EXPLAINING THE RACIAL/ETHNIC WEALTH GAP

WILHELMINA A. LEIGH, PH.D.

ANNA L. WHEATLEY

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ASSET BUILDING

JOINT CENTER FOR POLITICAL AND ECONOMIC STUDIES

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Joint Center for Political and Economic Studies

1090 Vermont Ave, NW, Suite 1100

Washington, DC 20005

www.jointcenter.org

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FOREWORD

Throughout our nation's history, a huge gap has existed between the wealth holdings of white Americans and people of color (African Americans, American Indians/Alaska Natives, Asian Americans, Hispanics, and Native Hawaiians and Other Pacific Islanders). To provide an understanding of the causes and nature of this gap, as well as to share knowledge about policies, practices and programs that can narrow this gap, the Joint Center for Political and Economic Studies conducted several analyses of asset building among low-income communities of color.

This report, prepared with generous support from the Ford Foundation, explores the determinants of wealth and of the racial/ethnic disparities in asset and wealth accumulation. The narrative provides an overview of past research that has addressed this issue and highlights the most relevant findings. Its goal is to shed light on the causes of the racial/ethnic wealth gap and to provide answers to the question, "What's race got to do with it?"

The analysis in this document also amplifies the findings from recent Joint Center publications that examined policies, practices and programs found to be effective with low-income communities in selected states. Twenty (20) states were the focus of this earlier work. Half of these states (Delaware, Hawai'i, Iowa, Maine, Michigan, Minnesota, New Hampshire, Vermont, Washington, and Wisconsin) were rated highly on asset-building outcomes for low-income people, while the other half (Alabama, Alaska, Arizona, Florida, Georgia, Mississippi, Nevada, New Mexico, South Dakota and Texas) received low ratings on these outcomes. The correlation between the racial compositions of these two sets of states and their asset-building outcomes prompted the exploration of the role of race in asset building provided here.

I would like to extend special thanks to Dr. Wilhelmina A. Leigh of the Joint Center, as well as to her research assistant Anna L. Wheatley. Their work, along with that of other Joint Center staff members, has produced a document that will provide insight and guidance for advocates and policymakers who are striving to close the racial/ethnic wealth gap.

Ralph B. Everett
President and CEO
Joint Center for Political and Economic Studies

The racial/ethnic wealth gap in this country is both huge and persistent. The ratio between the median net worth of white households and African American households is nearly 7:1, while the white-Hispanic ratio is nearly 5:1 (Bucks, Kennickell, and Moore 2006). Despite increased awareness of these gaps, clear consensus has yet to emerge about the steps needed to narrow them. Some of this lack of consensus relates to a lack of understanding of the causes of this disparity.

This report explores the determinants of wealth and of the racial/ethnic disparities in asset and wealth accumulation. The narrative provides an overview of past research[1] that has addressed this issue and highlights the most relevant findings. Its goal is to shed light on the causes of the racial/ethnic wealth gap and to provide answers to the question, "What's race got to do with it?"

This document is an adjunct to recently published analyses of practices, policies and programs most effective at enabling low-income communities of color to build wealth (Leigh et al. 2009; Leigh and Wheatley 2009). These analyses were conducted by the Joint Center for Political and Economic Studies, with support from the Ford Foundation and were based on data from two sets of states selected by their rankings on overall asset-building outcomes.[2]

During state selection for these reports, a striking pattern was noted with respect to the rankings on overall asset outcomes. Among all 50 states, the states with more favorable overall asset outcome grades[3] tended to be more homogeneous in racial/ethnic population composition than states with less favorable outcome grades. In fact, of the 10 states that received the overall grade "A" on asset outcomes, eight have white, non-Hispanic populations of greater than 85 percent (or "nonwhite" populations of less than 15 percent). Conversely, of the five states that were graded "F" on asset outcomes, three have "nonwhite" populations greater than 40 percent. This pattern suggests the relevance of race to the differences in financial security and economic well-being observed and provided the motivation for this document.

This report is organized as follows. First, the findings from the related Joint Center reports are discussed, followed by additional detail on measures of the racial/ethnic wealth gap and a brief overview of historical factors associated with race and wealth. Next, explanations for racial/ethnic wealth inequality of three broad types—individual or personal constructs, interpersonal constructs, and institutional or societal constructs—are discussed. Explanatory factors associated with state policy decisions also are explored. Opportunities to address some of the obstacles and challenges are addressed as well.

BACKGROUND

Joint Center Analyses

Because policies, practices and programs that foster asset building are targeted by income rather than by race/ethnicity, our initial step was to identify policies, practices and programs most effective at enabling low-income persons—without regard to race or ethnicity—to build wealth. Thus, the states studied during the first part of the Joint Center project ("Year One states") were highly ranked for asset-building outcomes among low-income residents in the 2007-08 *Assets and Opportunity Scorecard*, produced by the Corporation for Enterprise Development (CFED).[4] These states were: Delaware, Hawai'i, Iowa, Maine, Michigan, Minnesota, New Hampshire, Vermont, Washington and Wisconsin (Leigh et al. 2009). During the second part of the project, 10 states ("Year Two states") with larger populations of color and that were ranked less highly on[5]—or deemed less effective at achieving—various asset-building outcomes among their low-income residents were analyzed (Leigh and Wheatley 2009). The states analyzed were: Alabama, Alaska, Arizona, Florida, Georgia, Mississippi, Nevada, New Mexico, South Dakota and Texas.

Factors generally viewed as supportive of asset accumulation among low-income people—socioeconomic, legislative/political, statewide advocacy for asset building and structure of the state tax system—were identified and assessed for each of the 20 states selected. Additionally, the existence of promising practices, policies and programs was determined in several areas of asset building, including Individual Development Account (IDA) programs, state earned income tax credit programs (EITCs), asset limits within public assistance programs, homeownership support, college savings plans, and workforce development.

Year One (highly ranked) states as a group were found to fare better than Year Two (low-ranked) states on several of the measures of factors associated with asset accumulation—median household income, bachelor's degree educational attainment and state per capita Gross Domestic Product (GDP). Thus, it could be concluded that Year One states generally have environments more conducive to asset building. At the same time, the findings suggest that while greater economic security and opportunity for residents may be available in Year One states than in Year Two states, positive outcomes are not necessarily distributed equally across racial/ethnic groups therein. In fact, for several measures, people of color fared particularly poorly in Year One states. Thus, the findings from these Joint Center reports suggest a complicated relationship among the underlying factors, the programs, policies and practices, and the outcome rankings/grades of states. A fuller understanding of the role of race/ethnicity in these relationships requires a more detailed examination.

Wealth Inequality

Despite growth over time in net worth for families of all racial/ethnic groups, in 2007, the median net worth for white non-Hispanic families ($170,400) was much higher than the median net worth for nonwhite or Hispanic families ($27,800) (Bucks et al. 2009). In addition, changes in net worth differed markedly between all nonwhite or Hispanic families and African American families in the period 2004 to 2007. All nonwhite or Hispanic families saw a slight increase of 2 percent in median net worth between 2004 and 2007, while African American families experienced a decline of 24 percent in their median net worth from 2004 ($22,400) to 2007 ($17,000).

Data from this same time period for households of various racial/ethnic groups show a similar pattern. In 2006, median net worth for households of all racial/ethnic groups in the U.S. was $88,803. **(See Table 1 page 15.)** Among all U.S. households, those headed by people of color (i.e., African American, Asian, Pacific Islander, American Indian, Aleut, Eskimo or Hispanic) had only about 16 percent of the net worth of white households ($20,132 compared to $122,505). African Americans and Latinos—with $11,925 and $17,968 median net worth, respectively—had even lower median net worth than both whites and all nonwhites.

Among the 20 states included in the Joint Center analyses, wealth inequality varies to some degree.[6] **(See Table 1 page 15.)** This is true even though people of color in the state with the lowest degree of wealth inequality (Nevada) have only 41 percent of the net worth of whites. Interestingly, the two states with the highest degree of wealth inequality—Michigan and Wisconsin—are Year One states, highly ranked on overall asset outcomes. In Michigan the median net worth of nonwhites equals seven percent of the median net worth of whites, and in Wisconsin this figure is five percent.

A recent study examining wealth inequality by race (Gittleman and Wolff 2004) found that the white-black wealth gap (as measured by mean wealth for African Americans divided by mean wealth of whites) during the period 1984-1994 would have been narrowed if the following were common to the two groups:

- If blacks had inherited similar amounts as whites—This would have narrowed the racial wealth gap by four percentage points;
- If blacks had levels of family income comparable to whites—This would have narrowed the gap by five percentage points; and
- If blacks had savings portfolios whose composition was similar to whites—This would have narrowed the gap by five percentage points.

These findings illustrate the fact that wealth and therefore the racial wealth *gap* are best understood in terms of the various components therein. As Gittleman and Wolff (2004) explain, "… a more complete understanding of the forces behind the racial wealth gap as well as the efficacy of various public policies designed to narrow it hinge on what causes the wealth functions to differ so much by race in the first place" (p. 195).

Roots of Wealth Inequality: Race-based Obstacles to Asset Accumulation

The existing racial/ethnic gaps in wealth are rooted in the history of various racial/ethnic groups in the United States. Scholars agree that individuals have been treated dramatically differently by the U.S. government based on race, and that these differences continue to have lasting effects (Lui et al. 2006). As Meizhu Lui (2004) notes, "… a brief review of American history, viewed through the lens of wealth, reveals a consistent pattern of race-based obstacles that have prevented Native Americans, African Americans, Latinos, and Asians from building wealth at all comparable to whites" (p. 43).

The earliest example in American history of the expropriation of assets from people of color was the European settlement of the Americas. As the European population increased and expanded across what would become the United States, Indian land was transferred and the native populations relocated—often through direct government involvement in the form of treaties (Lui 2004). The expropriation of assets from African Americans occurred when they were forcibly brought to the U.S. as slaves. This "most fundamental of wealth divides" was further perpetuated by failed Freedmen's Bureau land distribution plans, subsequent sharecropping arrangements, and separate and unequal legislative policies that peaked during the Jim Crow period (Lui et al. 2006).

Latinos have a highly diverse history in the settlement in the United States. Indeed, their many different countries of origin and varying periods of immigration contribute to this diversity and make it difficult to discuss them as a single group. Histories of specific groups, however, provide examples of the early development of the wealth divide. For example, in negotiations surrounding the 1848 Treaty of Guadalupe Hidalgo—which ceded to the U.S. half of Mexico's land—Mexican landowners were initially promised that they would retain ownership (Lui 2004). However, this was not to be so, and the treaty transferred a huge parcel of land from Mexicans to Anglo settlers.

Though today Asians have moved closest to economic parity with whites and are often referred to as the "model minority," this group also has faced discrimination based on race that has limited their asset accumulation. For example, Chinese immigrants drawn to the Gold Rush during the 19th century were subject to the Foreign Miners Tax, which was designed to push them out of the mining industry (Lui 2004). In addition, the government jobs and services that this tax underwrote exclusively benefitted whites. It is also important to recognize that while Asian Americans as a group tend to be better-off than some other people of color, they also are a diverse subpopulation, and major variations in economic status exist among Asians of different nationalities.

During the years following the Great Depression, several key social programs and policies were instituted—e.g., Social Security, Unemployment Insurance, and the minimum wage law. These programs and policies did not cover domestic and agricultural work, two of the most significant occupations for blacks and other people of color (Lui 2004). In particular, when Social Security was first enacted in 1935, domestic workers were excluded from coverage (DeWitt 2003). Though they were included in 1954 (Social Security Administration n.d.), domestic workers, as well as farmworkers, self-employed workers, and election workers, were (and still are) required to earn more money than all other types of workers in order to get one "work credit" (Social Security Administration 2009). Because it is more difficult for domestic workers to qualify for work credits, many domestic workers do not earn the maximum four work credits per year and, therefore, receive very low Social Security benefits or do not qualify for Social Security at all.[7]

In addition to Social Security, other programs and initiatives established by the Homestead Act, the Home Owners' Loan Corporation, and the GI Bill of Rights also have favored white people (Lui et al. 2006). For example, whites are more likely to have benefited from the land grants of the Homestead Act, to have received loans to avoid foreclosure during the Depression, to have been beneficiaries of tax-funded support for higher education, and to have been recipients of Social Security benefits (Lui 2004). Greater average assets have allowed—and continue to enable—whites to transfer advantage across generations in the form of college tuition payments, down payments on homes, or simply as parents who do not need support from their children in old age (Adelman 2003).

EXPLAINING RACIAL WEALTH INEQUALITY

Many theories and models have been offered to describe and explain asset and wealth accumulation. The analysis in this document draws on the framework offered by Beverly et al. (2008), whereby both individual and institutional constructs influence asset accumulation through savings and investments. Interpersonal constructs—specifically intergenerational and interhousehold transfers and social networks—also contribute to asset building. **Figure 1** (page 14) illustrates the modified framework that this report follows. To illustrate the influence of individual or personal constructs—which include economic resources and needs, saving and portfolio composition, and home equity—differences in the process of wealth accumulation between whites and persons of color are examined. Differences in *inter vivos* and intergenerational transfers, as well as hypotheses surrounding social networks, are discussed to illustrate the influence of interpersonal constructs. To illustrate the influence of institutional and societal constructs,[8] differences in factors affecting state policy decisions are discussed. Many of these differences emanate from historical obstacles encountered by people of color in the United States.

Though data-based analyses are preferred, severe limitations exist. As permitted, state-level data for specific racial/ethnic groups are used to quantify racial/ethnic differences in the various constructs identified as relevant to the overall wealth gap.

Individual/Personal Constructs

Clearly, individual choices affect asset accumulation. Specifically, economic resources and needs, financial literacy, and psychological variables influence saving and investing and ultimately asset accumulation (Beverly at al. 2008). Most directly, individual-level characteristics and circumstances influence the amount of money or other resources available to meet financial needs and to save. By definition, low-income individuals have limited financial in-flows and less money to save after meeting expenses. This discussion of the individual determinants of asset accumulation and wealth will provide an overview of racial/ethnic differences in various aspects of savings and portfolio composition. As Beverly et al. (2008) point out, an understanding of individual constructs can support the design of institutions that encourage saving and asset accumulation more effectively.

Economic Resources and Needs

An individual's resources and needs dictate the degree to which funds are available for the creation of wealth. Thus, household income reflects the potential for individuals to save and build wealth. Gittleman and Wolff (2004) suggest that racial differences in wealth accumulation may emerge "because saving as a proportion of current income tend[s] to rise with current income, and whites have higher levels of current income than do African Americans" (p. 201). In 2006, the U.S. median household income was $32,372 for Blacks or African Americans and $38,747 for Hispanics, versus $52,375 for whites (U.S. Census Bureau 2006). In other words, a racial/ethnic disparity exists at this most basic level of economic security. Among the 20 states included in the Joint Center reports, Year One (highly-ranked) states generally have higher median income (for households of all racial/ethnic groups combined) than do Year Two (low-ranked) states. In particular, six of the 10 Year One states (Delaware, Hawai'i, Minnesota, New Hampshire, Washington and Wisconsin), but only two (Alaska and Nevada) of the 10 Year Two states, have higher median household income (all races) than that of the United States.

When income is compared across the 20 states included in the Joint Center reports, blacks appear to do better in states where they represent small percentages of the total state population. Among states with black population representation greater than the U.S. average (12 percent in 2006), there appears to be a geographic split in terms of black median household income: Black median income in Northeastern/Mid-Atlantic states tends to be higher than the U.S. black median income ($32,372), while black median income in Southern states tends to be lower than the U.S. black median income. **(See Table 2 page 16.)** Of the 20 states, in those whose black population shares exceed that of the United States, black income is highest in Delaware, while it is lowest in Alabama and Mississippi.

A different pattern is noted for the distribution of median income for Hispanic households across the 20 states. Median Hispanic household income for the U.S. overall ($38,747) is slightly higher than that of African Americans, though it is still much lower than that of whites ($52,375). While black median household income is associated with the share of a state's population that is black or African American, Hispanic median household income appears to be associated with whether a state is a Year One (highly ranked) or Year Two (low-ranked) state. This association is counterintuitive, however. When states are ranked by Hispanic median household income, six of the 10 states in the bottom half (i.e., with lower median household income) are Year One States. In contrast, six of the 10 states with higher median income for Hispanic households are Year Two states. **(See Table 3 page 17.)** It is unclear why Hispanic household income seems to be inversely associated with state asset outcome rankings.

When income inequality is assessed, blacks generally fare poorer than whites across the 20 states. **(See Table 2 page 16.)** With the exception of Maine, median household income for blacks is at least $10,000 lower than that of whites. Among states with black population shares greater than that of the U.S. , the black-white median household income *gaps* in these states are close to that of the United States ($20,003). Among most of the states with black population shares lower than that of the U.S. (12 percent in 2006), somewhat less black-white median income inequality is noted. Alaska, Minnesota, Texas and Wisconsin are notable exceptions; these states exhibit the highest black-white median income inequality of all 20. In Minnesota;the state with the largest gap—black median household income is $25,859 lower than that of whites.

The U.S. Hispanic-white median household income gap ($13,628) is smaller than the black-white gap. Hispanic-white income inequality varies widely across the selected states, however, just as it does for African Americans. **(See Table 3 page 17.)**

Saving and Portfolio Composition

Economic constraints are impediments to saving. Blacks are more likely than whites to report that they "want to save but can't." Although the difference between blacks and whites reporting this in 1998 (46 percent of blacks versus 43 percent of whites) is small, in 2009, this gap has widened notably—53 percent of blacks versus 35 percent of whites (Leigh and Huff 2007; JCPES 2009). Meanwhile, a greater percentage of whites (about 37 percent in 1998 and 41 percent in 2009) than blacks (about 26 percent in 1998 and 33 percent in 2009) say they "regularly save or save a lot." Among blacks, those who "want to save but can't" comprise the largest share in both 1998 and 2009.

Measures of portfolio composition capture whether or not a household owns various assets, or has money stored in various informal ways (such as cash kept at home), and the amount of assets held in each vehicle. Savers and investors most commonly hold assets in bank accounts, certificates of deposit (CDs), stocks or mutual funds, bonds and retirement accounts. Racial/ethnic disparities are evident in the composition of savings portfolios.

Having a bank account is viewed as a first step toward asset building. Even at this initial step, disparities are evident. Most whites (nearly 95 percent) have a bank account, compared to about three-fourths (75 percent) of both African Americans and Hispanics (Comptroller of the Currency 2006). Low- and moderate-income individuals of all racial/ethnic groups are less likely to have bank accounts, and the between-race/ethnicity gaps persist across income levels, with whites more likely to be banked than are African Americans and Hispanics. According to a 2007 poll of low-to-moderate income individuals, 84 percent of whites are banked, compared to 47 percent of Hispanics and 53 percent of African Americans (Encuesta, Inc. 2008). [9]

The limited data on liquid savings—those that can be easily accessed and drawn upon, such as checking accounts—also reflect differences by race/ethnicity. The median value of all transaction accounts held by white non-Hispanics ($5,500) is more than three times that of nonwhites or Hispanics ($1,600) (Bucks et al. 2009).

Blacks also are less likely than whites (and the general population) to have money in savings accounts, CDs, or money market accounts (nearly 51 percent of blacks versus 72 percent of whites) (JCPES 2009). Differences also are evident in the ownership of stocks or mutual fund shares (27 percent of blacks versus nearly 49 percent of whites) and bonds (17 percent of blacks versus 27 percent of whites). Black ownership of stocks or mutual fund shares has decreased slightly since 2005 (from 31 percent to roughly 27 percent), while ownership of bonds has remained constant (16 percent to 17 percent) (Leigh and Huff 2007).

The amount of savings earmarked for retirement suggests the likelihood that a household will live comfortably in the years after exiting the workforce. In 2004, 27 percent of households headed by someone ages 47 to 64 did not have enough retirement savings (including Social Security benefits) to replace half their current income. For black and Hispanic households, this figure was 39 percent (Boshara, Cramer, and O'Brien 2007). The rates of retirement account (e.g., IRA, Keogh, and employer-sponsored plans) ownership may be a factor in the difference. Nearly three of every five (58 percent) white non-Hispanic families have retirement account holdings versus 39 percent of nonwhite or Hispanic families (Bucks et al. 2009). More specifically, 42 percent of whites own an IRA or Keogh plan, compared to seven percent of African Americans and eight percent of Latinos (U.S. Census Bureau 2008b). Among those with retirement accounts, the median value for white non-Hispanic families ($52,700) exceeds that for nonwhite or Hispanic families ($25,400) (Bucks et al. 2009).

Recent survey data shed additional light on racial/ethnic differences in retirement savings. A survey of participation in employer-sponsored 401(k) plans concluded that the lower participation rates, smaller contribution rates, and limited equity exposure of people of color, coupled with higher withdrawal rates, result in smaller average account balances for these groups (Ariel Education Initiative and Hewitt Associates LLC 2009). Employees who are African-American (66 percent) and Hispanic (65 percent) are less likely than those who are white (77 percent) and Asian (76 percent) to have a 401(k) account. In addition, when compared to whites, blacks were found to contribute (as a portion of pay) 11 percent less, and Hispanics were found to contribute 6 percent less, to their accounts. These findings hold even after controlling for a range of factors, such as salary, job tenure, and age.

Home Equity

Home equity—the market value of a home less the total value of the principal owed on mortgage(s)—is an important component of wealth, and represents a large proportion of the wealth of homeowners of color (Corporation for Enterprise Development 2008). Nationally, among white homeowners, home equity constitutes nearly 52 percent of median net worth, compared to 71 percent of median net worth for black homeowners and almost 74 percent for Hispanics. **(See Table 4 page 18.)** The heavier weight of home equity in portfolios of people of color in part relates to the fact that whites are more likely than people of color to have significant holdings in other assets.

White families also have both significantly higher rates of homeownership and home equity of greater value than racial and ethnic minorities. In 2008, homeownership rates for blacks (nearly 46 percent) and Latinos (49 percent) lag far behind those of whites (roughly 73 percent) (U.S. Census Bureau 2008a). The value of home equity for whites also greatly exceeds that for blacks. In 2006, median home equity for Hispanics and blacks were $92,000 and $70,000, respectively, versus $103,000 for whites (Corporation for Enterprise Development 2008).

Krivo and Kaufman (2004) noted two relationships associated with homeownership by black and Hispanic households. The first is that blacks and Hispanics have notably less mean or average home equity than whites. The second is that blacks and Hispanics have low median housing equity because homeownership is so much less common among them than among whites. The authors note that even when they purchase homes, more than half of black and Hispanic households have less than $52,882 and $60,000 in median home equity, respectively, while the white median is at least $20,000 higher (2001 dollars).

Examining the socioeconomic and demographic sources of racial and ethnic inequality in housing wealth among the preretirement population (aged 51-61), Flippen (2001) found that even after accounting for numerous life-cycle, resource, and social-psychological factors, blacks and Hispanics lagged significantly behind whites. Decomposing the amount of housing inequality that is attributable to each set of factors by substituting white household characteristics into black and Hispanic housing equations reveals that, for both blacks and Hispanics, compositional differences in household resources (particularly income) are the most important source of the inequality with whites in both homeownership and housing equity. Specifically, "… racial differences in resource, family structure, employment, taste, and geographic characteristics account for nearly 95% of the original race gap in homeownership" (Flippen 2001, p. 137).

Moreover, it was noted that the housing equity payoff to age and education is significantly smaller for nonwhite households than for white households. In other words, age and education "buy" black households and Hispanic households less housing equity than they buy for whites. This may indicate that the housing choices of black and Hispanic households are constrained by something (e.g., geographic region, the effects of which differ dramatically across racial/ethnic groups) other than resource and demand characteristics. Flippen (2001) further explains that blacks and Hispanics are more adversely affected in housing markets characterized by high entry costs (i.e., the Northeast and West). The author suggests that the persistence of this disparity is likely related to discrimination and its role in undermining nonwhite asset accumulation, particularly with respect to homeownership.

Interpersonal Influences on Asset Holdings

Intergenerational and Intervivos Transfers

Gittleman and Wolff (2004) found that, when examined by age, the wealth profile for whites has the traditional hump shape—with wealth increasing through the prime earnings years and then tapering off—while the profile for African Americans tends to be flat regardless of age. The authors further note that a large gap in wealth by race/ethnicity for young household heads, who have had little or no time to accumulate assets through saving from income, suggests the importance of intergenerational transfers—both inheritances and intervivos gifts—in the unequal footing on which young white and African American household heads start off (Gittleman and Wolff 2004).

Over the period 1984 to 1994, 12 percent of whites received inheritances,[10] while only one percent of African Americans did so (Gittleman and Wolff 2004). The average inheritance was also greater for whites ($75,236) than African Americans ($48,946). Inheritances played almost no role in the gains in wealth among African Americans over the 1984-94 period, contributing only 3 percent to their increase, versus 14 percent for whites (Gittleman and Wolff 2004).

Furthermore, if—as research suggests—children's asset allocations are influenced by those of their parents, the pattern of few African Americans having financial assets such as stocks and bonds will persist over time (Chiteji and Stafford 1999). Thus, parental ownership of other assets, such as homes and retirement accounts, may carry over across generations as well.

Social Networks

Social network members foster or hinder efforts to save and maintain assets. Pro-saving examples include encouragement, positive reinforcement, and reminders to save, all of which send the message that saving is desirable. Conversely, social network members may discourage saving through the notion that "extra" income should be shared. For example, an ethnographic study (Stack 1974, as cited in Beverly et al. 2008) showed that frequent demands from social network members made it difficult for blacks to accumulate assets. The pressure to share savings with others may be stronger for black families than for white families for cultural reasons. The pressure also may be stronger for low-income families of any race, who are more likely than middle- and upper-income families to have social network members who are struggling financially. These findings suggest that the social context of low-income communities of color needs to be assessed and factored into asset-building efforts for these groups.

Social networks also may affect middle class families, particularly among communities of color (Chiteji and Hamilton 2005). Examining data on middle-class families, Heflin and Pattillo (2002) found that even the nonpoor may struggle to accumulate assets if they have poor relatives who rely on them for support. The authors note that account ownership (having money in savings or checking accounts, money market funds, credit unions, or U.S. savings bonds) is limited by cash flow obligations to disadvantaged family members. Specifically, "Kin can matter because of both the material and psychological strain or boost that family members represent, as well as the presence or absence of certain forms of capital" (Heflin and Pattillo 2002, p. 236).

Institutional/Societal Constructs

Institutional and societal constructs encompass a variety of concepts. For the purpose of this analysis, underlying factors that relate to whether state environments are conducive to financial opportunity and asset accumulation—as discussed in related Joint Center reports (Leigh et al. 2009; Leigh and Wheatley 2009)—are used to define these constructs. Many of the promising policies, programs and practices for asset building for low-income individuals are (or are not) implemented via state legislation. Thus, factors associated with state policy decision making and implementation are the primary focus of our analysis of institutional/societal constructs.

For example, Peterson (1995) explains that each type of public expenditure has its own social, economic, and political determinants. Comparing state expenditures, Peterson found that states spend more on developmental programs[11] if they: have more taxable resources; have more residents living in central cities; are controlled by professional legislators; and have more Republican legislators. States spend more on redistributive programs[12] if they: have more taxable resources; are densely populated; have more residents living in central cities; are controlled by professional legislators; and have more Democratic legislators. Given the aim of many asset-building programs to enhance financial security and economic well-being and the focus of the Joint Center's work on low-income communities of color, redistributive policies are chosen as a proxy for assessing state differences in policies, programs and practices related to asset building for this population.

Fiscal Capacity

Research suggests that there is a positive association between fiscal capacity and social welfare spending (or redistributive spending) (e.g., U.S. DHHS 2004, Peterson 1995). Fiscal capacity is generally defined as a state's potential to raise revenue and can be measured in several ways. Two commonly used measures are total taxable resources[13] (TTR) and per capita personal income[14] (U.S. DHHS 2004). Social welfare or redistributive spending may be defined broadly as expenditures intended to improve the well-being of needy and vulnerable populations or to reallocate societal resources from those with more to those with less (Peterson 1995; U.S. DHHS 2004). More specifically, particular programs (e.g., Medicaid or TANF) may be used to measure social welfare spending.

Peterson (1995) found that states with higher per capita tax capacity (measured by an index of TTR) spend more than states with lower TTR on redistributive programs ($3 for every unit increase in taxable resources).[15] Comparatively more is spent by these states on developmental programs ($12 for every unit increase in taxable resources), however. Though the states that fare best on this measure are primarily Year One (highly-ranked) states, when grouped by size of TTR, the distribution of states suggests that the two groups do not differ greatly overall. In other words, Year Two (low-ranked) states do not fare worse than Year One (highly ranked) states per se.[16]

A report prepared for the U.S. Department of Health and Human Services (U.S. DHHS 2004) also compared spending on social welfare programs across states, examining the impact of fiscal capacity and political and institutional factors. In particular, the report found that states with less fiscal capacity (measured by per capita personal income) spent less per capita on social welfare than states with higher fiscal capacity. Thus, it again appears that when resources are limited, developmental programs are favored over redistributive programs.

Among Year One and Year Two states, a comparison of per capita personal income indicates that Year One states generally have greater fiscal capacity than Year Two States. When all 50 states are sorted by per capita personal income (averaged over the period 1977 to 2000), ten of the states included in the Joint Center reports fall into the top half (high relative fiscal capacity) (U.S. DHHS 2004). Seven of these ten states are Year One states (Delaware, Hawai'i, Michigan, Minnesota, New Hampshire, Washington and Wisconsin). In contrast, all seven of the states included in the Joint Center reports that fall into the bottom half (low relative fiscal capacity) are Year Two states (Alabama, Arizona, Georgia, Mississippi, New Mexico, South Dakota and Texas). More recent data (2007) show a similar pattern. Of the 20 states that were the basis of the Joint Center reports, each of the five with the lowest per capita personal income is a Year Two state (U.S. Bureau of Economic Analysis 2008). Conversely, four of the five states with the highest per capita personal income are Year One states.

These findings suggest that fiscal capacity does indeed exert an important influence on social policy across states. While Year One states appear to be advantaged compared to Year Two states in terms of per capita personal income, the finding is less conclusive for state TTR.

Legislative Partisanship and Professionalism

According to legislative theory, partisan divisions (i.e., the percentage of state legislators who are members of the Democratic Party versus the percentage of state legislators who are members of the Republican Party) within a state legislature should have opposite effects on developmental expenditure and redistributive expenditure. Democrats are expected to support higher levels of spending on redistributive programs, while Republicans can be expected to support higher levels of spending on developmental programs. The findings in Peterson (1995) are consistent with this theory, showing an increase of $1 per person in redistributive expenditure and a $6 per person decrease in developmental expenditure for every 1 percent increase in the percentage of Democratic legislators.

Among the 20 states included in the previous Joint Center analyses, a majority (14) are controlled by Democrats in both the lower house (Assembly or House of Representatives) and the upper house (Senate). The legislatures in five of the remaining six (of the 20) states are controlled by Republicans in both houses. The remaining state (Alaska) has a majority-Republican Assembly, but is split 50-50 in the Senate. Each of the highly ranked (Year One) states is controlled by Democrats in both houses and, thus, may be likely to spend more on redistributive expenditures. Equally noteworthy is the fact that each of the six states not controlled by Democrats in both houses is a Year Two (or low-ranked) state (Alaska, Arizona, Florida, Georgia, South Dakota and Texas).

Legislative professionalization as measured by a $1,000 increase in the annual salary of a legislator was associated with a $5 increase in redistributive expenditure and a $3 increase in developmental expenditure (Peterson 1995). Among the 20 Joint Center report states, the highest legislator salaries are found in Delaware, Hawai'i, Michigan, Washington and Wisconsin—all Year One states (Kelderman 2007). Michigan and Wisconsin also are among those states whose legislatures may be characterized as full-time (versus states where legislators spend either more than two-thirds but less than 100 percent of their time, or more than half of their time being legislators)—another measure of professionalization. Conversely, among the eight (of 20) states in which legislators have the lowest pay levels and are less than full time, five (Georgia, Mississippi, Nevada, New Mexico, and South Dakota) are Year Two states. (The other states with less professionalized legislatures are Maine, New Hampshire and Vermont.) Analysis of legislative professionalization suggests that Year One states would be likely to spend more for both redistributive and developmental programs than Year Two states.

Legislative Representativeness

Another factor relevant to the discussion of asset building for people of color is nonwhite representation in state legislatures. Studies of nonwhite representation within state legislatures have primarily focused on descriptive representativeness (the extent to which political institutions look like the people they are intended to represent) and substantive representation (the extent to which institutions act, as measured by their outputs, in the interest of, and in response to, those represented) (Owens 2005). It is thus expected that nonwhite descriptive representativeness can result in substantive representation of the interests of constituents of color. Empirical support for this hypothesis is not conclusive, however.

On the one hand, some scholars have found strong evidence for the success of black legislators in supporting policies important to black constituents, by getting relevant issues on the agenda and into legislation. Bratton and Haynie (1999) and Haynie (2001) have found this to be true for legislation and policies favoring social welfare, economic redistribution, and civil rights issues. Based on studies of state legislatures, black officials are more likely than white officials to introduce bills dealing with welfare and increased government spending, and to support legislation of interest to the black community (e.g., Bullock and MacManus 1981, as cited in Owens 2005).

On the other hand, when substantive representation is defined as the ability of black legislators to influence the *outcome* of legislative initiatives, others have found little support for the existence of substantive nonwhite representation. For example, one study found that state differences in black legislative representation had no influence over per capita expenditures for education, welfare, mental health and hospitals (Nelson 1991, as cited in Owens 2005). Another study found the same lack of association with Aid to Families with Dependent Children (AFDC) benefit levels (Preuhs 2001, as cited in Owens 2005). Interestingly, Preuhs (2001) found that only in those states with Democratic control of both chambers of the legislature did increased black representation improve the individual AFDC benefits allowed.

Analyzing state budgets from 48 states between 1971 and 1994, Owens (2005) found, however, that in two of three policy areas examined (welfare and healthcare, but not education), the greater the representation of black state legislators, the more substantive the influence (quantified by the percentage of a state's total budget directed to that policy area) achieved. Examining AFDC data from 1984 to 1993, Preuhs (2006) also found positive effects of African American legislative representation on AFDC cash benefit levels.[17] In Southern states, however, there was either no effect, or a small but detectible negative effect. This finding supports the notion that racial polarization (e.g., negative individual-level stereotypes of blacks, lower subjective evaluations of black legislative influence, greater income inequality between blacks and whites, and racial cleavage in political party orientations in a political context) may influence the magnitude and direction of the effects of minority representation (Preuhs 2006).

Preuhs (2006) further specified "that minority representation, formal institutional positions held by nonwhite lawmakers, and coalition memberships all operate as mechanisms for influence [but] are conditioned by the racialization of the political context" (p. 585). A highly racialized political context may mitigate, and potentially reverse, the effects of nonwhite presence and incorporation into the legislative body. For example, African American members' views may be marginalized by white lawmakers. On the other hand, Preuhs (2006) noted that outside of highly racialized contexts, policy and influence are positively associated with increasing levels of black representation.

In the majority of the 20 states included in the Joint Center reports, the descriptive representation of black legislators is roughly equal to the state's black population.[18] One would expect this descriptive representation to foster substantive representation of black interests; however, this may be mitigated in some of the Year Two states located in the South, whose political contexts are racialized.

There are only a handful of states in which the proportion of black legislators warrants attention for its lack of representativeness. The greatest differences between the state black population and the percent of black state legislators are found in Delaware (20 percent black population and 8 percent of state legislators) and Mississippi (37 percent black population and 25 percent of state legislators). Substantive representation also may be weaker in Delaware and Mississippi due to the lack of descriptive representation relative to these states' black populations.

Latinos or Hispanics are more likely than African Americans to be underrepresented in state legislatures relative to their state populations. Across all states, Latinos constitute only 3 percent of state legislators, while the Latino population is nearly 15 percent of the total U.S. population (National Conference of State Legislatures 2007b). Among the states in the Joint Center reports, the greatest percentage point differences are found in Nevada (25 percent of state population is Hispanic, while only 5 percent of state legislators are) and Texas (36 percent of state population is Hispanic, compared to 20 percent of legislators). Nearly every state shows a degree of Latino legislative underrepresentation, however. Of the states included in the Joint Center reports that have Latino populations greater than that of the U.S., New Mexico's Latino legislative representation (39 percent) is closest to its Latino state population (44 percent).

Less research has been done on Latino legislative representation than on that of African Americans. One recent study (Bratton 2006) found support for a descriptive representation model in which the ethnicity of the legislator has an independent influence on bringing issues of relevance to many Latinos to the agenda. Differences between Latinos and non-Latinos in legislative agenda setting were noted to be most pronounced for issues such as immigration, bilingual services, and education. In addition, Bratton suggests that Latinos in state legislatures are a largely diverse group, reflecting the diversity of Latinos (and in some cases Latino interests). Thus, it is important to consider differences among Latino legislators when assessing the effect of ethnicity on their political behavior and on legislative outcomes.

Population Composition

The percentage of a state's population that members of racial/ethnic subpopulations constitute has been found to be associated with differences in state spending and policymaking. Particularly with respect to welfare reform and other state assistance policies and programs, larger proportions of racial/ethnic subpopulations are associated with lower levels of state spending on redistributive and social welfare programs and activities. Other research has found the opposite to be true when the proportions of racial/ethnic subpopulations reach certain thresholds. In these instances, larger proportions of racial/ethnic subpopulations are associated with higher levels of specific types of spending. Various theories have been offered to explain these findings. Rigby, Bruch and Soss (2007) explain quite simply that "social groups may matter because of what they themselves want, demand, and pursue or because of what they come to symbolize and portend for other agents in the policy process (p. 2)."

One explanation of the association between nonwhite population composition and social policy outcomes is related to attitudes toward public programs that are shaped by the social construction of the population the public sees the program targeting. Specifically, it is suggested that white Americans seem to make a distinction between what they regard as the "deserving poor" and the "undeserving poor." This distinction has historically been tied to an individual's ability and willingness to work. More recently, however, this distinction has become associated with racial stereotypes. Goren (2008), for example, points to the role of racial predispositions in guiding opinion on social welfare spending—attitudes towards which are, to a degree, race coded. The author explains that whites holding negative attitudes toward African Americans oppose social spending more than those who bear no ill will toward blacks.

Geographic proximity to large nonwhite populations may increase feelings of racial threat among whites and lead to a decrease in support of policies that are viewed as serving people of color (see Keiser, Mueser, and Choi 2004). While opinions differ on the mechanisms through which nonwhite population size may influence policy outcomes,[19] the consensus is that as African American and Latino populations increase, the generosity of social policy declines.

Of particular interest for our work is the finding that a one-percent increase in the nonwhite population was associated with a $2 decrease in redistributive spending (Peterson 1995). Legislative theory poses that a larger nonwhite population results in lower expenditures on redistribution "because of racial divisions and the peculiarities of the system of representation in the US" (p. 96). Larger proportions of racial/ethnic nonwhite populations have been linked to less favorable policy environments, including diminished benefit generosity, more restrictive program eligibility, and enhanced behavioral regulation.

At the same time, the presence of larger proportions of people of color may also mitigate the negative effects discussed. Theories of political incorporation, participation, and representation, suggest that (to a degree) larger nonwhite population size should support the generosity of social policies that are of particular benefit to those nonwhite groups. Rigby, Bruch, and Soss (2007) explain that effectiveness in securing policy concessions from government should be expected as the number of racial minorities reaches "above the threshold needed to secure some degree of direct political power or to figure as important constituents in an electoral or advocacy coalition" (p.

4). Thus, the authors hypothesize that increases in the Latino and black percentages of state populations would be associated with initial declines in social policy generosity, followed by increases in social policy generosity, producing a curvilinear pattern.

Looking at three social policy domains where authority has been devolved to state governments in recent years, Rigby, Bruch, and Soss (2007) examined the relationship between social diversity (in terms of race/ethnicity and class) and social provision (specifically, benefits for immigrants, welfare policies, and the provision of children's health insurance) across the 50 states. The authors found that the size of the black population is negatively associated with generosity in the Temporary Assistance for Needy Families (TANF) program and with immigrant benefits, but is not associated with State Children's Health Insurance Program (SCHIP) generosity.[20] Percent Latino has a positive relationship to immigrant benefits and to SCHIP policy, but was not found to have any significant association with TANF policy. The authors suggest that as the relative numbers of nonwhite populations grow, their effects on policy generosity may depend to a large degree on the extent of their formal incorporation into electoral and legislative institutions.

Keiser, Mueser, and Choi (2004) also suggest and provide research supporting the concept of a "critical point" of "race in the aggregate," above which, increases in nonwhite population lead to increases in nonwhite political power, and the enactment of policies that are more favorable to people of color. Much of the research in this area is based on the findings of Keech (1968, as cited in Brooks and Claggett 1981) who argued that a curvilinear relationship between black payoffs and black electoral power was related to this critical threshold. He explained that at the 30-percent-black-electorate mark, increases in the size of the black electorate would be associated with declining payoffs to blacks due to the increased significance of white resistance. Once the size of the black electorate surpasses 50 percent, however, payoffs to blacks would increase as legislators respond to the numerically dominant blacks. It may thus be expected that areas with proportions of nonwhite populations between 30 percent and 50 percent would have the least favorable policies, since populations of this size will imply a threat (to the white majority) but not be large enough to gain political power.

Given that much of the research on population composition—including that on threshold effects—has been conducted primarily on levels of geography below the state (e.g., at the county level), the degree to which these theories have implications for state comparisons is unclear. Nonetheless, some form of curvilinear relationship has been found by a number of investigators examining different periods, places, and types of issues, and using diverse methods and varying constructs (e.g., Johnson 2003; Keiser, Mueser, and Choi 2004). In other words, research supports the general notion that racial/ethnic composition does indeed have important implications—both direct and indirect—for the societal and political environments that influence policymaking.

SUMMARY AND CONCLUSIONS

This discussion has presented data highlighting the racial/ethnic differences in saving and asset accumulation between whites, and blacks and Hispanics. Blacks and Hispanics in the 20 states featured in recent Joint Center reports (Leigh et al. 2009; Leigh and Wheatley 2009) generally fare worse than their white counterparts in asset accumulation. This pattern is evident in both Year One (highly-ranked) and Year Two (low-ranked) states, and likely stems from differences in the constructs that influence saving and asset accumulation. Additionally, several factors associated with support for and spending on redistributive and social welfare policies/programs are less prevalent among Year Two states, the set of states with larger percentages of people of color. In particular, Year Two states generally have lower fiscal capacity, more Republican legislators and lower legislator salaries.

The racial/ethnic wealth gap is the result of the operation of a number of mechanisms that are rooted in historical inequality and continue to the present. Inheritances, family income and portfolio composition appear to be key explanatory factors for the racial/ethnic wealth gap (Gittleman and Wolff 2004). While the findings point to complex and multifaceted causes, a number of strategies by which to bring about change can be implemented.

As little can be done in the short-term to affect levels of intergenerational transfers, primary attention should be paid to improving economic opportunity and broadening the mix of assets held by people of color. Economic resources present real impediments, as exemplified by the percent of African Americans who "want to save but can't" (nearly 53 percent in 2009). Addressing structural inequalities in education, employment and other economic opportunities are thus essential. Policies such as raising or eliminating asset limits in public benefit programs[21] and programs offering Individual Development Accounts[22] are examples of initiatives that could help lower-income individuals improve their economic situations and build assets.

Unfortunately, some key asset-building initiatives (policies, programs, practices) have not yet been implemented in a number of the states with the largest populations of color and that are currently ranked poorly on asset outcomes (Leigh and Wheatley 2009). Most significantly, only one of the Year Two, or low-ranked, states (New Mexico) implements state-supported IDA programs and a state EITC program. More than half of the Year One (highly-ranked) states, however, operate state-supported IDA programs, and eight offer a state EITC. Year Two states also fall short when compared to Year One states in terms of TANF asset limits and unemployment insurance policies. While six Year One states have TANF asset limits greater than $2,000, this is the case for only two Year Two states. With respect to Unemployment Insurance[23] (UI), promising policies are more prevalent among Year One states than among Year Two states. For example, to establish eligibility for UI, seven Year One states use alternative base periods, while only two Year Two states do so. Again, New Mexico stands out among Year Two states in this respect. New Mexico employs five of the six promising policies on which states were compared for UI.

State legislative processes also were found to have important associations with the race/ethnicity of both legislators and their constituents. Based on the finding that minority legislators are often not as successful as their white colleagues in getting legislation passed, developing means to fully incorporate nonwhite legislators and nonwhite constituents into the legislative process provides both a challenge and an opportunity. Latinos in particular are underrepresented in state legislatures and thus are severely disadvantaged in terms of descriptive representation (i.e., having state legislatures that are demographically comparable to state population composition).

Research shows that both descriptive representation and substantive representation (i.e., the extent to which legislators are successful in passing legislation in the interest of their constituents) are important for getting issues on the agenda and subsequent legislation enacted. However, even with these forms of representation, levels of legislative output that represent nonwhite interests may be inadequate. While the possible negative implications of racialized political contexts should not be discounted—especially for the poorly ranked (i.e., Year Two) states—Preuhs (2006) offers a finding that suggests opportunities even within this challenging environment. Specifically, "institutional positions [i.e., formal positions within a body of power], when broadly held, are, in fact, positive sources of influence even in highly racialized contexts" (p. 594). So, even in Southern states, when blacks attain a large number of positions of power and influence, they could be effective at supporting legislation that fosters black interests.

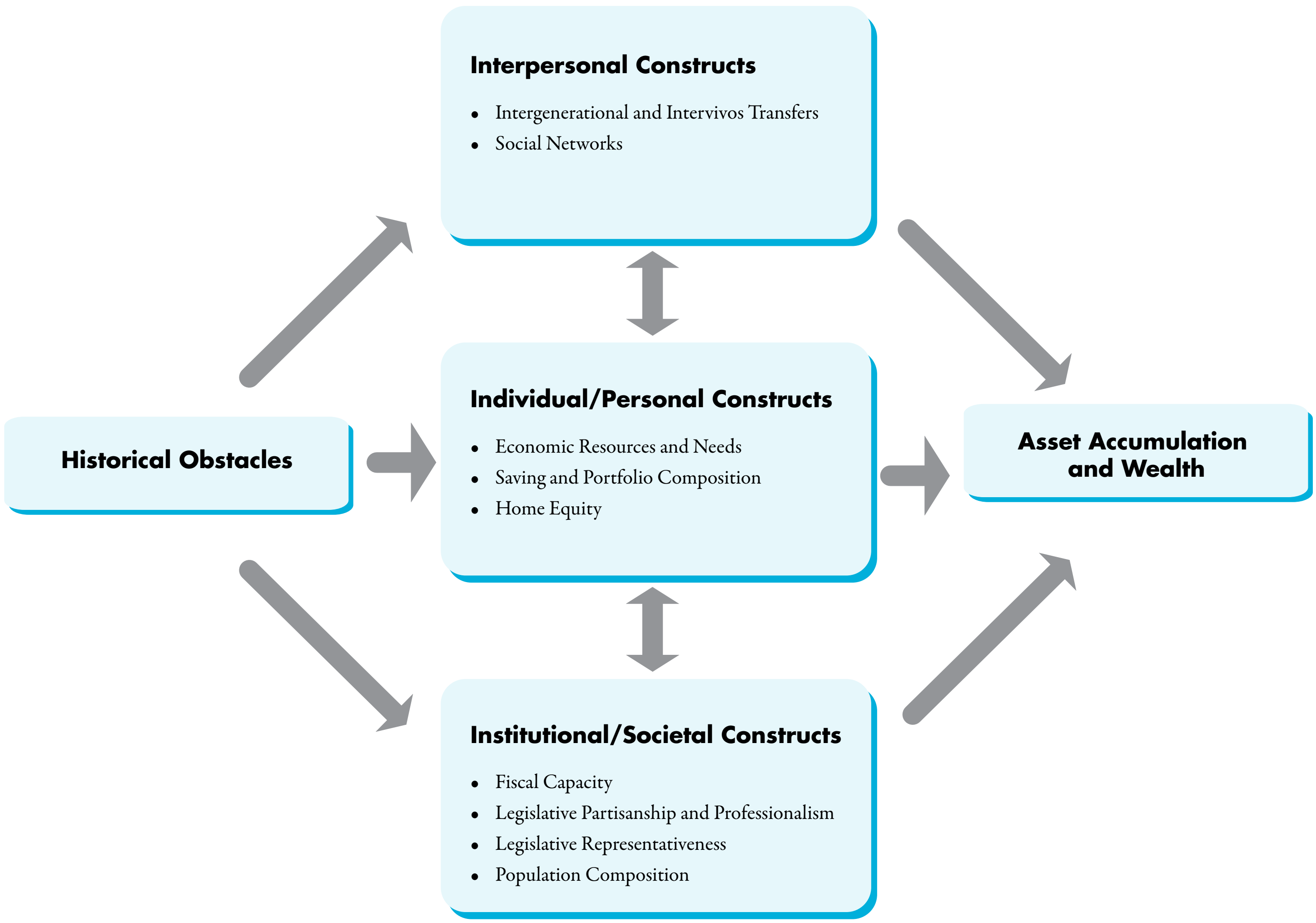
The somewhat mixed evidence about the extent to which descriptive representation results in substantive representation (in terms of legislative outputs) suggests the importance of targeted state committees, commissions, and task forces. These entities often are catalysts in promoting and passing very specific or *particularized* legislation, defined as "policies that are designed to deal with the social, economic, and health care needs of state constituencies, especially in the neediest strata" (Jacoby and Schneider 2001, p. 554). Legislatures, as well as executive and legislative committees, commissions, and task forces are not the only statewide actors that have influenced the development of asset-building initiatives as a mechanism for improving the well-being and economic stability of low-income families and individuals. Coalitions and action groups supporting legislation and the implementation of policies that have the promise of promoting asset building for all citizens (and particularly disadvantaged communities of color) are also key partners in legislative efforts (Edwards 2008; McCulloch 2005). As states determine the ways in which asset-building policies can best be incorporated into legislation that is enacted and into programs that are implemented to achieve widespread impact, it remains important for individuals and organizations to be involved as advocates for these policies. Snook and Duff (2005) found that "The stronger [the] interest groups are within a state, the more [the] states lean towards allocating resources for particularized benefits." (p. 18).

In sum, it is clear that race/ethnicity has had—and continues to have—negative associations with many of the constructs of asset building. Because people of color face significant challenges in becoming financially secure and acquiring assets, an asset-building approach represents an exciting opportunity for communities of color to close the wealth gap. Although the implementation of social welfare programs is often thwarted by a racialized frame of reference, Goren (2008) holds that racialized thinking is more prevalent for welfare programs (e.g., "welfare programs" and "food stamps") than for social programs defined more broadly (e.g., "child care," "Social Security," and "aid to the big cities"). As he explains, "attitudes toward social spending conceived more broadly lie beyond the influence of racial antipathies ... [and] attitudes toward other federal efforts to help the needy lie beyond the baleful influence of racial bigotry" (Goren 2008, p. 155). Thus, the fact that policies, practices and programs that foster asset building are targeted by income rather than by race/ethnicity may alleviate the backlash engendered by racially stereotyped programs.

At the same time, the unique challenges faced by nonwhite populations should not be discounted for the sake of political correctness. Differences in saving behavior and wealth are evident even after controlling for sociodemographic factors. Structural barriers and other impediments related to racial/ethnic inequality should be acknowledged and addressed. For example, many low-income individuals and families of color are less likely to own the assets (such as homes, investments, and retirement accounts) that are the targets of governmental assistance for asset building. Thus, low-income people of color lack access to the structures and incentives for asset accumulation that many whites have (Beverly et al. 2008). Identifying and rectifying disparities in the building blocks of wealth is an essential first step to closing the racial/ethnic wealth gap.

Figure 1

Factors Associated with Racial/Ethnic Wealth Inequality



Source: Flow chart is an adaptation of "Exhibit ES- 1. Determinants of Saving and Investment Action and Asset Accumulation" in Beverly et al. (2008).

Table 1
Median Net Worth (Dollars)[a] by Race/Ethnicity in Selected States,[b] 2006

	All	Whites	People of Color	African Americans or Blacks	Hispanics or Latinos	Net Worth Among People of Color as a Percentage of White Net Worth
Alabama	54,049	78,351	20,000	23,828	-	26
Alaska	-	-	-	-	-	-
Arizona	77,793	125,200	14,798	-	19,900	12
Delaware	140,035	180,075	-	-	-	-
Florida	117,718	152,350	39,000	35,660	38,703	26
Georgia	66,700	91,863	24,403	21,689	-	27
Hawaii	208,015	-	-	-	-	-
Iowa	99,525	106,206	-	-	-	-
Maine	72,373	72,373	-	-	-	-
Michigan	99,510	119,430	8,500	6,072	-	7
Minnesota	152,509	165,694	32,200	-	-	19
Mississippi	50,765	71,188	10,500	8,005	-	15
Nevada	86,491	109,343	45,050	-	-	41
New Hampshire	189,222	192,793	-	-	-	-
New Mexico	51,000	120,373	-	-	-	-
South Dakota	65,288	68,037	-	-	-	-
Texas	45,434	87,230	19,045	6,912	20,103	22
Vermont	-	-	-	-	-	-
Washington	122,405	154,675	19,445	-	-	13
Wisconsin	96,329	116,246	5,706	6,138	-	5
United States	88,803	122,505	20,132	11,925	17,968	16

a. Dashes ('-') indicate that data are not available.

b. The states on this table are analyzed in greater detail in two Joint Center reports (Leigh et al. 2009; Leigh and Wheatley 2009).

Source: Corporation for Enterprise Development. 2008. *Net Worth, Wealth Inequality and Homeownership during the Bubble Years: An Assets & Opportunity Special Report,* http://www.cfed.org/specialreport/app/

Table 2
Black-White Income Inequality[a] in Selected States,[b] 2006

	Black-White Median Household Income Inequality (Dollars)	Black Median Household Income (Dollars)	Black or African American State Population (Percent)	White Median Household Income (Dollars)	White, Non-Hispanic State Population (Percent)
Maine	8,053	35,941	1.01	43,994	95.27
Arizona	11,046	41,198	3.22	52,244	59.49
New Mexico	11,983	38,006	1.83	49,989	42.41
Hawai'i	12,014	49,486	2.09	61,500	24.57
Washington	14,166	40,659	3.30	54,825	76.40
Nevada	14,785	43,027	7.17	57,812	58.64
Delaware	15,099	41,640	20.37	56,739	68.75
New Hampshire	15,641	43,993	1.02	59,634	93.57
Florida	17,031	32,554	14.93	49,585	61.03
Iowa	18,379	27,017	2.21	45,396	91.02
Michigan	19,235	31,276	14.04	50,511	77.63
Alabama	19,787	25,203	26.18	44,990	68.96
Georgia	21,137	33,563	29.63	54,700	58.75
Mississippi	21,253	21,969	37.29	43,222	59.26
Texas	23,347	32,159	11.39	55,506	48.11
Wisconsin	24,836	26,161	5.85	50,997	85.59
Alaska	25,266	40,499	3.05	65,765	66.26
Minnesota	25,859	30,120	4.35	55,979	85.85
South Dakota	c	c	0.66	44,448	86.54
Vermont[d]	-	-	0.76	47,937	95.63
United States	20,003	32,372	12.17	52,375	66.19%

a. States are ranked in ascending order by income inequality.
b. The states on this table are analyzed in greater detail in two Joint Center reports (Leigh et al. 2009; Leigh and Wheatley 2009).
c. Data are not reliable.
d. Dashes ('-') indicate that data are not available.
Source: U. S. Census Bureau. 2006. *American Community Survey 2006*. American FactFinder, available at: http://factfinder.census.gov (accessed October 21, 2009).

Table 3
Hispanic-White Income Inequality[a] in Selected States,[b] 2006

	Hispanic-White Median Household Income Inequality (Dollars)	Hispanic Median Household Income (Dollars)	Hispanic State Population (Percent)	White Median Household Income (Dollars)	White, Non-Hispanic State Population (Percent)
Vermont	2,038	45,899	1.06	47,937	95.63
New Hampshire	4,586	55,048	2.26	59,634	93.57
Hawai'i	5,591	55,909	7.75	61,500	24.57
South Dakota	6,662	37,786	1.99	44,448	86.54
Mississippi	7,844	35,378	1.59	43,222	59.26
Florida	9,075	40,510	20.14	49,585	61.03
Iowa	9,607	35,789	3.79	45,396	91.02
Alaska	10,443	55,322	5.60	65,765	66.26
Nevada	12,420	45,392	24.45	57,812	58.64
Maine	12,651	31,343	0.96	43,994	95.27
Alabama	13,060	31,930	2.42	44,990	68.96
Michigan	14,139	36,372	3.89	50,511	77.63
Arizona	14,956	37,288	29.25	52,244	59.49
New Mexico	16,200	33,789	44.03	49,989	42.41
Wisconsin	16,665	34,332	4.61	50,997	85.59
Georgia	17,008	37,692	7.43	54,700	58.75
Delaware	17,540	39,199	6.31	56,739	68.75
Washington	18,603	36,222	9.07	54,825	76.40
Minnesota	19,129	36,850	3.78	55,979	85.85
Texas	22,152	33,354	35.67	55,506	48.11
United States	13,628	38,747	14.78	52,375	66.19

a. States are ranked in ascending order by income inequality.
b. The states on this table are analyzed in greater detail in two Joint Center reports (Leigh et al. 2009; Leigh and Wheatley 2009).
Source: U. S. Census Bureau. 2006. *American Community Survey 2006*. American FactFinder, available at: http://factfinder.census.gov (accessed October 21, 2009).

Table 4
Home Equity as a Percentage of Homeowners' Median Net Worth,[a] in Selected States,[b] 2006 (Percent)

	All	Whites	People of Color	African Americans or Blacks	Hispanics or Latinos
Alabama	69.6	64.5	85.6	84.0	-
Alaska	-	-	-	-	-
Arizona	72.4	66.8	86.4	-	88.9
Delaware	48.6	37.8	-	-	-
Florida	68.2	62.0	74.5	71.4	81.2
Georgia	69.4	66.1	76.6	70.5	-
Hawaii	52.4	-	-	-	-
Iowa	44.2	43.7	-	-	-
Maine	45.6	45.0	-	-	-
Michigan	54.2	49.6	71.9	81.7	-
Minnesota	53.4	52.6	-	-	-
Mississippi	80.1	64.7	81.1	95.1	-
Nevada	70.8	63.1	-	-	-
New Hampshire	57.0	57.2	-	-	-
New Mexico	60.7	56.2	-	-	-
South Dakota	59.5	-	-	-	-
Texas	51.3	46.0	72.7	62.4	78.4
Vermont	-	-	-	-	-
Washington	56.4	54.4	75.8	-	-
Wisconsin	49.9	50.3	-	-	-
United States	55.3	51.9	66.4	71.0	73.8

a. Dashes ('-') indicate that data are not available.
b. The states on this table are analyzed in greater detail in two Joint Center reports (Leigh et al. 2009; Leigh and Wheatley 2009).
Source: Corporation for Enterprise Development. 2008. *Net Worth, Wealth Inequality and Homeownership during the Bubble Years: An Assets & Opportunity Special Report,* http://www.cfed.org/specialreport/app/

ENDNOTES

1 As an exhaustive literature review is beyond the scope of this analysis, selected research published between 1968 and 2009 was examined.

2 Since 2002, the Corporation for Enterprise Development has published several Assets and Opportunity Scorecards that compare the 50 states and DC on outcome and policy measures related to asset building. The scorecards are based on six indexes—Financial Security, Business Development, Homeownership, Health Care, Education, and Tax Policy and Accountability. The 2007-2008 CFED scorecard was the basis of the two Joint center reports cited.

3 The CFED outcome grade for each state is based on grades from five index areas. The grades in these index areas are based on rankings for a total of 46 outcome measures, for each of which states are ranked relative to one another. The overall outcome grade is calculated by adding the ranks for each index, then re-ranking the states from one to 51 and finally assigning each state a letter grade based on the following distribution: States that rank from 1st to 10th earn an A; 11th to 20th earn a B; 21st to 36th earn a C; 37th to 46th earn a D; 47th to 51st earn an F. For additional information, see: Corporation for Enterprise Development. 2008. "Methodology." 2007-2008 Assets and Opportunity Scorecard. http://www.cfed.org/focus.m?parentid=31&siteid=2471&id=2479 (accessed April 23, 2009).

4 Factors considered in the Year One state selection process included: whether a state was graded "A" on three CFED scorecards (2002, 2005, and 2007-08); the percent of various racial/ethnic groups in each state; whether a state has a high ("A" or "B") overall asset outcome grade in spite of a grade of D or F in any individual asset category; economic status of the state; and geographic location.

5 Factors considered in the Year Two state selection process included: whether a state was graded "D" or "F" overall for asset outcomes among low-income people on three CFED scorecards (2002, 2005, and 2007-08); the percent of various racial/ethnic groups in each state; CFED assessments of the policy areas examined during year one of this project; and geographic location.

6 Unfortunately, the lack of data for states with small nonwhite populations does not allow for comparison across all the states included in the Joint Center reports. Data are available for only 11 of these 20 states.

7 To qualify for Social Security benefits, a worker must earn a total of 40 work credits (a maximum of four per year). The more work credits earned, the greater the level of benefits received by a worker. Beginning in 2009, to earn one work credit, domestic workers have to earn $1,700 from a single employer while most other workers have to earn only $1,090 per Social Security credit (Social Security Administration 2009).

8 Beverly et al. (2008) conceptualize institutional factors as access, information, incentives, facilitation, expectations, restrictions, and security. Because these factors are often relevant to higher-income persons, this paper uses broader societal factors (such as fiscal capacity, legislative characteristics, and population composition) to explore institutional effects on policymaking and asset building.

9 The study was conducted via telephone interviews which took place from June 28 to August 26, 2007. It is based upon a representative U.S. sample (806 interviews) of adults, ages 25 to 55 years old, with a reported annual household income below $55,000 (before taxes).

10 The Panel Study of Income Dynamics (PSID) questionnaire captures only those inheritances valued at or above $10,000.

11 Developmental programs are those that provide the physical and social infrastructure necessary to facilitate the economic growth of a jurisdiction. "The physical infrastructure includes roads, mass transit systems, sanitation systems, public parks, and a vast array of other basic utilities. The social infrastructure includes institutions that protect persons and property from unlawful activity, guard against conflagrations, protect the public health, and educate the next generation" (Peterson 1995, p. 17).

12 Redistributive programs are those that "reallocate societal resources from the "haves" to the "have-nots." They transfer economic resources from those who have gained the most from economic development to those who have gained the least: the elderly, the disabled, the unemployed, the sick, the poor, families headed by single parents, and others lacking in material resources" (Peterson

1995, p. 17). Examples of these policies and programs include welfare, Social Security and other forms of social insurance, health and hospital care, and housing.

13 "TTR is defined as the unduplicated sum of the income flows produced within a state (Gross State Product) and the income flows received by its residents (State Personal Income) which a state can potentially tax. The distinction between flows which a state can potentially tax and the actual fiscal choices made by states is critical. TTR says nothing about, nor does it consider, the actual fiscal choices made by states. In sum, TTR is a flow concept, a comprehensive measure of all the income flows a state can potentially tax" (U.S. Department of the Treasury 2002).

14 Per capita personal income (PCPI) "represents the total personal income of the states' residents (e.g., wages and salaries, interest income, social security benefits, SSI, AFDC/TANF cash assistance and pensions, but not Food Stamps, housing vouchers, and EITC) divided by the state's total population. PCPI is widely used to measure fiscal capacity because data are readily available and because it is a relatively good indicator of residents' ability to pay taxes, which, in turn, can fund services" (U.S. DHHS 2004, p. 4).

15 Peterson's calculations are based on data published in 1982.

16 According to the 2007 Per Capita Tax Index (per capita TTR of a state divided by per capita average TTR for all states), only seven of the 20 states included in the Joint Center reports fall above 100 (i.e., the U.S. average) (U. S. Department of the Treasury 2009). Of the seven, five—Delaware, Hawai'i, Minnesota, New Hampshire, and Washington—are Year One states, while only two (Alaska and Nevada) are Year Two states. When the 20 states are split in half by this measure, however, Year One and Year Two states are evenly distributed—with five of each making up the 10 states with the highest TTR and five of each making up the 10 states with the lowest TTR.

17 Maximum monthly cash-benefit level for a family was the dependent variable for this analysis. Under the AFDC program, states were allowed to set benefit levels, with matching funds provided by the federal government. This was one of the few measures of welfare generosity controlled by the state legislature.

18 For example, the fact that only 2 percent of Alaska's state legislators (both houses) are African American is consistent with the fact that the state's population is only 3 percent black (National Conference of State Legislatures 2007a).

19 Among the mechanisms cited are discrimination hypothesis, exploitation theory, target population theory, social control theory, and the effects of racial stereotypes on public opinion.

20 The State Children's Health Insurance Program (SCHIP) was created in 1997 (and renewed in April 2009) to expand publicly funded coverage to uninsured children who are not eligible for Medicaid (because their families' incomes are too high). The SCHIP program gives states financial support via a block grant program that provides states with a set amount of funding that must be matched with state dollars (Herz, Peterson, and Baumrucker 2009).

21 Eligibility determination for public assistance programs—such as Medicaid, SCHIP, TANF and Supplemental Nutrition Assistance Program or SNAP—centers around both income and assets, with eligible households required to have low levels of each. The existence of asset limits may discourage saving, as households "spend down" in order to receive the short-term public assistance.

22 Individual Development Accounts (IDAs) are matched savings accounts that encourage and reward monthly saving by low-income families or individuals for approved assets— most commonly a first home, post-secondary education, or starting a small business. Government (federal, state, or local) and private funds can be used to match the savings of account holders, up to a pre-determined amount.

23 The federal-state unemployment insurance program is overseen by the U.S. Department of Labor but implemented by each of the states—which provide most of the funding and pay for the actual benefits provided to workers. Subject to a few federal requirements, states are generally able to set their own eligibility criteria and benefit levels (Coven 2003).

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About the Authors

Wilhelmina A. Leigh, a senior research associate at the Joint Center for Political and Economic Studies since 1991, conducts research in the areas of income security, housing and health. Prior to joining the Joint Center, she was a principal analyst at the U.S. Congressional Budget Office and worked for the Bureau of Labor Statistics, U.S. Department of Labor; the U.S. Department of Housing and Urban Development; the Urban Institute; and the National Urban League Research Department. She received her PhD in economics from the Johns Hopkins University and her AB, also in economics, from Cornell University.

Anna L. Wheatley is a research assistant at the Joint Center for Political and Economic Studies. A native of St. Thomas, U.S. Virgin Islands, Ms. Wheatley came to the Joint Center upon graduating from Georgetown University with a B.S. in Management and a minor in Sociology. Her areas of interest include health disparities, education and anti-poverty policy.

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Joint Center for Political and Economic Studies
1090 Vermont Avenue, NW, Suite 1100
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