Asset Disparity in America: A Historical Glimpse

By the Chalmers Center for Economic Development

THE HISTORY OF ASSET DISPARITY

In order to understand asset disparity in America, one must understand the basics of some of the institutions that have historically influenced asset accumulation. There are many reasons for the current and growing disparity along economic and racial lines. It is not solely attributable to government regulation and policy, but many scholars suggest that these may have an extraordinarily large effect. At the very least, we can say with confidence that access to the four aforementioned institutional determinants of saving has been limited for the poor and racial minorities in comparison with wealthy and white individuals.

One of the first instances of pro-asset policy was the Homestead Act of 1862. This act allowed people to purchase 160 acres of land for a comparatively small price. This federal policy to redistribute land wealth, in its effect, excluded African Americans and Native Americans. Qualification requirements were tailored toward European Americans, making them better poised to take advantage of this incentive. This is particularly problematic since as many as a quarter of the current adult population in the US are descendants of beneficiaries of the Act and "its legacy of property ownership, upward mobility, economic stability, class status, and wealth."[i]

The GI Bill provides another example of a pro-asset building policy. However, like the Homestead Act, the benefits tended to fall disproportionately to white Americans. The GI Bill initially provided tuition payments and subsistence stipends for veterans of WWII to attend college. The cost of this program was about $81 billion in 2001 dollars. Later, about 9.8 million GIs benefited from a program that provided subsidized loans for homes and small business start up. These programs were extremely successful at creating assets. The problem is that discrimination was rampant in the credit, technical, labor, and education markets. The effect was that few minorities benefited from the program.[ii]

Housing Act of 1949

This act helped many Americans become homeowners. However, it also set aside federal money for the clearance of "slums," which ultimately force many low-income people out of their neighborhoods. The act also guaranteed a large number of mortgages. The problem was that the guarantee was only good for new construction, not for home renovation. The result was an acceleration in suburb growth and a decline of property values inside the city. Both of these tended to disproportionately hurt racial minorities and help middle-class white families.

The Federal Government has also encouraged asset building through housing subsidies. The Federal Housing Authority (FHA) has helped millions of Americans secure loans since the 1930s. However, its assistance has historically favored white, middle-class households and encouraged flight from urban areas.[iii] In addition to the FHA, housing has been bolstered by the tax treatment of mortgage interest. The poor in America usually do not own homes. Thus, this program does not help them. In the mid-90s, direct expenditure on low-income housing amounted to about $24 billion annually.[iv] During the same time tax expenditures on the home mortgage interest deduction were more than twice that amount.[v]

The effects of pro-asset tax policies extend beyond housing. Many Americans save for retirement through tax deferred, and often employer matched, IRAs, 401(k)s, and 403(b)s. These tax breaks tend to miss the low-income population because they lack connections to financial institutions and therefore do not have these special retirement savings vehicles. Additionally, employer matches are usually only available in high-quality jobs that the poor cannot secure for a variety of reasons including the inequitable education system.

Because pro-asset policies leverage existing wealth and are largely implemented through the tax system, they have contributed to the current disparity. In 2003, it is estimated that these programs cost the federal government $335 billion. About $111.66 billion went to households that make over $1 million and only about $16.75 billion went to the bottom 60% of taxpayers.[vi] Thus it is not surprising that the wealthy have an easier time adding to their asset base than do the poor.

Exclusion from pro-asset policies is only one side of the story. Some public assistance programs have also hamstrung the poor's ability to acquire assets. These programs were developed to serve as a safety net for the poor and have focused primarily on income maintenance. Historically they have penalized the poor for acquiring assets by discontinuing benefits. Therefore, low-income Americans were forced to deplete their assets before qualifying for welfare assistance. With the move from Aid to Families with Dependent Children (AFDC) to Temporary Assistance for Needy Families (TANF) in 1996, states are beginning to change these policies. However, there is still a long way to go. Moreover, there is some concern that the poor are not yet aware that asset limits have been relaxed.

This combination, of lack of access to asset building programs, coupled with asset accumulation disincentives, has helped give rise to the shocking disparity displayed in the table toward the beginning of this section. A perfect example of broken economic and political systems contributing to poverty continues to play out right in front of us. This disparity was actively created and will not be rectified unless actively addressed. A lack of intervention will result in the classic perpetuation of poverty over generations to which we have grown accustom.

HISTORY, PREVIOUS OUTCOMES, AND PRESENT STATE OF IDAS

History

A collaborative effort between The Center for Social Development and The Corporation for Enterprise Development resulted in The American Dream Demonstration (ADD). ADD was a broad-based, national, publicly and privately funded matched savings demonstration designed to assess the efficacy of Individual Development Accounts (IDAs) as an asset-building tool for poor Americans. The bulk of the demonstration began in September of 1997 and finished by the end of 2001. For policy and research purposes, they sought to answer the question, "Can the poor save?" Matched savings (IDA) services were delivered through 14 host organizations to 2,350 participants who on average accumulated $1,609 in net assets (IDA savings + match).[vii] This is one simple measure of savings accumulation. However, further analysis of ADD outcomes[viii] indicates that matched savings are effective tools for helping individuals save, acquire assets, and develop personal finance skills.

Since ADD, matched savings (IDAs) have enjoyed considerable success. Through the Assets for Independence Act, the Office for Community Service has $25 million annually to use in funding of matched savings (IDAs) via local programs.[ix] The Office of Refugee Resettlement offers a similar program. Currently there are more than 500 programs operating throughout the United States.[x] Most of these programs seek to operate on a large scale. They do a good job of effecting change on a systemic level by helping a large number of people obtain assets and a financial education.

HOW SHOULD THE CHURCH RESPOND?

The "matched savings (IDA) industry" has allowed many poor individuals to accomplish a lot. But now we must ask the question: In light of all this, what can and what should the church do? There are multiple answers that are appropriate to this question. For instance, one appropriate response would be, "Church members should start a matched savings (IDAs) program (independent of the church) and seek to reach as many people as possible in our local community." This is an extremely valid endeavor and more congregants should consider going this route.

However, the Chalmers Center believes that the church is in a unique position to use IDAs to declare and demonstrate the Kingdom of God. This means doing matched savings (IDAs) holistically, which will usually require operating on a small, very focused, and intentional scale. In order for the ministry to be holistic it must address, over time, the broken relationships and the broken systems which oppress both the person and the individuals administering the matched savings. These include:

Relationship with God: Every aspect of the matched savings ministry should point to the fact that the Lord is King of Kings. This message is best learned in the context of relationships with others seeking to know Him. Both the participants and the administrators should come to a fuller understanding of who the Lord is. The duration of an IDA affords this opportunity.

Broken Relationship with Self: The program should help individuals recover their true identity as fallen image bearers, redeemed by the work of Christ, and empowered by the Holy Spirit to live in community as children of God. Both the poor and the non-poor suffer from a *poverty of being*. Interacting with one another across socio-economic lines for a prolonged period of time, offers an opportunity for healing in the lives of mentors, participants, financial literacy counselors, and onlookers.

Broken Relationship with Others: A holistic matched savings program offers participants, mentors, and financial literacy counselors the opportunity to develop strong relationships with one another over time. Additionally, participants can develop relationships with one another through peer-group meetings and financial literacy sessions. This is a place where "iron can sharpen iron." Hopefully, the end result is that administrators as well as participants are better spouses, parents, neighbors, and community members.

Broken Relationship with the Rest of Creation: Through financial literacy and mentorships, individuals have the chance to learn how to be good stewards of the Lord's resources. In opening the door to asset ownership, a matched savings increases the opportunity and the need to practice good stewardship. This is chance for the poor to address their *poverty of stewardship*. Expect image-bearing participants to have creative and valuable ideas, because although they may not steward much by our standards they do have stewardship experience. Sharing these experiences combats a *poverty of being*.

Broken Systems: Matched savings are necessary because of the asset inequality that has been exacerbated and perpetuated by unjust policies and institutions. By offering this opportunity to the poor, a matched savings program can facilitate justice by mitigating the effects of broken systems.

When the church engages in matched savings in a holistic way, expect good things to happen. They can be a powerful tool for blessing, reconciliation, and justice in the lives of all involved. This is not only an opportunity to serve those whose histories and life circumstances are broken, it is an opportunity to walk with them, love and be loved by them, and together experience more fully the healing that is offered in our Lord Jesus Christ.

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[i] Shapiro, T. M. (2004). *The Hidden Cost of Being African American*. Oxford: Oxford University Press.

[ii] Information in this paragraph taken from:
Shapiro, T. M. (2001). The Importance of Assets. In T. M. Shapiro, & E. N. Wolff (Eds.), *Assets for the Poor: The Benefits of Spreading Asset Ownership* (pp. 11-33). New York, New York: The Russell Sage Foundation.

[iii] Carter, T., & Shook, J. (2006). Our Nation's Housing Crisis. In J.S. Shook (Ed.), *Making Housing Happen: Faith-Based Affordable Housing Models* (pp. 10-27). St. Louis, Missouri: Chalice Press.

[iv] Shapiro, T. M. (2001). The Importance of Assets. In T. M. Shapiro, & E. N. Wolff (Eds.), *Assets for the Poor: The Benefits of Spreading Asset Ownership* (pp. 11-33). New York, New York: The Russell Sage Foundation.

[v] Shapiro, T. M. (2001). The Importance of Assets. In T. M. Shapiro, & E. N. Wolff (Eds.), *Assets for the Poor: The Benefits of Spreading Asset Ownership* (pp. 11-33). New York, New York: The Russell Sage Foundation.

[vi] Schreiner, M., & Sherraden, M. (2007). *Can the Poor Save?: Saving & Asset Building in Individual Development Accounts*. New Brunswick, New Jersey: Transaction Publishers.

[vii] Schreiner, M., & Sherraden, M. (2007). *Can the Poor Save?: Saving & Asset Building in Individual Development Accounts*. New Brunswick, New Jersey: Transaction Publishers.

[viii] Schreiner, M., & Sherraden, M. (2007). *Can the Poor Save?: Saving & Asset Building in Individual Development Accounts*. New Brunswick, New Jersey: Transaction Publishers.

[ix] Taken from The Administration for Children & Families web site:
http://www.acf.hhs.gov/programs/ocs/afi/guidance.html#policy

[x] Take from The Corporation for Enterprise Development web-site: www.cfed.org