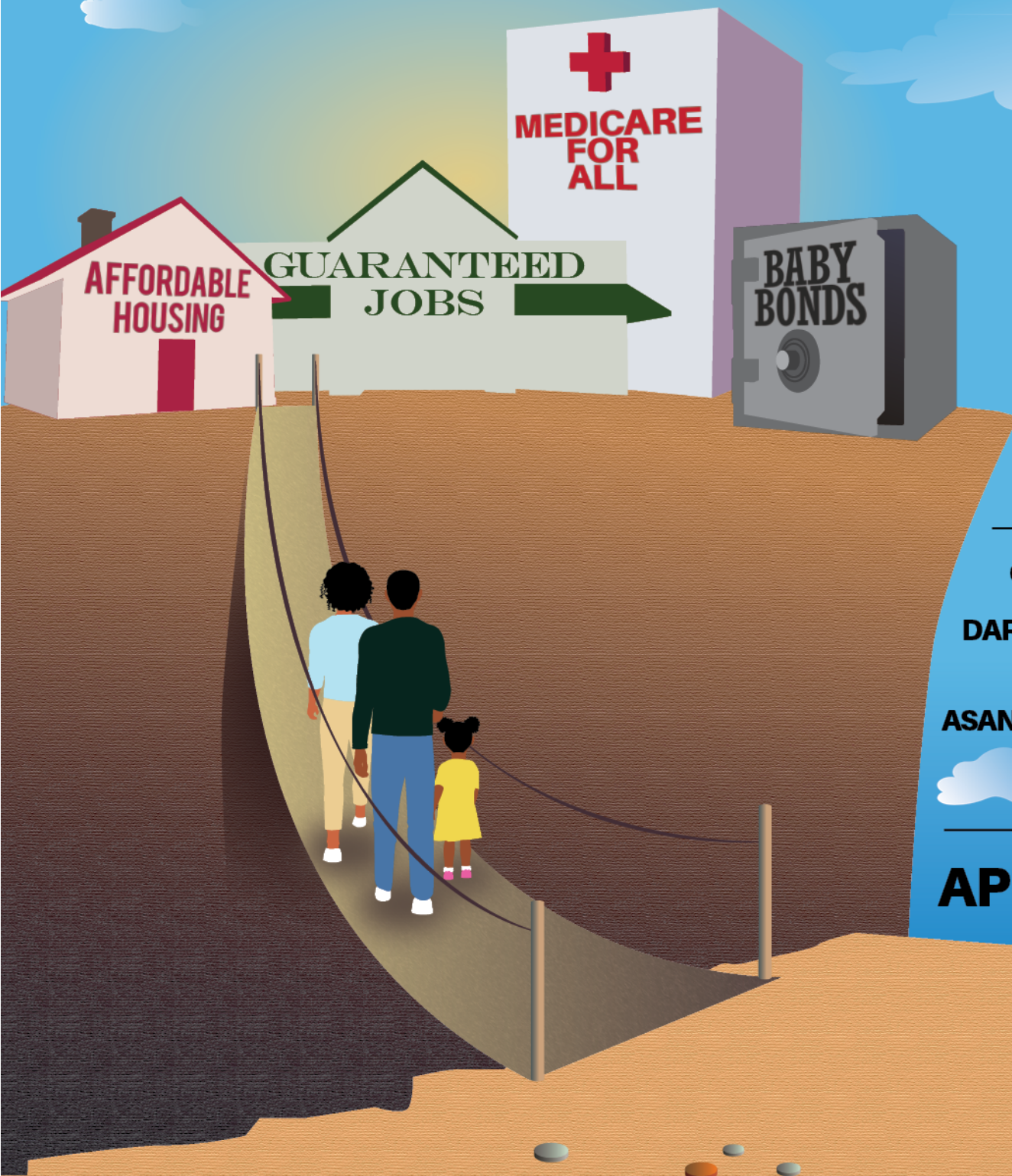


# TEN SOLUTIONS TO BRIDGE THE RACIAL WEALTH DIVIDE



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The **Institute for Policy Studies** ([www.IPS-dc.org](http://www.IPS-dc.org)) is a multi-issue research center that has been conducting path-breaking research on inequality for more than 20 years.

The **IPS Program on Inequality and the Common Good** was founded in 2006 to draw attention to the growing dangers of concentrated wealth and power, and to advocate policies and practices to reverse extreme inequalities in income, wealth and opportunity.

The **Inequality.org** website (<http://inequality.org/>) provides an online portal into all things related to the income and wealth gaps that divide us, in the United States and throughout the world. **Subscribe to our weekly newsletter at Inequality.org or follow us on Twitter and Facebook: @inequalityorg**

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# Executive Summary

The deep and persistent racial wealth divide will not close without bold, structural reform. It has been created and held in place by public policies that have evolved over time including slavery, sharecropping, Jim Crow, white capping, red lining, mass incarceration, and predatory subprime lending among many others. The racial wealth divide is greater today than it was nearly four decades ago, and trends point to its continued widening.

In this report, we offer 10 bold solutions broken into three categories: Programs, Power and Process. These solutions are designed to strike at the structural underpinnings holding the racial wealth divide in place while inspiring activists, organizers, academics, journalists, legislators and others to think boldly about taking on this incredibly important challenge. This summary outlines the 10 solutions, gives a snapshot of the latest racial wealth divide data, and offers a warning against false solutions.

## Programs

### 1. Baby Bonds

The source of the racial wealth gap is grounded in endowment, the unequal and unfair distribution of inherited advantage. Baby bonds, as colloquially described today, was originally conceived by Darrick Hamilton, a co-author of this report, and presented in print by Hamilton and William Darity Jr. Baby Bonds are an essential program to balance the historical injustices that created the racial wealth divide in a manner that is both universal and race conscious. Baby bonds are federally managed accounts set up at birth for children and endowed by the federal government with assets that will grow over time. When a child reaches adulthood, they can access these funds/use these assets for education, to purchase a home or to start a business. One recent study shows that a baby bond program has the potential to reduce the current black-white wealth gap by more than tenfold. Another study shows that had a baby bond program been initiated 40 years ago, the Latinx-white wealth divide would be closed by now and the black-white wealth divide would have shrunk by 82 percent.

### 2. Guaranteed Employment and a Significantly Higher Minimum Wage

Black and Latinx workers are twice as likely as white workers to be among the “working poor,” meaning they have a job, but that job doesn’t pay enough to cover basic living expenses. Likewise, the black-white unemployment ratio has consistently remained roughly 2:1. Bridging the racial wealth divide requires more than just “more jobs”; it demands good jobs that pay a living wage for everyone who is able to work. A

federal job guarantee would provide universal job coverage for all adult Americans and eliminate involuntary unemployment. It would offer existing workers a viable alternative to jobs with low wages, inadequate benefits and undesirable working conditions. Moreover, the work would be used to create and improve our nation's physical and human public infrastructure.

The current federal minimum wage is lower than the cost of living in every city in the country. Moreover, at every education level, blacks are twice as likely to be unemployed compared to their similarly educated white peers. We recognize that income and wealth are conceptually different, and that the racial wealth divide persists through the income distribution. Nonetheless, the income from a federal job guarantee will limit the racially disproportionate exposure to predatory finance practices (e.g. wealth stripping debt traps) resulting from inadequate income, unemployment and income volatility.

### **3. Invest in Affordable Housing**

Affordable housing remains out of reach for millions of families. A comprehensive approach like the "American Housing and Economic Mobility Act" is needed to ameliorate historical injustices in housing and to address the current crisis. Perhaps the most direct way the bill works to reduce the racial wealth divide is by including a provision that provides down payment assistance to first-time homebuyers living in formerly redlined or officially segregated areas. Three out of four neighborhoods that were redlined are still low income showing the long-term effect of this policy on cities. Safeguards would need to be considered to prevent the moral hazards of subsidizing unintended recipients gaming the policy and hastening displacement of intended recipients via gentrification.

### **4. Medicare for All**

People of color accounted for more than half of the total 32 million non-elderly uninsured in 2016. Poor access to health care and poor health outcomes are inextricably tied to race in the United States. The privatized healthcare system in the United States continues to leave behind millions of families, despite progress made by the Affordable Care Act. This deeply unfair and immoral system leaves low-income and low-wealth people in the most vulnerable position of choosing between forgoing the care they need and financial ruin. The number one cause of bankruptcy in the United States is an illness to oneself or a family member. Medicare for All would remove the burden and stigma associated with finances at the point of the delivery of medical care. Medicare for All would guarantee high quality healthcare as a human right, not a privilege.

### **5. Postal Banking**

The number of unbanked families remains stubbornly high in this country, with the FDIC reporting that about 10 million American families lack bank accounts. Predatory financial services targeting low-wealth, unbanked families thrive due to the lack of competition from a public banking option. People of color are particularly vulnerable to being unbanked, as are rural populations, the very young and the elderly. The postal service is uniquely positioned to provide essential financial services to these families including short term, low-level loans to address income volatility.

## **Power**

### **6. Significantly Raise Taxes on the Ultra-Wealthy**

The growing concentration of wealth has translated to a monopolization of economic and political power by the ultra-wealthy. The tiny group that controls the vast majority of the nation's private wealth is overwhelmingly white and have been the primary beneficiaries of the past four decades of economic growth and historically low tax rates. Significantly raising taxes on the ultra-wealthy serves both the intrinsic value of reducing the corrupting influence of plutocratic power, as well as the instrumental value of producing significant public revenue that can be invested in creating wealth building opportunities for those who have been blocked from generating wealth.

### **7. Turn Upside-Down Tax Expenditures Right-Side Up**

Federal tax subsidies, estimated at over \$600 billion per year, are currently skewed dramatically to ensure the wealthy are able to become wealthier. Shifting these tax expenditures toward wealth-building programs for low-wealth people, particularly those of color, would have a monumental impact in reducing the racial wealth divide and solving economic inequality more broadly.

## **Process**

### **8. Congressional Committee on Reparations**

For decades, Congress has considered the topic of reparations, but never created a formal commission to take on the issue or grapple with what it would really look like. In 2008, the House of Representatives passed a resolution issuing a symbolic formal apology for slavery and Jim Crow. Unfortunately, this resolution did not acknowledge the ongoing injustice created by this history and did not move forward any effort to address this injustice. Legislation like HR 40, championed for many years by now retired Rep. John Conyers (D-MI-13) and currently by Rep. Sheila Jackson Lee (D-TX-18), proposes to create a commission to study the issue and then propose what an apology and policy might look like.

## **9. Improve Data Collection on Race and Wealth**

It is difficult to understand the breadth and scope of the racial wealth divide without the necessary data on the full range of racial diversity in the United States. The collection of localized data, that includes information on household assets and debt disaggregated by respondent race, ethnicity, tribal affiliation and ancestral origin, would provide better insight into the nation's racial and economic differences.

## **10. Racial Wealth Analysis**

Analytical tools like the "Racial Wealth Audit" from the Institute on Assets and Social Policy (IASP) and the "Racial Equity Toolkit" from the Government Alliance on Racial Equity (GARE), provide a framework to assess how legislation will widen or narrow the divide. If closing the racial wealth divide is to be a priority, adopting a framework to assess public policy through a racial equality lens is essential to understand the impact and potential unintended consequences of legislation on the racial wealth divide.

## **Racial Wealth Divide Snapshot**

- Between 1983 and 2016, the median black family saw their wealth drop by more than half after adjusting for inflation, compared to a 33 percent increase for the median white household.
- The Forbes 400 richest Americans own more wealth than all black households plus a quarter of Latinx households.
- Black families are about 20 times more likely to have zero or negative wealth (37 percent) than they are to have \$1 million or more in assets (1.9 percent). Latinx families are 14 times more likely to have zero or negative wealth (32.8 percent) than they are to reach the millionaire threshold (2.3 percent). White families are equally likely to have zero or negative wealth (about 15 percent) as they are to be a millionaire (15 percent).

## **False Solutions:**

- Changes in individual behavior will not close the racial wealth divide, only structural systemic policy change can do that. Adjustments to black and Latinx education rates, homeownership, savings and employment do not greatly reduce the racial wealth divide due to the structural underpinnings holding the racial wealth divide in place.

## Introduction

A tremendous amount of research has been conducted in recent years depicting the vast divide between the ultra-wealthy and the rest of the country. A small but significant portion of this research has focused on inequality through a racial lens, looking at how economic disparities cut across race. This research into the racial wealth divide has contributed to increasing public understanding of just how deeply divided our economy and society is today.

We at the Institute for Policy Studies, the Kirwan Institute for the Study of Race and Ethnicity at The Ohio State University, and the National Community Reinvestment Coalition (NCRC) have been at the forefront of this research and advocacy by working with our allies to produce cutting edge reports, proposals and analysis on the divide. Our recent contributions include “The Color of Wealth in Miami”<sup>1</sup> by the Kirwan Institute (along with the Samuel DuBois Cook Center on Social Equity at Duke University and the Insight Center for Community Economic Development), “Dreams Deferred: How Enriching the 1 Percent Widens the Racial Wealth Divide”<sup>2</sup> by the Institute for Policy Studies and “HOLC ‘Redlining’ Maps: The Persistent Structure of Segregation and Economic Inequality”<sup>3</sup> by NCRC.

Some of the data in this report comes from our organizations’ prior work, although our intent is not to repackage or repeat. In this report we intend to present a clear and actionable menu of public policies and actions to not merely tinker with, but dramatically reduce the unjust racial wealth divide.

While it is clearly not the priority of the current presidential administration, or Congress as a whole, to adopt policies to substantially address the racial wealth divide, momentum is building and there is a potential for the political winds to propel us towards a government that will. Nonetheless, there are aspects of our proposals which could be implemented at state and local levels, where there may be political will and philanthropic support.

This report seeks to offer bold ideas for policy makers, organizers, activists, journalists, academics, students and citizens who are concerned about the current trajectory we are on and want to take a different path. The solutions offered here are far from all-encompassing and do not represent an exhaustive listing of all the available policy levers that may have an impact. Rather, we present a case to move beyond small-thinking and piecemeal reforms towards policy solutions that strike at the heart of what’s contributing to the stark economic divisions that exist in the United States.

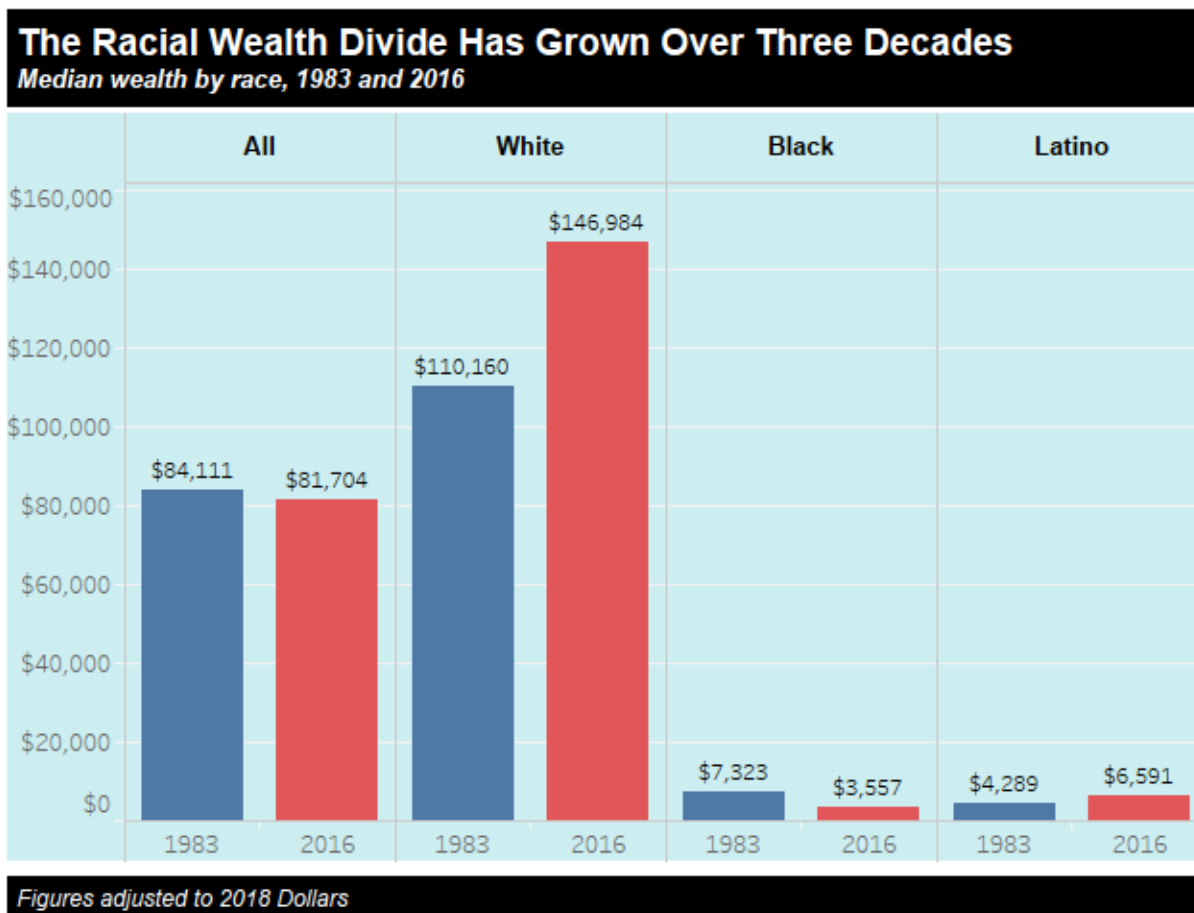


## The Racial Wealth Divide: A Primer

Before diving into the solutions on how we as a society can move towards closing the racial wealth divide, it's important to understand what we mean when we talk about the racial wealth divide. This section presents key findings from recent studies on economic inequality presented here to provide a baseline understanding of how race and wealth intersect. Also outlined in this section are the often-repeated canards about the racial wealth divide that falsely conflate the structural inequality inherent in today's economy with individual behavior. The racial wealth divide is a structural problem that requires structural solutions if we are to make any progress in closing it. Debunking false solutions is critical to moving forward the serious policy interventions outlined in the next section of this report.

Wealth can be simply understood as the sum total of what a family owns minus what they owe. Sometimes referred to as net worth, household wealth is a measure of total assets minus liabilities, or debt. Wealth is critical to economic stability. More so than income or employment rates or other leading economic indicators, wealth reflects a family's ability to overcome unexpected financial challenges. It is often the difference between whether a financial setback like a job-loss or a medical emergency appears as a minor unpleasantness or leaves a family in financial ruin. Moreover, wealth provides the collateral security to attain financial stability, take risks and acquire additional wealth; as well as the resources to make intergenerational transfers that seed financial stability and mobility for future generations.

The Institute for Policy Studies' *Dreams Deferred* report utilized the triannual Federal



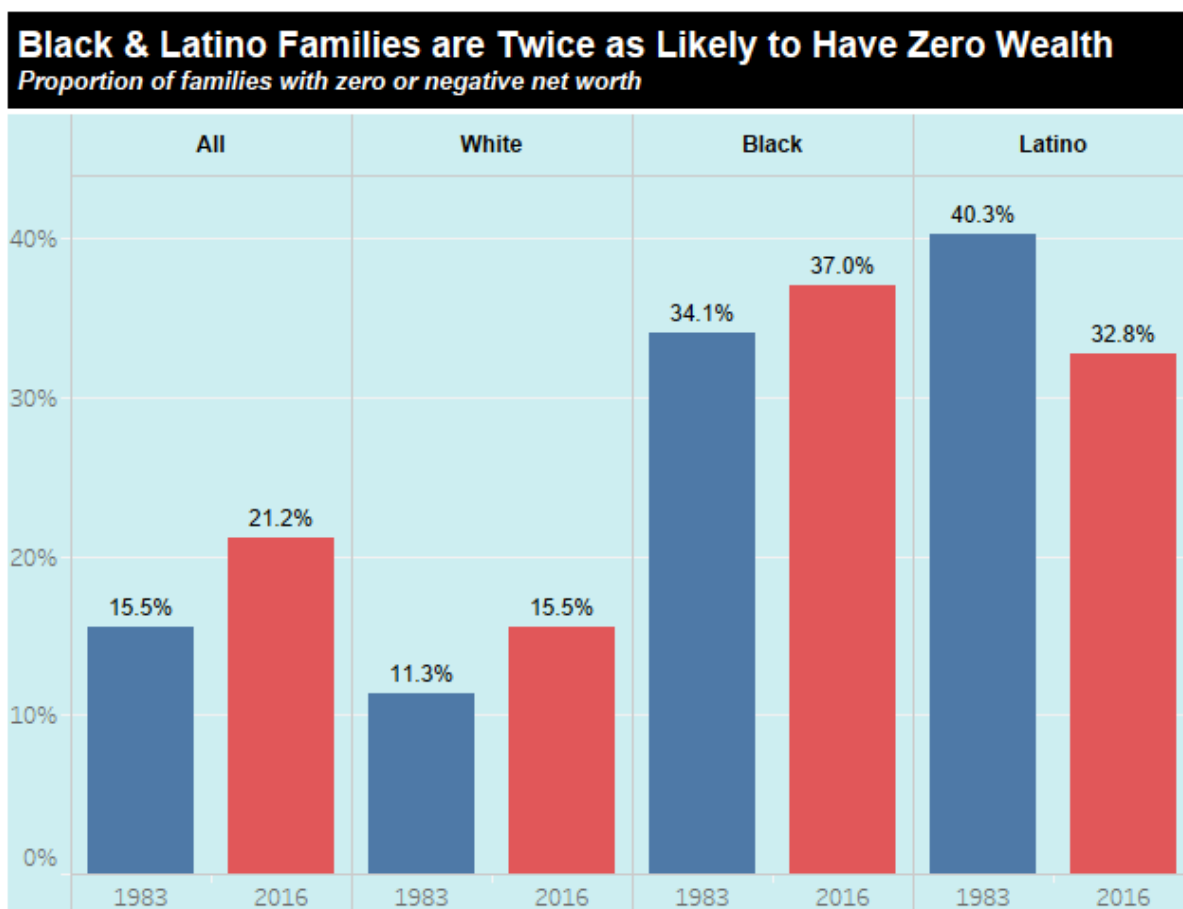
Reserve Survey of Consumer Finances to reveal how wealth is skewed along racial lines in the United States.<sup>4</sup> The study found that the median black family today owns practically no wealth, just \$3,600 in 2018. This figure is just two percent of the \$147,000 the median white family owns. The median Latinx family has assets worth \$6,600 — just four percent as much as the median white family. Put differently, the median white family has 41 times more wealth than the median black family and 22 times more wealth than the median Latinx family.

It's important to note that we largely focus on median wealth figures rather than mean, or average. The nomenclature and discourse regarding the racial wealth divide is generally in reference to the median (i.e. what is "typical.") The racial wealth divide at the median compares the typical black household to the typical white household. However, the mean racial wealth divide between blacks and whites is much larger than the median due to the high concentration of wealth in the hands of an extremely small proportion of overwhelmingly white families. Because the median measure represents

comparisons between typical families, for the most part the policies in this report are considered in relation to the median.

Looking at median household wealth over time shows that the racial wealth divide is expanding, not closing. Between 1983 and 2016, the median black family saw their wealth drop by more than half after adjusting for inflation. The median white families, on the other hand, saw their wealth jump by a third. The median Latinx family saw their wealth rise marginally and has yet to top \$10,000.

This growing divide has occurred at a time when wealth has shifted largely into the hands of the very wealthy. Since the early 1980s, the number of households with \$10 million or more skyrocketed by 856 percent. The richest 0.1 percent have seen their wealth jump 133 percent. Meanwhile, the proportion of all U.S. households with zero or negative wealth, meaning their debts exceed the value of their assets, has grown from 1 in 6 in 1983 to 1 in 5 households today. However, this loss of wealth is not evenly borne among racial groups. Thirty-seven percent of black families and 33 percent of Latinx families have zero or negative wealth, compared to just 15.5 percent of white families.



Unfortunately, the growing racial wealth divide described above was compounded by tax cuts passed by Congress in December 2017. A recent study by Prosperity Now and the Institute on Taxation and Economic Policy titled, “Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide,” and a report by the Roosevelt Institute entitled, “The Hidden Rules of Race Embedded in the New Tax Law,” looked at the how racial disparity, including the racial wealth divide, will grow as a result of the Tax Cuts and Jobs Act of 2017, commonly known as the Trump tax cuts.<sup>5,6</sup>

“Of the nearly \$275 billion within the Tax Cuts and Jobs Act in 2018,” the Prosperity Now study found that “\$218 billion (80 percent) goes to white households. On average, white households will receive \$2,020 in cuts, while Latino households will receive \$970 and black households receive \$840.” This is because the tax package heavily skewed towards high-income households who are mostly white. White households in the top one percent of earners received \$143 a day from the tax cuts while middle-class households (earning between \$40,000 and \$110,000) received just \$2.75 a day. While the media coverage of the tax package and the public statements of the bill’s backers did not explicitly state that it would directly contribute to increasing the racial wealth divide, this was the impact, intended or otherwise.

## **False Solutions**

Wealth is not the only measure that shows how divided economic prosperity in the United States is among racial groups. Employment, income, homeownership, stock ownership, entrepreneurship and virtually every other economic indicator shows a stark divide around race.<sup>7</sup> Many commentators look at this data and come to the conclusion that this outcome is the result of individual behavior. A series of recent studies shows that this is indeed not the case.

A 2018 report co-authored by Darrick Hamilton as well as colleagues from the Samuel DuBois Cook Center on Social Equity at Duke University and the Insight Center for Community Economic Development titled, “What We Get Wrong About Closing the Racial Wealth Gap,” took on this argument directly looking specifically at the black-white wealth divide.<sup>8</sup> The authors state, “Blacks cannot close the racial wealth gap by changing their individual behavior.” They go on to list and debunk 10 popular myths about individualized behavior that blacks could take as a group in substantially closing the divide. These include going to college, working harder, buying a house, “banking black,” saving more, improving financial literacy rates and entrepreneurship rates, improving “personal responsibility,” emulating “model minorities,” or increasing two-

parent households. In fact, many of the racial differences in the outcomes above result from the racial wealth divide itself. In other words, for instance, much of the racial difference in college completion, labor market performance, homeownership, entrepreneurial activity, etc. is a product of blacks having less resources in the first place. The authors point out that changing each or all of these individual behaviors does not change the underlying structures of economic white supremacy that facilitated and keeps the racial wealth divide in place.

This study builds off some of the authors' earlier report, "Umbrellas Don't Make It Rain," which examined the same topic.<sup>9</sup> This study looked at the impact of what some of these individual decisions have on wealth accumulation and found, among other findings that,

Black families whose heads graduated from college have about 33 percent less wealth than white families whose heads dropped out of high school. The poorest white families—those in the bottom quintile of the income distribution— have slightly more wealth than black families in the middle quintiles of the income distribution. The average black household would have to save 100 percent of their income for three consecutive years to overcome the obstacles to wealth parity by dint of their own savings activity.

The authors go on to conclude that the best indicator for a family's wealth accumulation is the amount of wealth they inherit from their family. A similar 2017 study from the Institute on Assets and Social Policy and Demos titled, "The Asset Value of Whiteness," came to a similar conclusion.<sup>10</sup> Changing how much black families work, spend, save or are educated does not close the racial wealth divide because white families who work, spend, save or are educated at the same degree generate more wealth. For example, they find that, "the median white adult who attended college has 7.2 times more wealth than the median black adult who attended college and 3.9 times more wealth than the median Latino adult who attended college." Another example they point out is, "the average white household spends 1.3 times more than the average black household of the same income group."

As the title of their study suggests, there is an asset value to whiteness that is impossible for individual behavior change to overcome. That is not to say that whites and nonwhites alike can't improve their economic circumstances by their own actions, but individual action does not overcome racist structured economic policy. Things like home ownership, higher education and a diverse financial portfolio are important to strengthening economic security, but the greatest barriers to these assets is a lack of



capital, not individual behavior. To overcome the racial wealth divide requires mass targeted capital investment similar to the mass targeted capital investment that was historically appropriated disproportionately to white communities. Large scale policy change is the most promising path to addressing the racial wealth divide and many asset poor whites as well; the most promising of which we lay out in the next section of this report.

## Solutions

The racial wealth divide in the United States dates back centuries. It has been created and held in place by public policies that have evolved with time including slavery, Jim Crow, red lining, mass incarceration, among many others.<sup>11</sup> It has also been experienced differently by different racial groups who have varying experiences of disenfranchisement. Put simply, this problem is complex. Solutions are also complex and there is no single panacea. Offered below are a number of promising solutions that could have a significant impact on reducing the racial wealth divide in a meaningful way. Each is rooted in a public policy shift that can have a structural impact across society, not simply individual behavior changes. They are presented in hope of inspiring activists, organizers, academics, journalists, lawmakers and others to think boldly about taking on this incredibly important challenge. This is not an exhaustive or all-encompassing list, but rather a number of bold ideas that can have a systemic impact.

The following solutions are grouped into three categories—programs, power and process. Programs refer to new government programs that could have a major impact on improving the financial prospects of low-wealth families. An example is a baby bond program. Power refers to changes to the federal tax code that could have a redistributive impact on the current deeply skewed division of wealth in the country and address the concentration of power. An example is to raise taxes on the ultra-wealthy through, for instance, a direct tax on extreme wealth. Process refers to changes to the way government operates in regard to race and wealth. For instance, instituting a racial wealth divide audit or racial equity analysis would change how Congress processes policy and its impact.

## Programs

### Baby Bonds

Baby bonds are federally managed accounts set up at birth for children and endowed by the federal government at a level inversely commiserate with the financial position in which the child is born. These funds can be used when the child reaches adulthood for education, to purchase a home or to start a business. The source of the racial wealth divide is grounded in endowment, the unequal and unfair distribution of inherited advantage. Baby bonds are an essential universal race-conscious program to provide everyone with an opportunity to attain the asset security irrespective of the race and financial position in which they are born.

In 1991 Michael Sherraden wrote, *Assets and the Poor: A New American Welfare Policy*. This book helped raise the importance of asset and wealth building to develop economic security and helped to popularize his proposed “Individual Development Accounts,” an idea he first introduced in his 1988 book, *Rethinking Social Welfare: Toward Assets*. In *Assets and the Poor*, Sherraden proposed “Individual Development Accounts” (IDA) as a means to build on the income supplements that had been advanced during the Great Society of the late 1960’s. The basic idea was to create long term saving accounts that would be seeded by the government and supplemented with additional funds to develop a nest egg of financial assets that households can use as their starting capital to more fully participate in our capitalist economy.

This IDA proposal would help initiate a series of pilot programs often times focused on IDA’s for children that would be called Children’s Savings Accounts. The Prosperity Now paper, “Reinvesting Children’s Savings Accounts To Address The Racial Wealth Divide,” notes much of this history and highlights how these pilots were primarily micro investments that on average had initial deposits of \$50, far too little to address the deep and wide asset poverty found in many communities of color. Prosperity Now recommends increasing the initial deposits in CSA’s and to “permit account holders [of CSAs] to use the money for any asset-building purchase, not just postsecondary education.”

Senator Cory Booker (D-NJ) introduced a version of “baby bonds” (or more accurately “baby trusts”) in the form of a bill in 2018 titled, the American Opportunity Accounts Act.<sup>12</sup> Baby Bonds are similar to Children Saving Accounts, in that they establish accounts with some seeded endowment, however, they differ in the fact that the seeds are more heavily endowed in a more progressive manner, and that the accounts are not managed by the child’s family, but rather, similar to Social Security, by the state. This framing of Baby Bonds was originally crafted by a co-author of this report Darrick Hamilton and first appeared in print in an article he co-authored with William Darity, Jr. in 2009.<sup>13</sup> Hamilton and Darity also published two other initial

versions of the Baby Bonds proposal in 2010 and 2012 in “The Review of Black Political Economy.”<sup>14</sup>

Booker’s proposed Baby Bond program would be universal with every child receiving at least \$1,000 at birth.<sup>15</sup> After that, up to \$2,000 would be added to the account each year up to adulthood based on family income, with lower income families receiving larger deposits. The funds would be managed by the Treasury Department with a guaranteed annual return of three percent. Funds would become available at age 18 and eligible only for education, homeownership or retirement. The estimated account balance for a child from a very-low income family is just under \$50,000 by the time they reach age 18. For a child born to a very-high income family, the total would be just under \$2,000.

Booker’s bill goes one step further in reducing the divide by linking the revenue from the bill to a robust increase in the federal estate tax which currently only the wealthiest 0.2 percent of households pay. This means that the households who have the most wealth are playing the biggest role in ensuring children born to low-wealth families have at least some of the benefits of intergenerational wealth (although likely much less than their own kids).

A recent analysis of a baby bond proposal very similar to Booker’s by Naomi Zewde at the Center on Poverty and Social Policy at Columbia University showed the potential of the policy to reduce the wealth divide between young white households and young black households from its current level of 16 to 1 down to 1.4 to 1.<sup>16</sup> Put simply, it could reduce the divide by more than tenfold. Similar research from the Annie E. Casey Foundation in conjunction with the Institute on Assets and Social Policy looked at what the impact on the racial wealth divide would have been had baby bonds been enacted decades ago. Their 2016 study found that if Congress had instituted a baby bonds program in 1979, the white-Latinx wealth divide would be fully closed by now and the white-black wealth divide would have shrunk by 82 percent for young adult households.<sup>17</sup>

## **Guaranteed Employment and Significantly Raise the Minimum Wage**

Princeton sociologist and prestigious MacArthur Fellowship recipient Matthew Desmond recently published an insightful exposé in *The New York Times* titled, “Americans Want to Believe Jobs Are the Solution to Poverty. They’re Not.”<sup>18</sup> The article tracks the lives of a single family in New Jersey struggling to get by on patched together minimum wage jobs. The paltry income generated by this work is far below the basic costs of living, leaving the family scrambling in and out of homelessness and

food insecurity. Desmond makes the argument (and presents copious data to support his argument beyond this one illustrative family) that simply increasing workforce participation is wholly inadequate in lifting people out of poverty.

What is needed is not just more jobs, but more good jobs that pay a living wage for everyone who is able to work. This would help all workers, not just racial minorities, but would have an outsized impact on reducing the racial wealth divide given the disproportionate number of low-income, non-white households. We recognize that income and wealth are conceptually different, and that the racial wealth divide persists through the income distribution. Nonetheless, the jobs and income from a federal job guarantee will limit the racially disproportionate exposure to predatory finance (e.g. wealth stripping debt traps) resulting from inadequate income, unemployment and income volatility.

According to the Bureau of Labor Statistics, black and Latinx workers are twice as likely as white workers to be among the “working poor,” meaning they have a job, but that job doesn’t pay enough to cover basic living expenses.<sup>19</sup> In fact, black workers have consistently higher unemployment rates and lower wages than their white counterparts, a dynamic that has sustained for several decades.<sup>20</sup>

The Economic Policy Institute finds that, after adjusting for inflation, productivity has jumped 77 percent since 1973 while wages have risen by only 6 percent.<sup>21</sup> Had wages kept pace with productivity growth, which they did in the decades prior, the minimum wage would today be more than \$20 per hour. The federal minimum wage today has not only not gone up over the past four decades, it has actually dropped after adjusting for inflation. A full-time minimum wage worker in 1968 would have earned \$20,600 a year in today’s dollars while the current full-time minimum wage worker earns only \$15,080 working full time, well below the poverty line to support a family.<sup>22</sup> Had the minimum wage just remained steady at the 1968 level, black and Latinx poverty rates would be almost 20 percent lower. Raising the minimum wage is critically important to reducing the racial wealth divide.

Mark Paul, William Darity, Jr. and Darrick Hamilton have offered one of various proposals for a federal job guarantee to address this dynamic.<sup>23</sup> Their work builds on the work of many scholars, civil rights activists and policy makers that came before them.<sup>24</sup> They propose that the federal government in partnership with state and local governments, Indian Nations and local community organizations develop a job bank consisting of an inventory of necessary tasks from which universal job coverage will be offered to any adult who desires employment. The jobs would pay a minimum annual wage of \$24,600 for full-time workers (indexed to above poverty wages for a family of

four), include a standard benefits package that includes health insurance, retirement plans, paid family and sick leave and one week of paid vacation per three months worked. The jobs would be similar in nature to the New Deal's Works Progress Administration (WPA) and Civilian Conservation Corps (CCC), which were responsible for both lifting millions of families out of poverty and for building and maintaining huge swaths of public infrastructure and other socially useful goods and services. The types of tasks, assignments would evolve to meet our 21<sup>st</sup> century needs, including protecting our environment to make our society more resilient to climate fluctuation and natural disasters and assuring quality care for individuals from child to elder care. Such a program has the potential, the authors argue, of eliminating involuntary unemployment and working poverty while providing a true floor for the labor market.

Senator Cory Booker released a co-sponsored bill with Senators Gillibrand, Merkley, Warren and Harris to establish a pilot program to provide grants for a job guarantee programs, and Senator Bernie Sanders has gone beyond the pilot stage and called for the release of a bold transformative, full scale, federal job guarantee. Newly elected Representative Alexandria Ocasio-Cortez and Senator Ed Markey proposed a "Green New Deal," which would address the urgency of our dire environmental concerns by putting Americans to work.

## **Invest in Affordable Housing**

There is not a single state in the country where a full-time minimum wage worker making the federal minimum wage of \$7.25 per hour could afford to rent a two-bedroom apartment.<sup>25</sup> Furthermore, there is not a single state with an adequate supply of affordable rental housing for low-income renters.<sup>26</sup> While raising income is obviously important, and addressed in the previous section, so too is addressing the drastic shortage of affordable housing.

While many proposals exist to address this crisis, and as the 2020 presidential campaign heats up more may come, perhaps the boldest is Senator Elizabeth Warren's "American Housing and Economic Mobility Act."<sup>27</sup> Among the bill's many components is a \$445 billion investment over 10 years in the Housing Trust Fund, which would provide up to 2.17 million homes for low-income families. It also includes several billion dollars for a variety of other housing supports and expands on the Fair Housing Act's housing discrimination ban. Perhaps the most direct way the bill works to reduce the racial wealth divide is by including a provision that provides down payment assistance to first-time homebuyers living in formerly redlined or officially segregated areas. Three out of four neighborhoods that were redlined are still low income showing the long-term effect of this policy on cities.<sup>28</sup> Safeguards would need to be consider to



avoid moral hazards of subsidizing unintended recipients gaming the policy by moving to formerly redlined areas and hastening displacement of intended recipients via gentrification, nonetheless, the bill is a bold step intended to address some of the legacies of housing discrimination. The bill also strengthens the Community Reinvestment Act by forcing financial institutions to serve creditworthy families in communities they've historically ignored.<sup>29</sup>

Investing in affordable housing does not mean just the development of new housing, but also shifting the tax incentives that currently prioritize wealthy homeowners over low-income renters and first-time home buyers. This is especially true for the Mortgage Interest Deduction, from which the largest beneficiaries are not the folks who need housing assistance the most. A recent study from Institute on Assets and Social Policy (IASP) and National Low-Income Housing Coalition found that black and Latinx families received just six and seven percent of total benefits from the mortgage interest deduction respectively, each making up about 13 percent of the U.S. population. "This amounts to an estimated \$4.8 billion in lost housing investments for black families and \$4.1 billion dollars directed away from Latino families," the report finds, "relative to a more equitable distribution of benefits."<sup>30</sup> The report authors suggest converting the mortgage interest deduction into a refundable credit as well as introducing a renter's tax credit to help renters save for a future home.

## **Medicare for All**

The privatized healthcare system in the United States continues to leave behind millions of families despite progress made by the Affordable Care Act. This deeply unfair and immoral system leaves people of low-income and low-wealth in the most vulnerable position. Medicare for All health care reform would guarantee high quality healthcare as a human right not a privilege. The number one cause of bankruptcy is an illness to oneself or a family member.<sup>31</sup> At the point of delivery of medical care, we are at our most vulnerable. Medicare for All removes the burden and stigma associated with finance at the point of the delivery of medical care.

People of color accounted for more than half (55 percent) of the total 32.3 million nonelderly uninsured in 2016, according to a study from the Kaiser Family Foundation.<sup>32</sup> Perhaps not surprisingly, people of color also utilize less care and fare significantly worse than their white counterparts on a wide range of health indicators.

Representative Pramilla Jayapal (D- WA) and Senator Bernie Sanders (I- VT) each introduced Medicare for All legislation in the House and Senate respectively. Their bills would gradually expand existing Medicare coverage to include all people in the

country and phase out existing employer sponsored private health insurance. It would also phase out insurance premiums, instead funding coverage through public tax revenue.

Many other Democrats have introduced variations on Sanders' and Jayapal's bills with efforts to maintain parts of the existing privatized system. These include more than a half dozen variations, all from Democrats without Republican support, in the House and Senate.<sup>33</sup>

## **Postal Banking**

The number of unbanked families remains stubbornly high in this country, with the FDIC reporting that about 10 million U.S. families lack bank accounts.<sup>34</sup> This means they are forced to use expensive check cashing locations or rely on usurious debit cards to receive payroll and to pay for utility and other bills. In addition, they lack access to credit and are susceptible to predation via, for instance, payday lenders — firms that borrow large sums at rock bottom rates and lend it out to low-income families at APR equivalent rates as high as 500 percent.

People of color are particularly vulnerable to being unbanked, as are rural populations, the very young and the elderly. The high cost of having low wages effectively strips wealth from our communities, as the Insight Center calculated in their report on the economic impact of payday lending on our country.<sup>35</sup> Rather than contributing to more economic prosperity in our communities, payday firms cost Americans almost \$1 billion and 14,000 jobs every year. Payday consumers are in debt, on average, for five months as the two-week loan they take out is rolled over again and again. The fees the consumer pays with each rollover come from money they would otherwise spend on food, clothing or education.

In 2014 the Inspector General of the United States Postal Service proposed expanding their financial services to include banking transactions, including small dollar loans.<sup>36</sup> This postal banking would provide a real competitor to many of the high cost services that are most often left to underbanked individuals and resolves many of these harmful issues, while providing a real competitor for payday firms. The most harmful predatory product, the high interest payday loan, would be replaced with a small dollar product with a proposed 28 percent interest rate.

Today, there are several proposals for postal banking in the U.S. Senate including from Senators Kirsten Gillibrand (D-NY), Bernie Sanders (I-VT) and Elizabeth Warren (D-

MA).<sup>37</sup> In addition, recent scholarship by law professor, Mehrsa Baradaran, and economists Thomas Herndon and Mark Paul have (in separate articles) advanced the case for the public sector to engage in direct financial service via the postal system.<sup>38,39</sup> Senator Kamala Harris (D-CA) introduced legislation to address predatory lending called the LIFT (Livable Incomes for Families Today) the Middle Class Act, which provides up to \$500 per month to working and middle class families in the form of a tax credit.<sup>40</sup> The funds are intended to prevent families from having to rely on payday lenders to cover unexpected expenses such as rent increases, medical bills, or child care expenses.

Expanding selective financial services through our postal offices can more conveniently provide access, lower-cost and higher-quality financial products to Americans, particularly the under-banked and unbanked. They can provide Americans with convenient, local and safe access to simple banking services, which the mainstream financial industry does not provide.

## **Power**

### **Significantly Raise Taxes on The Ultra-Wealthy**

It is not possible to address the racial wealth divide without also addressing the massive concentration of wealth at the high end of the distribution, in particular the top one and 0.1 percent of the income distribution, which is overwhelmingly white and largely the result of capital gains (i.e. unearned income). This tiny group controls the vast majority of the nation's private wealth and have been the primary beneficiaries of the past five decades of economic growth and historically low tax rates.<sup>41</sup> This group has converted these economic gains into economic and political power. The tax code is a potent tool for reversing runaway economic inequality and we should not be timid in calling for bold policies that utilize tax reform to this end.

Significantly raising taxes on the ultra-wealthy serves both the intrinsic value of reducing the corrupting influence of plutocratic power as well as the instrumental value of producing significant public revenue that can be invested in creating wealth building opportunities for those who have been blocked from generating wealth. The French economist Thomas Piketty has warned that if we don't intervene to reverse the growing

concentration of wealth, the heirs of today's billionaires will dominate our politics, culture, philanthropy and economy.

There are a number of smart ways to institute a tax increase on the ultra-wealthy. Presented here are several ideas that have the potential for transformative impact either on their own or combined. These include a direct tax on wealth, a robust tax on inherited wealth and a significant increase and expansion of marginal income tax rates. "The ideal tax system would have a progressive income tax, a progressive estate tax, and a progressive annual tax on wealth," says French economist Gabriel Zucman who has done extensive research on wealth inequality. "They all do different things, and they complement each other."<sup>42</sup>

The idea for a direct tax on wealth is not new. Such tax regimes have existed in various forms in Europe for decades if not longer as have proposals to impose such a tax in the United States. New York University economist Ed Wolff has championed a direct wealth tax since the early 1990s and Piketty prescribed a wealth tax in his 2014 inequality blockbuster book, *Capital in the 21<sup>st</sup> Century*. The most recent iteration of this idea, and one that has gained significant attention, is the "Ultra-Millionaire Tax" from Senator Warren.<sup>43</sup> Her plan would impose a progressive annual tax starting at two percent on assets over \$50 million and rising to three percent on assets over \$1 billion. The bill is estimated to raise \$2.75 trillion in tax revenue over a 10-year period directly from the wealthiest 0.1 percent.

A robust tax on inherited wealth is also not new. The federal estate tax, a levy on the intergenerational transfer of immense wealth, is more than a hundred years old. While the tax has fluctuated in scale and scope over the decades, the top marginal estate tax rate was 77 percent from 1941 to 1976.<sup>44</sup> The existing estate tax has been largely gutted by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Bush tax cuts) and the Tax Cuts and Jobs Act of 2017 (Trump tax cuts) which both cut the marginal estate tax rate and greatly increased the threshold for estates to be taxed. Today, less than one in every thousand households pay any estate tax at all and among those that do, their effective rate is just 16 percent.<sup>45</sup> Senator Sanders has recently proposed a robust addition to the federal estate tax titled, "For the 99.8% Act."<sup>46</sup> Billionaires under his plan would pay a top rate of 77 percent on whatever they bequeath to their heirs over \$1 billion, a restoration of the top rate from the middle of the last century. The bill would raise an estimated \$2.2 trillion over 10 years.

Another way to tax inherited wealth is by implementing an inheritance tax. Inheritance tax differs from estate tax because it is placed on the beneficiary of the estate, not the estate itself, a small change with significant implications. New York

University law professor Lily Batchelder has put forward a framework on how to implement an inheritance tax by essentially taxing inherited wealth as ordinary income.<sup>47</sup> Batchelder proposes applying the income tax to inheritances with a surcharge of 15 percent, equal to the maximum payroll tax rate. With a \$2.1 million lifetime exemption, meaning you could inherit \$2.1 million tax free, she estimates the inheritance tax could generate about \$200 billion over 10 years. Reducing the exemption level slightly to \$1.25 million would increase the expected revenue from this tax to \$670 billion over 10 years.

Another thoughtful proposal for raising taxes on the ultra-wealthy is through raising top marginal income tax rates. It will surprise some readers that the United States has a strong tradition of very high-income tax rates on the wealthy. The top marginal rate topped 90 percent from 1951 to 1963 under Republican President Dwight Eisenhower.<sup>48</sup> The highest rate actually came several years earlier in 1944 and 1945 when the top rate was 94 percent and it remained above 70 percent until 1980. These high rates corresponded with a time of widespread expansion of the American middle class. However, this expansion largely excluded non-white families who were excluded from many of the wealth building programs funded by this high tax rate. Restoring a high tax rate on super-high incomes would generate the necessary revenue for more fair and equitable wealth building programs.

There exist a number of proposals to raise top marginal income tax rates. Rep. Jan Schakowsky's (D-IL) Fairness in Taxation Act would raise top marginal rates to 49 percent for billionaires. It would also end the preferential treatment of capital gains and dividends for income over \$1 million, which are currently taxed at 20 percent. This plan would raise \$800 billion over ten years.<sup>49</sup> Another plan comes from Rep. Ocasio-Cortez's (D-NY) who proposes to tax income above \$10 million at a 70 percent rate which could generate an estimated \$720 billion over ten years.<sup>50</sup>

These several methods for increasing taxes on the wealthy are far from the only options. Other good ideas include ending the preferential tax treatment of capital gains that overwhelmingly benefits the very wealthy and ending the practice of corporate stock buybacks that benefit corporate executives over their employees. A recent report from the Institute on Taxation and Economic Policy shows that the wealthiest five percent of Americans receives 90 percent of the benefit of capital gains preferential tax treatment.<sup>51</sup> On corporate stock buybacks, Senator Sanders has introduced legislation banning the practice for companies that pay less than \$15 per hour, don't offer at least seven paid sick days and don't cap their CEO-median worker pay ratio at 150-to-1.<sup>52</sup> Senators Cory Booker and Bob Casey introduced a bill to curb stock buybacks that



forces companies who buy back stock to also pay out commensurate sum to their employees.<sup>53</sup>

## **Turn Upside-Down Tax Expenditures Right-Side Up**

As we pointed out earlier in this report, efforts to utilize the federal tax code to reduce the racial wealth divide took a big step backward with the passage of the Tax Cuts and Jobs Act of 2017, commonly known as the Trump tax cuts. Unfortunately, the tax code already served to exacerbate the racial wealth divide even before the Trump tax cuts were passed, which authors of this report Chuck Collins, Dedrick Asante-Muhammed, and Josh Hoxie point out in their 2016 report, “The Road to Zero Wealth.”<sup>54</sup> The federal government spent \$677 billion through the tax code in 2016 to help families purchase a home, go to college and save and invest for the future. This is more than the individual budgets of every federal agency excluding the Department of Defense. Unfortunately, these supports largely go almost exclusively to the already wealthy, the top one percent of all U.S. households received more in federal spending than the bottom 80 percent combined.<sup>55</sup> Very little or no support goes to low- and moderate-income families, particularly those of color.

Due to the massive amount of money spent through these wealth-building tax programs and their far reaches, shifting these tax expenditures toward wealth-building programs for low-wealth people would have a monumental impact in reducing the racial wealth divide and solving economic inequality more broadly. This could take many forms, among which could include revising the mortgage interest deduction to be a refundable credit that prioritizes first time homebuyers as mentioned in the section above. Furthermore, cutting at expenditures for the very wealthy could free up funds to be utilized for rental assistance programs.

A Roosevelt Institute brief by Darrick Hamilton and Michael Linden entitled, “The Hidden Rules of Race Embedded in the New Tax Law,” also details how the recently enacted Tax Cuts and Jobs Act is a partisan game-changer (a law that was passed with overwhelming Republican support and Democrat opposition) that will accelerate racial economic disparities in at least four ways.<sup>56</sup> First, the benefits accrue disproportionately to high-income households, who are grossly overrepresented with white and under-represented with black households. And it gets worse over time: by 2027, fully 83 percent of the tax cuts will flow to the top one percent, while the bottom 60 percent of earners will, on average, actually experience tax increases compared to before the law was passed. Second, the tax cuts privilege existing wealth holders, rather than providing avenues to create new wealth, and blacks have generationally been

denied the ability to access and pass down wealth. For example, a centerpiece of the law is its massive tax cut for corporations, reducing their tax rate down from 35 percent to 21 percent. This \$1.3 trillion windfall over the next decade will primarily benefit existing shareholders. Third, by limiting the state and local tax (SALT) deduction, the law will push states and localities to rely more heavily on fees and fines as sources of revenue, which will disproportionately increase the debt and strip the wealth from black communities. Not only are fees and fines more regressive sources of revenue, but they also extend the reach of a broken criminal justice system that causes enormous economic and civic damage within communities of color. And when confronted with an expensive legal system, blacks and Latinxs have far less income or wealth to address their exigent situation. Finally, the enormous revenue loss, to the tune of nearly \$2 trillion over the next decade, coupled with the limitation on the state and local tax deduction, will undermine the public sector, which will impose a peculiar burden on black American workers and black American communities. These budget-busting tax cuts in a political context that overemphasizes “austerity” will accelerate impact on the demise of an already dimensioned public sector that provides vital services and employment, which disproportionately hurts black and brown communities.

## Process

### Congressional Committee on Reparations

The discussion around reparations has come into the mainstream in recent years as Democratic presidential candidates have been forced to answer questions about the topic and media outlets have tried to inform the public about what is meant by the term. This was evident in a recent segment aired by MSNBC on the AM Joy Show with Joy Reid titled, “Reparations for slavery becoming 2020 hot button issue,” that featured the National Coalition of Blacks for Reparations in America (NCOBRA) and looked at the current presidential candidates position on reparations.<sup>57</sup>

Since 1989, Representative Conyers sponsored House Resolution 40, “Commission to Study and Develop Reparation Proposals for African-Americans Act”. The bill number is a reference to the infamous unfulfilled promise to freed slaves that they would receive 40 acres and a mule upon gaining their freedom. After Conyers retirement in 2018, Representative Lee (has championed the bill, which as of the publication of this report has just 35 co-sponsors in the House of Representatives. The preamble of the bill states its purpose:

To address the fundamental injustice, cruelty, brutality and inhumanity of slavery in the United States and the 13 American colonies between 1619 and 1865 and to establish a commission to study and consider a national apology and proposal for reparations for the institution of slavery, its subsequent de jure and de facto racial and economic discrimination against African-Americans, and the impact of these forces on living African-Americans, to make recommendations to the Congress on appropriate remedies, and for other purposes.<sup>58</sup>

HR 40 does not impose a specific reparations plan or policy (although plenty of viable proposals for reparations exist).<sup>59</sup> It proposes to create a commission to study the issue and then propose what an apology and policy might look like. The commission would provide a clear understanding of the state sanctioned injustice that began in chattel slavery when blacks were literally physical and financial capital for a white plantation owning class and continued through the 19<sup>th</sup>, 20<sup>th</sup> and 21<sup>st</sup> century in the form of sharecropping, Jim Crow, lynching, riots, terrorism, fraud, disenfranchisement, white capping, police brutality and terror, redlining, restrictive covenant, discrimination and the subprime crisis to name several examples. HR 40 provides an authentic analysis and articulation for an apology and the first step towards redress for these injustices, since acknowledgement without redress is an empty apology.

This is far from a radical concept and indeed has recent and significant historical precedent. The Civil Liberties Act of 1988 signed into law by President Reagan issued a formal apology to Japanese-Americans imprisoned under World War II era internment camps in the United States. Checks for \$20,000 were dispersed to more than 80,000 survivors of the internment camps costing \$1.6 billion.<sup>60</sup> More recently, the House of Representatives passed a resolution issuing a symbolic formal apology for slavery and Jim Crow in 2008.<sup>61</sup> Unfortunately, this resolution did not acknowledge the ongoing injustice created by this history and did not move forward any effort to address this injustice.

## **Improve Data Collection on Race and Wealth**

While few people outside of academic researchers, policy staff and journalists tend to dig into government wealth statistics, this data provides the baseline for what we know about the racial wealth divide. The quality and availability of economic data through a racial lens dictates the ability to extrapolate useful analysis of how race and wealth intersect.

Currently the primary source of racial wealth data derives from the Survey of Income and Program Participation (SIPP), the Panel Study of Income Dynamics (PSID), the National Longitudinal Youth Survey (NLSY), or the Survey of Consumer Finances (SCF). These data sets generally only provide racial wealth data for the country as a whole amongst the three largest racial and ethnic groups (black, white, and, sometimes, Latinx). It would be a substantial benefit to understanding and addressing the racial wealth divide to have localized racial wealth data that could identify more specific groups disaggregated by ancestry, including Native Americans disaggregated by tribal origin. Lumping the asset and debt position of Cuban Americans residing in, say, Miami, FL with Mexican Americans residing in say Los Angeles, CA might not accurately define the economic position of either group; likewise aggregating Cambodian descendants who may have migrated to America as war refugees with, say, Japanese Americans who may have immigrated for more economic reasons many generations ago leads to a bias that might not accurately depict the wealth position of either group. Moreover, we need to collect asset and debt information that might be more relevant to communities of color, including exposure to payday lending and the American criminal justice systems, for example. Finally, to better understand gender dynamics and the ways in which gender may intersect with race and ethnicity, we need wealth data that more accurately measures gender, sexual orientation and intra-family power dynamics such as which spouse maintains and makes decisions with regards to household finance.

Income and wealth inequality in the United States, especially across racial and ethnic groups, is dramatic and persistent. While the decennial census and American Community Survey is commonly used by researchers, practitioners, advocates and policymakers to describe local economic conditions and drive policy decisions, its focus on income without the inclusion of detailed assets and debts renders it somewhat inadequate as an indicator of economic well-being, social mobility and asset-security.

Currently projects like the National Asset Scorecard for Communities of Color (NASCC) with limited funding help fill this void by administering localized surveys to groups disaggregated by specific ancestral origin. But with all the data collection that occurs through or in conjunction with federal offices the optimal solution is to better integrate wealth and racial and ethnic subgroup data in the country's current data collection efforts. The NASCC project has collected detailed data on assets and debts among subpopulations, according to race, ethnicity, tribal affiliation, and country of origin in six metropolitan area contexts – Baltimore, MD., Boston, MA., Los Angeles, CA., Miami, FL., Tulsa, OK., and Washington, DC. The disaggregation of groups into specific ancestral origin allows for a less heterogeneous examination of variations in asset holdings both across and within broadly defined racial and ethnic groups, and

how that stratification will vary in a localized context in which asset and debt products, prices and policies may vary. As the United States continues to become more ethnically pluralist, a goal would be for NASCC or a robust version of NASCC be adopted into either the Census Bureau or the Federal Reserve System via perhaps their Survey of Consumer Finance data collection infrastructure to facilitate better research, practice, advocacy, and policy as it relates to understanding and improving economic inclusion across stratified groups.<sup>62</sup>

## **Racial Wealth Analysis**

Researchers at the Institute on Assets and Social Policy (IASP) at Brandeis University have developed a unified framework for assessing the impact of public policy on the racial wealth divide.<sup>63</sup> We recognize that there is no one size fits all approach or tool to evaluate all policy or even forecast its impact on the racial wealth divide. However, if closing the racial wealth divide is a priority, and promoting racial justice more generally, then adopting mechanisms like the Racial Wealth Audit and the Racial Equity Toolkit – developed by Julie Nelson, senior vice president at *Race Forward* and her colleagues at the Government Alliance on Racial Equity (GARE), which is already widely being implemented in Seattle, Washington, and other cities – is essential to understand the impact and potential unintended consequences of legislation on the racial wealth divide.<sup>64</sup>

A similar policy analysis currently exists for Congress to assess how legislation that adjusts revenue or spending contributes to the national debt. Bills proposed by Congress are scored and an objective impact statement is included in the legislation for lawmakers and the public to understand how new laws will make the national debt go up or down. Unfortunately, scoring related to the national debt is a limited functional barometer of the public benefit of legislation. Nevertheless, there is no reason a similar framework could not be utilized to gauge the impact of legislation on the racial wealth divide. Both Congress and state legislatures could and should adopt a racial equity and stratification lens framework into formal policy analysis through the Congressional Budget Office (CBO) or appropriate state budget offices.

## **Conclusion**

If the past several decades are to teach us anything about race and wealth, it should be that the racial wealth divide will not be closed without a structural change to the status quo. Individual behavioral action is not the answer to address structurally established barriers nor is the patient aspirant idea that this problem will fix itself. Bold

action created the disparity and bold action is required to strike at the systemic underpinnings of white supremacy holding the racial wealth divide in place. This report seeks to examine a number of potential solutions already on the table to do just that. It is far from an exhaustive list and the authors acknowledge many great and valid ideas exist that are not listed in these pages. It is our hope that this report can inspire serious action to move forward towards a more fair and just economy and society.

## End Notes

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