

Issue: Inequality

The Racial Wealth Gap

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

This growing inequality adversely affects economic growth and stability. Wealth creates a financial safety net, shielding families from unplanned expenses or loss of income. It also helps finance an education or start a business. Through inheritance, wealth is passed down through generations. That generational advantage, denied to people of color, persists even as discriminatory laws disappear.

What has caused this disparity?

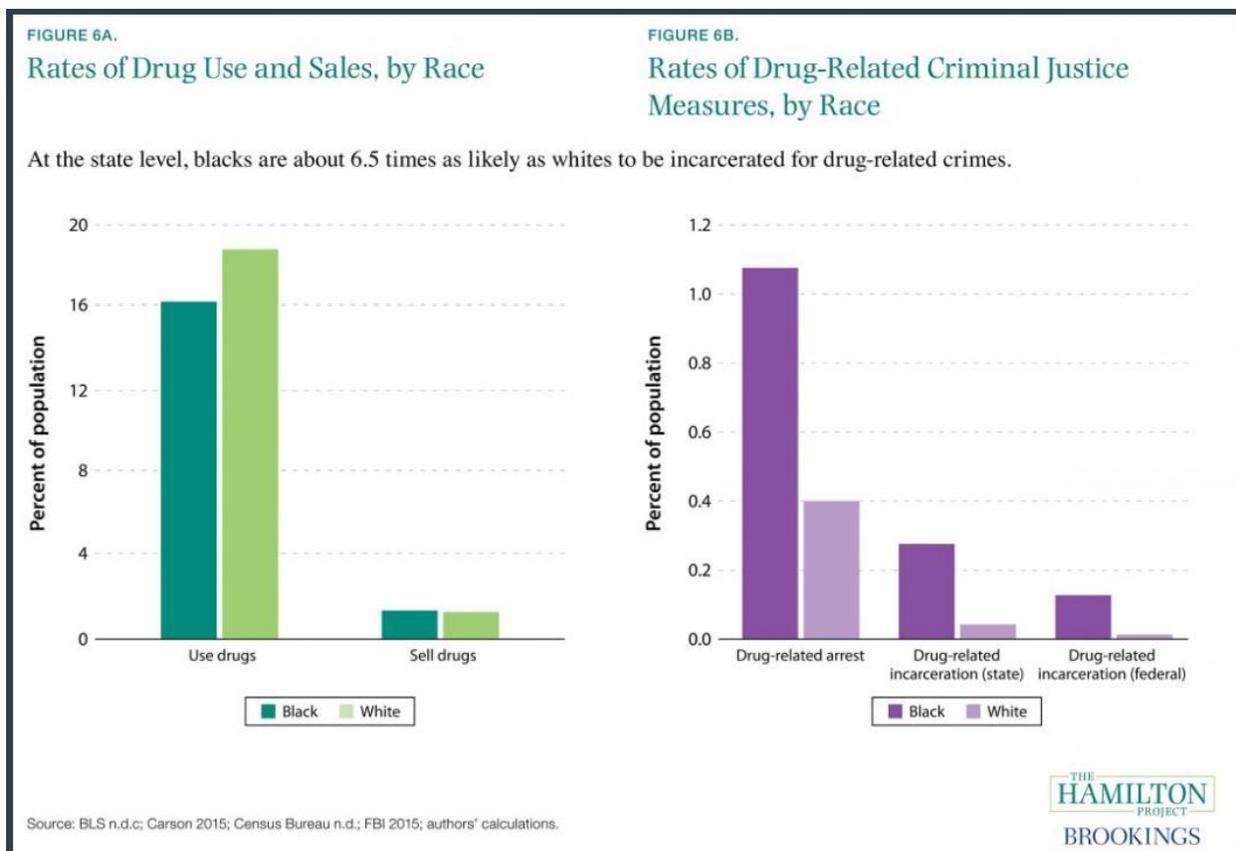
The U.S. government has had many programs that benefited whites but excluded blacks. The G.I. Bill helped white veterans attend college and buy homes after World War II; blacks were excluded. The National Housing Act of 1934 was designed to help home buyers by providing mortgage insurance. However, the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

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

Current policies and business practices continue to disproportionately affect blacks and other minorities. Predatory lenders often specifically target minorities. The criminal justice system is harsher on minorities than on whites. Excessive fees from the bail bond system have harmful effects on minorities. In Virginia, driver's licenses may be suspended for minor offenses unrelated to driving; economic hardship is the result.

Minorities and the Criminal Justice System

Understanding how the criminal justice system disproportionately affects minorities is important in explaining the racial wealth gap. Examining just one type of crime—drug use—illustrates the inequities in the criminal justice system. Although the rate of drug usage is similar across races, blacks are about 2.5 times more likely to be arrested for drug offenses than whites⁴ and are about 6.5 times more likely to end up in prison, as shown in the chart below from the Brookings Institution.⁵



Blacks are overrepresented in Virginia prisons for more than just drug crimes. They comprise roughly 20 percent of the adult population in Virginia, but in the criminal justice system⁶, they comprise:

- 47.4 percent of all arrests
- 76.2 percent of robbery arrests
- 52.2 percent of aggravated assault arrests

After release from prison, having a prison record makes it more difficult to find employment. The employment rate of former prisoners is around 27 percent.⁷ Making the criminal justice system more equitable for minorities would be an important step in decreasing the racial wealth gap.

Cash Bail

Bail is money that is paid by a defendant to a court with the goal of ensuring the defendant will return to court as required. If the defendant is unable to post bond, a bail bondsman may post bail and charge the defendant a non-refundable fee. The non-refundable fee—which can be 10 percent of the bail amount—is independent of whether or not the defendant actually shows up to court. Furthermore, when a defendant fails to show up to court, it is often the public entity that will track down the defendant—even though the bail bond person was ostensibly paid to do so. The bail bond industry is driven by private profit, not public safety.⁸

Current bail practices do not consider the likelihood that the defendant will flee, the ability of the defendant to pay the bail, or the danger the defendant poses to society. Instead, a correlation is assumed between wealth of the defendant and risk of flight; there is, however, no proof of any such

correlation. The cash bail system results in pre-trial freedom for wealthier defendants—not those who are most likely to commit another crime or who will fail to show up for trial.

Unnecessarily putting people in jail is significantly more expensive than putting them under pretrial supervision. One estimate is that the number of jailed people in pretrial status on an average day is 451,000, with a cost of \$13.6 billion per year.⁹

When defendants—guilty and innocent alike—are put in jail before their trial, they can face a series of cascading problems. They are obviously not able to go to their jobs, which can lead to the loss of the job. The lack of income can lead to the loss of their home or ability to pay rent. They may face problems in arranging childcare.

Criminal justice reform should consider the ability of the person to pay bail and whether or not the person is actually a flight risk in not turning up for trial. Judges should have discretion to set bail based on numerous factors such as criminal records and the age of defendant and should not be constrained by prescribed formulas.

There have also been increasing calls to eliminate cash bail in Virginia. Top prosecutors in Norfolk and Arlington have actually begun eliminating cash bail for many offences.¹⁰

Suspended Driver's Licenses

Virginia is one of the states that suspend driver's licenses for minor offenses that are unrelated to driving. Offenses that can result in driver's license suspension include littering, failure to pay court fines, unpaid student loans and non-driving misdemeanor drug charges.

Economic hardship can result when people cannot get to their jobs because they can't drive; a significant number of people who lose their driver's licenses lose their jobs. Not only that, the fees required to reinstate a driver's license may be prohibitive for some drivers. Suspension of driver's licenses also exacts a cost on the various governmental agencies that administer the suspensions. It also diverts resources from public safety: "The costs of arresting, processing, administering and enforcing social nonconformance-related driver license suspensions create a significant strain on budgets and other resources and detract from highway and public safety priorities."¹¹

Given the inequitable impact, Virginia must stop suspending driver's licenses for civil offenses unrelated to driving, as well as stop imposing fees that people cannot realistically pay. In late 2018, Governor Northam proposed ending the license suspension practice, which would require approval of the General Assembly. However, legislation that would have stopped this practice—SB 1013—did not pass out of a House committee in the 2019 session. The four Republicans who voted to kill the bill were: Todd Gilbert, Rob Bell, Chris Collins, and Margaret Ransone.¹²

Predatory Loans

Predatory lenders disproportionately target minorities, the elderly, the poor, and other vulnerable groups. For example, before the 2006 recession, minorities were significantly more likely to have been sold a sub-prime mortgage than non-minorities. As a result, when housing prices began collapsing, minorities were twice as likely to have been foreclosed on.¹³ Since the wealth of most families is in their homes, the loss of wealth for minorities was significant.

Payday loans, which are intended to tide the borrower over until their next payday, are another type of predatory loan. Given the astronomical interest rates and fees, these loans can be extremely

difficult to repay. If borrowers cannot repay the first loan, they may get another, resulting in a downward spiral of debt.¹⁴

Although Virginia did enact a bill in 2008 that helped curb predatory and abusive lending by payday lenders, it did not go far enough. That's because predatory car loans and open-ended loans still exist, often with exorbitantly high interest rates. Car title lenders can make loans against vehicles that are already owned. Ideally, this entire industry should be shut down.¹⁵

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

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

Over the years, numerous bills have been introduced that would limit the percent of interest on payday loans. One roadblock has been the work of legislators who receive large campaign contributions from the predatory lenders. Chief among the recipients are Democrat Dick Saslaw and Republican Tim Hugo.¹⁶ On the other hand, Democratic Attorney General Mark Herring has created a Predatory Lending Unit (PLU) and has been filing lawsuits against predatory lenders. As of May 2018, the PLU has reached settlements totaling more than \$22 million with online lenders.¹⁷

Credit Checks

In Virginia, employers may use credit checks in the hiring process, which has been shown to depress the hiring of minorities. No studies have shown that there is a correlation between poor job performance and weak credit.¹⁸ That is why some states have laws or are considering laws that restrict how credit reports are used by employers. These laws generally have provisions to allow an employer to check credit if the job involves access to large amounts of cash, to financial information of customers or employees, provides a corporate credit card, etc., which would be reasonable approaches in Virginia.¹⁹

Federal and State Laws for the Rich

Federal and state laws have many policies that help the rich attain even more wealth. The highest income tax rate in Virginia, for example, is 5.75% and kicks in at incomes of \$17,001. Depending on family size, an income of \$17,001 may be below the 2019 federal poverty level threshold.²⁰ Thus, taxpayers with million-dollar incomes have the same tax rate as some of our poorest citizens.²¹

Virginia's Earned Income Tax Credit, moreover, works differently than in most other states. Instead of receiving a cash benefit if the benefit exceeds the taxes owed, Virginia's EITC can only offset the taxes owed.²²

To address these two issues that affect poorer Virginians, the state should devise more progressive tax rates as well as allowing low-income Virginians to receive a cash benefit from the Earned Income Tax Credit. It is the least legislators can try to do to offset the ever-widening income gaps in the state—and something that is very much within their control.

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- ¹ <http://www.demos.org/publication/racial-wealth-gap-why-policy-matters>
- ² <http://www.demos.org/blog/9/23/14/white-high-school-dropouts-have-more-wealth-black-and-hispanic-college-graduates>
- ³ http://www.washingtonpost.com/sf/investigative/2015/01/24/the-american-dream-shatters-in-prince-georges-county/?utm_term=.297c3792ca03
- ⁴ <https://www.prisonpolicy.org/driving/national.html>
- ⁵ http://www.hamiltonproject.org/charts/rates_of_drug_use_and_sales_by_race_rates_of_drug_related_criminal_justice
- ⁶ http://www.justicepolicy.org/uploads/justicepolicy/documents/va_justice_system_expensive_ineffective_and_unfair_final.pdf
- ⁷ <https://www.prisonpolicy.org/reports/outofwork.html>
- ⁸ The Truth About Commercial Bail Bonding in America, by the National Association of Pretrial Services Agencies, August 2009.
- ⁹ https://www.prisonpolicy.org/blog/2017/02/07/pretrial_cost/
- ¹⁰ <https://www.viriniamercury.com/2018/11/26/while-virginia-studies-cash-bail-alternatives-local-prosecutors-and-judges-increasingly-take-reform-into-their-own-hands/>
- ¹¹ <https://www.prisonpolicy.org/driving/national.html>
- ¹² https://www.dailyprogress.com/news/politics/bill-to-end-license-suspensions-for-court-debt-dies/article_3759aca0-2f35-11e9-9a89-971a82b18275.html
- ¹³ <https://www.responsiblelending.org/research-publication/lost-ground-2011>
- ¹⁴ <http://www.npr.org/sections/thetwo-way/2016/06/02/480329986/new-rules-to-ban-payday-lending-debt-traps>
- ¹⁵ <https://fcnp.com/2015/10/01/guest-commentary-predatory-lending-is-out-of-control-in-virginia/>
- ¹⁶ <https://www.dailykos.com/stories/2019/1/14/1826078/-Virginia-Sen-Dick-Saslaw-s-Predatory-Lending-Problem-And-Ours>
- ¹⁷ <https://www.nbc29.com/story/38112866/attorney-general-herring-alleges-illegal-predatory-loans-in-suit-against-online-lenders>
- ¹⁸ <http://www.nytimes.com/2010/04/10/business/10credit.html?mcubz=0>
- ¹⁹ <http://www.esrcheck.com/Articles/States-with-Laws-Regulating-Credit-Reports-for-Employment/186/>
- ²⁰ <https://aspe.hhs.gov/2019-poverty-guidelines>
- ²¹ <http://www.bankrate.com/finance/taxes/state-taxes-virginia.aspx>
- ²² <https://www.thebalance.com/virginia-earned-income-tax-credit-3192922>