about inheriting status? Does the government set up structures that reward different groups differently? The answer, I hope, is no.

We want a society where in the long run, most of us end up where we are because of some basis of merit and achievement, taking other things into consideration. One of the consequences for affirmative action, I have to muddy the waters. The discussion of affirmative action is about opportunities. We also start to have to look at rewards… rewards for equal accomplishment have to be more equal.

William Spriggs:

I look at causality the other way… it takes blacks 22 cents on the dollar to generate a kid that can go to college and raise a middle-class household. That says we're more efficient than whites. If that's true, it will take that much longer to close the wealth gap because those who don't have the 22 cents, and there aren't many of them, it means that it's difficult for the black middle class to recreate itself. It isn't really a class—we've fallen into a trap that uses income as class. Wealth is class because class is something that you can pass on.

I would have thought that Paris Hilton would have helped us out. Despite the fact that it's all money and privilege that gets her where she is. Despite all the glamour, they don't realize that it's her daddy.

So I think Tom's earlier point, how does wealth create advantages, and then how can we ameliorate it? How do you finance schools… does it have to be done by property tax? College tuition, does it have to be that our programs are insufficient to meet current tuition? What he laid out earlier: how can we prevent exacerbation of what wealth can do?

Meizhu Lui:

One thing we can look to is the value of fairness. It is a unique, U.S. value. My mother growing up in China, fairness… it wasn't there. Bill Gates Sr. makes the great argument that his son, Billy, would not be doing as well as he is if it wasn't for tax-funded programs, such as government research in the Internet, the public education that gives him a workforce that is educated that he would not get in other parts of the world. Intellectual property rights. The infrastructure that our society provides. You and I, immigrant, low-income worker… have paid the taxes that made Billy what he is today. Therefore, he owes back something to the society that created him. And one thing we're thinking about is linking the estate tax to new programs that create wealth for those who have been left out. There's a feeling that they have benefited from this pot; let's replenish it so that those who have been left out can benefit from the dream. There are so many wasted resources in this country that could be funded.

Question:

I run a financial security planning practice in McLean. You guys are hitting some of the same points I see every day, in terms of the difference between asset building and income. I come from Haiti; my parents were born and raised there. It's an interesting situation in terms of having some very wealthy people and some very poor people. It's where we're headed in this country. I just wanted to ask about what people in advisory roles like mine can do in order to better education somewhere along the spectrum of personal responsibility and public policies that are in our enlightened self interest. I don't think that the point about Bill Gates, about him giving back… Wealthy people are smart enough to know that we've got to have a floor in terms of more of the population, and that's in their best interest.

Eric Rodriguez:

I think you raise some very important things, including education. We've looked at education, and our finding is there's not a whole lot of effective things going on in terms of financial education. We know that for middle-income and upper-income families, when they need financial advice, they purchase that. The same need is there for low-income families. The market has become incredibly complicated for low-income families. There really is a need out there, there are lots of barriers. The cost is unaffordable. And I think the federal government could play a role to create more incentive for creative, customized financial planning for low-income families, to provide them with the information we think is critical, to help them navigate. Basic generic classes on financial information, it just doesn't work. People are busy; they can't sit in a class and listen. We think there is a policy agenda around that.

The other thing you talked about is important. I think that we don't get to the right solutions to a given problem if the strategy is to appeal to enlightened self interest. I think the goal has to be to build stakeholders to fight for themselves for these issues on the federal level. I can't tell you how frustrating it has been, on taxes, pension reform; I can't get Latinos to pay attention to these issues. Most Latinos are not actual stakeholders.

When we think about long term, how do we get to the solutions we want, it has to include a strategy to build infrastructure and empower minority communities to demand change, to get the changes they want from their lawmakers and representatives in Congress.

Cassandra Butts:

I think we’ll take just one more question. Fred in the back and then we’re going to wrap up.

Question:

The last couple of questions and answers reminded me of my father – an immigrant, went to work in the coals mines at the age of eleven. But he lived a happy life and died a happy life because he had such great hope for his kids. We were going to go to college, and we did. I wonder whether we’re forming a permanent underclass in the country. And if so, what does this tell us about hope for the people in this underclass and how this hope is going to affect civic life for the next few decades?

William Spriggs:

I don’t know that it is an underclass in the sense that we used underclass in the 1980s. However, we have drastically changed the relationship between employers and employees, and at this point undone the whole notion that the surplus of the country would be democratically redistributed. In part, we bought into that because mine workers and steel workers produced the wealth physically and there was enough sympathy politically among enough people to understand that they really need to enjoy the fruits of their labor. We have not developed the same sense in this economy where so much of the wealth is determined by intellectual property rights. So we will defend Microsoft in a trade deal if you try to import fake MSDOS programs illegally copied in Pakistan, it will be seized. We have that without a sense of how to get workers to be middle class again, so I think what we are generating is a country that’s very divided politically, some who will see it as great, because they are stakeholders, and there are the others who will see that they are not stakeholders. We are going to be a very divided country until we can recalibrate our sense of justice.

Now, it took the Great Depression last time for us to create political consensus around “this isn’t working.” Hopefully, we can learn from our past, but it appears that we can’t, because people are in favor of dismantling all of the things put in place in the Depression. We learned that you have to have wage standards; we learned that you have to have unions; we learned that you have to have a Social Security safety net, and now we’re privatizing all of that. So unless those of us who understand how we got where we were can speak up enough to say how that inequality got created. Or we’ll just have to do it again.

Meizhu Lui:

The corporate ideas and tax-cutting policies that the Bush administration has implemented were really a Trojan horse in our communities, like "you're going to get $400," but then all the warriors jump out and you're going to pay even more for services. We know that the movement of the neoconservatives was consciously started about thirty years ago. They funded the think tanks; they invested in changing public opinion. We're also talking about consciousness change, and the good thing is that we've had great inequality in this country before, and we know how to solve it.

Cassandra Butts:

One more in the back.

Question:

People with disabilities rarely get talked about by either… for the disability community, the question is: If not us, who, and if not now, when? This is a place where the center can raise issues and bridge rather than be used as a wedge.

Thomas Shapiro:

I definitely concur. My hope is that the center can connect institutions and think tanks and constituencies that are starting to take ownership around an asset framework – issues of wealth inequality – and come back with their own frame on it. My brain isn't sufficient enough… there are organizations that center on disability issues that have started to take up the asset framework, to take ownership of this.

Eric Rodriguez:

One group I would mention is World Institute on Disability… Cathy Martinez. They've begun to look at asset building. They've produced several articles on this, and they're going to look at these issues in earnest. I can certainly facilitate a connection.

William Spriggs:

A disproportionate share of disability benefit recipients through the Social Security system are African-American. Not only do we die younger, but we become disabled younger. And it is necessary to look at how the Social Security system covers it. When we looked at it there was no way to self-insure for African-Americans because they became disabled at a younger age and could not possibly put in sufficient savings. Without a social insurance system, there's no possible way. The benefits that would be in a private account would be totally inadequate to the task. So I hope that there can be a discussion around asset building as social insurance, not merely as private insurance. It is a good way for us to think about how to reintroduce that social insurance can also be a way to give people the adequacy. Even though that's an uphill political fight at the moment, if we reinvigorate notions of what is just, we can get people to think about social insurance as an asset. Social Security is an asset, not just a program. We must continue to push people about asset tests for the programs we have. We should not force people into abject poverty to be eligible for assistance. We cannot let that fall from the table.

Cassandra Butts:

We're going to have to conclude. Closing remarks. Thank you for coming out. We're going to have a series of panel discussions on economic inequality. Income inequality on October 13th to continue this discussion. Thank you to the CAP staff…

Thomas Shapiro:

Three points. One, we've raised complicated issues. But we should move forward and attack those that are most dear to your heart. We should build institutional capacity to move this forward. Hopefully, we won't need another Great Depression to make this happen. We can think about how the right framed the issue of "welfare reform" by working on the issue for ten or twenty years in think tanks. It's a model we might want to think about.

Second, I want to thank Cassandra and the Center and Jenna and Fred. The itinerary was thorough...

Finally, there are some materials in the back, including my book *The Hidden Cost of Being African American*. I'm sure that I speak on behalf of my publisher when we talk about building our wealth portfolios, we would like to thank you.

William Spriggs:

Race and gender are complicated issues. We're not going to solve race and gender wealth inequality unless we address race and gender wealth inequality. They must be directly solved. Programs that are universal tend to exacerbate racial and gender inequality. The UK is going to go through its own experiment with universal child accounts. I would remind you that the UK and Canada both have universal healthcare and they both have huge race and gender wealth inequalities. Creating universal programs do not address racial gaps. We should not think that that's going to be the case with wealth. Race is not a biological category. It is a political and economic category, designed to do exactly what it has done, which is create wealth gaps. That's the point. To set aside a group of people who will be denied the ability to accumulate wealth.

Meizhu Lui:

We have to overcome fragmentation to build a movement for economic equality. What the Center for a Fair Economy is proposing (and there is going to be a conference in February) is to bring together three different groups: people who are interested in asset building and wealth inequality, people interested in tax policy because that's the revenue side, and organizations of color that are interested in race and gender justice. If they are not there from the beginning, we may end up with a well-meaning policy that doesn't really hit the ground again.

Eric Rodriguez:

I think I've said enough, but I'll say more. There are things that are happening in communities. It's important to look to communities to develop strategies. As a long-term means, we've got to develop stakeholders. The way we get there is by giving them a direct stake. Got to have access to pension plans, got to have access to savings accounts. Got to have something in the debate about the distribution of tax cuts. That's the way the political system works. And I think we've got to find a way to make it work on their behalf. I want to echo what Bill is saying about universal programs: it costs a lot, and it does not deal effectively with issues of equity, which are often unpalatable politically. We don't want the progress to stop. We've got to find other ways of making a difference.