

Financial Capability is Color-Blind

Kayla Maples and Steven Jordan

NAF Future Ready Lab



Abstract

The United States has been, and still is, divided in opportunity for people of different races and ethnicities. There are many ways in which this inequality has been shown, whether it is in terms of housing or the right to vote for the leader of the free land.

People of color have had to fight for their rights for years now, and things have gotten better. Yet there is still a gap: The Racial Wealth Gap. This gap measures the difference between the median wealth of people of color and the median wealth of whites in the United States. Unfortunately, the statistics show that there is indeed a gap in this country, and it is only getting larger as the years go by. People of certain races are given a certain stereotype, and it is hard to get out of it. No matter how hard it has gotten, or how easy it has gotten, people have still found a way to succeed or fail. There are many reasons as to why this happens, but one thing remains true: It is possible.

Introduction

“The Negro is up against the white man’s standard, without the white man’s opportunity.” Regrettably, this statement by Kelly Miller is still in some cases true in the United States today for people of color. People of color have complications that not every race had or has to go through. As we realized in our research, depending on where you were raised and how you were raised reflects on the type of person you grow to be. Over the years, the gap in median wealth between white people and people of color has only widened even more, and lack of financial capability has been a huge contributor to the widening.

Methodology

Before research began, it was believed that the race and/or ethnicity of a person did not affect their financial capability, but after research was conducted we realized that it is a primary factor. The research we did consisted of multiple sources: articles, interviews, questionnaires, and videos. These all provided for a different perspective on the situation that has been around for years in the United States.

Education

The racial wealth gap is one of the biggest injustices in America, and It is one of the main reasons for the divide that we face in this country. Even though people assume that because the United States is the “land of the free,” all people are treated equally in all aspects of life, but through the research we determined that is clearly not true. The truth is that race and/or ethnicity does play a huge part in Financial Capability in today's society. Then again, there are people of color that still find a way to succeed, and there are white people that still find a way to fail in life. One of the biggest reasons as to why people fail is because they just do not know what they are doing, or they just were not informed of what they could have done. There are only 17 states in the United States that require high school students to take a course in personal finance in order to graduate. Truth is, if all 50 states require high school students to take a personal finance class, then the amount of people that are not financially capable in the real world would drop. The fact that high school students have to take courses that they do not want to take, rather than taking a course that would legitimately help them, is a tragedy in its purest form. Some people will complain that they should not be forced to

take a class that they do not want to, but all students are already forced to take a math, literature, and social studies class, so why not make them take a class that will truly benefit them?

Stuck in a cycle

The next problem is the generational hammer that has struck down on the United States for many years. There are so many people of different races and/or ethnicities that are stuck in a cycle of poverty in this country, and they just cannot break it. Darrick Hamilton, a college professor, proposed the idea of Baby Bonds to help people in poverty break the cycle that they are trapped in. United States Senator Cory Booker, who is a Democratic candidate for the coming election, has incorporated the idea into his agenda, and is not the first person to do so.

<i>Income as % of federal poverty line</i>	<i>Income for a family of 4</i>	<i>Supplemental payment annual amount</i>	<i>Est. account balance for 18-year-old</i>
<100% of FPL	<\$25,100	\$2,000	\$46,215
125% of FPL	\$31,375	\$1,500	\$35,081
175% of FPL	\$43,925	\$1,000	\$23,948
225% of FPL	\$56,475	\$500	\$12,815
325% of FPL	\$81,575	\$250	\$7,248
500% of FPL	\$125,751	\$0	\$1,681

Hillary Clinton proposed the idea, but most people believed that what she wanted was too little to make a difference. Booker has proposed that every person born in the United States should be given a savings account that starts with \$1,000 and grows at an annual rate of three percent.

As shown in the graph above, every year the Department of Treasury will deposit a different amount depending on the family's combined annual income, so that the people that really need that money are the ones receiving the majority of it. To make sure that the money has time to grow, the child is not allowed to touch the account until they are 18 years old. The whole idea of Baby Bonds is to give people that come from low-income families the chance to pay for tuition or a mortgage. Some people see the proposed idea of Baby Bonds as unfair, which is a reasonable point of view because not all of the children have the same amount invested by the government every year. The reason for this is because it is assumed that people at a higher tax bracket do not need as much as help as those in the lower ones, such as LMI families. Another counterargument presented is that it is too expensive to create these Baby Bonds. Its' estimated annual cost is 60 billion dollars, which is only two percent of the national debt, and will be paid and would be paid by restoring the estate tax rate to its 2009 level.

Unbanked/Underbanked

Another problem is the unbanked and underbanked situation that people in the United States are dealing with. One word can be used to explain why this is a problem for the people: profit. Banks are placed in areas where they think profit can be made, so if they do not think profit can be made in an area, then they will not build a bank there.

Unfortunately, when some banks are opened, they do not have the same capability and resources that others do, thus barring people from having the most help possible.

As seen in the graph below, the percent of blacks and Hispanics that are unbanked or underbanked is staggering compared to white/Asian people. This is because blacks and Hispanics have a tendency of living in the same area, and these areas are not considered profitable for banks. Another problem is that many people are switching to online banking, so the construction of brick-and-mortar banks is slowing down over time.

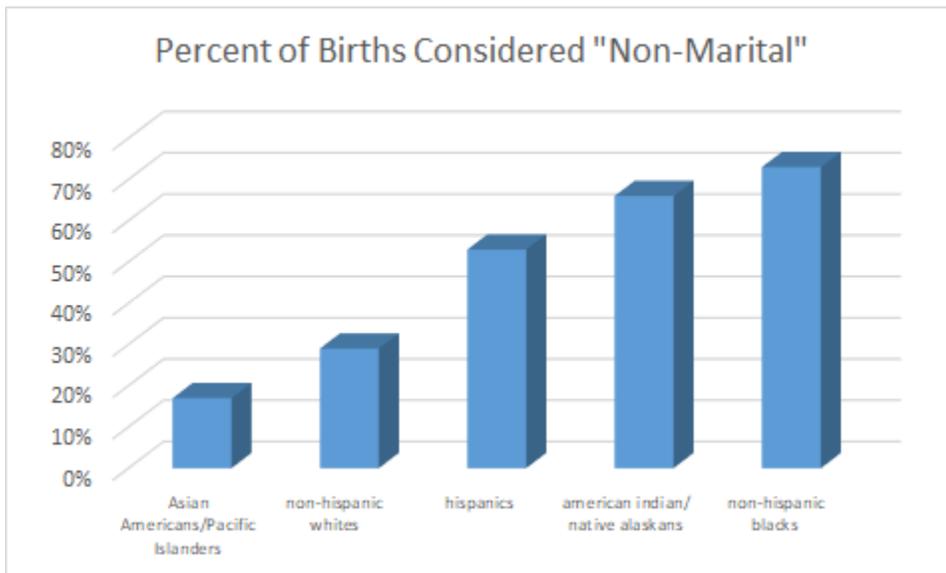
	Unbanked (%)	Underbanked
Black	16.9	30.4
Hispanic	14.0	28.9
Asian	2.5	17.5
White	3.0	14.1
Other	12.8	28

A possible solution to this clear problem is the Bank On coalition. What Bank On does is help local areas attract banks that are accessible and safe, while at the same time being able to provide its customers with the services necessary to help them through financial situations. For the Bank On coalition to be effective, there needs to be a “champion” in the area that is willing to support the coalition and be the backbone that it needs in order to have a considerable effect on the community. Bank On’s main purpose is to work with national banking, regulatory, and non-profit organization partners to expand banking access. There needs to be people who care and that want to help in order for things like this to actually be successful; it will not happen on its own, no matter how

much time passes. Without coalitions like Bank On, communities that are unbanked or underbanked are subject to predatory practices, such as payday loans.

Single-parent families

Out-of-wedlock births have become a rising problem in the United States, and there is a connection to financial capability. Out-of-wedlock births are when a child is born to unmarried parents. From the bar chart below, it can clearly be seen that the percentage of a Hispanic or black child being born out of wedlock is much higher than that of a white child. What is even more surprising is that 67% of black children are raised in single-parent families, as well as 42% of Hispanics. This is where the problem arises;



most families that consist of a single parent struggle much more financially than two-parent families, since there is only one source of income, compared to two. These families with only one parent do not have enough money to save for their child's future or invest to allow their money to grow. The children are then hurt, since they do not

have the financial support that other families would, which then leads to a cycle of just barely getting by in life. The extra push from both parents would be healthier to the child rather than co-parenting. The child will get more immune to one lifestyle with parents and forget how the other parent raises the child and their rules. Also, the lack of stability may stick with the child as he or she grows up. The only way to truly fix this problem is by encouraging marriage before having a child or children, and prepare people to marry if they already have a child or children. There are programs that the government and its agencies can support that can help provide knowledge to people about having children, or getting married to someone. Many parents can even take therapy to ensure that they both can be the best parents possible to their children. There are a lot of relationship activities that are handed to one to ensure that both parents care for a child together instead of separate.

Healthcare

One other problem that people face is the privatization of healthcare in the United States. The reason that the privatization of healthcare is a problem is that many people cannot afford the cost of having it for themselves and their family. The leading cause of bankruptcy in America is illness, and that is because people do not or cannot pay for healthcare. Like a country such as Canada, the United States could provide healthcare for free, so that the chances of going bankrupt drop significantly. On the other hand, making healthcare public would essentially eliminate the private insurance sector of the economy and cause taxes to be raised on the wealthy. Another problem is that many believe that providing Medicare for all is an act of socialism, which violates what this

country stands for, and that is that no one should be required to do anything. Yet, the United States already has policies like this, such as taxes and social security. It is understandable that people do not want the government to have too much control, but this is an area where government control would surely benefit most people in the nation, especially considering that one-third of the nation does not have health care.

Housing

Lastly, the clear difference in the worth of property between people of different races and/or ethnicities is still a clear and present danger to equality when it comes to Financial Capability. Homes in neighborhoods of color in America are undervalued by an average of \$48,000 per home. This is a significant amount considering that the median home list price of a house is \$295,000. Also, the homeownership rates by race, as seen in the graph, shows clear discrepancy between Caucasians and those of color. One way to fix this problem is implementation of the “American Housing and Economic Mobility Act.” This act includes a provision that provides down payment assistance for first-time buyers living in areas that are “redlined” or officially segregated. If an area is considered to be “redlined,” then that means that lenders believe it is too risky to lend money to people in that area. Coincidentally, most of the areas that are “redlined” are areas that consist of a population comprised mostly of people of color. For many people, regardless of skin color, their house accounts for the majority of their net worth and is the biggest investment they will ever make, so all people need to have the same capability and opportunity to attain one that has the potential to grow over time.

Conclusions and Proposed Solutions

From what the team found in its research, we can conclude that the race and/or ethnicity of a person is a primary indicator of Financial Capability in the United States. Most people of color are at an automatic disadvantage in comparison to Caucasians when it comes to succeeding financially. Clearly, there is no one simple solution to this very clear problem in our country. The solutions provided in this research paper would tighten the financial gap between people of different race and/or ethnicity, and it would allow people to become more financially capable, but just these solutions are not enough to have all people in the United States on an even playing field.

Some possible solutions could include, education in lower levels of schools, investing money in the education process for all ages of people, understanding that changing habits takes time, build ongoing support to help people learn how to get on their feet, and incentives for short-term and long-term success, private industry getting involved on a grassroots level, also getting churches, service organizations, and community centers to sponsor and become mentors with individuals or families.

Sources

- Amadeo, K. (2019, June 25). How to Close the Racial Wealth Gap in the United States. Retrieved from <https://www.thebalance.com/racial-wealth-gap-in-united-states-4169678>
- Annie Reporter. (2019, April 25). Cory Booker wants to give 'baby bonds' to every newborn. Here's how that would work. Retrieved from <https://www.cnbc.com/2019/04/24/cory-booker-wants-to-give-baby-bonds-to-every-newborn.html>
- Federal Deposit Insurance Corporation. (n.d.). Retrieved from <https://www.fdic.gov/about/strategic/report/index.html>
- Kane, A., Lichter, D. T., Kane, A., & Lichter, D. T. (2016, July 28). Reducing Unwed Childbearing: The Missing Link in Efforts to Promote Marriage. Retrieved from <https://www.brookings.edu/research/reducing-unwed-childbearing-the-missing-link-in-efforts-to-promote-marriage/>
- Lemon, D., & Cnn. (2013, July 27). CNN's Don Lemon says more than 72 percent of African-American births are out of wedlock. Retrieved from <https://www.politifact.com/truth-o-meter/statements/2013/jul/29/don-lemon/cnns-don-lemon-says-more-72-percent-african-american/>
- Shin, L. (2015, March 27). 10 Proposals For Eliminating The Racial Wealth Gap. Retrieved from <https://www.forbes.com/sites/laurashin/2015/03/27/10-proposals-for-eliminating-the-racial-wealth-gap/#3ea5c42b7ead>
- Shin, L. (2016, January 25). The Racial Wealth Gap: Why A Typical White Household Has 16 Times The Wealth Of A Black One. Retrieved from <https://www.forbes.com/sites/laurashin/2015/03/26/the-racial-wealth-gap-why-a-typical-white-household-has-16-times-the-wealth-of-a-black-one/#72151ff81f45>
- Talks, T. (2017, January 25). Financial Literacy | Anuj Sharma | TEDxJUIT. Retrieved from <https://www.youtube.com/watch?v=7Anwqy-XOBE>
- Talks, T. (2018, March 22). Finding the Funny in Financial Literacy | Catie Hogan | TEDxNorthAdams. Retrieved from <https://www.youtube.com/watch?v=mBHowNwHiHc&t=670s>
- TED. (2017, May 18). How I learned to read -- and trade stocks -- in prison | Curtis "Wall Street" Carroll. Retrieved from <https://www.youtube.com/watch?v=F89eycANUrQ&t=276s>
- Trapasso, C. (2018, November 30). Racial Gap: Homes in Black Neighborhoods Are Worth This Much Less Than in White Ones. Retrieved from

<https://www.realtor.com/news/trends/racial-gap-homes-black-neighborhoods-worth-much-less-white-ones/>