The Bridgespan Group

Boats for a Rising Tide

How Philanthropy Can Narrow the Racial Wealth Gap

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Collaborating to accelerate social impact

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Table of Contents

Shifting to Shared Prosperity 3

Quantifying the Racial Wealth Gap 5

Five Investable Solutions for the Drivers of the Racial Wealth Gap 7

- Family Inheritance: Strengthen the movement for baby bonds 8
- Income and Benefits Sufficiency: Scale employee ownership models 10
- Homeownership: Support community-anchored affordable homeownership 12
- Debts, Fees, and Fines: Expand community lending and alternative credit building 14
- Entrepreneurship: Provide equitable access to investment capital 16

Leading the Way to Shared Prosperity 18

Methodology Appendix 19

At the intersection of Newport Street and Mother Gaston Boulevard in the Brownsville neighborhood of Brooklyn, a mural with the words "Love Zone" and a string of colorful hearts marks the entrance to the Floyd Patterson Ballfields. Named after the first heavyweight boxing champion to regain a title after losing it, the comeback kid narrative is appropriate for this once-blighted section of Brownsville that *The New York Times* called "so devastated it seemed doubtful that even one house could be sold."

Today, Brownsville and East New York host over 3,500 Nehemiah homes—sprawling communities of row houses with maple- and oak-lined sidewalks—that for nearly four decades have built intergenerational wealth for Black and Latino families.

The Nehemiah Housing Plan, the brainchild of East Brooklyn Congregations (EBC) and the Industrial Areas Foundation (IAF), pooled $8 million in funding from local faith communities to build affordable homes and apartments. The city sold EBC the land for $1 per lot, and EBC broke ground in 1983 with a house that sold for $39,000. These modest homes came with an abatement of property taxes for 20 years and below-market-rate mortgages. The plan facilitated homeownership in a community where the American dream often felt like a fantasy. For every lucky new homeowner, at least five more were on the waiting list.

Photo left: Brownsville neighborhood of Brooklyn in 1972. (Photo by Winston Vargas)
Photo right: East New York, Nehemiah housing today. (Photo courtesy of East Brooklyn Congregations)

Over the next decades, thousands of Nehemiah homes rose in East Brooklyn—block after block of attached brick structures, 18 feet wide and 32 feet deep, each with front and back yards, rising from swaths of vacant urban landscape—like a Levittown, but without the redlining and federal subsidies that painted the suburbs white. These Nehemiah homes have now accrued an estimated $1.5 billion in wealth for first-time Black and Latino homeowners.[1]

"The first thing to remember is that Nehemiah is not a program," says Martin Trimble, co-director of IAF. "It's an action by local leaders who had a vision for how they wanted to resurrect their community. It was an action to create wealth."

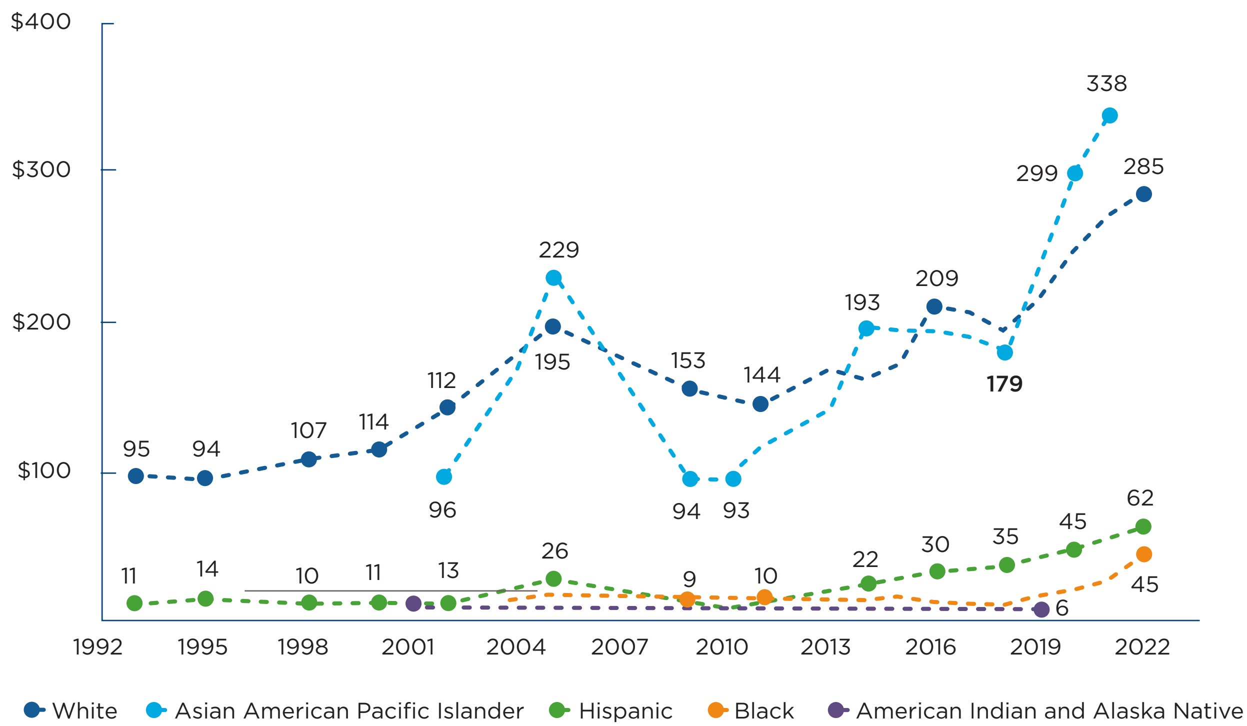
With a catalytic boost from philanthropy, the IAF has spread Nehemiah to seven other cities, scaling up a proven model for building wealth in historically disinvested neighborhoods. Yet, access to wealth remains out of reach for far too many communities of color.

The racial wealth gap in the United States is a chasm. Today, white households at the median hold six times the wealth of Black households, five times the wealth of Hispanic households, and more than 10 times the wealth of Native American households (see Figure 1 below).[i]

Centuries of policies that privileged white economic benefit while exploiting or actively extracting resources from communities of color brought the nation to this point. The result: a persistent divide, compounded over time, that locks generations of people of color into a permanent underclass.

Figure 1. Median wealth by race

2022 Dollars (thousands)



Source: Bridgespan analysis of 2022 Survey of Consumer Finances, Federal Reserve; 2022 Survey of Income and Program Participation, US Census Bureau; Financial Accounts, Federal Reserve; Paul Taylor et. al., *Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics*, Pew Research Center, July 2011; Mariko Chang and Meizhu Lui, *Lifting as We Climb: Women of Color Wealth, and America's Future*, Insight Center for Economic Development, 2010; "Racial Wealth Snapshot: Asian Americans And The Racial Wealth Divide," National Community Reinvestment Coalition, August 23, 2023. Fluctuations in data are due to smaller sample size, limited windows of breakout data, and sensitivity to market growth.

i. We use "Hispanic" here because it is the term used by the US Census Bureau and other data sources prior to 2024. In general, we use the pan-ethnic labels "Hispanic" and "Latino" interchangeably in this report, rather than the newer gender-neutral term "Latinx" because Latinx is largely unknown among the population it is meant to describe.

Shifting to Shared Prosperity

The racial wealth gap stunts our economy. Because wealthier households have the privilege of saving more of the income they receive, heightened income and wealth inequality can lead to lower overall spending in the economy—as those without resources have less and less purchasing power.[2]

Citigroup estimates that the discriminatory practices feeding the Black-white wealth gap have prevented $16 trillion from being added to the US economy over the last two decades. Moreover, closing that gap today could add $5 trillion in gross domestic product over the next five years.[3] Imagine the benefits to our economy if race played no role in generating wealth. A rising tide may lift all boats, but that lift can only happen if you have a boat.

As we approach levels of inequality not seen since the Gilded Age, an increasingly important measure of economic advancement will be *shared prosperity*—the ability to maintain growth while ensuring a greater proportion of the population benefits.[ii]

Because the field is nascent, philanthropists and private investors can lead the way by testing, validating, and scaling up interventions that ensure access to wealth-generating assets at the base of the economic pyramid. Using the full spectrum of investment returns, from market-rate and concessionary capital to grant funding, philanthropists and impact investors are uniquely positioned to help make economic "boats" available to more people of color.

Indeed, a small but growing group of foundations (the Kataly Foundation, The California Endowment, the Heron Foundation and others) are taking a leadership role by aligning 100 percent of their investable resources with their mission. If all capital allocators with social responsibility (e.g., state pension funds, university endowments) followed suit, they could shift capital markets to share more of the abundance we collectively create.

This article identifies five critical drivers of the wealth gap in the United States and offers strategies to help close it. Our research included interviews with over 50 philanthropists, impact investors, and social entrepreneurs pioneering new models of wealth creation in communities of color.

We intentionally use an inclusive frame of the racial wealth gap that is addressed to historically marginalized communities of color—particularly Black, Hispanic, and Native American households where the gap is the largest.[iii] In doing so, we acknowledge the unique historical contexts shaping each group. However, in reviewing their histories side by side, we see repeated barriers and challenges that point to the potential of shared solutions and collective uplift.

Our aim is to paint a picture of possibility. Closing the racial wealth gap will require the advancement of solutions from all corners, including deep reflection on the reparations and the Land Back movement, which centers strategies of healing as part of closing the divide (see Bridgespan's recent publication "Philanthropy's Role in Reparations and Building a Culture of Racial Repair").[4] This article seeks to amplify those calls while elevating targeted strategies that address the ongoing drivers of wealth inequality.

ii. Shared prosperity emerged as a measure of inclusive economic growth in the context of international development. In 2013, the World Bank elevated it as a core measure because it "monitors the progress of the bottom 40 and how the less well-off can benefit from economic growth, it is relevant even in higher-income countries, where extreme poverty is much lower."

iii. We emphasize these groups due to greater availability of data. Additional data disaggregations related to other demographics (e.g., nuances within Asian American, Native Hawaiian, and Pacific Islander communities) are not as readily available. We encourage more research focusing on Asian American, Native Hawaiian, and Pacific Islander communities.

Why Income Alone Is Insufficient

"Anyone who has ever struggled with poverty knows how extremely expensive it is to be poor …"[5]

— JAMES BALDWIN

Many leaders and organizations have elevated income as the primary indicator of economic opportunity. Indeed, our publication, '*Billion Dollar Bets' to Create Economic Opportunity for Every American*, made an impassioned case for doing so.[6] However, as we have supported philanthropies, nonprofits, impact investors, and social enterprises in pursuing the goal of bringing economic opportunity to low-income Americans, we have come to realize that the focus on income alone is not enough.

While poverty rates have hovered around 13 percent since the 1970s, the cost of basic needs—particularly housing, food, healthcare, and transportation—has risen faster than incomes. Today, according to the Aspen Institute, "45 percent of US households have expenses that are at least equal to—if not greater than—their income, and 55 percent lack the necessary savings to weather a simultaneous income drop and expense spike."[7] In essence, much of the population living just above the poverty level is only one paycheck, hospital visit, or car repair away from sinking below it.

"Income is largely used to pay expenses that happen on a periodic basis, whereas wealth gives you the ability to withstand shocks and make investments," says Darrick Hamilton, founding director of the Institute on Race, Power and Political Economy at The New School.

This level of economic precarity warrants attention on its own. However, as noted by sociologist Matthew Desmond, income and asset poverty also create conditions for exploitation—where those without resources often get taken advantage of via hidden costs, unexpected out-of-pocket expenses, and usurious fees and surcharges that strip away what little they have.[8] And that is just on the consumer side. There is also worker exploitation. "People can't build assets, they can't save for retirement, if employers are allowed to steal wages, underpay them, and exclude them from benefits," says Rebecca Dixon, president and CEO of the National Employment Law Project.

Focusing on income alone—particularly at the poverty level—may help people tread water, but it hardly protects against the storm brewing on the horizon. Wealth provides resilience, increases a sense of personal efficacy, offers household stability, establishes a foundation for risk-taking, and correlates with greater levels of civic engagement. Wealth reflects opportunity and security. Viewed in the context of exploitation, that distinction matters.

Quantifying the Racial Wealth Gap

Nearly eight and a half trillion dollars—that's what we estimate it would take to close the wealth gap between the median white household and the median household of color.[iv] That number may seem astronomical; however, the combined wealth of the top 1 percent of households has climbed a staggering $11 trillion since 2020.[9] There is no doubt that our economy creates abundance. The question is: Are we doing enough to ensure more people gain access?

The racial justice movement sparked nationwide protests and gathered steam in 2020, spurring the social and private sectors to pledge dollars toward addressing inequities. However, even the largest estimate of those commitments—$340 billion[10]—is less than 4 percent of the racial wealth gap. In the context of our turbulent tides, that's barely enough for a life preserver.

It will take bold aspirations and action from philanthropists and impact investors—likely over decades—to shift policies, public funding, and private capital markets to narrow the racial wealth gap. That task can seem daunting. So, where do we begin?

To develop strategies, we started by breaking down the problem into component parts and then identified solutions that could have an outsized impact. Across the literature base, we found five wealth drivers that quantitatively capture the lion's share of current disparities:

Family inheritance and financial support provided to households via intergenerational transfers and contributions in the form of gifts during one's lifetime

Income and benefits received from participation in the labor market, including retirement plan contributions and health insurance

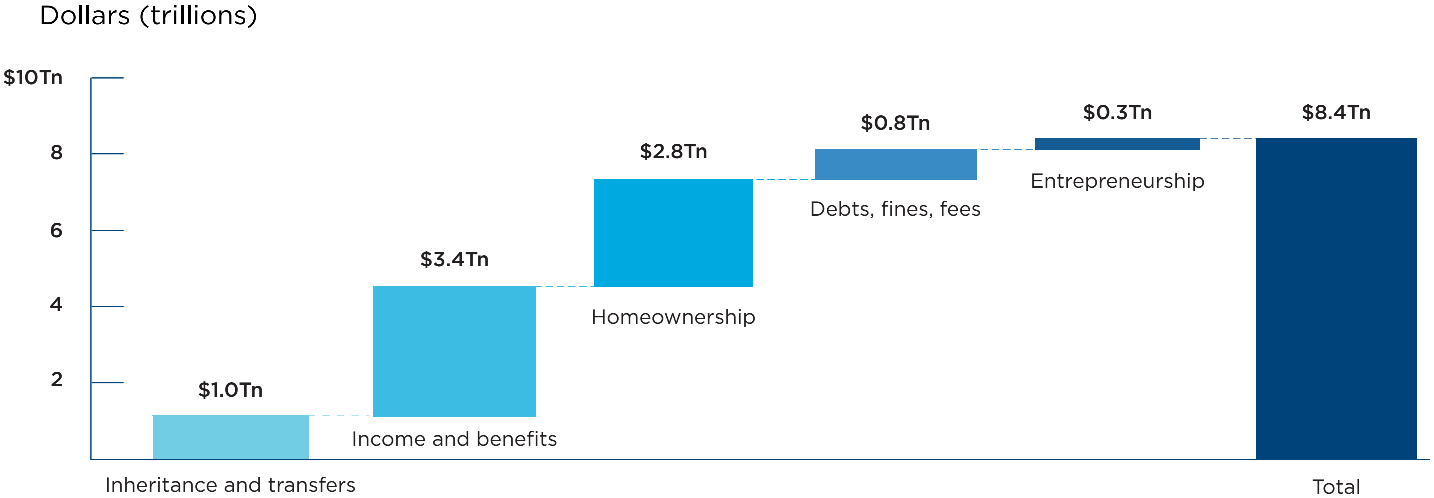
Homeownership and the relative return from investing in real estate assets

Avoiding unnecessary and/or excessive debts, fines, and fees (e.g., consumer debt, banking fees, interest rates) that become an encumbrance on income and assets

Entrepreneurship and business ownership that provide both income and commercial assets via business equity

iv. Estimate is based on Bridgespan analysis of the Survey of Consumer Finances 2022. See the "Methodology Appendix" on page 19 for details on our approach. We use the median for this article because it focuses our analysis on solutions that would impact the typical working-class family at the bottom of the economic pyramid. The clear downside to this approach is that it ignores the highly concentrated nature of wealth. Because the cumulative wealth of all households up to the median—half the country—is only 3 percent of overall household wealth, closing the racial wealth gap as we have defined it would still yield a society in which wealth remains highly stratified.

Figure 2. Relative contribution of driver to the racial wealth gap
(matching median white household)



Source: Bridgespan analysis of 2022 Survey of Consumer Finances and estimates from 20 decomposition analyses. See the Methodology Appendix for more on our analyses.

Identifying the five drivers is one thing; prioritizing action against them is another. We thus conducted a literature review related to each driver, identifying studies that isolated the contribution of each category to the racial wealth gap. Figure 2 above presents a composite view of these drivers, applying the relative magnitude of each driver surfaced in the research against the estimate of the wealth gap at the median (see the details of our meta-analysis methodology in the Methodology Appendix on page 19).

What becomes clear is that each of the drivers reinforces one another on the pathway to wealth. Entrepreneurship might seem like the golden ticket to prosperity, but the reality is only 15 percent of households own business assets, and the median value of those assets is $8,000—hardly enough to be life changing.[11] Most households get to the American dream the traditional way—getting an early boost from family, landing a good-paying job with benefits, and buying a home. Unfortunately, that path is often not available to communities of color.

In this context, it can be easy to point to demographic differences in educational attainment, unemployment rates, and financial literacy as drivers of racial wealth inequality. Yes, those disparities exist. However, those factors do not explain why households headed by white adults with less than a high school diploma have median wealth nearly comparable with households headed by Black college graduates ($47,000 versus $51,000).[12]

It doesn't explain why white families with an incarcerated family member have nearly comparable wealth to Black families without that status ($50,000 versus $56,000).[13] Even unmarried white Americans have more wealth, on average, than Black Americans with long-intact marriages ($267,000 versus $239,000).[14, v]

Because wealth accumulates and is passed down over generations, addressing disparities cannot be achieved through individual grit and determination. Rather, it requires systemic approaches attentive to the unique context of each driver.

v. We should note that these factors look specifically at issues of race; at the same time, there are intersecting dynamics related to other categories of identity (e.g., gender) that reflect sharper disparities. For more on intersecting dynamics see: Brad Wilcox, "Two Is Wealthier Than One: Marital Status and Wealth Outcomes Among Preretirement Adults," Institute for Family Studies, December 1, 2021.

Five Investable Solutions for the Drivers of the Racial Wealth Gap

“Capital has done a significant amount of harm to communities of color. To undo that, we need the same capital to become a restorative tool.”

— SANTHOSH RAMDOSS, PRESIDENT AND CEO, GARY COMMUNITY VENTURES

Our approach to shared prosperity is anchored in a deep commitment to our shared humanity. Therefore, while we do not shy away from the stark racial history and context that brought about the gap, we intentionally elevate universal solutions that can benefit all low-income, low-wealth communities—in other words, boats for a rising tide.

Selecting only one solution to highlight within each driver was challenging, particularly when a problem of this magnitude demands solutions from all sectors. However, we've chosen to elevate high-potential solutions where we believe philanthropy and impact investors can play a catalytic role.

Family Inheritance:
Strengthen the movement for baby bonds

When Nolan Osiel Osorio Ramirez was born on July 1, 2023, in The Hospital of Central Connecticut, his mother cradled him gently while nurses popped a warm blue hat on his head. At the same time, the state treasury set aside $3,200 for Nolan's future. Nolan was the first recipient of the Connecticut state "baby bonds" program—a trust account that beneficiaries born into poverty can use for wealth-building activities when they reach adulthood. By the time he reaches eligibility (age 18 to 30), his account could grow to between $10,000 to $25,000.

While many social policies acknowledge the difficulty of being born into poverty, our society treats young adults as if they are on an equal playing field once they reach adulthood. Yet, research by economists Darrick Hamilton and William A. Darity Jr. highlights the fact that differences in inheritance, bequests, and family support (i.e., in-vivo transfers) account for more of the Black-white racial wealth gap than any other behavioral, demographic, or socioeconomic indicator. Their solution: a universal public program that could offer young adults enough resources to make a down payment on a home, pay for college, start a business, or start saving for retirement.[15]

> "Baby bonds [are] more than hoping something will work out: it's a concrete policy solution that provides meaningful resources to bring to life a young person's hopes and dreams."
>
> — DAVID RADCLIFFE, FORMER POLICY DIRECTOR, CONNECTICUT STATE TREASURER'S OFFICE

Providing access to inheritance may seem like a radical idea, but it is not new. Consider the Homestead Act of 1862. From its passing until its repeal in 1976, with most of the land claimed between 1868 and 1934, the federal government granted 1.6 million land titles, representing 270 million acres of Indigenous land, to westward white settlers. That's roughly the size of California and Texas combined, but cut up into 160-acre allotments ("homesteads"). By some estimates, 45 million white Americans living today benefited from that legacy.[16] Contrast homesteads with the "40 acres and a mule" promised—and then withdrawn—from the enslaved ancestors of 42 million living Black Americans.

Baby bonds policies are starting to gain traction, with a new initiative in Washington, DC, and at least six states exploring the idea, including California, Massachusetts, Nevada, New Mexico, Rhode Island, and Vermont.[17]

Thanks to the leadership of two state treasurers, Shawn Wooden (2019-23) and Erick Russell (2023-present), children now born in Connecticut with coverage through Medicaid are automatically enrolled in the baby bonds program. Moreover, the state treasurer's office identified a path for repurposing $381 million of existing reserve funds to provide the capital for the first 12 years of the program, side-stepping the need for a new bond effort and saving the state $165 million in interest costs in the process.[18]

"State treasurers' offices are an underutilized asset in the movement to bring baby bonds to every child in this country," says Hamilton. "We are starting to see traction nationally from states reaching out to figure out how they can replicate the model."

How philanthropy can help

Philanthropy can fuel advocacy efforts, support impact research, convene policymakers and community leaders, and establish state-level proof points. In Connecticut, a trio of the largest community foundations is supporting the implementation of the baby bonds policy through the engagement of parents in the codesign of outreach and awareness building.

Another promising pathway is to help build the capacity of elected state treasurers via peer support and communities of practice. Such capacity building could help state treasurers secure sustainable resources for baby bonds implementation, like how the Connecticut treasurer took advantage of a deeper review of the state budget.

"The Connecticut policy is awesome, but it still won't provide enough resources to do everything we want to close the racial wealth gap," says David Radcliffe, the policy director for the Connecticut State Treasurer at the time baby bonds were adopted in state policy. "A federal policy could do that, but in the meantime, states will continue to be really important proving grounds."

Income and Benefits Sufficiency:
Scale employee ownership models

In the summer of 2022, Martin Montoya, and about 50 of his coworkers, suddenly became partial owners of Apex Plumbing, a thriving, nearly 40-year-old Denver business, putting him on solid ground to plan for his family's future. Apex had a majority workforce of color and became one of the first employee-led buyouts supported by the social impact private equity firm, Apis & Heritage Capital Partners (A&H).

> "Closing the racial wealth gap is why we created A&H. Our value proposition to owners is that we can make employee ownership on par with another buyout, but this time the beneficiaries will be their employees, their community."
>
> —PHILLIP REEVES, FOUNDING PARTNER, APIS & HERITAGE CAPITAL PARTNERS

For Montoya, gaining an ownership stake is a pathway to wealth creation. Unfortunately, for most workers of color, that pathway does not exist. Black, Hispanic, and Indigenous workers face significant wage gaps, earning on average 75 cents per dollar earned by white workers. Beyond differences in income, less than half of workers of color have access to employer-sponsored health insurance and even fewer have the ability to take up employee-sponsored retirement plans.[19,20] Lacking access to employer benefits—whose collective value often represents a third of a person's compensation—significantly constrains the wealth-generating opportunities for many workers of color.

With employment, it can be easy to focus on efforts to raise the floor (i.e., increasing the minimum wage or mandating benefits requirements like family medical leave). However, raising the floor rarely keeps up with the pace of wealth. Over the past 25 years, growth in business profits and the stock market have far outpaced growth in wages and benefits.[21,22] So, it is fair to ask: What solutions enable employees to benefit from the wealth they create?

Employee stock ownership plans (ESOPs), initially conceived as a retirement program for small business owners and employees, offer a viable pathway to shared prosperity. Organizations like A&H use investor capital, provided to the company in the form of a loan, to buyout owners and establish a form of ESOP that creates shares allocated to employees. Future profits from the company help pay off the loan and create wealth for employees. When employee-owners of the ESOP subsequently leave or retire, the company buys back the employees' stock at fair market value, which can be multiples of an annual salary.

Research shows that this type of ESOP—particularly when coupled with management supports and increased employee governance—can lead to higher wages, greater job stability, and significant wealth generation for workers. According to research by Thomas Dudley and Ethan Rouen, if 30 percent of all businesses were ESOPs, the median wealth of Black households would more than quadruple, from $24,000 to $106,000.[23] Even those without high school diplomas would see similar gains. That's a massive boost.

Photo: In the summer of 2022, Martin Montoya and about 50 coworkers became partial owners of Apex Plumbing in an employee-led buyout.

(Photo by Jintak Han/MediaNews Group/The Denver Post via Getty Images)

For investors, ESOPs come with significant tax benefits. Company contributions—whether cash, stock, or dividends—that are used to pay off the ESOP loan are tax-deductible for both interest and principal. So, paying into the ESOP provides a greater ownership stake for employees while also reducing the company's overall expected tax liability on earnings. Redirecting the freed-up cash flow into equipment and materials purchases can provide a competitive edge for resource-intensive companies (e.g., manufacturing and construction) that are looking to finance future growth.

Under the direction of its new board, Apex Plumbing secured a contract to replace a system of lead pipes throughout the city, nearly doubling its annual revenue. "Employee ownership is a path to financial security, where you don't have to be an entrepreneur who beats every single stat in the book to become successful," says Phillip Reeves, cofounder of A&H. "You can be an employee and build that nest egg. There's very few ways to do that in today's economy."

The potential of ESOPs is impressive. And the time to act is now. Project Equity, a leading supporter of employee-ownership transitions, estimates that nearly half of all private businesses have a retirement-age owner. More than half of those owners will retire over the next decade—a "silver tsunami" of business succession that offers the possibility for new wealth creation for the 32 million workers they employ.[24]

Large asset managers like KKR and mid-market focused firms like Mosaic Capital Partners and Lafayette Square are working to establish employee-ownership models across the country. Still, only roughly 6,500 exist according to the National Center for Employee Ownership. Much more private capital is needed—particularly from investors emphasizing value-added rather than extractive approaches—for this shared prosperity solution to reach greater scale.

How philanthropy can help

Multiple funders have already supported employee ownership. For example, A&H's first fund secured resources from The Rockefeller Foundation, the Ford Foundation, the W. K. Kellogg Foundation, the Skoll Foundation, and Gary Community Ventures.

At the same time, philanthropy can take employee ownership to the next level. The first step is building the capital market for employee ownership by investing endowment or family office resources with impact-oriented asset managers who seek to close the racial wealth gap.

Funders interested in field building can offer grants and investment capital to organizations that provide technical assistance and transition support for companies considering an employee-stock ownership plan. One such funder is Project Equity, through its Accelerate Employee Ownership initiative. Philanthropies also can leverage their balance sheets by offering loan guarantees to community development financial institutions specializing in financing for employee-ownership models.

Place-based funders can link investments in employee ownership with efforts to strengthen community economic development. For example, the Cleveland Foundation supported Evergreen Cooperatives, a network of five green industrial enterprises supplying goods and services to large local anchor institutions. To sustain development, Evergreen also houses a fund for converting more businesses to employee ownership, a revolving loan fund to sustain the growth of the cooperatives, and a nonprofit holding company governed by community residents.

"Everyone wants to get to deals that draw in institutional capital, but philanthropy can be a bridge that helps us get there," says Reeves. "Funders could start off on the program-related investment side or the grant side, and then move to the investment side or the endowment side. That's the gap bridging that could be so additive."

Homeownership:
Support community-anchored affordable homeownership

Sandra and Armando Martinez entered a lottery in 2002 to apply for a Nehemiah home in Brownsville, Brooklyn. Five years later when their number came up, they were elated. Both were teachers and working second jobs to put their two children through college. Owning property was transformative for their family. "This is our palace, and every day we thank God," said Sandra Martinez on *CBS Sunday Morning*. "We think that other families should have the same opportunity."[25]

The Nehemiah Housing Plan that began in Brownsville has since spread from New York City to disinvested urban neighborhoods in New Jersey; Maryland; Illinois; Pennsylvania; Washington, DC; and Tennessee, moving first-time home buyers into affordable, stable housing, and fueling community wealth building.

Homeownership is the most broadly accessed path to wealth generation in the United States. More households own their home than hold retirement accounts—with primary residences representing 45 percent of the median homeowner's net worth.[26]

The legacy of exclusionary federal policies is clear, though, in the homeownership rates for communities of color. While nearly 72 percent of white families own their home, that rate is 44 percent for Black families, 51 percent for Hispanic families, and 53 percent for Indigenous families. [27, 28] Long-standing policy choices—from redlining that locked out Black families to predatory lending, rigged appraisals, and disinvestment in affordable housing development—have systematically denied the benefits of homeownership to communities of color. Correcting for that legacy will take collective action.

"You can't make change unless you have power," says Trimble of IAF, which conceived of and launched the Nehemiah Housing Plan in the 1980s. "To build, wield, and exercise power over the long term, you need a broad-based citizens' organization, a union, or a cooperative. It's a vehicle to get to the table and to challenge the status quo. We build a critical mass of homes at scale, recreating markets, which creates the conditions that invite the private market to come in."

The Nehemiah Housing Plan is a powerful example of community wealth building that reduces gentrification, preserves affordability, and enables existing residents to benefit from economic growth tied to redevelopment.

"Think about those legacy homeowners in Brownsville," says Trimble. "Their net worth and equity have increased exponentially, and their kids' income is 50 percent higher than [that of] their parents. That's the untold story."

Photo: Edith Margarito outside of her home in the Brownsville Nehemiah neighborhood. She is an active member of the Nehemiah HOA Board, whose chief responsibility is the ongoing maintenance of the common sewer system shared among the Nehemiah homes. (Photo by Rob Munroe for East Brooklyn Congregations)

How philanthropy can help

Community-anchored models of affordable homeownership (e.g., community land trusts) seek to redirect wealth back into local economies by placing control and benefits in the hands of residents. Partnerships between banks, community-based organizations, housing developers, and philanthropists are a powerful means of expanding community wealth-building strategies by removing risk and creating viable economic models for new real estate development.

Philanthropy and impact investors can support community wealth-building models by supporting the establishment of local acquisition and construction funds, providing loan guarantees, offering funding for down-payment assistance, and supporting credit enhancement for homeowners with low credit scores despite having the income necessary to afford market-rate mortgage payments. For example, the East Bay Community Foundation partnered with Kaiser Permanente to make a $5 million loan from their donor-advised fund to build affordable housing in a Black community at risk of displacement.

"IAF leaders want to build 10,000 Nehemiah homes to show that this isn't just an aberration limited to East New York," says Trimble. "We can do it at scale in Baltimore; Chicago; Jersey City; Washington, DC; and Wake County, North Carolina. It's a decent life for ordinary people who are so often dismissed by the political and economic elites. Nehemiah is a concrete solution to address the racial wealth gap at scale. The goal should be one million Nehemiah homes across the United States for first-time Black and Latino [homeowners] and all essential workers, financed by new federal, state, and philanthropic investments. It works."

Photo: Natives of Trinidad and Tobago, Julia and Edison Gould (center) arrived in the United States as young people, settling into New York apartment living. After saving money for years, they had the opportunity to move into a Nehemiah home with their two daughters, Jessica (left) and Julia-Rose (right). (Photography by Rob Munroe for East Brooklyn Congregations)

Debts, Fees, and Fines:
Expand community lending and alternative credit building

Jazzel Woods Sr., a teen counselor in Oakland, California, and father of two, was gainfully employed and facing eviction when he joined a lending circle that named itself The High Rollers. Organized by Mission Asset Fund (MAF), Woods and a small group of people—among them a science teacher and a bus driver—agreed to contribute $200 per month to a collective fund. In return, each would receive a zero-percent interest $1,400 loan.

This was the second MAF lending circle Woods Sr. had participated in. The lending circle is an informal economic practice long common throughout the world. In much of Latin America, these supporting communities are called tandas. In Nigeria, this practice is called Ajo. The logistics are simple. Each month, a new member of the lending circle receives the loan until everyone in the group, each of whom has contributed equally and punctually, gets their chance.

Mission Asset Fund takes this centuries-old practice and threads it into this country's formal financial system. Participants allow MAF to electronically withdraw a monthly amount from their bank accounts and agree to a rotation of borrowers. The fund then reports each borrower's payments to the credit bureaus, improving—or often building for the first time—a borrower's credit score.

> "We help people build and improve their credit scores and through that, they can have better access to loans at prime rates. When their borrowing costs go down, they're able to manage their money better and realize their full potential."
>
> — JOSÉ QUIÑONEZ, FOUNDER AND CEO, MISSION ASSET FUND

Creating a pathway to a credit score may seem small, but it's a crucial step in addressing a long history of financial predation.[vi] As noted by the Financial Health Network, Black and Latino households pay more in interest and fees both in absolute terms and by percentage of income, compared with white households—despite having lower incomes.[29]

Disparities in fees stem from a history of major banks perceiving communities of color as higher risk. As a result, those communities increasingly became the targets of contracts-for-deed sales, bait-and-switch financial terms, and high-interest payday loans—financial traps difficult to escape.

Even when they became mainstream customers, waves of subprime mortgages washed away decades of hard-won financial progress for communities of color. In essence, how banks evaluate risk, whether in setting loan criteria or rating creditworthiness, is often the differentiator between who gets a fair shake and who gets the shakedown.

Since its launch 17 years ago on the second floor of a café in San Francisco's Mission District, MAF has scaled up its digitized lending circles across the country through partnerships with more than 50 community-based nonprofit organizations. Mission Asset Fund licenses its technology and provides the back-end infrastructure and technical support, with each partner tailoring the implementation, outreach, and engagement to its community.

"It's about formalizing informality," says Quiñonez. "We use the best of technology and finance to create products that meet people where they are and build on what is good in their lives."

vi. Our thinking here is heavily influenced by Keeanga-Yamahtta Taylor's concept of "predatory inclusion," see Taylor's 2019 book, *Race for Profit: How Banks and the Real Estate Industry Undermined Black Homeownership*.

How philanthropy can help

While venture capital is flowing to fintech oriented around disruption, far less is flowing to innovations targeting low-income, low-wealth communities. Yet, there are many organizations out there like Commonwealth, Esusu, SaverLife, and Stake that are pursuing innovations in ways to provide access to community lending approaches, savings opportunities, and alternative credit-building approaches. Beyond scaling up innovative models, investment can also support efforts to embed broader indicators of creditworthiness into the operations of major financial institutions already at scale. For example, on-time rental payments can be used to support building credit records for the three major credit bureaus (Equifax, Experian, and TransUnion); however, more engagement is needed in local communities to support the uptake in reporting by landlords.

"I think philanthropy can be more curious, more innovative in how it even talks about these things," says Quiñonez. "It can look to these alternate visions to elevate someone's dignity and help improve their financial lives in a meaningful way that's measurable. The point here is not to scale this one product, it's to scale a frame of mind, that mentality to push against convention and embrace complexity."

Photo: Helen Ochoa at home with her daughter in a house they were able to rent after Helen boosted her credit score through MAF programs. (Photo courtesy of Mission Asset Fund)

Entrepreneurship:
Provide equitable access to investment capital

Wall Street dates back to when New York was still a Dutch colony. There was once a physical wall, built with enslaved African labor, to keep invaders—both English and Indigenous—from the lower part of Manhattan. Valerie Red-Horse Mohl has thought about that bit of forgotten history many times over the course of her career.

Red-Horse Mohl beat steep odds to found a successful film production company and eventually became the first Indigenous person to start an investment bank on Wall Street. US Treasury Secretary Janet Yellen recently named her to the Treasury Advisory Committee on Racial Equity. In 2021, she teamed up with Jim Casselberry to launch Known, a new financial platform with access and experience in the impact investing space as well as Black, Indigenous, and people of color-owned investments.

White people own nearly 84 percent of employer businesses in the United States while representing only 58 percent of the population.[30,31] This gap in business ownership isn't because they have outsized and innate business acumen. Rather, as research from Third Way highlights, entrepreneurs and business owners of color face historic structural barriers and patterns of bias when seeking capital to get started—from both financial institutions and investors. White small business owners have loan approval rates twice the rate of Black small business owners.[32] Similar disparities are present in the flow of angel investments and private equity investments.

In 2020, in the wake of the racial justice uprising in the United States, Black founders captured 16 percent of all angel investments. That's a huge gain from the startling half a percentage point of those same investments just the year before. By 2021 though, things settled back into that familiar biased groove with only 2 percent of angel investments betting on Black founders, according to research from the Angel Capital Association.[33]

Without redirection, ongoing investor bias will prevent communities of color from joining in the massive wealth-building opportunities spurred by the transition to a green economy and the advent of artificial intelligence.

"If I can find a part of the market that I know is underutilized that doesn't have the same resources or the same opportunities, I can work with that and find new opportunities," says Jim Casselberry, cofounder and CEO of Known. "In the end, I believe we can still achieve returns over time. That's my investment thesis."

"Invest in people outside of your comfort zone because at the end of the day, that's where you may find value creation," Casselberry adds. "It's certainly a lot more compelling than just doing the same."

How philanthropy can help

Establishing equitable pathways for business loans and equity investments is critical for unlocking wealth for entrepreneurs of color—and philanthropy can play a role.

"We need to think about integrated capital—that's philanthropic dollars, impact dollars, investment dollars, and government dollars," says Casselberry. "For foundations and endowments that are actively looking for those different solutions, we're here."

Philanthropists can invest early in scalable interventions to support demonstration projects and de-risk pilots. Providing predevelopment funds, upfront capital, and pilot funding can help innovators learn, scale, and ultimately secure public or private capital. The Capital Access Lab, for example, which is funded by the Ewing Marion Kauffman Foundation and The Rockefeller Foundation, has leveraged $3.4 million in philanthropic capital to draw in $166 million in capital now going toward entrepreneurs of color.

While de-risking innovations is needed, market failures occur at all levels of investing. Philanthropists and family offices can also bridge gaps in capital markets by setting ambitious targets to align programmatic investments and endowment resources with return-generating opportunities that address the racial wealth gap. For example, The California Wellness Foundation moved from zero percent of its investment portfolio supporting fund managers of color in 2017 to 60 percent in 2022.

Meanwhile, Red-Horse Mohl is working on the finer points of large green energy projects that would benefit Indigenous people, particularly tribes that own land rich in the minerals—lithium, copper, and cobalt—needed to build green technology. "There are certain things about how we build," she says. "We can see how it can expand opportunities. Tribes have been too often left out."

Leading the Way to Shared Prosperity

It's an exciting time at the intersection of philanthropy, economic mobility, and racial justice. Strategies for narrowing the racial wealth gap are abundant. Some strategies have shown their worth for centuries—think of lending circles. Some have proven their impact for decades—think of ESOPs and the Nehemiah Housing Plan. Others are emerging but hold promise—the baby bonds movement. Philanthropy can play a pivotal role in scaling up these strategies to build momentum towards shifting both private markets and government regulation. After all, government action created the racial wealth gap, and it will take government action to close it.

Strategies are abundant, but opportunity is not. In retrospect, selling the land for $1 per lot for the Nehemiah program was a clear choice; however, reaching it required organized constituents applying pressure on city government, including marching a crowd of community members, trailed by television news cameras, down to the offices of New York City's then-Mayor Ed Koch.

"Forty years later, even after all of our success, we still have to fight tooth and nail to keep our seat at the table," says Trimble. "For us, power has a simple definition—the capacity to act. IAF is relentless in exercising it until we win."

The incentives built into our economy accrue wealth for those who already have it. Shifting our systems toward shared prosperity requires scaling up interventions that enable communities of color to benefit from economic growth. The five approaches we present here illustrate high-leverage, immediately investable opportunities. Narrowing the racial wealth gap, however, needs more than just great ideas. It requires aligned action on the part of philanthropy in shaping capital markets.

With some of the largest and most nimble asset holders, the philanthropic community has the power and the capacity to act. Philanthropy can and should be the catalyst for a paradigm shift in how wealth gets created, moving us from inequity and zero-sum to shared prosperity and more boats.

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Methodology Appendix

Estimating the racial wealth gap at the median

We modeled our approach for estimating the racial wealth gap between the median white household and median household for people of color. We use the median for this article because it pushes us to elevate solutions that impact the typical working-class family. The clear downside to this approach is that it ignores the highly concentrated nature of wealth. Because the cumulative wealth of all households up to the median (i.e., half the country) is only 3 percent of overall household wealth, closing the racial wealth gap as we have defined it would still yield a society where wealth remains highly stratified.

William Darity Jr., A. Kirsten Mullen, and Marvin Slaughter outline a series of different approaches to estimating the wealth gap in their article "The Cumulative Costs of Racism and the Bill for Black Reparations" in the *Journal of Economic Perspectives*.

We acknowledge that using the median is out of sync with the method used by many of the scholars and practitioners we cite, who advocate for closing the gap at the mean (average) as a way of achieving full equity. We agree with using the mean as the long-term goal and suggest a "both/and" approach to making progress that recognizes the need to develop targeted strategies for the demographics with the least amount of resources.

Our approach to estimating the gap at the median is based on a simplified version of the methodology of Darity Jr. et al. in "The Cumulative Costs of Racism and the Bill for Black Reparations." Our estimates expand that methodology to include estimates for Hispanic, Native American, as well as Asian and Pacific Islander households.

We first identified the median household net worth for non-white households from the 2022 Survey of Consumer Finances. Due to the limited granularity of the Survey for Consumer Finances, we supplemented those figures with estimates for Southeast Asian and Pacific Islander households, as well as Native American households, from available reports providing estimates. We then determined the gap between the median white household and each non-white demographic. Using the race/ethnic-specific gap, we then multiplied that figure by the number of households for the respective demographic using the 2022 Census. To illustrate, to calculate the median Black-white wealth gap, we subtracted the difference in white and Black households ($285,010 and $44,890, respectively).[34] We multiplied the difference by the number of Black households in America, approximately 15.1 million,[vii] to get a $3.6 trillion gap. We opted to use households as our unit of measure, as opposed to the per capita calculation approach used by Darity Jr. et al., because several decomposition analyses used to estimate the magnitude of the individual drivers sought to account for these dynamics within their estimates.

vii. Estimate of households based on count from "Federal Reserve Distributional Financial Accounts Q4 2022," accessed March 2023.

Identifying drivers and estimating their magnitude

Our literature review included over 150 articles on the racial wealth gap. Based on our review, we saw that in most articles, the contributing factors fell into five wealth categories: (1) family inheritance and family support; (2) sufficient income and benefits; (3) homeownership; (4) avoiding unnecessary debt, fines, and fees; and (5) entrepreneurship and small business ownership. We had aligned on the five drivers most represented across the research base, we sought to isolate each driver's contribution to the overall gap.

To isolate the contribution, we conducted a meta-analysis of more than 20 decomposition analyses that sought to estimate the relative contribution of specific asset categories and/or drivers of the racial wealth gap. Each of the decomposition analyses utilized one of the three major survey instruments compiled by the federal government—Survey of Consumer Finances or the National Longitudinal Survey of Youth, as well as the University of Michigan's Panel Study of Income Dynamics—to assess wealth outcomes.

Seven of the studies included both Black and Hispanic comparisons; however, none of the studies isolated data for Indigenous or Asian populations. For the sake of simplicity, we applied estimates of the Black-white and Hispanic-white to the overall gap.

Sixteen of the studies used advanced statistical techniques designed to isolate the contribution of the driver (e.g., the Blinder-Oaxaca decomposition, recentered influence functions) to estimate the relative contribution of the driver(s) under investigation. The studies sought to control for demographic differences across populations in order to arrive at the explanatory contribution to the wealth gap. Estimates of explainability for the methods used, where cited, ranged from 60 percent to 90 percent (Black-white gap) and 60 percent to 112 percent (Hispanic-white gap).

We developed a composite picture across the five drivers because many of the studies used to develop our magnitude estimates focused on a subset of identified drivers. For example, The Limited Role of Intergenerational Transfers for Understanding Racial Wealth Disparities (2023) by John Sabelhaus and Jeffrey P. Thompson provided estimates for the impact of (1) inheritance and family support (i.e., inheritance and inter vivos), (2) sufficient income and benefits (i.e., lifetime earnings, employer-based pensions, other human capital factors like union status, educational attainment, disability, and employer-provided healthcare insurance), and (3) demographic factors (i.e., marriage status, number of children living in the household). However, drivers such as homeownership, debt, fines, and fees, as well as small business ownership were not included.

To build the complete picture, we developed a composite of the estimates by plotting the ranges offered in each study, setting high and low ends based on the observed studies providing an estimate for the driver. We then developed a weighted average across the drivers based on the number of waves of surveys used, estimates for the number of impressions within each wave, assumptions of the comprehensiveness of the approach, level of explainability of the research, and the interconnection between the drivers (e.g., studies citing lifetime earning but not homeownership were discounted due to the effect of earning in driving the ability to acquire homes).

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